# Stage 2 Cost Recovery Impact Statement

## Package of cost recovery changes, 2022

## SCOPE

This Cost Recovery Impact Statement (CRIS) considers options to address deficits and surpluses under five charges:

- the wine export levy;
- the fish export levy;
- the circuit verification fee;
- the bee domestic levy; and
- the bee export levy.

The CRIS also considers around ten relatively minor 'design' issues in the following areas:

- vet work outside of normal hours;
- cats and dogs, including assistance dogs;
- large dairy processors;
- equine semen;
- imported food safety border clearance;
- aquaculture services.

Two design issues that were consulted on – 'vet work at transitional facilities and containment facilities', and 'variability in charges for cat and dog imports and exports' – have not been included in this CRIS. The Ministry for Primary Industries (MPI) has identified questions about the scope and cost estimates for these areas that require more analysis.

## AGENCY DISCLOSURE STATEMENT

This CRIS has been prepared by MPI.

### Data

The analysis in this CRIS uses a lot of data. At the time of preparing the consultation document, the latest data available was up to June 2021. At the time of preparing this final CRIS, the latest available data was up to December 2021. Time constraints[1] mean MPI has not updated the analysis to reflect this extra six months.[2] MPI expects that the latest data would not materially change the analysis.

The analysis includes distributional analysis, with estimates of the financial impacts on large producers and small producers. MPI does not hold production data by businesses under the bee levies. Data on the number of hives is used instead. MPI considers that this is a reasonable substitute. MPI has confidence that the financial estimates on large and small businesses are reasonable. MPI has high confidence that an overall conclusion of wide variability in production levels by business is correct.

### Options

A wide range of options is considered under each levy. At the time of consulation, three of the options under the circuits fee were not worked through. This CRIS contains more detail about two of those options – Option (3) and Option (5). The details of these options and the accompanying analysis was not consulted on. One submitter was in favour of Option (5) which charges remote rural businesses less, while another was not. Neither options form part of MPI's preferred approach.

[1] Legislation requires new charges to be in place by 1 July. If they are not, new charges can only go ahead if the Minister is of the view that there is not substantive disagreement to the changes by stakeholders.
[2] Time was prioritised to fully considering submissions and analysing a few more options.

## Cost recovery principles and preferred options

Options considered in this paper have been developed in accordance with the cost recovery principles of Transparency, Justifiability, Efficiency and Equity defined in relevant legislation and MPI's cost recovery guidance.

MPI is confident in the factual analysis supporting consideration of the Transparency, Justifiability and Efficiency principles. Whether the principles have been met involves a level of judgement. MPI considers that the principles have been met for each levy.

Additional judgement is required around the Equity principle. Equity involves consideration of fairness and, therefore, value judgements. Industry generally submitted in favour of lower or slower increases in charges than MPI recommends because of the ongoing economic impacts from Covid-19. MPI has formed its understanding of what is considered equitable based on the Government's wider approach to provide business support during Covid-19. The Government has generally preferred to provide support to businesses affected by Covid-19 through central supports such as the Small Business Cashflow (Loan) Scheme rather than by reducing Government charges. This CRIS includes options with lower or slower increases in charges and the associated cost to the Government if the Government considers that further financial support is warranted.

## Impact analysis

Estimates of the immediate financial impact of options on the market and at the business-level are presented for the five fees/levies. However, as the options are minor relative to the size of the industry, the CRIS does not contain a full analysis of the market impacts or of demand for MPI services over the longer term.

Bruce Arnold, Director Cost Recovery

09/03/2022

# 1 EXECUTIVE SUMMARY

This CRIS explores options to address deficits or surpluses under five levies/fees, and to address nine minor 'design' issues. The options are analysed against MPI's Cost Recovery Principles of Transparency, Justifiability, Efficiency and Equity.

## 1.1 Levy/fee rates

Proposed changes to address accrued surpluses or deficits apply to the following five levy/fee charges:

- the wine export levy;
- the fish export levy;
- the circuit verification fee;
- the bee domestic levy; and
- the bee export levy.

### 1.1.1 Wine export levy

The levy is generating more revenue than needed each year. MPI proposes to reduce the on-going levy by 50% from $0.01 per litre to $0.005 per litre. The reduction in the levy reduces the annual cost to industry by about $1.19 million per annum, with large exporters paying about $56,300 less and small exporters $350 less.

Industry feedback was supportive of the reduction.

### 1.1.2 Fish export levy

A deficit has accumulated under the levy which is forecast to grow further over time. The causes of the deficit are lower-than-expected export volumes reducing revenue and further reductions to forecast volumes.

MPI consulted on a range of options, among them a single increase in the levy from $1.12 per tonne to $1.55 per tonne from 2022/23 and a graduated increase in the levy which shifted some of the financial burden to later years.

Seafood New Zealand and The New Zealand Food & Grocery Council both opposed any increase, but if an increase was to occur, preferred a graduated approach (Option (1c)).

Option (1c) has lower economic efficiency than Option (1a) (the single increase in the levy).

Whether Option (1c) is fairer is a matter of judgement. Option (1c) does shift the financial burden possibly beyond the current period of inflated business costs due to Covid-19, but the benefits disproportionately benefit larger exporters.

Based on the Government's preference to address business (particularly small business) sustainability through centrally-administered schemes such as the Small Business Cashflow (Loan) Scheme, MPI's preferred option is Option (1a) – a single increase in the levy from $1.22 per tonne exported to $1.55 per tonne.

This would increase annual costs to industry by about $138,000 in total, with large exporters paying approximately $10,000 more and small exporters paying approximately $15 more per year.

### 1.1.3 Circuit verification fee

The circuits memorandum account has had persistent deficits over time. An increase in the circuits fee from $165 to $176 in 2019 was intended to, in combination with productivity improvements, bring the account into balance. Despite some productivity improvements, the memorandum account continues to have deficits.

The main options considered within this chapter are to increase the fee to $230.50 to recover the accumulated deficit and future costs, or to increase the fee to $199.00 to recover future costs only, or to defer changes to the fee to investigate whether further productivity improvements are possible. Other options include setting MPI charges at the level other service providers charge, or charging new customers or remote rural customers lower fees.

Industry views received were mixed.

The Meat Industry Association, which represents 71 businesses with 99% coverage of meat production, favoured the single change to $230.50 for the next three years (followed by $199.00 once the accumulated deficit is eliminated). Other submissions from small businesses inside and outside of the meat processing industry did not

consider full cost recovery was justified and encouraged MPI to find further efficiencies. The New Zealand Food & Grocery Council and other industry representative groups also opposed the $230.50 option.

Those opposed had a variety of preferred options if some level of increase in the fee was to happen.

MPI's view is that it has made best endeavours to achieve cost efficiencies and will continue to take steps to review and improve as part of its annual processes. As such, MPI considers that, if not minimised, costs are reasonable. There is a level of uncertainty around this. Time and information constraints mean that we have not been able to confidently ascertain whether MPI's costs are similar to those charged by private providers. If they were, that would give us more confidence that costs are reasonable. A submission from Seafood New Zealand provided some information, suggesting that MPI's proposed ongoing cost of $199.00 per hour is within the range that private sector providers charge, albeit towards the upper end of the range ($150 to $220 per hour).

Based on best available information, MPI considers that costs are reasonable and that Option (1a) – increasing the hourly rate to $230.50 – is the most efficient and equitable option. Option (1a) is therefore MPI's preferred option.

If the Government considers that further financial support should be provided beyond those provided through central schemes to help businesses through Covid-19, then other options could be pursued through only partially increasing charges, increasing charges gradually over time or providing targeted relief to new businesses that did not contribute to the deficit or remote rural businesses that face higher costs due to travel by verifiers. Providing targeted relief is relatively less costly.

### 1.1.4 Bee domestic levy and bee export levy

A surplus has accumulated under the bee domestic levy and a deficit has accumulated under the bee export levy. Both are expected to increase over time.

The domestic surplus is the consequence of a previous increase in the levy to eliminate a deficit. The levy is now generating annual surpluses.

The export deficit has arisen from additional services having been identified as cost recoverable (industry had been getting these services for free) and due to an increase in residue testing volumes.

This CRIS also explores whether the levies should change from a single charge per operator[3], to a charge per tonne produced.

MPI considers that a per tonne levy would enhance efficiency and equity by charging operators in proportion to the benefit they receive but that further time is needed to work through how this would be implemented in practice.

New Zealand Beekeeping supports a levy which more fairly charges small businesses, but identified a practical difficulty that would need to be addressed. Apiculture New Zealand and apiarists submitting via The New Zealand Food & Grocery Council said more time was needed to consider a move to a per tonne levy, including on how it would be implemented. MPI also received a submission from a small, start-up enterprise that favoured shifting to a per tonne levy.

MPI's preferred approach is to adjust the per operator levy from 1 July 2022 with an intention to switch to a volume-based levy in the next year or two if a practical way of doing this can be identified and once implementation plans are operational[4]. This approach would see:

- from 1 July 2022:
    - a refund to domestic and export operators of up to $359.13 to eliminate the domestic surplus
    - a reduction in the bee domestic levy from $471.80 per year to $431.08 per year so that surpluses do not re-emerge; and
    - an increase in the bee export levy from $1,005.70 per year to $2,566.08 per year to address the export deficit;
- pending an implementation plan and further regulatory change, from 1 July 2023 or 2024, a switch to a volume-based levy. For illustration, current rough estimates of a per-tonne levy are that:
    - the bee domestic levy would be $6.47 per tonne for domestic consumption; and
    - the bee export levy would be around $47.20 per tonne of honey exported.

A change to a per tonne levy would see:

[3] That is, operators are charged the same amount no matter whether they are small or large operators.
[4] Regulatory change would be sought as part a future cost recovery package.

- operators that produce 2.5 tonnes a year charged up to around $2,500 less than if they were charged a per operator levy;
- operators that produce 25 tonnes a year charged up to around $1,600 less; and
- operators that produce 250 tonnes a year charged up to around $9,200 more.

### 1.1.5 Other common feedback

Through submissions and feedback received via MPI's Industry Reference Group, industry conveyed a general frustration at the size of the changes and encouraged MPI to more quickly identify and address surpluses and deficits. In response, MPI will continue to improve its processes including through establishing a policy that sets out how MPI will identify and address deficits or surpluses, and associated timeframes for addressing them.

## 1.2 Design issues

The design changes are relatively small in nature and generally uncontroversial. MPI received only one submission from the Deer Industry New Zealand regarding the proposed design change around vet work at transitional facilities and containment facilities. Following further analysis, MPI has deferred the progression of this proposal this year to allow time to further investigate the associated scope and associated cost estimates.

### 1.2.1 Vet work outside of normal hours

The proposals:

- increase the shift rate that compensates establishment verifiers for working evening and night shifts from $41 to $45;
- introducing an equivalent $45 rate when veterinarian services are 'on call' to potentially provide services at short notice; and
- standardising double time and public holiday rates, increasing costs to customers by, for example, about $500 for eight hours work.

### 1.2.2 Assistance dogs

The proposal addresses inconsistencies in definitions of an 'assistance animal' between two regulations. The proposal uses the broader of the two definitions and will reduce costs by about $400 per customer.

### 1.2.3 Cat and dog imports – ability to charge transitional facilities

The proposal addresses ambiguity around who has the legal obligation to pay charges for inspeciting and monitoring cats and dogs at transitional facilities. There is no change in cost to customers or other parties.

### 1.2.4 Large dairy processors

The proposal corrects an error in a past regulatory change which meant that some large dairy processors might, under particular circumstances, pay a lower levy than small dairy processors. The proposal ensures that large dairy processors pay no less than the $400 per annum levy that small dairy processors pay.

### 1.2.5 Equine semen exports

The unit described in regulations ('straws') does not match the unit which is actually used for exports (vials or bags). The proposal amends the unit in regulations to match business reality. There is no change in cost to customers associated with this proposal.

### 1.2.6 Food safety border clearance of imported food

The hourly rate for the food safety border clearance of imported food is $120 per hour. This is less than the $135 charged for similar services elsewhere and does not recover some costs including travel, equipment, IT maintenance and staff training. The proposal to increase the hourly rate to $135 per hour would increase the average cost per customer by $262 per annum.

### 1.2.7 Aquaculture services levy

The proposal amends the Fisheries (Cost Recovery) Rules 2001 to allow a levy to be charged per fish farm licence or coastal permit. This approach had been taken between 2006 and 2019 for both land and marine fish farms before being halted when it was discovered that the the Rules only allowed this approach to be taken for land-based fish farms. The proposal will reinstate cost recovery at previous levels.

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# 2 BACKGROUND

## 2.1 NEW ZEALAND'S FOOD SYSTEM

This CRIS covers a number of issues around cost recovery predominantly[5] in the food system.[6]

New Zealand's food system is world leading and is based on international best practice science and risk assessment. In general terms, the current legislative framework makes businesses responsible for the safety and suitability of their products, and the Ministry for Primary Industries (MPI) responsible for ensuring compliance.

This system is critical for protecting the health of New Zealanders and supporting international demand for New Zealand food.

## 2.2 COVID-19 AND THE PRIMARY SECTOR

Primary industry export revenue was $47.5 billion for the year ended June 2021, down 1.1% from the previous year as some sectors saw overseas demand limited by Covid-19 related restrictions and a stronger New Zealand dollar.

Overall, the food and fibre sector has performed remarkably well, despite the series of challenges that have arisen from the Covid-19 pandemic. These challenges, such as supply chain issues, food service disruptions, and the tight labour market, have been unevenly felt across sectors. This contrasts strongly with the relative tranquillity of recent years, which saw broad-based growth across virtually every sector.

## 2.3 MPI'S SERVICES, CHARGES, AND THE REGULATORY FRAMEWORK

### 2.3.1 COST RECOVERY IN GENERAL

Cost recovery plays an important role in funding MPI services that ensure the food New Zealand produces is suitable and safe for consumption and export. Cost recovery funds a wide range of services in the food system. These services include:

- verifying that businesses across the whole supply chain are following their food safety measures;
- providing official assurances that New Zealand's exporters meet overseas market access requirements; and
- undertaking research, audits and food testing.

Typically, approximately 30% of MPI's departmental funding comes from cost recovered revenue. With the emergence of Covid-19, this is expected to be approximately 20% ($150 million) in 2020/21, largely due to the drop in revenue from border biosecurity levies on arriving travellers.

### 2.3.2 HOW ARE COST RECOVERY CHARGES REGULATED?

Legislation allows MPI to recover costs in accordance with the Cost Recovery Principles of Transparency, Justifiability, Efficiency, and Equity (see Chapter 3).

Regulations under each Act set out specific levies and fees.

### 2.3.3 HOW ARE COST RECOVERY REGIMES REVIEWED?

In line with best practice guidance, MPI generally undertakes a review of expenditure and revenue at least once every three years. Additionally, MPI aims to set fees and levies at levels that ensure memorandum accounts trend towards zero over a three-year period. To achieve this, fees and levies may be updated outside of the normal three-year review cycle if a material surplus or deficit accumulates in a memorandum account.

Reviews of cost recovery settings will also be triggered if 'design' issues are identified. Design issues cover potential faults around:

- who should pay for services;
- the scope of expenditure that is cost recovered;

[5] One issue relates to Aquaculture, which is managed under the Fisheries Act 1996.
[6] The food system includes the Food Act 2014, Animal Products Act 1999, Agricultural Compounds and Veterinary Medicines Act 199 7 and Wine Act 2003.

- the way in which costs are recovered;
- the level of the charge.

An example of a design issue around the level of a charge would be an inconsistency in the amount charged for the same type of cost between different services.

MPI takes a principles-based approach to reviews, as set out in the 'Cost Recovery Principles and overall approach to cost recovery' chapter, to expenditure and revenue reviews and design issues.

On occasion, 'first principles' reviews are conducted to test whether MPI's cost recovery frameworks and legislation remain fit for purpose.

## 2.4 GOODS AND SERVICES TAX (GST)

The fees and levies in this CRIS are GST-exclusive.

# 3 COST RECOVERY PRINCIPLES AND THE OVERALL APPROACH TO COST RECOVERY

This chapter summarises MPI's Cost Recovery Principles, how they relate to each other, and what this means for the overall approach to cost recovery.

## 3.1 MPI'S COST RECOVERY PRINCIPLES

MPI's four Cost Recovery Principles are:

- Transparency – costs are transparent;
- Justifiability – costs are reasonable;
- Efficiency – net benefits are maximised; and
- Equity – costs are fair.

These principles are set out in MPI's cost recovery guidelines,[7] the Animal Products Act 1999, and the Wine Act 2003.[8]

The principles build on each other with Transparency and Justifiability providing a foundation to the consideration of, and sometimes trade-offs between, Efficiency and Equity. Essentially, MPI can only cost recover if it has sufficiently met the Transparency and Justifiability principles.

Once the Transparency and Justifiability principles have been met, the Efficiency and Equity principles state that the beneficiaries of a service should generally pay for that service. That is, beneficiaries pay 100% of costs of a service they use unless there is a strong efficiency or equity reason for why they should not.

A more comprehensive description of the principles and how they relate to each other is set out in Appendix 1.

## 3.2 OVERALL APPROACH TO COST RECOVERY

### 3.2.1 BENEFICIARIES GENERALLY PAY

Beneficiaries (customers and other industry participants) should generally pay for the services they demand and use.

Charging beneficiaries encourages them to demand and use only the quantity and quality of services they value highly enough. If the costs of services are subsidised by others, beneficiaries would demand more and higher quality services without concern for how those services are funded. The higher demand is an inefficiency, as it leads to more resources being expended in the provision of services than their beneficiaries actually value or are willing to pay for.

Charging beneficiaries helps ensure that the quality and volumes of MPI services are not higher than is economically efficient.

### 3.2.2 WHEN BENEFICIARIES MIGHT NOT PAY

Beneficiaries might not pay full costs in four situations:

#### 3.2.2.1 TRANSPARENCY AND JUSTIFIABILITY

The first is where MPI has not sufficiently demonstrated that it is doing all it reasonably should to keep costs low (i.e. that it cannot meet the Transparency and Justifiability principles).

If MPI has not sufficiently demonstrated that past expenditure is justified, then write-offs might occur. If MPI has not sufficiently demonstrated that expected future expenditure is justified, then it may be appropriate for MPI to:

- change fees/levies to a level that can be justified for the time being; and
    - cover the remainder of costs; or

[7] https://www.mpi.govt.nz/dmsdocument/30855/direct
[8] https://www.legislation.govt.nz/act/public/1999/0093/latest/whole.html#DLM35716
https://legislation.govt.nz/act/public/2003/0114/latest/DLM223236.html

- recover the deficit from a future time period after further work has been undertaken;

- guarantee that prices will not exceed a certain level over the next period; or
- charge fees at a fixed level, rather than variable with time, to encourage efficient service delivery.[9]

#### 3.2.2.2 ADMINISTRATION COSTS

The second is where the administrative costs of charging (e.g. invoicing, collection) are excessive compared to the revenue raised or the efficiency gain of precisely charging beneficiaries.

#### 3.2.2.3 EXTERNALITIES

The third is where there are externalities. Externalities are positive or negative impacts on third parties that result from the demand and supply of a good or service. MPI primarily deals with negative externalities. An example of a negative externality is consumers demanding, and importers supplying, overseas products, creating a biosecurity risk from pest incursions on domestic farmers. Charging importers for MPI activities around managing negative externalities encourages importers to reduce risk at their end and, therefore, the need for MPI services.[10]

#### 3.2.2.4 EQUITY

The fourth is where the Government determines that there are equity (fairness) reasons why the Government, or some other party, should contribute to costs.

[9] This last approach is that used in the status quo and in some of the options.
[10] Administration costs of charging to account for externalities are also relevant.

# EXPENDITURE AND REVENUE REVIEWS

# 4 INDUSTRY BACKGROUND

This section provides some brief analysis of how the main industries covered by the expenditure and revenue reviews have tracked over time, including as a result of the Covid-19 pandemic.[11] The analysis uses data up to June 2021 being the data that was available when the consultation document was prepared. At the time of preparing this CRIS, data was available up to December 2021. Due to time constraints the analysis has not been updated with the latest available data. However, we do not expect that the analysis would significantly change if the it was updated.

Graphs can be found in Appendix 2.

## 4.1 SUMMARY

Figure 1 summarises how industry has tracked over the last six years.

The movements in volume and price help identify whether recent changes have been supply-driven (supply increases are associated with increases in volume and reductions in price) or demand-driven (demand increases are associated with increases in volume and increases in price).

Whether increased value is generated from demand increases or supply increases does not matter – worthwhile actions to increase either should be pursued.

Supply increases occur from changes such as increased competition, lower input costs and higher productivity, or better growing/harvesting conditions. Demand increases might occur from such things as new markets being opened up, population growth, increases in the price of substitute products (including other countries' exports), or changes in consumer tastes and preferences.

All industries covered in this section have seen increased value in recent times. For all industries except fish, this has come as a result of supply or demand increases. For fish, the increase in value has come despite supply decreasing and, because of the decrease in supply, the increase in value has been much smaller than for other industries.

The fish sector also appears to be the only industry significantly affected following Covid-19, partly due to reduction in demand from China.

Covid-19 has seen increased costs to industry such as through supply chain disruptions and increased freight costs. While this would have had some negative impact on supply (lower volumes and higher prices), this has generally been outweighed by other demand or supply increases. Except for fish, in the last year markets have seen increases in volumes similar to or larger than the average annual increase in the previous five years.

Feedback from some sectors reported additional Covid-19 impacts of reduced demand from restaurants (some wine businesses said demand from restaurants was down; Deer Industry New Zealand mentioned that venison demand was down) and from a lack of tourism (e.g. wine cellar door businesses).

**Figure 1: Summary of how industry has tracked recently according to price and volume data**

| Industry | Recent change prior to Covid-19 | | | Recent change prior to Covid-19 supply or demand driven? | Impact since Covid-19 |
|---|---|---|---|---|---|
| | Volume | Price | Total value | | |
| Wine | ↗ | ↘ | ↗ | Supply increase | No clear impact |
| Fish | ↘ | ↗ | ↗ | Supply decrease | Decrease in demand |
| Meat | ↗ | ↗ | ↗ | Demand increase | No clear impact |
| Honey | ↗ | ↗ | ↗ | Demand increase | No clear impact |

[11] The analysis uses publicly-available information about prices, volumes and total values. All export values and prices are inflation-adjusted (consumers price index) except for the monthly value and price graphs. All percentage changes are annualised compounding changes (the same as how a bank deposit compounds over time).

## 4.2 WINE

Export prices and volumes over the past six years, including following Covid-19, have generally been consistent with increasing supply of New Zealand wine.

The value of wine exports grew 5.4% per annum over the five years to March 2020. This was made up of 6.9% growth in volume per annum and a 1.4% reduction in prices per annum.

Covid-19 does not appear to have had a significant impact on the industry. While volumes and prices have fallen recently (between December 2020 and June 2021) which may point to emerging reductions in demand, volumes grew between March 2020 and December 2020. With smaller harvests recently, some of the volume growth over the past year or so has been through reduction in stocks.

Some wine businesses did, however, note that demand was down from domestic restaurants and tourism.

## 4.3 FISH

Export prices and volumes over the past six years have generally been consistent with decreasing supply of New Zealand fish.

The value of fish exports grew 1.9% per annum over the five years to March 2020. This was made up of a 4.0% reduction in volume per annum and 6.2% growth in prices per annum. Domestic prices for fresh fish have also risen while frozen fillets have been constant.

Covid-19 appears to have had some impacted on the industry with lower volumes and lower prices reducing the export value by 17.9%.

Export volumes dropped 11.2% in the year ending March 2021. A reduction in volumes is not particularly unusual – reductions in volumes happen 48.4% of the time – but the size of the reduction is within the upper quartile of volume reductions (median reductions of 5.4%, lower quartile 2.6%, upper quartile 9.7%). Additionally, lower volumes have historically generally seen higher prices. In this case, prices fell by 7.9%. A reduction in volumes and a reduction in prices is consistent with reduced demand for New Zealand exports.

A contributing factor to this appears to be China suspending some New Zealand processors due to a concern of Covid-19 spread by product and packaging. China's share of New Zealand's fish exports had grown to 19.9% by value by March 2020, but was only 13.5% in the year to June 2021. The reduction in exports to China makes up 53% of the overall reduction to June 2021.

## 4.4 MEAT

Export prices and volumes over the past six years are consistent with rising demand for New Zealand meat. Covid-19 has coincided with impacts consistent with a small supply reduction, but the reduction is similar in scale to reductions that happen frequently.

The value of meat exports grew 4.6% per annum over the five years to March 2020. This was made up of 0.9% growth in volume per annum and 3.7% growth in prices. Domestic prices have also generally risen.

Covid-19 does not appear to have had a large impact on export value, volumes or prices with seasonal patterns for all since March 2020 being similar to recent years.

While export value decreased 6.2% in the year ending March 2021, drops in export values of this size are not uncommon. Drops occur 46.7% of the time with the median drop being 5.6% (lower quartile 2.6%, upper quartile 9.0%).

Export volumes in the year ending March 2021 are up 3.4% compared to the year ending December 2019.

This increased volume appears to have contributed to lower export prices, with real export prices falling 9.3%. This again does not seem to be unusual. Export prices fall 38.5% of the time with the median drop being 6.6% (lower quartile 3.9%, upper quartile 11.1%).

## 4.5 HONEY

Export prices and volumes over the past six years, including following Covid-19, are generally consistent with increasing demand for New Zealand honey.

The value of honey exports grew 12.8% per annum over the five years to March 2020. This was made up of 2.3% growth in volume per annum and 10.3% growth in prices per annum.

Covid-19 does not appear to have had a large impact on export value, volumes or prices with seasonal patterns since March 2020 being similar to recent years.

Export value in the year ending March 2021 is up 30.9%, comprised of a 40.2% increase in volumes and a 6.6% reduction in prices.

While honey exports appear to have not been noticeably affected by Covid-19, some honey producers noted that they had lost tourism revenue in their submissions to MPI during the previous consultation on potential levy changes in 2021.

# 5 WINE EXPORT LEVY

## 5.1 SUMMARY

The levy is generating more revenue than needed each year.

By June 2021, the accumulated surplus was $4.85 million which MPI addressed through additional spending and a refund following discussions with industry.

To balance future revenue and expenditure, MPI proposes to reduce the on-going levy[12] by 50% from $0.01 per litre to $0.005 per litre. The reduction in the levy reduces the annual cost to industry by about $2 million per annum, with large exporters paying about $56,300 less and small exporters paying about $350 less.

## 5.2 BACKGROUND

### 5.2.1 HIGH-LEVEL SERVICE DESCRIPTION

MPI provides services to the wine export sector including:

- the export standard setting programme;
- the market access programme; and
- compliance (e.g. residue testing) and systems audit activities.

### 5.2.2 HOW HAVE THESE SERVICES PERFORMED?

To improve transparency, MPI has worked with industry to create a framework for reporting on the performance of cost-recovered services. This has involved publishing annual reports about MPI's performance for some primary sectors. Performance reporting is an area of on-going development for MPI – the annual reports currently focus on transparency around financial data and there is scope to use them to report against performance metrics (once developed).

Wine is one sector which MPI produces reports for. While the Wine Report does not currently contain performance metrics around the levels of service provided, it does report on work carried out.

The latest Wine Report provided to New Zealand Winegrowers was for the year ending June 2021.

### 5.2.3 WHAT OTHER CONSULTATION AND REPORTING TAKES PLACE WITH INDUSTRY?

MPI undertakes other consultation with industry in addition to the Wine Report.

Wine representatives participate in World Wine Trade Group meets which are focused on facilitating trade in wine and help to progress technical details relating to free trade agreements. With the industry itself heavily involved in trade matters, MPI's market access work is largely about maintaining access and resolving access issues in existing markets rather than opening new markets.

MPI has weekly meetings with New Zealand Winegrowers which, as needed, discuss the Wine Assurance Programme.

Communications to the wider grape wine export industry is done via email, MPI often contributes to the New Zealand Winegrowers' monthly newsletter that it sends its members.

[12] On litres above 200,000 for each exporter.

### 5.2.4 HOW ARE THESE SERVICES FUNDED?

#### 5.2.4.1 LEVEL OF THE CHARGE

To keep costs on boutique operators low, no levy is charged on the first 200,000 litres exported by a business in a financial year with the costs of this met by the Crown.[13] A 1 cent per litre levy applies to volumes greater than 200,000 litres.

The current charge has been in place since 2015/16. Between 2008 and 2015, there were annual charges based on three ranges of wine business output (0 to 200,000 litres a year; 200,001 litres to 2 million litres a year; and greater than 2 million litres a year). For a business exporting 2 million litres per year, the annual charge was effectively 0.4 cents per litre.

#### 5.2.4.2 REGULATION

The levy is set out in Schedule 1AA Part 1 of the Wine Regulations 2006.[14]

#### 5.2.4.3 WHY IS A LEVY APPROPRIATE?

Standards development, market access and compliance are 'club goods'[15].

A levy is charged to businesses who are part of the 'club' to recover costs. If particular businesses benefitted rather than industry as a whole, then a fee on businesses would be appropriate. Crown funding would be appropriate if benefits accrued to wider society rather than particular businesses or industry as a whole.

## 5.3 PROBLEM

### 5.3.1 WHAT IS THE NATURE OF THE PROBLEM?

A surplus has arisen under the levy. Surpluses are an efficiency problem – either the levy is too high for a desired level of service, or the level of service is too low, or a combination.

### 5.3.2 WHAT IS THE SIZE OF THE PROBLEM?

Historical annual surpluses, including an annual surplus for the 2020/21 financial year of $0.96 million, contributed to an accumulated surplus of $4.85 million by June 2021. Following discussions with industry, MPI addressed this surplus through additional expenditure and a $4.58 million refund.

Under the current levy, a surplus will re-emerge. MPI forecasts that the accumulated surplus will be $0.39 million by June 2022 and $5.13 million by June 2026.

Revenue is forecast to grow only slightly over time, in line with the forecast change in export volumes from MPI's June 2021 *Situation and Outlook for Primary Industries*.[16] Expenditure is expected to grow in line with forecast changes in the consumers price index (around 2.1% per annum) in Treasury's Budget Economic and Fiscal Update 2021.

More financial data is available in Appendix 3.

[13] Foregone revenue is currently less than $100,000 across around 285 producers, compared to over $2.5 million collected from around 80 producers per annum. If small volume producers were charged, they'd pay around $305 on average compared to $35,000 on average by those about the 200,000 litre threshold. A producer exporting around the threshold would pay around $2,000.

[14] https://www.legislation.govt.nz/regulation/public/2006/0147/latest/whole.html#LMS221457

[15] A 'club good' is one where people/businesses can be excluded from services (e.g. have to join a 'club'), but once in the club, are able to use the services without reducing the service and benefits available to other members (the benefits are 'non-rival').
The benefits of standards and market access are available to any business that chooses to operate in the export market. One business making use of the standards or access does not prevent another business from making use of the standards or access. The benefits of standards and access are, therefore, non-rival. Businesses, however, can only receive these benefits if they comply with the regulatory requirements (the service is excludable).
Similarly, the harm from non-compliance and, therefore, the benefits of compliance by individual businesses can impact a whole industry.

[16] https://www.mpi.govt.nz/dmsdocument/45451-Situation-and-Outlook-for-Primary-Industries-SOPI-June-2021, page 49.

### 5.3.3 WHAT IS THE CAUSE OF THE PROBLEM?

One cause of the problem is that the levy rate set in 2015/16 was too high. The levy was expected to generate around $2 million per annum. Expenditure appears to have never reached these levels, resulting in the annual accumulation of surplus.

A further cause is that export volumes have risen faster than expected. Volumes have increased around 5.2% per year. This is much higher than forecast in MPI's June 2015 *Situation and Outlook for Primary Industries* of 1.5% per year.[17]

## 5.4 OPTIONS

### 5.4.1 OPTIONS AND KEY FEATURES

This document analyses three options:

- Status quo – The levy is unchanged and the surplus is retained by MPI
- Option (1) – The levy is reduced to a level which reduces the expected $0.39 million accumulated surplus to zero by June 2025
- Option (2) – The levy is reduced to a level which balances annual expenditure and revenue between 2022/23 and 2024/25 and any accumulated surplus (currently expected to be $0.39 million) is, after consultation with industry, either returned via another refund or spent on additional services

**Figure 2: Options**

| Option | | Levy |
|---|---|---|
| **Status quo** | Current levy | $0.01 per litre above 200,000 litres |
| **Option (1)** | New levy | $0.0050 (50% reduction) above 200,000 litres |
| **Option (2)** | New levy | $0.0055 (45% reduction) above 200,000 litres |
| | Other | Expected $0.39 million either returned via another refund or spent on additional services following further consultation |

### 5.4.2 DISCARDED OPTIONS

#### 5.4.2.1 GRADUATED COST RECOVERY

During previous cost recovery consultations[18], and particularly as a result of Covid-19, some industry participants in other sectors have suggested graduated changes to charges. Graduated changes would see lower charges in year one and higher charges in year three to lessen the immediate impact on businesses. These suggestions were made in situations where charges were increasing rather than decreasing. We consider that, with the levy proposed to decrease, there is less need to provide relief through a graduated change to the levy.

The idea of different levies by year have also caused us to consider options that set the levy in each year equal to the amount needed to recover costs in each year. With expenditure only expected to increase in line with inflation, the differences in a levy that varied by year would be small: $0.0054 in 2022/23, $0.0055 in 2023/24, $0.0056 in 2024/25. The economic distortion avoided by adopting such an approach would amount to around a single dollar over three years and certainly be outweighed by additional administration and compliance costs for businesses and MPI ensuring the correct rate is charged and paid in any year. For this reason, this option is excluded from further consideration.

#### 5.4.2.2 INCREASE SERVICES

One option to address the surplus is to increase the level of service provided. This option is not considered in this document, though it has been explored with the industry through other consultation. Industry's preference has not been to increase services at this time. Two conditions would need to be met for this option to be preferred: that it

[17] https://www.mpi.govt.nz/dmsdocument/7878-Situation-and-Outlook-for-Primary-Industries-SOPI-2015, page 51.
[18] Consultation in early 2021 on changes to germplasm, poultry, bee, and dairy levies.

was an industry preference, and that there was little variability over time about how much individual businesses paid such that this option didn't over-charge past businesses to subsidise future businesses.

## 5.5 ESTIMATED FINANCIAL AND ECONOMIC IMPACTS

### 5.5.1 INTRODUCTION

This section sets out the immediate financial impact of options at the industry and business-level, and then considers how the financial impact feeds through to changes in prices and volumes over the medium- to long-term.

### 5.5.2 IMMEDIATE INDUSTRY-LEVEL IMPACTS

Figure 3 shows the total revenue collected from industry under the status quo over the next three years and how much this would change under each option. Additionally, Figure 3 shows the 'opportunity cost' to industry of being unable to use surplus money MPI holds onto. To estimate the opportunity cost, we have assumed that industry would use reductions in cost to pay off debt and lower interest costs.[19] For example, assuming there are no further expenditure changes, Option (2) would see money returned to industry faster than Option (1) thereby avoiding $42,000 in interest costs.

**Figure 3: Immediate industry-level impacts, 2022/23 to 2024/25**

| Option | Revenue collected | Refund | Total direct cost | Opportunity cost |
|---|---|---|---|---|
| **Status quo** | $7.95 million | None | $7.95 million | $0.44 million |
| **Option (1)** | $3.99 million | None | $3.99 million | $0.04 million |
| **Option (2)** | $4.38 million | $0.39 million | $3.99 million | None |

### 5.5.3 IMMEDIATE BUSINESS-LEVEL IMPACTS

Exporters with volumes up to 200,000 litres in a financial year do not pay levies and, so, are unaffected by changes to the levy. There are about 285 exporters in this group.

Among the approximately 80 exporters with volumes greater the 200,000, the lower quartile export up to 391,000 litres with an average of 271,000 litres while the upper quartile export over 3.36 million litres with an average of 11.50 million litres.

Figure 4 shows, for a representative low-volume processor and a representative high-volume processor using the lower and upper quartiles (the smallest 25% and largest 25%), total revenue collected from industry under the status quo over the next three years and how much this would change under each option.

Figure 4 also shows the approximate value of a refund if a business was persistently a low-volume or high-volume exporter along with the approximate opportunity cost. These estimates are indicative only as the refund will depend on the actual amount businesses have paid previously.

**Figure 4: Financial impact on representative exporters, 2022/23 to 2024/25**

| Option | Low-volume exporter (271,000 litres) | | | | High-volume exporter (11.50 million litres) | | | |
|---|---|---|---|---|---|---|---|---|
| | Revenue collected | Refund | Total direct cost | Opportunity cost | Revenue collected | Refund | Total direct cost | Opportunity cost |
| **Status quo** | $2,120 | None | $2,120 | $160 | $339,000 | None | $339,000 | $25,700 |
| **Option (1)** | $1,060 | None | $1,060 | $9 | $170,000 | None | $170,000 | $1,400 |
| **Option (2)** | $1,160 | $110 | $1,060 | None | $186,000 | $17,000 | $170,000 | None |

[19] Using ASB's rural base rate including management fee of 6.67% as at September 2021 at www.interest.co.nz/borrowing/business-base-rates.

### 5.5.4 MEDIUM- TO LONG-TERM MARKET-LEVEL IMPACTS

Changes in levies are changes in business costs. This feeds through to business margins and, over the medium- to longer-term, to market prices and quantities.

Options (1) involves the largest reduction in the levy – from $0.01 to $0.0050 per litre. This compares to the average export price per litre of $6.63. If all of the levy reduction was passed through, the reduction in export prices would be around 0.08%. This is a negligible impact and, therefore, the wider market impacts of options are not analysed further.

## 5.6 ASSESSMENT AGAINST THE COST RECOVERY PRINCIPLES

This section assesses the options using MPI's Cost Recovery Principles and approach as described in the 'Cost Recovery Principles and the overall approach to cost recovery' chapter.

### 5.6.1 TRANSPARENCY AND JUSTIFIABILITY

#### 5.6.1.1 TRANSPARENCY

Between the on-going consultation MPI has with industry and the information in the January 2022 consultation document (very similar to this CRIS) – including revenue and expenditure over time, an analysis of the causes of changes, a wide range of options and an impact assessment – we consider that the Transparency principle has been met.

#### 5.6.1.2 JUSTIFIABILITY

Justifiability requires that costs be reasonable.

Expenditure is fairly constant over time with no large increases that might suggest big service level improvements or cost inefficiencies that need justifying. MPI's financial data indicates that expenditure in the three years to June 2021 was 11.4% higher than the three years to June 2018. Expenditure is expected to reduce by 9.2% in the three years to June 2024 such that expenditure growth will only have been 0.5% per annum between 2015/16 to 2024/25.[20] This compares to inflation in MPI's overall costs of about 2.0% per annum since 2015.

As noted earlier, MPI consults regularly on market access and standards development. Additionally, MPI undertook specific consultation around the previous forecasts and whether it should be used for new services.

Overall, we are confident that past expenditure and future expenditure plans are reasonable.

### 5.6.2 EFFICIENCY AND EQUITY

#### 5.6.2.1 EFFICIENCY

Option (2) maximises efficiency in terms of costs to industry. Option (2) maximises industry's opportunity to use the surplus, such as paying down debt. Option (1) results in an opportunity cost (higher interest on debt) to industry of around $42,000. The status quo results in an opportunity cost to industry of $437,000.

Option (2) has higher administration costs for MPI in terms of processing refunds. Option (2) would[21] avoid $437 more interest than Option (1) per levy payer. The time cost to MPI of processing a refund will certainly be less that this benefit to industry.

Overall, we judge that Option (2) is the most efficient option.

#### 5.6.2.2 EQUITY

Option (1) reduces the currently anticipated surplus slower than Option (2). As there is turnover among levy payers over time, the longer it takes to reduce the surplus, the greater the likelihood that levy payers that did not contribute to the surplus benefit.

Option (2) returns any surplus to those that contributed towards it.

[20] Excluding the $850,000 one-off additional expenditure in 2021/22 agreed to address the surplus.
[21] Using ASB's rural base rate including management fee of 6.67% as at September 2021 at www.interest.co.nz/borrowing/business-base-rates.

Overall, we consider that Option (2) is the most equitable option.

## 5.7 INDUSTRY FEEDBACK ON THE LEVY OPTIONS

MPI released a consultation document covering the above analysis in January 2022. Consultation was open for four weeks.

Earlier sections of this chapter outlined MPI's ongoing consultation with the sector. Earlier sections have also incorporated relevant feedback from the January 2022 consultation.

On the specific options, The New Zealand Food & Grocery Council preferred Option (2). A single submission from an individual business also supported Option (2). New Zealand Winegrowers, however, preferred Option (1). They were keen to have the certainty that the surplus would be returned without further consideration of what to do with the expected surplus.

## 5.8 CONCLUSION

The current levy will continue to raise more revenue than is needed. This is expected to result in a $0.39 million surplus by June 2022.

While Option (2) is mathematically the most equitable and efficient option and is favoured by The New Zealand Food & Grocery Council and another individual business, greater weight should be given to the submission by New Zealand Winegrowers who have been directly involved with MPI in previous discussions around the surplus. New Zealand Winegrowers preference is to have the surplus returned without further consideration with MPI.

If further worthwhile expenditure is not identified, Option (2) would provide a one-off refund of $0.39 million and a reduction in the on-going levy by 45%.

Option (1) reduces the on-going levy by 50% and remains MPI's preferred option.

## 5.9 MONITORING AND REVIEW

The surplus arose because revenue was more than needed to deliver desired services. Part of this was due to export volumes growing quickly. Prior to 2015, revenue was less directly related to volumes and, so, volume growth would have a less dramatic effect on revenue.

One option for addressing the risk of future surpluses is, therefore, to change the basis of the levy from volumes to something more like the basis used prior to 2015. A negative of this approach would be that the amount each business pays is less proportional to the amount of benefit they receive from MPI's services. For example, a business that exports 10 million litres or wine might pay as much in levies as a business that exports 2 million litres despite benefiting five times as much from services.

Another option is to review whether improvements to forecasts can be made. MPI will consider whether to investigate this issue further in future.

New Zealand Winegrowers and The New Zealand Food & Grocery Council noted that annual surpluses existed for a long time. MPI acknowledges that the surplus should have been addressed faster and is taking action to improve its processes. This includes developing a policy which sets thresholds beyond which MPI will begin addressing a deficit or surplus and that sets out expectations for how quickly a deficit or surplus should be eliminated.

# 6 FISH EXPORT LEVY

## 6.1 SUMMARY

A deficit has accumulated under the levy and is expected to grow further over time. The causes of the deficit are lower-than-expected export volumes reducing revenue and further reductions to volumes forecast.

MPI's preferred option is to eliminate the deficit with an increase in the levy from $1.12 per tonne to $1.55 per tonne from 2022/23. This would increase annual costs to industry by about $138,000, with large exporters paying about $10,000 more and small exporters $15 more.

## 6.2 BACKGROUND

### 6.2.1 HIGH-LEVEL SERVICE DESCRIPTION

MPI provides services to the fish export sector including:

- the export standard setting programme
- the market access programme
- compliance and systems audit activities related to exports.

### 6.2.2 HOW HAVE THESE SERVICES PERFORMED?

To improve transparency, MPI has worked with industry to create a framework for reporting on the performance of cost-recovered services. This has involved publishing annual reports about MPI's performance for some primary sectors. Performance reporting is an area of on-going development for MPI – the annual reports currently focus on transparency around financial data and there is scope to use them to report against performance metrics (once developed).

MPI does not regularly produce annual reports for fish. Currently performance reporting occurs through quarterly reports and meetings updating progress on the market access programme.

### 6.2.3 WHAT OTHER CONSULTATION TAKES PLACE WITH INDUSTRY?

In addition to consultation on the market access programme, MPI consults annually on the residue sampling plan – the main cost within compliance and systems audit activities.

While there is good consultation on work programmes, consultation on cost implications could be better. For example, while there is consultation on market access work, the cost implications and potential for changes to levies are not always clear.

Improvements to consultation will be investigated as part of an ongoing refresh of cost recovery currently underway.

### 6.2.4 HOW ARE THESE SERVICES FUNDED?

#### 6.2.4.1 LEVEL OF THE CHARGE

Fish exports incur a levy of $1.12 per tonne.

While not explicitly recorded in regulations, the fish export levy is made up of the domestic component (being $0.22 per tonne) and an export component ($0.90 per tonne). The reason for this approach is that both domestic and export product benefits from the New Zealand's domestic safety standards, compliance and system audits, while exporters then have additional requirements set by other countries. Exporters, therefore, pay a share of domestic work programme costs and then a 'top-up' to cover the additional export-specific costs.

The history of charges is set out in Figure 5 with years in which charges were changed in bold.

**Figure 5: Fish export levy history**

| Year | Fish export levy | Export component | Domestic component |
|---|---|---|---|
| 2021/22 | $1.12 | $0.90 | $0.22 |
| 2020/21 | $1.12 | $0.90 | $0.22 |
| 2019/20 | $1.12 | $0.90 | $0.22 |
| **2018/19** | **$1.12** | **$0.90** | **$0.22** |
| 2017/18 | $0.50 | $0.30 | $0.20 |
| 2016/17 | $0.50 | $0.30 | $0.20 |
| **2015/16** | **$0.50** | **$0.30** | **$0.20** |
| 2014/15 | $0.82 | $0.40 | $0.42 |
| 2013/14 | $0.82 | $0.40 | $0.42 |
| 2012/13 | $0.82 | $0.40 | $0.42 |
| 2011/12 | $0.82 | $0.40 | $0.42 |
| 2010/11 | $0.82 | $0.40 | $0.42 |
| 2009/10 | $0.82 | $0.40 | $0.42 |
| 2008/09 | $0.82 | $0.40 | $0.42 |

#### 6.2.4.2 REGULATION

The levy is set out in Schedule 2 of the Animal Products (Fees, Charges, and Levies) Regulations 2007. [22]

#### 6.2.4.3 WHY IS A LEVY APPROPRIATE?

Standards development, market access and compliance are 'club goods'[23].

A levy is charged to businesses who are part of the 'club' to recover costs. If particular businesses benefitted rather than industry as a whole, then a fee on businesses would be appropriate. Crown funding would be appropriate if benefits accrued to wider society rather than particular businesses or industry as a whole.

## 6.3 PROBLEM

### 6.3.1 WHAT IS THE NATURE OF THE PROBLEM?

A deficit has arisen under the levy. Deficits are an efficiency problem – either the levy is too low for a desired level of service, or the level of service is too high, or a combination.

### 6.3.2 WHAT IS THE SIZE OF THE PROBLEM?

The accumulated deficit is $98,000 as at June 2021 and is forecast to grow to $158,000 by June 2022 and $501,000 by June 2026.

Figure 6 shows the history of revenue, expenditure, and annual and accumulated deficits through to 2020/21, and forecasts through to 2025/26.

Our revenue forecast has revenue dropping around 3% in 2021/22 and remaining around that level for the next few years. MPI's June 2021 *Situation and Outlook for Primary Industries*[24] has 'seafood' volumes falling around

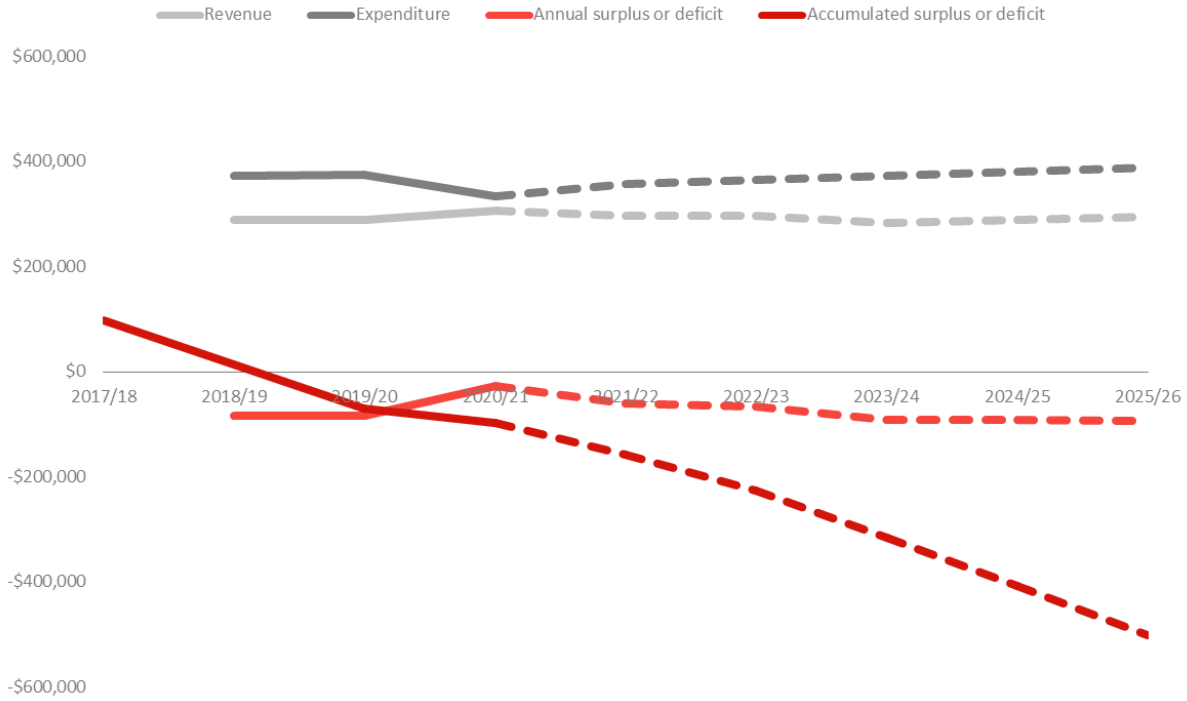
[22] https://www.legislation.govt.nz/regulation/public/2007/0130/latest/DLM437461.html
[23] A 'club good' is one where people/businesses can be excluded from services (e.g. have to join a 'club'), but once in the club , are able to use of the services without reducing the service and benefits available to other members (the benefits are 'non-rival').
The benefits of standards and market access are available to any business that chooses to operate in the export market. One business making use of the standards or access does not prevent another business from making use of the standards or access. The benefits of standards and access are, therefore, non-rival. Businesses, however, can only receive these benefits if they comply with the regulatory requirements (the service is excludable).
Similarly, the harm from non-compliance and, therefore, the benefits of compliance by individual businesses can impact a whole industry.
[24] https://www.mpi.govt.nz/dmsdocument/45451-Situation-and-Outlook-for-Primary-Industries-SOPI-June-2021, page 46.

1% in 2021/22 and growing around 1% per annum after that. The forecast for seafood includes shellfish which have grown in volume in recent times whereas fish has fallen. Our lower forecast for fish reflects that difference.[25]

Expenditure is expected to grow in line with forecast changes in the consumers price index (around 2.1% per annum) in Treasury's Budget Economic and Fiscal Update 2021.

More financial data is available in Appendix 3.

**Figure 6: Revenue, expenditure and surpluses over time under the status quo**




### 6.3.3 WHAT ARE THE CAUSES OF THE PROBLEM?

The cause of the problem are falling export volumes due to falling supply and, since Covid-19, falling demand (see section 4.3). Export volumes and, therefore, revenue were lower than forecast the last time the levy was set, and further volume decreases are expected in future.

Higher-than-expected expenditure has not been a cause. The cost recovery impact statement accompanying the levy change in 2018 stated[26] that expenditure was around $100,000 per annum and expected to increase to around $400,000 per annum due to increasing services around residue testing and food safety standards. Actual expenditure has been 10% less than that at around $360,000 per annum.

The average annual deficit for 2018/19 to 2020/21 has been $65,000. The 2018 cost recovery impact statement's assumption was for no change in revenue, with volumes expected to be 406,000 tonnes per annum. Actual volumes were 19% lower. This contributed to lower-than-expected revenue of $87,000 per annum. This revenue would have been more than enough to offset the annual deficits.[27]

A submission from Seafood New Zealand disputed our analysis that the cause of the problem is lower volumes. Seafood New Zealand said that the volume assumptions in setting the 2018 levy were correct. As above, our analysis is that the volume assumptions turned out to be too high – volumes were expected to be 406,000 tonnes per annum while actual volumes were 19% lower.

[25] Seafood New Zealand's submission also said that they expect fish volumes to be
[26] https://www.mpi.govt.nz/dmsdocument/28878/direct, page 26.
[27] If volumes had matched 2018's forecast, the memorandum account would have had a $380,000 accumulated surplus rather than a $98,000 accumulated deficit.

## 6.4 OPTIONS

### 6.4.1 IDENTIFYING OPTIONS

In previous cost recovery reviews, MPI's standard options have been (in addition to the status quo) a one-off increase to the fee to recover future costs and eliminate the deficit, a one-off increase the fee to recover future costs but not the accumulated deficit, and the deferral of changes for one-year.

During recent cost recovery consultations, and particularly as a result of Covid-19, some businesses and industry representative groups have suggested graduated increases to charges. The idea of different levies by year have also caused us to analyse options that set the levy in each year equal to the amount needed to recover costs in each year. Options with levies that vary year-to-year are included along with MPI's standard options.

### 6.4.2 DISCARDED OPTIONS

Options that recover the accumulated deficit over one or two years rather than three are not included. It is considered too inequitable to recover deficits that may have arisen over three years within a very short period (particularly where recovery over three years is widely known as MPI's approach) and having an ability to recover costs that quickly may reduce the incentive on MPI to review cost recovery settings when deficits arise in a timely fashion.

### 6.4.3 KEY FEATURES OF OPTIONS

Figure 7 sets out the key features of each option and the levy rates.

**Figure 7: Fish export levy options**

| Option | Description | Fish export levy | 2022/23 | 2023/24 | 2024/25 |
|---|---|---|---|---|---|
| Status quo | The current levy. | Total | $1.12 | $1.12 | $1.12 |
| | | Export component | $0.90 | $0.90 | $0.90 |
| | | Domestic component | $0.22 | $0.22 | $0.22 |
| Option (1a) | Aims to recover future costs **and** the accumulated deficit.<br>Costs are totalled over three years and divided by the number of operators operating over that period.<br>A **single** change in the levy. | Total | $1.55 | $1.55 | $1.55 |
| | | Export component | $1.33 | $1.33 | $1.33 |
| | | Domestic component | $0.22 | $0.22 | $0.22 |
| Option (1b) | Aims to recover future costs **and** the accumulated deficit.<br>Levy **varies** in each year to match expected expenditure plus a proportionate share of the accumulated deficit. | Total | $1.53 | $1.56 | $1.56 |
| | | Export component | $1.31 | $1.34 | $1.34 |
| | | Domestic component | $0.22 | $0.22 | $0.22 |
| Option (1c) | Aims to recover future costs **and** the accumulated deficit.<br>A **graduated** increase in the levy. The graduated increase aims to recover 20% of the total increase in revenue in year one, and 40% each in years two and three.[28] | Total | $1.37 | $1.64 | $1.64 |
| | | Export component | $1.15 | $1.42 | $1.42 |
| | | Domestic component | $0.22 | $0.22 | $0.22 |
| Option (2a) | Aims to recover future costs **only**.<br>Costs are totalled over three years and divided by the number of operators operating over that period.<br>A **single** change in the levy. | Total | $1.38 | $1.38 | $1.38 |
| | | Export component | $1.16 | $1.16 | $1.16 |
| | | Domestic component | $0.22 | $0.22 | $0.22 |
| Option (2b) | Aims to recover future costs **only**.<br>Levy **varies** in each year to match expected expenditure plus a proportionate share of the accumulated deficit. | Total | $1.37 | $1.39 | $1.39 |
| | | Export component | $1.15 | $1.17 | $1.17 |
| | | Domestic component | $0.22 | $0.22 | $0.22 |
| Option (2c) | Aims to recover future costs **only**.<br>A **graduated** increase in the levy. The graduated increase aims to recover 20% of the total increase in revenue in year one, and 40% each in years two and three. | Total | $1.27 | $1.43 | $1.43 |
| | | Export component | $1.05 | $1.21 | $1.21 |
| | | Domestic component | $0.22 | $0.22 | $0.22 |
| Option (3) | Defer changes for one year, with a new levy to be set from 2023/24 after further consideration. | Total | $1.12 | TBD | TBD |
| | | Export component | $0.90 | TBD | TBD |
| | | Domestic component | $0.22 | $0.22 | $0.22 |

[28] There are infinite combinations of graduated increases.

## 6.5 ESTIMATED FINANCIAL AND ECONOMIC IMPACTS

### 6.5.1 INTRODUCTION

This section sets out the immediate financial impact of options at the industry and business-level, and then considers how the financial impact feeds through to changes in prices and volumes over the medium- to long-term.

### 6.5.2 IMMEDIATE INDUSTRY-LEVEL IMPACTS

Figure 8 shows annual cost to industry under the status quo and how much the annual cost would increase by under each option.

**Figure 8: Immediate industry-level impacts**

| Option | 2022/23 | 2023/24 | 2024/25 | Total |
|---|---|---|---|---|
| Status quo | $370,000 | $351,000 | $359,000 | $1,080,000 |
| Option (1a) – full cost recovery, single levy | +$142,000 | +$135,000 | +$138,000 | +$415,000 |
| Option (1b) – full cost recovery, variable levy | +$135,000 | +$138,000 | +$141,000 | +$415,000 |
| Option (1c) – full cost recovery, graduated levy | +$83,000 | +$164,000 | +$168,000 | +$415,000 |
| Option (2a) – future costs only, single levy | +$85,000 | +$81,000 | +$83,000 | +$250,000 |
| Option (2b) – future costs only, variable levy | +$81,000 | +$83,000 | +$85,000 | +$250,000 |
| Option (2c) – future costs only, graduated levy | +$50,000 | +$99,000 | +$101,000 | +$250,000 |
| Option (3) – defer changes for one year | $0 | TBD | TBD | TBD |

### 6.5.3 IMMEDIATE BUSINESS-LEVEL IMPACTS

There are approximately 50 exporters in a typical year. The lower quartile export up to 83 tonnes with an average of 39 tonnes while the upper quartile export over 3,200 tonnes with an average of 26,400 tonnes.

Figure 9 shows the on-going annual impact on a representative large exporter and a representative small exporter using the lower and upper quartiles (the smallest 25% and largest 25%).

**Figure 9: Immediate business-level impacts**

| Option | 2022/23 | 2023/24 | 2024/25 | Total |
|---|---|---|---|---|
| **Large exporters** | | | | |
| Status quo | $27,400 | $26,000 | $26,600 | $80,000 |
| Option (1a) – full cost recovery, single levy | +$10,500 | +$10,000 | +$10,200 | +$30,700 |
| Option (1b) – full cost recovery, variable levy | +$10,000 | +$10,300 | +$10,500 | +$30,700 |
| Option (1c) – full cost recovery, graduated levy | +$6,100 | +$12,200 | +$12,400 | +$30,700 |
| Option (2a) – future costs only, single levy | +$6,300 | +$6,000 | +$6,100 | +$18,500 |
| Option (2b) – future costs only, variable levy | +$6,000 | +$6,200 | +$6,300 | +$18,500 |
| Option (2c) – future costs only, graduated levy | +$3,700 | +$7,300 | +$7,500 | +$18,500 |
| Option (3) – defer changes for one year | $0 | TBD | TBD | TBD |
| **Small exporters** | | | | |
| Status quo | $41 | $39 | $40 | $119 |
| Option (1a) – full cost recovery, single levy | +$16 | +$15 | +$15 | +$46 |
| Option (1b) – full cost recovery, variable levy | +$15 | +$15 | +$16 | +$46 |
| Option (1c) – full cost recovery, graduated levy | +$9 | +$18 | +$19 | +$46 |

| | | | | |
|---|---|---|---|---|
| Option (2a) – future costs only, single levy | +$9 | +$9 | +$9 | +$28 |
| Option (2b) – future costs only, variable levy | +$9 | +$9 | +$9 | +$28 |
| Option (2c) – future costs only, graduated levy | +$6 | +$11 | +$11 | +$28 |
| Option (3) – defer changes for one year | $0 | TBD | TBD | TBD |

### 6.5.4 MEDIUM- TO LONG-TERM MARKET-LEVEL IMPACTS

Changes in levies are changes in business costs. This feeds through to business margins and, over the medium- to longer-term, to market prices and quantities.

The full cost recovery options of (1a), (1b) and (1c) involve an increase in the levy by an average $0.43 per tonne. The partial cost recovery options of (2a), (2b) and (2c) involve an increase in the levy by an average $0.26 per tonne. This compares to the average export price per tonne in 2021 of $4,889.20.

If all of the levy reduction was passed through, the increase in export prices would be around 0.009% and 0.005% respectively. This is a negligible impact and, therefore, the wider market impacts are not analysed further.

## 6.6 ASSESSMENT AGAINST THE COST RECOVERY PRINCIPLES

This section assesses the options using MPI's Cost Recovery Principles and approach set out in 'Cost recovery principles and the overall approach to cost recovery' chapter.

### 6.6.1 TRANSPARENCY AND JUSTIFIABILITY

#### 6.6.1.1 TRANSPARENCY

Between the on-going consultation MPI has with industry and the information in the January 2022 consultation document (very similar to this CRIS) – including revenue and expenditure over time, an analysis of the causes of changes, a wide range of options and an impact assessment – we consider that the Transparency principle has been met.

However, there is an area for improvement. In future MPI will look to provide industry with information about cost recovery implications when work programme changes are considered so that industry can clearly consider the benefits and costs of work programmes simultaneously.

#### 6.6.1.2 JUSTIFIABILITY

Justifiability requires that costs be reasonable. From the analysis in section 6.3.3, MPI considers that it has sufficiently met this principle.

The causes of the deficit do not appear to be the result of cost inefficiencies or increases in service provision that have not previously been consulted on.

The causes of the deficit appear to be revenue being lower than forecast at the time the levy was last set and a further expected fall in revenue. MPI's forecast at the time was reasonable. MPI is justified in adjusting the rate up as revenue has turned out to be lower than forecast.

#### 6.6.1.3 CONSIDERING THE OPTIONS IN LIGHT OF THE TRANSPARENCY AND JUSTIFIABILITY PRINCIPLES

Options (2a), (2b) and (2c) should be ruled out at this out point. These options only recover future costs and not the historical deficit. These options could be preferred if MPI had sufficiently justified future expenditure, but not historical expenditure. In MPI's view, both historical and future expenditure has been sufficiently justified.

If MPI did not sufficiently meet these principles, then the full cost recovery options of (1a), (1b) and (1c) would need to be ruled out. As these principles appear most likely to be met, Options (1a), (1b), and (1c) remain viable options.

This leaves the status quo, and Options (1a), (1b), (1c) and (3) for consideration under the Efficiency and Equity principles. The levy rates by year for the remaining options are set out below.

**Figure 10: Remaining options**

| Option | 2022/23 | 2023/24 | 2024/25 |
|---|---|---|---|
| Status quo | $1.12 | $1.12 | $1.12 |
| Option (1a) – single levy | $1.55 | $1.55 | $1.55 |
| Option (1b) – variable levy | $1.53 | $1.56 | $1.56 |
| Option (1c) – graduated levy | $1.37 | $1.64 | $1.64 |
| Option (3) – defer changes a year | $1.12 | TBD | TBD |

### 6.6.2 EFFICIENCY AND EQUITY

#### 6.6.2.1 EFFICIENCY

Economic efficiency involves consideration of deadweight loss (how much different levy rates distort industry production or, in the case of Crown funding, taxpayer decisions), and how big administration costs are.

The status quo and Option (3) have the highest economic inefficiency as costs fall on general taxpayers rather than industry.

Options (1a), (1b), and (1c) are the most efficient options. However, because they ask future businesses to not only pay their own costs but also those of past businesses, they do involve some distortion (deadweight loss[29]) of business decision-making.

In addition, all three options involve the Government carrying debt to either cover the accumulated deficit or to spread future costs across different years. This debt also carries a deadweight loss.

While the regulations would only need to be changed once, options that change levy rates more frequently will have higher administration costs in terms of MPI and operators ensuring the right rate in any year is paid – the more frequently rates are changed, the bigger the chance of a mistake or potential confusion to arise.

#### 6.6.2.2 EQUITY, COVID-19 AND THE TIMING OF CHANGES

Equity involves moral/value judgements.

An Equity issue raised in submissions is whether it is reasonable to recover costs during the immediate post-Covid period as there have been supply chain disruptions and, with the closure of borders, barriers to expanding export potential through business trips.

The Government has so far preferred to deal with the impacts on businesses through central supports such as the Small Business Cashflow (Loan) Scheme, and has continued to pursue full cost recovery of MPI services where justified. It is likely that the status quo and Option (3) which do not fully recover costs will not be deemed equitable.

Options (1a), (1b) and (1c) fully recover expenditure over a three-year period, with modest differences in interest costs. Any of these options may, therefore, satisfy the Government's desire to fully recover costs. The remaining question is which would be more equitable from industry's perspective. This matter depends on two factors: whether there is a consensus around an option among current industry participants and whether that consensus would be a view held by future industry participants.

For instance, Option (1c) could be deemed an industry preference if it is favoured by current industry participants and there is little turnover among industry year-to-year such that Option (1c) would also be favoured by future participants. If there is high turnover, it is harder to be confident about there being an industry consensus as

[29] Options (1a), (1b) and (1c) recover costs over the three-year period and eliminate the deficit. As the options both recover future costs and the accumulated deficit, the options charge future customers more than it costs to provide the services they receive. This reduces demand, even if negligibly, for MPI services compared to if MPI only recovered future costs. This creates an economic inefficiency (deadweight loss). The degree of economic inefficiency depends on how much revenue is raised in each year within the three-year period compared to how much should be raised to pay for services in each year. Overall, no matter who pays, the existence of an accumulated deficit means there's an economic inefficiency. If the Crown pays, there's an inefficiency from higher-than-necessary taxes or lower-than-desired spending elsewhere. If industry pays, they are paying a higher charge to cover services delivered to past processors. Provided that MPI has sufficiently met the Transparency and Justifiability Principles, future industry participants bearing the costs or benefits of past deficits or surpluses is the established and accepted approach. Charging the Crown would only potentially be considered more efficient if expenditure was not sufficiently justified or if there was significant turnover in industry participation such that future customers had minimal input into past decisions that led to the deficit or surplus.
This concept is somewhat complicated with club goods as the benefits of market access established in previous years are available to future processors, but the general concept is correct.

current industry participants might favour Option (1c) in order to avoid paying costs now and have them paid by others in future.

#### 6.6.2.3 MAGNITUDE OF EFFICIENCY AND EQUITY TRADE-OFFS

Figure 11 summarises the magnitude of Efficiency[30] and Equity matters, including:

- the distortion (deadweight loss) caused by levies being higher than annual costs in order to recover the accumulated deficit;
- the deadweight loss from taxpayer contributions;
- a description of the relative size of administration costs;
- and, for Options (1b) and (1c) which have different levy rates over time, estimates of:
    - the financial gain to industry in total (e.g. Option (1c) delays cost which is assumed to save industry some interest costs);
    - the average financial gain per levy payer;
    - what proportion of levy payers would receive a financial gain greater than $50;
    - how costs are redistributed between years for an average large exporter (upper quartile) and small exporter (lower quartile).

Option (1a) has the lowest deadweight loss and administration cost meaning it is the most efficient option.

Options (1b) and (1c) reduce the financial cost to industry in 2022/23 and increase it in 2023/24 and 2024/25 relative to Option (1a).

Option (1b) only does this very slightly with a levy that is 1.2% lower than Option (1a) in 2023/24. The average financial gain is $14 per levy payer over three years. The administration cost per levy payer of Option (1b) is likely to exceed this. For this reason, Option (1b) is unlikely to be preferred over Option (1a).

Option (1c) reduces the immediate financial cost more substantially, with a levy that is 11.6% lower than Option (1a) in 2023/24. The average financial gain is $117 per levy payer over three years. This might exceed administration costs. However, the gains of Option (1c) disproportionately go to large exporters. If administration costs of Option (1c) are $50, only the largest 25.0% of exporters will receive an overall gain.

A further equity consideration is the level of turnover among levy-payers over time. Fifteen levy payers out of 52 in 2019/20 did not pay levies in 2020/21. This seems to be a large amount of turnover. Additionally, these levy payers were generally small volume exporters with twelve of the fifteen having exports below the median and seven were in the lowest quartile. Deferring expenditure to later years, as under Option (1c) seems likely to increase the risk of unfairly charging small volume exporters.

[30] Includes the deadweight loss from industry production decisions being distorted by higher than actual cost levies and the deadweight loss from taxpayer contributions.
The industry deadweight loss is calculated using current export and domestic prices, finding the new price if new levies were charged and estimating the change in volumes with an assumed elasticity of demand of -3 and perfectly elastic supply. The taxpayer deadweight loss is, as per Treasury cost benefit analysis guidelines, 20% of taxpayer expenditure which is the funding required to eliminate the accumulated deficit and annual deficits for the three year period.
The industry deadweight loss assumes levy payers pass costs through in the year they are incurred, rather than treating any levy cost for generating enduring benefits as an expense to be smoothed over time (see Issue 2).
The estimated industry deadweight losses are small because the cost changes are small compared to total revenue. Small changes in cost cause only small changes in price and, therefore, only small distortions in production.
The industry and taxpayer values may not be directly comparable.

**Figure 11: Efficiency and Equity impacts**

| Option | Efficiency | | Equity | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Deadweight loss** | **Administration cost** | **Total financial gain** | **Average financial gain to industry** | **Percent of customers where financial gain exceeds $50** | **Redistribution of cost** | **2022/23** | **2023/24** | **2024/25** |
| Status quo | Industry: <$1<br>Taxpayer: $82,948 | No cost | Inequitable – charges taxpayers rather than industry | | | | | | |
| Option (1a) – single levy | Industry: $45<br>Taxpayer: $2,722 | Higher than the status quo – One-off administration cost of understanding the new levy | NA | | | | | | |
| Option (1b) – variable levy | Industry: $45<br>Taxpayer: $2,864 | Higher than the status quo and Option (1a) as levies vary within the three years | Industry: +$708<br>Taxpayer: -$708 | +$14 | 9.6% | Large exporter:<br>Small exporter: | -$529<br>-$0.79 | +$264<br>+$0.39 | +$264<br>+$0.39 |
| Option (1c) – graduated levy | Industry: $49<br>Taxpayer: $3,946 | Higher than the status quo and Option (1a) as levies vary within the three years | Industry: +$5,409<br>Taxpayer: -$5,409 | +$104 | 25.0% | Large exporter:<br>Small exporter: | -$4,757<br>-$7.09 | +$2,379<br>+$3.54 | +$2,379<br>+$3.54 |
| Option (3) – defer changes a year | Up to the status quo, with the extent depending on what levy rates are ultimately chosen | Higher than the status quo, with the extent depending on what levy rates are ultimately chosen | Inequitable – charges taxpayers rather than industry | | | | | | |

## 6.7 INDUSTRY FEEDBACK ON THE LEVY OPTIONS

MPI released a consultation document covering the above analysis in January 2022. Consultation was open for four weeks.

Earlier sections of this chapter outlined MPI's ongoing consultation with the sector. Earlier sections have also incorporated relevant feedback from the January 2022 consultation.

Seafood New Zealand and The New Zealand Food & Grocery Council opposed an increase in the levy due to the current economic environment but, if the levy was to be increased, preferred a graduated increase in the levy over time.

## 6.8 CONCLUSION

An accumulated surplus has arisen and is expected to accumulate further over time due to lower-than-expected export volumes and further reductions in volumes expected.

It is reasonable that MPI account for unexpected changes in volumes, including returning surpluses where volumes are higher or in this case, increasing the levy when volumes are lower.

Option (1a) is MPI's preferred option as it is the most efficient and likely to be considered by Government to be the most equitable option.

While Options (1b) and (1c) also fully recover costs, they come at a greater cost to taxpayers. Additionally, neither option would appear to have a large impact on equity. Option (1b) comes with higher administration costs for little gain to industry in terms of short-term financial relief, and Option (1c) is likely to only be a net gain after compliance costs to the 25% largest exporters.

## 6.9 MONITORING AND REVIEW

MPI will continue to review the fish export memorandum account on an on-going basis and review settings if a deficit or surplus accumulates.

In addition, MPI will explore further improvements to performance reporting across all industries and, to provide industry with cost recovery information at the time major decisions are made about work programmes so that the benefits and costs can be more clearly weighed up at once.

Seafood New Zealand and The New Zealand Food & Grocery Council noted that the size of the levy change and asked MPI to act more quickly when a deficit arises and to share more information with the sector. MPI is taking action to improve its processes. This includes developing a policy which sets thresholds beyond which MPI will begin addressing a deficit or surplus and that sets out expectations for how quickly a deficit or surplus should be eliminated.

# 7 CIRCUITS

## 7.1 SUMMARY

The circuits memorandum account has had persistent deficits over time. An increase in the circuits fee from $165 per hour to $176 per hour in 2019 was intended to, in combination with productivity improvements, bring the account into balance.

Despite some productivity improvements, the memorandum account continues to have deficits. A large contributor is that forecast volumes at the time of the last fee change were significantly higher than previous forecasts and what eventuated.

The main options considered within this chapter are to increase fees to an hourly rate of $230.50 to recover future costs and the accumulated deficit, to increase the hourly rate to $199.00 to recover future costs only, or defer changes to the rate to investigate whether further productivity improvements are possible. Other options include setting MPI charges at the level other providers charge, or charging new customers or remote rural customers lower fees.

Industry views received were mixed.

The Meat Industry Association, which represents 71 businesses with 99% coverage of meat production, favoured the single change to $230.50 for the next three years (followed by $199.00 once the accumulated deficit is eliminated). Other submissions from small businesses inside and outside of the meat processing industry did not consider full cost recovery was justified and encouraged MPI to find further efficiencies. The New Zealand Food & Grocery Council and other industry representative groups also opposed the $230.50 option.

MPI's view is that it has made best endeavours to achieve cost efficiencies and will continue to seek more in future as opportunities arise. As such, MPI considers that if not minimised, costs are reasonable. There is a level of uncertainty around this. Time and information constraints mean that we have not been able to confidently ascertain whether MPI's costs are similar to those charged by private providers. If they were, that would give us more confidence that costs are reasonable. A submission from Seafood New Zealand provided some information suggesting that MPI's proposed ongoing cost of $199.00 per hour is within the range that prive sector providers charge, albeit towards the upper end of the range ($150 to $220 per hour).

MPI considers based on best available information that costs are reasonable and that Option (1a) (an hourly rate change to $230.50) is the most efficient and equitable option. Option (1a) is therefore MPI's preferred option.

If the Government considers that further financial support should be provided beyond those provided through central schemes to help businesses through Covid-19, then other options could be pursued through only partially increasing charges, increasing charges gradually over time, or providing targeted relief to new businesses that did not contribute to the deficit or remote rural businesses that face higher costs due to travel requirements. Providing targeted relief would be relatively less costly compared to partial or gradual cost increases over time.

## 7.2 BACKGROUND

### 7.2.1 HIGH-LEVEL SERVICE DESCRIPTION

Circuit verifications are undertaken by verifiers travelling between businesses, i.e. on a 'circuit', for meat, dairy, fish/shellfish and other premises. They verify that the business is operating its internal systems (and for some aspects, its external supply chains) consistently with legal requirements and risk management plans. These differ from verifications of export meat processors, including slaughterhouses, where there are establishment verifiers located permanently on site and charged under a different set of fees.

Verification of some products is contestable – that is that verification can be done by MPI's Verification Services or by other providers such as AsureQuality New Zealand and Eurofins New Zealand. Meat is generally not contestable.

In some cases, private verifiers are unable or unwilling to provide the service to some businesses, so MPI does so as a 'verifier of last resort'.

Compared to Establishments where verifiers work full time at an operator, circuit verification work can be variable. Circuit verifiers work for multiple operators and demand can be seasonal.

### 7.2.2 HOW HAVE THESE SERVICES PERFORMED?

MPI has recently begun supplying the Meat Industry Association with quarterly performance reports. The first was provided in October 2021. The report details the financial position of the memorandum account, reasons for changes in expenditure and performance metrics such as:

- how well industry is meeting compliance requirements;
- how quickly MPI is completing verification;
- how long it takes MPI to fill vacancies;
- how productive verifiers are.

The first three metrics have been performing well, but productivity has been lower than target.

### 7.2.3 WHAT OTHER CONSULTATION TAKES PLACE WITH INDUSTRY?

Unlike levies which fund collective goods (club goods) and require decisions informed by wide consultation, circuit verifications are a fee for service with the work provided when individual operators demand it.

### 7.2.4 HOW ARE THESE SERVICES FUNDED?

#### 7.2.4.1 LEVEL OF THE CHARGE

The current charge is $176 per hour.

The history of charges is set out in Figure 12 with years in which charges were changed in bold. Between 2008/09 and 2018/19, the total charge was made up of a 'verifier' component being the direct costs of the verifier's time and a 'basic' component being the indirect costs of verification services. These components were combined into a single charge from 2019/20.

**Figure 12: Circuits charge history**

| Year | Circuits charge | Verifier component | Basic component |
|---|---|---|---|
| 2021/22 | $176.00 | | |
| 2020/21 | $176.00 | | |
| **2019/20** | **$176.00** | | |
| 2018/19 | $165.00 | $120.10 | $44.90 |
| 2017/18 | $165.00 | $120.10 | $44.90 |
| 2016/17 | $165.00 | $120.10 | $44.90 |
| **2015/16** | **$165.00** | **$120.10** | **$44.90** |
| 2014/15 | $114.01 | $93.04 | $20.97 |
| 2013/14 | $114.01 | $93.04 | $20.97 |
| 2012/13 | $114.01 | $93.04 | $20.97 |
| 2011/12 | $114.01 | $93.04 | $20.97 |
| 2010/11 | $114.01 | $93.04 | $20.97 |
| **2009/10** | **$114.01** | **$93.04** | **$20.97** |
| 2008/09 | $111.38 | $87.25 | $24.13 |

#### 7.2.4.2 REGULATION

Fees for MPI verification services are set out in the Animal Products (Fees, Charges, and Levies) Regulations 2007 and the Animal Products (Dairy Industry Fees, Charges, and Levies) Regulations 2015.

#### 7.2.4.3 WHY IS A FEE APPROPRIATE?

Verification services are a 'private good'[31].

A fee is charged to businesses to recover costs. If industry as a whole benefitted rather than particular businesses, then a levy across industry would be appropriate. Crown funding would be appropriate if benefits accrued to wider society rather than particular businesses or industry as a whole.

## 7.3 PROBLEM

### 7.3.1 WHAT IS THE NATURE OF THE PROBLEM?

A deficit has arisen under the circuits fee. Deficits are an efficiency problem – either the fee is too low for a desired level of service, or expenditure is too high, or a combination of both.

### 7.3.2 WHAT IS THE SIZE OF THE PROBLEM?

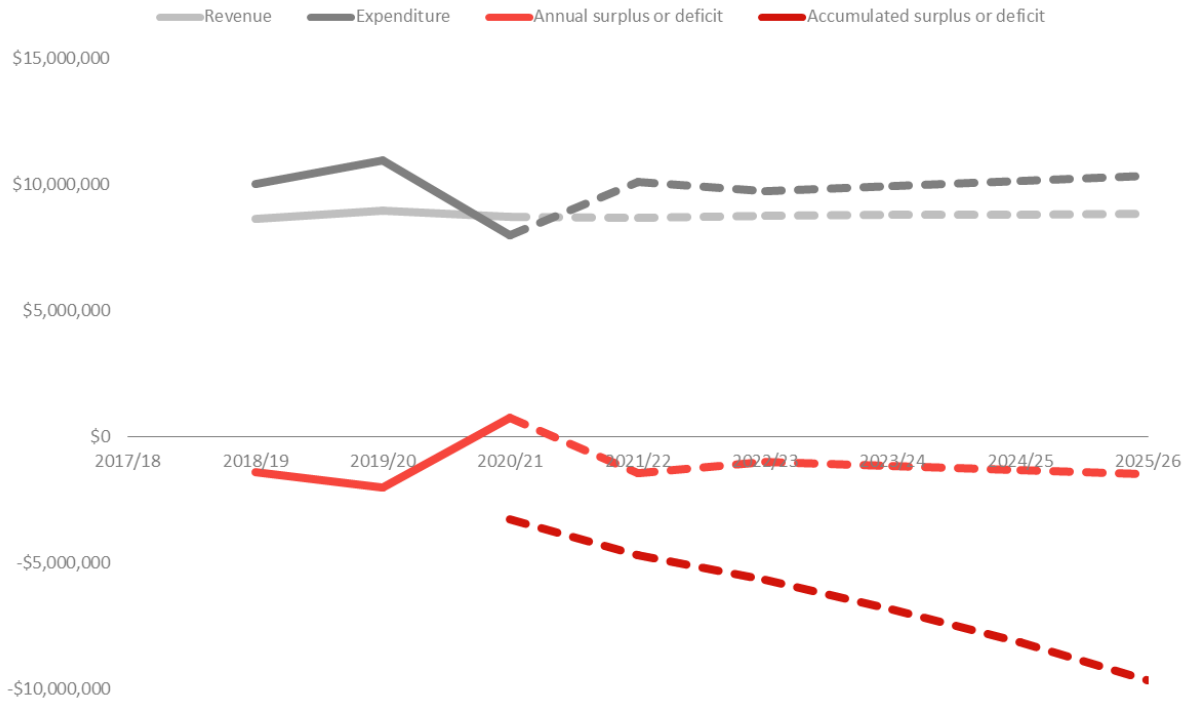
Historical annual deficits have contributed to an accumulated deficit of $3.3 million as at June 2021. The accumulated deficit is forecast to grow to $4.7 million by June 2022 and $9.6 million by June 2026.

Figure 13 shows the history of revenue, expenditure, and deficit balance through to 2020/21 and the respective forecasts through to 2025/26.

The fee would need to increase 31% from $176.00 to $230.50 to cover future costs and recover the accumulated deficit.

More financial data is available in Appendix 3.

**Figure 13: Revenue, expenditure and surpluses over time under the status quo**




### 7.3.3 WHAT IS THE CAUSE OF THE DEFICIT AND HOW HAS MPI PREVIOUSLY ATTEMPTED TO ADDRESS IT?

Revenue has been almost consistently lower than expenditure for many years with deficits occasionally written off. However, the history of the accumulated deficit is not straight forward.

[31] A private good is one where a person/business can be excluded (e.g. don't receive the service if they don't pay), and where the benefits accrue to the person/business (the benefits are 'non-rival') rather than to the whole industry or to society.
Verification services are a private good because they are only provided by MPI when paid for and the benefits accrue to the business that receives the service. For example, individual businesses receive benefits of higher revenue from being able to export when verified. Industry or society as a whole does not benefit from any individual business exporting.

In early 2018, MPI consulted on a proposed new fee. The consultation document[32] stated the fee would need to increase from $165 to $195.98 to recover annual costs, and increase to $204.56 to recover annual costs and the accumulated deficit at the time.

Industry feedback was that the cost increases were not justified, that MPI could be more efficient in providing services, and that better prices could be found from other providers. As a result, the Government opted not to proceed with the consulted increase and directed MPI to investigate cost efficiencies.

MPI investigated cost savings and revisions to estimates were subsequently made. Modest changes to volumes, the number of hours billed and forecasts were also made.

A further, bigger, revision to volumes was made later – one that changed both the forecast and the historical hours billed. The cost recovery impact statement at the time records a much higher revenue line – both forecast and historic.[33]

Between the expenditure reductions and the revenue increases, the fee to recover annual costs was $169 and the fee to recover annual costs and the accumulated deficit was $176 (down from $195.98 and $204.56 respectively). The Government agreed to implement the $176 rate.

Figure 14 turns the revenue numbers from the past cost recovery statement (footnote 33) into a table, along with the forecast prior to the revision[34] and MPI's current financial numbers. Figure 14 also includes some calculations for analysis. Numbers that were forecast at the time they were produced are shaded.

Figure 14 shows that actual volumes and revenue were lower than expected at the time the $176 fee was set, and expenditure was higher.

The volume numbers in the revision which formed the basis of the $176 fee were 18.8% higher than actual volumes in the three years to 2020/21. This forecast appears not to have had a reasonable basis.[35]

While expenditure in the revision was much lower than the previous forecast and what was actually spent over the three years to 2020/21, that actual expenditure in 2020/21 was much lower while delivering a similar volume of service suggests that cost efficiencies may be possible. These cost efficiencies contributed to expenditure per volume of $189.47 between 2018/19 and 2020/21, lower than the $195.98 that was consulted on in early 2018.

Cost efficiencies were due to verifiers being temporarily reallocated to non-circuit work while remaining verifiers picked up more volumes each. MPI will continue to take opportunities like these in future. More enduring productivity improvements will be pursued when organisational and contractual constraints allow.

In terms of future expenditure and revenue, future volumes are expected to grow around 1% per annum in line with forecasts of growth in rural areas' GDP by the Reserve Bank and expenditure is forecast to grow from the average of the last three years in line with changes in the consumers price index (around 2.1% per annum) in Treasury's Budget Economic and Fiscal Update 2021.[36]

[32] https://www.mpi.govt.nz/dmsdocument/28878/direct, page 47.
[33] https://www.mpi.govt.nz/dmsdocument/34611/direct, page 31.
[34] Numbers done shortly before the revision, not numbers done for the early 2018 consultation. While the revenue and expenditure numbers are different from the 2018 consultation, the volumes are similar.
[35] It seems likely that the historical figures were also higher than true amounts.
[36] If production drops over time, the expenditure forecast might be slightly too high. Additionally, the number of levy payers is very stable over time, so revenue may not fall as much as forecast.

**Figure 14: Circuit financials**

| Financial metric | Source | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2015/16 to 2017/18 comparison | 2018/19 to 2020/21 comparison |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | Previous | $7,895,385 | $8,053,293 | $8,053,293 | $8,214,359 | $8,937,256 | $9,116,001 | $9,116,001 | | | | The revision increased historical revenue by 6.2%.<br>Volume growth was 5.7% per annum in the revision versus 1.0% in the previous numbers. | The revision had forecast revenue:<br>• 18.8% higher than previous<br>• 18.5% higher than actual.<br>Volume growth was forecast at 4.2% per annum in the revision versus<br>• 2.0% growth in the previous forecast<br>• -2.6% actual growth (that is, 2.6% volume reduction per annum). |
| | Revision | $8,030,118 | $8,484,579 | $8,964,760 | $9,472,116 | $10,759,421 | $10,980,137 | $11,205,380 | | | | | |
| | Current | | | | $8,636,213 | $8,955,232 | $8,741,568 | $8,685,509 | $8,746,307 | $8,790,039 | $8,825,199 | | |
| Volumes | Previous | 47,851 | 48,808 | 48,808 | 49,784 | 50,780 | 51,795 | 51,795 | | | | | |
| | Revision [37] | 48,667 | 51,422 | 54,332 | 57,407 | 61,133 | 62,387 | 63,667 | | | | | |
| | Current | | | | 52,341 | 50,882 | 49,668 | 49,349 | 49,695 | 49,943 | 50,143 | | |
| Expenditure | Previous | $9,685,628 | $10,019,808 | $10,314,116 | $10,634,291 | $10,939,172 | $11,277,144 | $11,501,624 | | | | The revision decreased historical expenditure by 8.4%.<br>Expenditure per volume averaged 13.7% lower under the revision ($178.01 versus $206.37. | The revision had forecast expenditure:<br>• 6.9% lower than previous<br>• 5.6% higher than actual.<br>The revision forecast expenditure per volume to be:<br>• 21.6% lower than actual ($169.01 versus $215.61).<br>• 10.8% lower than actual ($169.01 versus $189.47). |
| | Revision | $8,823,151 | $9,158,587 | $9,506,776 | $9,868,203 | $10,197,078 | $10,512,961 | $10,861,483 | | | | | |
| | Current | | | | $10,014,871 | $10,957,123 | $7,996,525 | $10,105,804 | $9,727,808 | $9,932,092 | $10,140,666 | | |
| Expenditure per volume | Previous | $202 | $205 | $211 | $214 | $215 | $218 | $222 | | | | | |
| | Revision | $181 | $178 | $175 | $172 | $167 | $169 | $171 | | | | | |
| | Current | | | | $191 | $215 | $161 | $205 | $196 | $199 | $202 | | |

[37] This is an implied volume generated by dividing the revenue forecast by the fees of $165 and $176.

## 7.4 OPTIONS

### 7.4.1 IDENTIFYING OPTIONS

In addition to the status quo, MPI's standard options are to defer changes for one-year, a one-off increase to the fee to recover future costs and eliminate the deficit, and a one-off increase the fee to recover future costs but not the accumulated deficit.

During previous cost recovery consultations[38], and particularly as a result of Covid-19, some industry participants have suggested graduated increases to charges. Variations on MPI's standard options that have graduated increases in the fee are included in this document.

A handful of further options have also been included for consideration which could be used separately or in combination with the above options. Due to time constraints, the second has not been fully analysed. These options are:

- setting the fee at about the price other providers charge;
- charging businesses differently depending on when they registered with MPI;
- providing services to remote rural businesses at lower cost than other businesses.

### 7.4.2 DISCARDED OPTIONS

A further option of varying the fee to match expenditure in each year is not considered. Expenditure and revenue is only expected to change slightly over time. As such, a fee would not vary much year-to-year, but have higher administration costs in terms of MPI and operators ensuring the right rate in any year is paid – the more frequently rates are changed, the bigger the chance of a mistake or potential for confusion to arise.

### 7.4.3 KEY FEATURES OF OPTIONS

Figure 15 sets out the key features of each option.

**Figure 15: Circuits options**

| Option | Description | Fee level |
|---|---|---|
| Status quo | The current fee. | $176.00 |
| Option (1a) | Aims to recover future costs **and** the accumulated deficit.<br>A **single** change in the fee. | $230.50 |
| Option (1b) | Aims to recover future costs **and** the accumulated deficit.<br>A **graduated** increase in the fee. The graduated increase aims to recover 20% of the total increase in revenue in year one, and 40% each in years two and three.[39] | $208.85 in 2022/23<br>$241.25 in 2023/34 and 2024/25 |
| Option (2a) | Aims to recover future costs **only**.<br>A **single** change in the fee. | $198.96 |
| Option (2b) | Aims to recover future costs **only**.<br>A **graduated** increase in the fee. The graduated increase aims to recover 20% of the total increase in revenue in year one, 40% in years two and three. | $189.84 in 2022/23<br>$203.49 in 2023/34 and 2024/25 |

[38] Consultation in early 2021 on changes to germplasm, poultry, bee, and dairy levies.
[39] There are infinite combinations of graduated increases.

| | | |
|---|---|---|
| Option (3) | Sets the fee to the typical price charged by private providers.[40] | $185.00 |
| Option (4) | Charges businesses first registered with MPI from July 2022 future costs only.[41] | $198.96 for businesses registered after July 2022<br>$230.50 for business registered before July 2022 |
| Option (5) | Charges remote rural businesses less. | The fee would be capped at a selected travel time distance, e.g. 2 hours of travel time. Caps of 1, 2 and 3 hours are explored in this CRIS |
| Option (6) | Defer changes for one year, with a new fee to be set from 2023/24 after further consideration. | $176.00 for 2022/23<br>Fees from 2023/24 to be determined |

## 7.5 ESTIMATED FINANCIAL AND ECONOMIC IMPACTS

### 7.5.1 INTRODUCTION

This section sets out the immediate financial impact of options at the industry and business-level, and then considers how the financial impact feeds through to changes in prices and volumes over the medium- to long-term.

### 7.5.2 IMMEDIATE INDUSTRY-LEVEL IMPACTS

Figure 16 shows annual cost to industry under the status quo and how much the annual cost would change under each option.

**Figure 16: Immediate industry-level impacts**

| Option | 2022/23 | 2023/24 | 2024/25 | Total |
|---|---|---|---|---|
| Status quo | $8.75m | $8.79m | $8.83m | $26.36m |
| Option (1a) – full cost recovery, single fee | +$2.71m | +$2.72m | +$2.73m | +$8.16m |
| Option (1b) – full cost recovery, graduated fee | +$1.63m | +$3.27m | +$3.27m | +$8.16m |
| Option (2a) – future costs only, single fee | +$1.14m | +$1.15m | +$1.15m | +$3.44m |
| Option (2b) – future costs only, graduated fee | +$0.69m | +$1.38m | +$1.38m | +$3.44m |
| Option (3) – market price | +$0.45m | +$0.45m | +$0.45m | +$1.35m |
| Option (4) – new businesses charged less[42] | +$2.53m | +$2.36m | +$2.18m | +$7.07m |
| Option (5) – remote rural businesses charged less | | | | |
| • 1 hour cap on travel time | +$2.29m | +$2.30m | +$2.31m | +$6.91m |
| • 2 hour cap on travel time | +$2.59m | +$2.60m | +$2.61m | +$7.79m |
| • 3 hour cap on travel time | +$2.66m | +$2.68m | +$2.69m | +$8.02m |
| Option (6) – defer changes for one year | $0 | TBD | TBD | TBD |

[40] This is the midpoint of the only private provider information we obtained – a $150 to $220 range suggested in a submission from Seafood New Zealand.
[41] This could be implemented by specifying a registration date in regulations or by inviting businesses to seek a waiver of costs.
[42] The estimates assume there is turnover among the businesses MPI services of 20% over three years (matching turnover in recent years). The estaimates also assume that new businesses use the average amount of services as existing businesses do. If businesses that turnover are more likely to be small, the estimates will be less than the true amount of revenue.

### 7.5.3 IMMEDIATE BUSINESS-LEVEL IMPACTS

MPI provided circuit verification to around 1,400 customers in 2019. In terms of hours of service, the lower quartile received up to 4 hours with an average of 3 hours, while the upper quartile received more than 30 hours with an average of 115 hours. The highest 5% averaged 323 hours.

Figure 17**Figure 4** shows the on-going annual impact on a representative large exporter and a representative small exporter using the lower and upper quartiles (the smallest 25% and largest 25%).

**Figure 17: Immediate business-level impacts**

| Option | | 2022/23 | 2023/24 | 2024/25 | Total |
|---|---|---|---|---|---|
| **Very large hours – top 5%** | | | | | |
| Status quo | | $56,800 | $56,800 | $56,800 | $170,500 |
| Option (1a) – full cost recovery, single fee | | +$17,600 | +$17,600 | +$17,600 | +$52,800 |
| Option (1b) – full cost recovery, graduated fee | | +$10,600 | +$21,100 | +$21,100 | +$52,800 |
| Option (2a) – future costs only, single fee | | +$7,400 | +$7,400 | +$7,400 | +$22,200 |
| Option (2b) – future costs only, graduated fee | | +$4,500 | +$8,900 | +$8,900 | +$22,200 |
| Option (3) – market price | | +$2,900 | +$2,900 | +$2,900 | +$8,700 |
| Option (4) – new businesses charged less | New | +$7,400 | +$7,400 | +$7,400 | +$22,200 |
| | Old | +$17,600 | +$17,600 | +$17,600 | +$52,800 |
| Option (5) – remote rural businesses charged less | | | | | |
| • 1 hour cap on travel time | | +$16,700 | +$16,700 | +$16,700 | +$50,200 |
| • 2 hour cap on travel time | | +$17,300 | +$17,300 | +$17,300 | +$52,000 |
| • 3 hour cap on travel time | | +$17,500 | +$17,500 | +$17,500 | +$52,500 |
| Option (6) – defer changes for one year | | $0 | TBD | TBD | TBD |
| **Large hours – top 25%** | | | | | |
| Status quo | | $20,200 | $20,200 | $20,200 | $60,700 |
| Option (1a) – full cost recovery, single fee | | +$6,300 | +$6,300 | +$6,300 | +$18,800 |
| Option (1b) – full cost recovery, graduated fee | | +$3,800 | +$7,500 | +$7,500 | +$18,800 |
| Option (2a) – future costs only, single fee | | +$2,600 | +$2,600 | +$2,600 | +$7,900 |
| Option (2b) – future costs only, graduated fee | | +$1,600 | +$3,200 | +$3,200 | +$7,900 |
| Option (3) – market price | | +$1,000 | +$1,000 | +$1,000 | +$3,100 |
| Option (4) – new businesses charged less | New | +$2,600 | +$2,600 | +$2,600 | +$18,800 |
| | Old | +$6,300 | +$6,300 | +$6,300 | +$52,800 |
| Option (5) – remote rural businesses charged less | | | | | |
| • 1 hour cap on travel time | | +$6,000 | +$6,000 | +$6,000 | +$17,900 |
| • 2 hour cap on travel time | | +$6,200 | +$6,200 | +$6,200 | +$18,500 |
| • 3 hour cap on travel time | | +$6,200 | +$6,200 | +$6,200 | +$18,700 |
| Option (6) – defer changes for one year | | $0 | TBD | TBD | TBD |
| **Small hours – bottom 25%** | | | | | |
| Status quo | | $450 | $450 | $450 | $1,360 |
| Option (1a) – full cost recovery, single fee | | +$140 | +$140 | +$140 | +$420 |
| Option (1b) – full cost recovery, graduated fee | | +$80 | +$170 | +$170 | +$420 |
| Option (2a) – future costs only, single fee | | +$60 | +$60 | +$60 | +$180 |

| | | | | | |
|---|---|---|---|---|---|
| Option (2b) – future costs only, graduated fee | | +$40 | +$70 | +$70 | +$180 |
| Option (3) – market price | | +$20 | +$20 | +$20 | +$70 |
| Option (4) – new businesses charged less | New | +$60 | +$60 | +$60 | +$180 |
| | Old | +$140 | +$140 | +$140 | +$420 |
| Option (5) – remote rural businesses charged less | | | | | |
| • 1 hour cap on travel time | | +$140 | +$140 | +$140 | +$410 |
| • 2 hour cap on travel time | | +$140 | +$140 | +$140 | +$420 |
| • 3 hour cap on travel time | | +$140 | +$140 | +$140 | +$420 |
| Option (6) – defer changes for one year | | $0 | TBD | TBD | TBD |

### 7.5.4 MEDIUM- TO LONG-TERM MARKET-LEVEL IMPACTS

Changes in fees are changes in business costs. This feeds through to business margins and, over the medium- to longer-term, to market prices and quantities.

Data limitations around the variety of industries that use circuit verification services means it's difficult to comprehensively estimate these impacts but, for example, the impact on the bee product industry of options (1a) and (1b) would be a cost increase of about $3.51 per tonne. The partial cost recovery options of (2a) and (2b) would be a cost increase of about $3.03 per tonne. This compares to the average export price per tonne in 2021 of $39,000. If all of the fee increase was passed through, the increase in export prices would be around 0.01%. This is a negligible impact and, therefore, the wider market impacts are not analysed further.

## 7.6 ASSESSMENT AGAINST THE COST RECOVERY PRINCIPLES

This section assesses the options using MPI's Cost Recovery Principles and approach set out in 'Cost Recovery Principles and the overall approach to cost recovery' chapter. There is a level of uncertainty with the analysis. Submissions received will be used to help provide further clarity.

### 7.6.1 TRANSPARENCY AND JUSTIFIABILITY

#### 7.6.1.1 TRANSPARENCY

MPI released a consultation document covering almost all of the information in this chapter. Consultation was open for four weeks. MPI considers that this level of information – including revenue and expenditure over time, an analysis of the causes of changes, a wide range of options and an impact assessment – means that the Transparency principle has been met.

#### 7.6.1.2 JUSTIFIABILITY

Justifiability requires that costs are reasonable. From the analysis in section 7.3.3, there are some issues that have been identified.

Submitters generally took the view that MPI's costs were not reasonable and further cost efficiencies should be pursued, such as reduced audit frequencies. MPI will be looking to investigate these suggestions further.

MPI's view is that it has made best endeavours to achieve cost efficiencies and will continue to review and undertake more in future as opportunities arise. As such, MPI considers that, if not minimised, costs are reasonable. There is a level of uncertainty around this. Time and information constraints mean that we have not been able to confidently ascertain whether MPI's costs are similar to those charged by private providers. If they were, that would give us more confidence that costs are reasonable. A submission from Seafood New Zealand provided some information suggesting that MPI's proposed ongoing cost of $199.00 per hour is within the range that private sector providers charge, albeit towards the upper end of the range ($150 to $220 per hour).

Additionally, some services are contestable. If MPI sets it's fee too high relative to the service provided or prices charged by private providers, then some operators may choose to go elsewhere. There are some potential issues with this scenario:

- an inefficiently high fee will come at a cost to the approximately 40% of operators where verification is not

contestable.[43]

- although services would be legally contestable, they might not be commercially contestable at least in the short term. Operators in remote rural regions, for instance, may have less choice of providers and it might be several years before other providers decide that the opportunity to increase capacity is sustainable. The actual lack of availability of private services was identified by some submitters in consultation.
- if operators in areas where verification is contestable and they choose to go elsewhere, MPI's revenue may drop which would cause a deficit to arise.

### 7.6.2 EFFICIENCY AND EQUITY

Economic efficiency involves consideration of deadweight loss (how much different fee rates distort industry production or, in the case of Crown funding, taxpayer decisions), and how big administration costs are.

The status quo and Option (6) have the highest economic inefficiency as costs fall on general taxpayers rather than industry.

Options (2a), (2b) and (3) also have significant economic inefficiency as the costs of the accumulated deficit fall on taxpayers.

Option (1b) also has significant economic inefficiency. Option (1b)'s inefficiency is because, despite aiming to recover the accumulated deficit, insufficient revenue would be raised in 2022/23 to avoid a write-off. This write-off is $1.42 million and would be paid by taxpayers.

Options (4) and (5) have relatively small economic inefficiencies as the costs to Government from lower revenue are $0.66 million over the three years for Option (4) and between $0.14 million and $1.25 million depending on what time travel cap is selected under Option (5).

Option (1a) is the most efficient option.

Options (1a) and (1b) will also have some deadweight loss because they ask future businesses to not only pay their own costs but also those of past businesses. Because of data limitations across a wide range of industries that use circuit verification services, this deadweight loss cannot be estimated.

In addition, Options (1a) and (1b) involve the Government carrying debt to either cover the accumulated deficit or to spread future costs across different years. This debt also carries a deadweight loss.

While the regulations would only need to be changed once, options that change fee rates more frequently will have higher administration costs in terms of MPI and operators ensuring the right rate in any year is paid – the more frequently rates are changed, the bigger the chance of a mistake or potential for confusion to arise.

#### 7.6.2.1 EQUITY, COVID-19 AND THE TIMING OF CHANGES

Equity involves moral/value judgements.

An Equity issue raised in submissioms is whether it is reasonable to recover costs during the immediate post-Covid period as there have been supply chain disruptions and, with the closure of borders, barriers to expanding export potential through business trips.

The Government has so far preferred to deal with the impacts on businesses through central supports such as the Small Business Cashflow (Loan) Scheme, and has continued to pursue full cost recovery of MPI services where justified. It is likely that the status quo and Option (6) which do not fully recover costs will not be deemed equitable.

Only Option (1a) fully recovers costs.

If the Government wishes to provide further support to industry it could do so by:

- paritally increasing the fee – Options (2a), (2b), and (3);
- gradually increasing the fee over time – Options (1b) and (2b); or
- providing relief to new businesses (Option (4)) or remote rural businesses (Option (5)).

[43] MPI and AsureQuality each have about 45% market share in contestable services, with Eurofins making up the other 10%. MPI's market share drops to 34% if eggs are excluded though AsureQuality and Eurofins have thus far not provided services to for such products.

#### 7.6.2.2 MAGNITUDE OF EFFICIENCY AND EQUITY TRADE-OFFS

Figure 18 summarises the magnitude of Efficiency[44] and Equity matters, including:

- the distortion (deadweight loss) caused by fees being higher than annual costs in order to recover the accumulated deficit;
- the deadweight loss from taxpayer contributions;
- a description of the relative size of administration costs;
- distributional impacts including:
    - the financial gain to industry in total;
    - the average financial gain per fee payer;
    - what proportion of fee payers would receive a financial gain greater than $50;
    - how costs are redistributed between years for an average large exporter (upper quartile) and small exporter (lower quartile) for options (1b) and (2b) which set different charges over time.

Option (1a) has the lowest deadweight loss and administration cost meaning it is the most efficient option.

The options that partially increase the fee or gradually increase the fee over time are relatively costly. Partially increasing the fee benefits all businesses and would have the lowest administration costs to MPI and businesses, but would be relatively costly.

Gradually increasing the fee has higher administration costs and would disproportionately benefit larger customers where the cost savings outweigh administration costs. These options are also relatively costly because they do not raise revenue quickly enough to avoid write-offs. A further equity consideration of options that gradually increase charges is the level of turnover among fee payers over time. Turnover among fee payers is modest. Eighty percent of customers using MPI's Verification Services in 2021 were using MPI's Verification Services in 2019. This means that if Option (1b) is selected, there might be around 20% of customers paying a higher charge than under Option (1a).

Option (4) would benefit new customers, expected to make up around 7% of the customer base in 2022/23, rising to around 20% by 2024/25. Option (4) would reduce costs to eligible businesses by around $3,400 over the three-year period.

Option (5) would benefit a minority of customers affected by travel (which is a small part of overall costs). Option (5) would benefit between 4% and 31% of customers depending on the travel time cap selected. Option (5) would reduce costs to eligible businesses by an average of $2,000 to $3,000 over the three-year period.

[44] Includes the deadweight loss from industry production decisions being distorted by higher than actual cost levies and the deadweight loss from taxpayer contributions.
The industry deadweight loss is calculated using current export and domestic prices, finding the new price if new fees were charged and estimating the change in volumes with an assumed elasticity of demand of -3 and perfectly elastic supply. The taxpayer deadweight loss is, as per Treasury cost benefit analysis guidelines, 20% of taxpayer expenditure which is the funding required to eliminate the accumulated deficit and annual deficits for the three year period.
The industry deadweight loss assumes levy payers pass costs through in the year they are incurred, rather than treating any levy cost for generating enduring benefits as an expense to be smoothed over time (see Issue 2).
The estimated industry deadweight losses are small because the cost changes are small compared to total revenue. Small changes in cost cause only small changes in price and, therefore, only small distortions in production.
The industry and taxpayer values may not be directly comparable.

**Figure 18: Efficiency and Equity impacts**

| Option | Efficiency | | Equity impacts relative to Option (1a) | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Deadweight loss | Administration cost | Total financial gain | Average financial gain to industry | Percent of customers where financial gain exceeds $50 | Redistribution of cost | 2022/23 | 2023/24 | 2024/25 |
| Status quo | Taxpayer: $2.57m | No cost | Inequitable – charges taxpayers rather than industry | | | | | | |
| Option (1a) – single fee | Taxpayer: $0.09m | Higher than the status quo – One-off administration cost of understanding the new fee | | | | NA | | | |
| Option (1b) – graduated fee | Taxpayer: $0.40m | Higher than the status quo and Option (1a) as fees vary within the three years | Industry: +$0.11m<br>Taxpayer: -$0.11m | +$80 | 31.1% | Large hours:<br>Small hours: | -$2,487<br>-$56 | +$1,235<br>+$28 | +$1,235<br>+$28 |
| Option (2a) – single fee | Taxpayer: $0.94m | Higher than the status quo – One-off administration cost of understanding the new fee | Industry: +$4,72m<br>Taxpayer: -$4.72m | +$3,400 | 93.0% | This option does not redistribute costs through time | | | |
| Option (2b) – graduated fee | Taxpayer: $0.94m | Higher than the status quo and Option (1a) as fees vary within the three years | In addition to the impacts under Option (2a), Option (2b) has: | | | | | | |
| | | | Industry: +$0.05m<br>Taxpayer: -$0.05m | +$34 | 15.9% | Large hours:<br>Small hours: | -$1,048<br>-$23 | +$520<br>+$12 | +$520<br>+$12 |
| Option (3) – market price | Taxpayer: $1.36m | Higher than the status quo – One-off administration cost of understanding the new fee | Industry: +$6.82m<br>Taxpayer: -$6.82m | +$4,900 | 95.0% | This option does not redistribute costs through time | | | |
| Option (4) – new businesses charged less[45] | Taxpayer: $0.13m | Similar to Option (1a) if specified in regulation<br>Higher if done by waivers | Industry: +$0.66m<br>Taxpayer: -$0.66m | +$500 overeall<br>$0 for old businesses<br>+$3,400 for new businesses | 6.5% overall<br>0% of old businesses<br>93.0% of new businesses | This option does not redistribute costs through time | | | |

[45] About 20% of businesses may be charged the lower price by 2024/25. The estimates for this option assume turnover among MPI's customers is the same for large hour customers and small hour customers.

| | | | | | | |
|---|---|---|---|---|---|---|
| Option (5) – remote rural businesses charged less | | | | | | |
| • 1 hour cap on travel time | Taxpayer: $0.25m | Likely to be the highest administration costs of all options as charging would vary by travel time which will differ by business<br><br>Among these three caps, the 1 hour cap would have the highest administration costs as the greatest number of businesses would hit the cap | Industry: +$1.25m<br><br>Taxpayer: -$1.25m | +$900 overall<br><br>+$2,000 to +$3000 per eligible business | 30.1% | This option does not redistribute costs through time |
| • 2 hour cap on travel time | Taxpayer: $0.07m | | Industry: +$0.37m<br><br>Taxpayer: -$0.37m | +$270<br><br>+$2,000 to +$3000 per eligible business | 9.2% | |
| • 3 hour cap on travel time | Taxpayer: $0.03m | | Industry: +$0.14m<br><br>Taxpayer: -$0.14m | +$100<br><br>+$2,000 to +$3000 per eligible business | 3.7% | |
| Option (6) – defer changes a year | Up to the status quo, with the extent depending on what fee rates are ultimately chosen | Higher than the status quo, with the extent depending on what fee rates are ultimately chosen | Depends on what fee rates are ultimately chosen | | | |

## 7.7 INDUSTRY FEEDBACK ON THE LEVY OPTIONS

MPI released a consultation document covering the above analysis in January 2022. Consultation was open for four weeks.

Earlier sections of this chapter outlined MPI's ongoing consultation with the sector. Earlier sections have also incorporated relevant feedback from the January 2022 consultation.

On the specific options, with the exception of the Meat Industry Association which supported the full $230.50 fee (while encouraging MPI to find more cost efficiencies), other industry representative groups and individual businesses opposed any increase.

If the rate was to increase, submitters including the Poultry Industry Association of New Zealand, The New Zealand Food & Grocery Council, Apiculture New Zealand and the New Zealand Food Innovation Network generally favoured a graduated increase in the fee such as with Options (1b) and (2b). An individual business favoured a discount for remote rural businesses – Option (5).

## 7.8 CONCLUSION

The key principle for the circuits fee in this particular circumstance is Justifiability.

Submitters generally took the view that MPI's costs were not reasonable and further cost efficiencies should be pursued, such as reduced audit frequencies.

MPI's view is that it has made best endeavours to achieve cost efficiencies and will continue to seek more in future as opportunities allow. As such, MPI considers that, if not minimised, costs are reasonable. There is a level of uncertainty around this. Time and information constraints mean that we have not been able to confidently ascertain whether MPI's costs are similar to those charged by private providers. If they were, that would give us more confidence that costs are reasonable. A submission from Seafood New Zealand provided some information, suggesting that while MPI's ongoing cost of $199.00 per hour is within the range that prive sector providers charge, albeit towards the upper end of the range ($150 to $220 per hour).

Based on best available information, MPI considers the proposed increase in cost is reasonable and that Option (1a) is the most efficient and equitable option. Option (1a) is therefore MPI's preferred option.

If the Government considers that further financial support should be provided beyond those provided through central schemes to help businesses through Covid-19, then other options could be pursued through only partially increasing charges, increasing charges gradually over time, or providing targeted relief to new businesses that did not contribute to the deficit or remote rural businesses that face higher costs due to travel requirements. Providing targeted relief would be relatively less costly compared to partial or gradual cost increases over time.

## 7.9 MONITORING AND REVIEW

Submissions noted the size of the fee change and asked MPI to act more quickly when a deficit arises and to share more information with the sector to improve transparency. MPI is taking action to improve its processes. This includes developing a policy which sets thresholds beyond which MPI will begin addressing a deficit or surplus and that sets out expectations for how quickly a deficit or surplus should be eliminated.

Submissions also encouraged MPI to identify further cost efficiencies. MPI is committed to this and will look to take up sectors' offers to help.

# 8 HONEY AND BEE PRODUCTS

## 8.1 INTRODUCTION

MPI currently charges two levies related to honey and bee products.

Businesses that process bee products for sale in the domestic market only are charged an annual levy of $471.80. This charge is referred to as the 'bee domestic levy' in this document.

Businesses that process bee products wholly or partly for export are charged an annual levy of $1,005.70. This charge is referred to as the 'bee export levy'.

MPI consulted on increases to both levies in early 2021. The consultation document stated that costs had increased primarily due to the development of mānuka standards and increased personnel costs. Submitters:

- asked for more detail on the causes of deficits;
- queried whether it was reasonable to recover costs relating to the mānuka standard from all operators rather than just mānuka operators; and
- queried whether significant expenditure, such as on the mānuka standard, should be allocated over a longer time period reflecting that such work generates enduring benefits.

The Government opted to defer changes to the levies so that further work could be carried out to address the feedback.

This chapter considers four issues:

- How to address a surplus under the bee domestic levy and a deficit under the bee export levy.
- Whether the levy should be a single charge per operator (as it is currently) or whether the levy should be per tonne produced.
- Whether the levy should differ for mānuka and non-mānuka producers.
- Whether costs should be recovered over a longer time period.

With four issues and multiple options under each, there are almost 100 combinations of options for each levy. For this reason, this chapter takes an issue-by-issue approach to narrow options down to the most likely choices based on MPI's analysis. After the issue-by-issue approach, this chapter provides an analysis of a set of the eight most likely option combinations (see Figure 28).

This set of eight options was consulted on. The intention was not to preclude other options and combinations being chosen if the analysis changed as a result of consultation. The intention wass to keep the analysis manageable for the purposes of consultation and to include enough information to show a range of choices and impacts. The options remained unchanged after consultation.

## 8.2 SUMMARY

A surplus has accumulated under the bee domestic levy and a deficit has accumulated under the bee export levy. Both are expected to grow further over time.

The cause of the surplus is a previous increase in the levy which successfully eliminated a deficit but which is now generating annual surpluses.

The export deficit has accumulated because previously additional services have been identified as appropriate for cost recovery (industry had been getting these services for free) and because an increase in testing volumes has increased residue testing costs. The bulk of costs involved with the mānuka standard are not cost recovered and mānuka costs are not a driver of the deficit.

Overall, we consider there to be strong grounds to recover the deficit in the export memorandum account and to return the surplus in the domestic memorandum account.

Our preferred option is to eliminate the deficit with a single increase in the bee export levy and to eliminate the surplus with a one-off refund and a reduction of the domestic bee levy.

This document also explores whether the levies should change from a single charge per operator[46], to a charge per tonne produced.

MPI considers that a per tonne levy would enhance efficiency and equity by charging operators in proportion to the benefit they receive but that time is needed to work through how this would be implemented in practice.

New Zealand Beekeeping supports a levy which more fairly charges small businesses, but identified a practical difficulty that would need to be addressed. Apiculture New Zealand and apiarists submitting via The New Zealand Food & Grocery Council said more time was needed to consider a move to a per tonne levy, including on how it would be implemented. MPI also received a submission from a small, start-up enterprise that favoured shifting to a per tonne levy.

MPI's preferred approach is to adjust the per operator levy from 1 July 2022 with an intention to switch to a per tonne levy in the next year or two once implementation plans are ready[47]. This approach would see:

- from 1 July 2022:
    - a refund to domestic and export operators of up to $359.13 to eliminate the domestic surplus
    - a reduction in the bee domestic levy from $471.80 per year to $431.08 per year so that surpluses do not re-emerge; and
    - an increase in the bee export levy from $1,005.70 per year to $2,566.08 per year to address the export deficit;
- pending an implementation plan and a further regulatory change, from 1 July 2023 or 2024, a switch to a volume-based levy. For illustration, current rough estimates of a per-tonne levy are that:
    - the bee domestic levy would be $6.47 per tonne for domestic consumption; and
    - the bee export levy would be around $47.20 per tonne of honey exported.

A change to a per tonne levy would see:

- operators that produce 2.5 tonnes a year charged up to around $2,500 less than if they were charged a per operator levy;
- operators that produce 25 tonnes a year charged up to around $1,600 less; and
- operators that produce 250 tonnes a year charged up to around $9,200 more.

## 8.3 BACKGROUND

### 8.3.1 HIGH-LEVEL SERVICE DESCRIPTION

The Bee Domestic Levy and Bee Export Levy funds:

- the setting and implementation of standards;
- compliance, including sampling and testing for authenticity and residues;
- access to export markets.

### 8.3.2 HOW HAVE THESE SERVICES PERFORMED?

To improve transparency, MPI has worked with industry to create a framework for reporting on the performance of cost-recovered services. This has involved publishing annual reports about MPI's performance for some primary sectors. Performance reporting is an area of on-going development for MPI – the annual reports currently focus on transparency around financial data and there is scope to use them to report against performance metrics (once developed).

The bee products industry is not a sector with an annual report and performance metrics are currently limited to industry compliance. These metrics help identify where areas of concern might be arising and provide a chance

[46] That is, operators are charged the same amount no matter whether they are small or large operators.
[47] Regulatory change would be sought as part of next year's cost recovery package.

for industry to consider whether changes in the compliance programme are warranted or whether businesses can change their own behaviour to reduce costs.

Performance metrics to the June 2021 quarter indicate:

- the proportion of audits that are unacceptable[48] bounces around between 1% and 3%. Actual numbers are small and it's hard to be confident that there's any trend here; and
- export non-conformances are increasing, with the primary reasons being products not being eligible for the intended market and incorrect data on health certificates.

### 8.3.3 WHAT OTHER CONSULTATION AND REPORTING TAKES PLACE WITH INDUSTRY?

MPI regularly consults around the design and progress of work programmes for all service types:

- standard development through a quarterly Standards Focus Group Meeting;
- compliance through annual consultation on the sampling plan; and
- market access directly with Apiculture New Zealand and New Zealand Beekeeping.

While there is good consultation on work programmes, consultation on cost implications could be better. For example, while there is consultation on market access work, the cost implications and potential for changes to levies are not always clear. Improvements to consultation will be investigated as part of an ongoing refresh of cost recovery currently underway.

As noted in the 'Introduction' section, MPI consulted on increases to both levies in early 2021 with changes being deferred so that further work could be carried out to address feedback.

### 8.3.4 HOW ARE THESE SERVICES FUNDED?

#### 8.3.4.1 LEVEL OF THE CHARGE

Businesses that process bee products for sale in the domestic market only are charged an annual levy of $471.80.

Businesses that process bee products wholly or partly for export are charged an annual levy of $1,005.70. While not explicitly recorded in regulations, the bee export levy is made up of the domestic component (being the same $471.80 as the domestic levy) and an export component ($533.90).

The reason for this approach is that all product, both domestic and export, benefits from the New Zealand's domestic safety standards, compliance and system audits, while exporters then have additional requirements set by other countries. Exporters, therefore, pay a share of domestic work programme costs and then a 'top-up' to cover additional export-specific costs.

The bee domestic levy has been paid by eleven operators per year in recent years, while the bee export levy has been paid by more than 300 operators.

The levies have been at this level since July 2015. Between 2008 and 2015 the bee domestic levy was $258.00 and the bee export levy was $577.50.

#### 8.3.4.2 REGULATION

The levy is set out in Schedule 2 of the Animal Products (Fees, Charges, and Levies) Regulations 2007.[49]

#### 8.3.4.3 WHY IS A LEVY APPROPRIATE?

Standards development, market access and compliance are 'club goods'[50].

[48] The operator in not in substantial compliance with all applicable regulatory requirements.
[49] https://www.legislation.govt.nz/regulation/public/2007/0130/latest/DLM437461.html
[50] A 'club good' is one where people/businesses can be excluded from services (e.g. have to join a 'club'), but once in the club, are able to use of the services without reducing the service and benefits available to other members (the benefits are 'non-rival').
The benefits of standards and compliance are available to any business that chooses to operate in the domestic market or export markets. The benefits of overseas market access are available to any business that chooses to export. One business making use of the standards or overseas market access does not prevent another business from making use of the standards or access, while the reputational benefits and continued domestic and overseas market access of compliance activities accrue to all domestic and export businesses respectively. The benefits of standards, compliance and overseas market access are, therefore, non-rival. Businesses, however, can only receive these benefits if they comply with the regulatory requirements (the service is excludable).

A levy is charged to businesses to recover costs. If particular businesses benefitted rather than industry as a whole, then a fee on businesses would be appropriate. Crown funding would be appropriate if benefits accrued to wider society rather than particular businesses or industry as a whole.

## 8.4 ISSUE 1: DOMESTIC SURPLUS AND EXPORT DEFICIT

### 8.4.1 PROBLEM

#### 8.4.1.1 WHAT IS THE NATURE OF THE PROBLEM?

A surplus has arisen under the bee domestic levy and a deficit has arisen under the bee export levy.

Deficits and surpluses are efficiency problems. In the case of surpluses, either the levies are too high for a desired level of service, or the level of service is too low, or a combination. In the case of deficits, either the levies are too low for a desired level of service, or the level of service is too high, or a combination.

#### 8.4.1.2 WHAT IS THE SIZE OF THE PROBLEM?

For the bee domestic levy, an accumulated surplus of $94,000 has arisen as at June 2021. The accumulated deficit is forecast to grow to $117,000 by June 2022 and $166,000 by June 2026.

For the bee export levy, historical annual deficits, including an annual deficit for the 2020/21 financial year of $203,000, have contributed to an accumulated deficit of $613,000 as at June 2021. The accumulated deficit is forecast to grow to $814,000 by June 2022 and $1.70 million by June 2026.

Figure 19 and Figure 20 show the history of revenue, expenditure, and annual and accumulated deficits through to 2020/21 and forecasts through to 2025/26. Appendix 2 contains the numbers behind the charts.

More financial data is available in Appendix 3.

**Figure 19: Revenue, expenditure and surpluses over time under the status quo for the domestic bee levy**

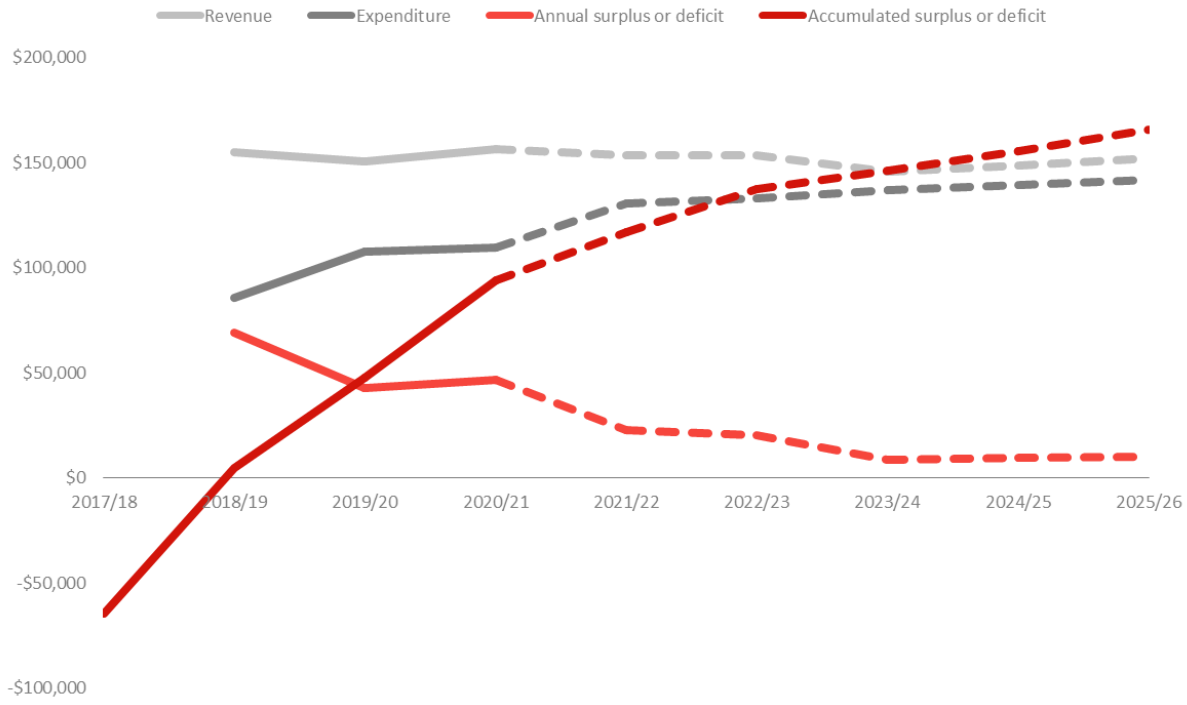
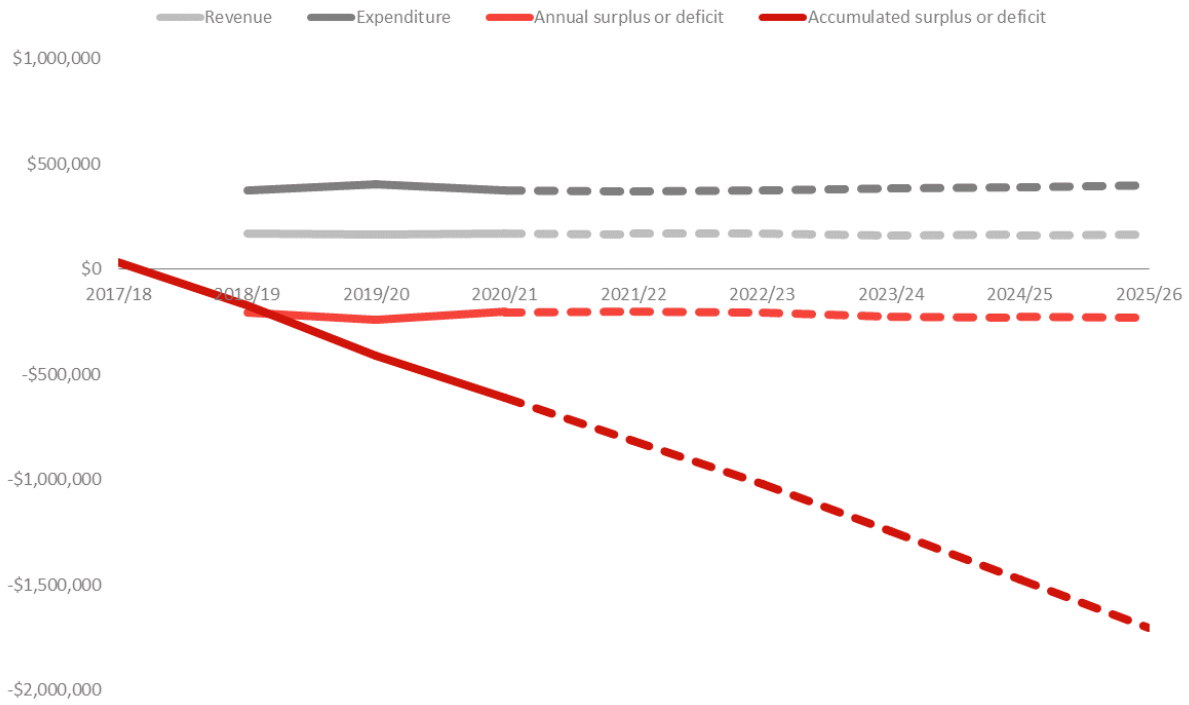


**Figure 20: Revenue, expenditure and deficits over time under the status quo for the export bee levy**




### 8.4.1.3 WHAT ARE THE CAUSES OF THE PROBLEMS?

The levies were increased in 2015 with the intention of bringing the memorandum accounts back into balance. For the bee domestic levy, this was sufficient to achieve balance around the targeted date and a surplus has now arisen. For the bee export levy, the increase was initially successful, but expenditure changes have happened that means a deficit has arisen.

#### 8.4.1.3.1 BEE EXPORT LEVY

The increase in the bee export levy was successful. Figure 20 shows the memorandum account being in balance in 2017/18. Changes to expenditure since then have caused a deficit to re-emerge.

The largest change is that expenditure on developing and maintaining bee product standards was overlooked for cost recovery historically – costs that should have been recovered were not being recovered. These costs averaged around $130,000 per annum between 2018/19 and 2020/21 and account for 60% of the deficit in that period.

While the development of the mānuka standard has been the main driver of MPI's costs in this sector, MPI has not actually allocated the bulk of these costs for cost recovery.[51] The mānuka standard was developed from 2016/17 to 2018/19. Only 2018/19 is within the cost-recoverable period.

MPI estimates that millions of dollars have been spent on science and standards development. For instance, the standards team had one and a half employees working on the mānuka standard for three years. This alone would have totalled around $730,000 including staff time and overheads.

Of these costs, science costs have not been allocated for cost recovery and only $136,000 from the standards team in 2018/19 has been allocated. $136,000 is less than the cost of one employee (including overheads) over one year. This compares to the one and a half employees the standards team had working on the mānuka standard each year for three years and doesn't account for non-mānuka work the $136,000 may have funded.

Overall, mānuka may account for up to around $136,000.[52] This compares to $1.15 million in export expenditure over the three years to 2020/21 and $2.67 million in expected expenditure over the seven years between 2018/19 and 2024/25.

[51] MPI's previous discussion document was correct that the mānuka standard was the primary cause of MPI's costs but, upon further inspection of our accounts and internal discussion, the discussion document was incorrect to say that it was the primary cause of the proposed levy increase.
[52] A small amount of time will also have been spent making complementary changes to domestic standards.

A secondary contribution to expenditure has been an increase in compliance and microbiological assurance including residue testing from around $60,000 in 2017/18 to an around $150,000 per annum for the past three years. Contributors to this are:

- that the amount of testing that occurs rises in proportion to domestic production which is expected to be around 40% or more higher in the three years to 2020/21 versus the previous three-year period; and
- extra expenditure to ensure consistency in approaches between testing providers.

It's possible that there may have been an increase in the price per test, but residue testing is awarded after a competitive tendering process which should ensure that costs are efficient.

Our revenue forecast assumes the number of levy payers will decrease around 1.2% per year between 2021 and 2025 in line with the 'processed food and other' export revenue forecast in MPI's June 2021 *Situation and Outlook for Primary Industries*[53]. Expenditure is forecast to grow in line with changes in the consumers price index (around 2.1% per annum) in Treasury's Budget Economic and Fiscal Update 2021.[54]

#### 8.4.1.3.2 BEE DOMESTIC LEVY

The bee domestic levy increase was also successful. Figure 19 shows the memorandum account moving from being in deficit to being in balance in 2018/19. Since then, the levy has generated more revenue than needed, although annual surpluses have fallen over time as residue testing increases in line with production and with around $21,000 per annum being allocated since 2019/20 to cover system audit work.

The annual surplus is expected to narrow further, with forecast reductions in revenue and increases in expenditure. The forecast percentage change in revenue and expenditure is the same as for the bee export levy.

The CRIS to Cabinet in 2021 had the bee domestic levy in deficit. This was due to some expenditure on export standards being mistakenly allocated to the domestic account. This expenditure has now been allocated to the bee export levy.[55]

### 8.4.2 OPTIONS

#### 8.4.2.1 IDENTIFYING OPTIONS

The options for the bee domestic levy are to:

- reduce the levy to gradually reduce the surplus; or
- provide a refund and reduce the levy to a level that will prevent a surplus reappearing.

For the bee export levy, the options are to:

- a one-off increase to the fee to recover future costs and eliminate the deficit,
- a one-off increase the fee to recover future costs but not the accumulated deficit; and
- defer changes for one-year.

During recent cost recovery consultations, and particularly as a result of Covid-19, some businesses and industry representative groups have suggested graduated increases to charges. The idea of different levies by year have also caused us to analyse options that set the levy in each year equal to the amount needed to recover costs in each year. Options with levies that vary year-to-year are included along with MPI's standard options for the bee export levy.

#### 8.4.2.2 DISCARDED OPTIONS

Options that vary levies year-to-year are not included for the bee domestic levy. Suggestions by industry for graduated levies were made in situations where charges were increasing rather than decreasing. We consider that, with the levy proposed to decrease, there is less need to provide relief through a graduated change to the bee domestic levy.[56]

[53] https://www.mpi.govt.nz/dmsdocument/45451-Situation-and-Outlook-for-Primary-Industries-SOPI-June-2021, page 4.
[54] If production drops over time, the expenditure forecast might be slightly too high. Additionally, the number of levy payers is very stable over time, so revenue may not fall as much as forecast.
[55] Assuming that costs are fully recovered, export operators would have paid about 97% of these costs and domestic-only operators would have paid 3%. Export operators would pay 100% of costs with the change.
[56] A levy that varied with actual cost and volumes in each year would also increase over time: $292.03 in 2021/22, $316/98 in 2022/23 and $315.73 in 2024/25. This option has also been discarded.

For the bee export levy, options that recover the accumulated deficit over one or two years rather than three are not included. It is considered too inequitable to recover deficits that may have arisen over three years within a very short period (particularly where recover over three years is widely known as MPI's approach) and having an ability to recover costs that quickly may reduce the incentive on MPI to review cost recovery settings when deficits arise in a timely fashion.

#### 8.4.2.3 KEY FEATURES OF OPTIONS

Figure 21 and Figure 22 set out the key features of each option for each levy including the levy rates assuming no changes are made to cost allocation or the way costs are recovered under Issue 2.

The levy rates for the bee export levy assume that Option (1) is the preferred option for the domestic levy. This isn't intended to pre-empt decisions around the bee domestic levy.

**Figure 21: Bee domestic levy options assuming no change to cost allocation or recovery methods**

| Option | Levy |
|---|---|
| Status quo | The current levy of $471.80 per operator per year. |
| Option (1) | Reduction in the levy to $308.00 per operator per year. |
| Option (2) | One-off refund of $359.31 to the eleven domestic-only operators.<br>Reduction in the levy to $431.08 per operator per year. |

**Figure 22: Bee export levy options assuming no change to cost allocation or recovery methods**

| Option | Description | Bee export levy | 2022/23 | 2023/24 | 2024/25 |
|---|---|---|---|---|---|
| Status quo | The current levy. | Total | $1,005.70 | $1,005.70 | $1,005.70 |
| | | Export component | $533.90 | $533.90 | $533.90 |
| | | Domestic component | $471.80 | $471.80 | $471.80 |
| Option (1a) | Aims to recover future costs **and** the accumulated deficit.<br>Costs are totalled over three years and divided by the number of operators operating over that period.<br>A **single** change in the levy. | Total | $2,443.00 | $2,443.00 | $2,443.00 |
| | | Export component | $2,135.00 | $2,135.00 | $2,135.00 |
| | | Domestic component | $308.00 | $308.00 | $308.00 |
| Option (1b) | Aims to recover future costs **and** the accumulated deficit.<br>Levy **varies** in each year to match expected expenditure plus a proportionate share of the accumulated deficit. | Total | $2,367.90 | $2,484.81 | $2,479.47 |
| | | Export component | $2,059.90 | $2,176.81 | $2,171.47 |
| | | Domestic component | $308.00 | $308.00 | $308.00 |
| Option (1c) | Aims to recover future costs **and** the accumulated deficit.<br>A **graduated** increase in the levy. The graduated increase aims to recover 20% of the total increase in revenue for the export component in year one, and 40% each in years two and three. | Total | $1,776.93 | $2,789.92 | $2,789.92 |
| | | Export component | $1,468.93 | $2,481.92 | $2,481.92 |
| | | Domestic component | $308.00 | $308.00 | $308.00 |
| Option (2a) | Aims to recover future costs **only**.<br>Costs are totalled over three years and divided by the number of operators operating over that period.<br>A **single** change in the levy. | Total | $1,557.31 | $1,557.31 | $1,557.31 |
| | | Export component | $1,249.31 | $1,249.31 | $1,249.31 |
| | | Domestic component | $308.00 | $308.00 | $308.00 |
| Option (2b) | Aims to recover future costs **only**.<br>Levy **varies** in each year to match expected expenditure plus a proportionate share of the accumulated deficit. | Total | $1,523.76 | $1,576.00 | $1,573.61 |
| | | Export component | $1,215.76 | $1,268.00 | $1,265.61 |
| | | Domestic component | $308.00 | $308.00 | $308.00 |
| Option (2c) | Aims to recover future costs **only**.<br>A **graduated** increase in the levy. The graduated increase aims to recover 20% of the total increase in revenue for the export component in year one, and 40% each in years two and three. | Total | $1,259.69 | $1,712.33 | $1,712.33 |
| | | Export component | $951.69 | $1,404.33 | $1,404.33 |
| | | Domestic component | $308.00 | $308.00 | $308.00 |
| Option (3) | Defer changes for one year, with a new levy to be set from 2023/24 after further consideration. | Total | $1,005.70 | TBD | TBD |
| | | Export component | $533.90 | TBD | TBD |
| | | Domestic component | $471.80 | $471.80 | $471.80 |

### 8.4.3 ASSESSMENT AGAINST THE PRINCIPLES

This section assesses the options using MPI's Cost Recovery Principles and approach set out in 'Cost Recovery Principles and the overall approach to cost recovery' chapter.

#### 8.4.3.1 TRANSPARENCY AND JUSTIFIABILITY

##### 8.4.3.1.1 TRANSPARENCY

Between the on-going consultation MPI has with industry the information in the January 2022 consultation document (very similar to this CRIS) – including revenue and expenditure over time, an analysis of the causes of changes, a wide range of options and an impact assessment – we consider that the Transparency principle has been met.

There is an area for improvement. In the future, MPI will look into providing industry with information about the cost recovery implications of work programme changes so that industry can clearly consider the costs and benefits of proposed changes at the same time.

Apiculture New Zealand disagreed with our assessment, saying that insufficient information had been provided about the cause of the export levy deficit.

##### 8.4.3.1.2 JUSTIFIABILITY

Justifiability requires that costs be reasonable. From the analysis in section 7.4.1.3, MPI considers that it has sufficiently met this principle.

Most of the changes in expenditure are due to costs that should have previously been recovered but weren't.

##### 8.4.3.1.3 CONSIDERING THE OPTIONS IN LIGHT OF THE TRANSPARENCY AND JUSTIFIABILITY PRINCIPLES

Both Options (1) and (2) for the bee domestic levy are in line with the principles.

Options (2a), (2b) and (2c) for the bee export levy should be ruled out at this out point. These options only recover future costs and not the historical deficit. These options could be preferred if MPI had sufficiently justified future expenditure, but not historical expenditure. In MPI's view, both historical and future expenditure has been sufficiently justified.

If MPI did not sufficiently meet these principles, then the options that aim for full cost recovery of (1a), (1b) and (1c) would need to be ruled out. As these principles appear likely to be met, Options (1a), (1b), and (1c) remain viable options.

This leaves the status quo, and Options (1a), (1b), (1c) and (3) for consideration under the Efficiency and Equity principles.

The levy rates by year for the remaining options are set out below.

**Figure 23: Remaining options**

| Option | 2022/23 | 2023/24 | 2024/25 |
|---|---|---|---|
| **Bee domestic levy** | | | |
| Status quo | $471.80 | $471.80 | $471.80 |
| Option (1) – single reduction in the levy | $308.00 | $308.00 | $308.00 |
| Option (2) – one-off refund and a reduction in the levy | $431.08 plus a refund of $359.31 | $431.08 | $431.08 |
| **Bee export levy** | | | |
| Status quo | $1,005.70 | $1,005.70 | $1,005.70 |
| Option (1a) – single increase in the levy | $2,443.00 | $2,443.00 | $2,443.00 |
| Option (1b) – variable levy | $2,367.90 | $2,484.81 | $2,479.47 |
| Option (1c) – graduated levy | $1,776.93 | $2,789.92 | $2,789.92 |
| Option (3) – defer changes a year | $1,005.70 | TBD | TBD |

#### 8.4.3.2 EFFICIENCY AND EQUITY

##### 8.4.3.2.1 BEE DOMESTIC LEVY

A surplus has arisen and should be returned to industry either via a reduction in the levy rate (Option (1)) or via a one-off refund (Option (2)).

Relative to Option (1), Option (2) allows industry to make use of the surplus faster but has greater administration costs to MPI in processing refunds.

Assuming that industry would use the money to repay debt, Option (2) would[57] avoid $26.19 more interest than Option (1) per levy payer. For Option (2) to be more efficient than Option (1), refunds would need to take less than half an hour each to process. Past levy payers and how much they paid are easily identified and we expect refunds to take much less time than this to process.

A further consideration is Equity. The longer money takes to return, the greater the risk the beneficiary of reduced charges is a business that did not contribute to the surplus. In the case of the bee domestic levy however, the levy payers have been unchanged for several years. We expect the risk under Option (1) to be low.

Industry submissions preferred Option (2).

##### 8.4.3.2.2 BEE EXPORT LEVY

###### 8.4.3.2.2.1 EFFICIENCY

Economic efficiency involves consideration of deadweight loss (how much different levy rates distort industry production or, in the case of Crown funding, taxpayer decisions), and how big administration costs are.

The status quo and Option (3) have the highest economic inefficiency as significant costs fall on general taxpayers rather than industry.

Options (1a), (1b), and (1c) are the most efficient options but, because they ask future businesses to not only pay their own costs but also those of past businesses, they do involve some distortion (deadweight loss[58]) of business decision-making.

In addition, all three options involve the government carrying debt to either cover the accumulated deficit or to spread future costs across different years or, in the case of Option (c) writing off some debt. This debt also carries a deadweight loss.

While the regulations would only need to be changed once, options that change levy rates more frequently will have higher administration costs in terms of MPI and operators ensuring the right rate in any year is paid – the more frequently rates are changed, the bigger the chance of a mistake or potential for confusion to arise.

###### 8.4.3.2.2.2 EQUITY, COVID-19 AND THE TIMING OF CHANGES

Equity involves moral/value judgements.

An Equity issue raised in submissions is whether it is reasonable to recover costs during the immediate post-Covid period as there have been supply chain disruptions and, with the closure of borders, a loss of tourist revenue and barriers to expanding export potential through business trips.

The Government has so far preferred to deal with the impacts on businesses through central supports such as the Small Business Cashflow (Loan) Scheme, and has continued to pursue full cost recovery of MPI services

[57] Using ASB's rural base rate including management fee of 6.67% as at September 2021 at www.interest.co.nz/borrowing/business-base-rates.

[58] Options (1a), (1b) and (1c) recover costs over the three-year period and eliminate the deficit. As the options both recover future costs and the accumulated deficit, the options charge future customers more than it costs to provide the services they receive. This reduces demand, even if negligibly, for MPI services compared to if MPI only recovered future costs. This creates an economic inefficiency (deadweight loss). The degree of economic inefficiency depends on how much revenue is raised in each year within the three-year period compared to how much should be raised to pay for services in each year. Overall, no matter who pays, the existence of an accumulated deficit means there's an economic inefficiency. If the Crown pays, there's an inefficiency from higher-than-necessary taxes or lower-than-desired spending elsewhere. If industry pays, they are paying a higher charge to cover services delivered to past processors. Provided that MPI has sufficiently met the Transparency and Justifiability Principles, future industry participants bearing the costs or benefits of past deficits or surpluses is the established and accepted approach. Charging the Crown would only potentially be considered more efficient if expenditure was not sufficiently justified or if there was significant turnover in industry participation such that future customers had minimal input into past decisions that led to the deficit or surplus.
This concept is somewhat complicated with club goods as the benefits of market access established in previous years are available to future processors, but the general concept is correct.

where justified. It is likely that the status quo and Option (3), which involve large amounts of cost borne by taxpayers, will not be deemed equitable.

From the Government's financial perspective, Options (1a) and (1b) fully recover expenditure over a three year period, with modest differences in interest costs. Option (1c) has higher interest costs and a write-off of $80,000.

Which option is more equitable from industry's perspective depends on two factors: whether there is a consensus around an option among current industry participants and whether that consensus would be a view held by future industry participants.

For instance, Option (1c) might be preferred if it is favoured by current industry participants and there is little turnover among industry year-to-year. If there is high turnover, then current industry participants might favour Option (1c) in order to avoid paying costs now and have them paid by others in future.

#### 8.4.3.2.2.3 MAGNITUDE OF EFFICIENCY AND EQUITY TRADE-OFFS

Figure 24 summarises the magnitude of Efficiency[59] and Equity matters, including:

- the distortion (deadweight loss) caused by levies being higher than annual costs in order to recover the accumulated deficit;
- the deadweight loss from taxpayer contributions;
- a description of the relative size of administration costs;
- and, for Options (1b) and (1c) which have different levy rates over time, estimates of:
    - the financial gain to industry in total (e.g. Option (1c) delays cost which is assumed to save industry some interest costs);
    - the average financial gain per levy payer;
    - what proportion of levy payers would receive a financial gain greater than $50;
    - how costs are redistributed between years for an average large exporter (upper quartile) and small exporter (lower quartile).

Option (1a) has the lowest deadweight loss and administration cost meaning it is the most efficient option. Option (1b) is similarly efficient in terms of deadweight loss, but has higher administration costs.

Option (1c) is the least efficient option for three reasons. Firstly, it involves an $80,000 write off cost to taxpayers. Secondly, it has relatively high administration costs. Thirdly, it causes the greatest distortion to business production incentives.

In terms of the Equity principle, Options (1b) and (1c) reduce the financial cost to industry in 2022/23 and increase it in 2023/24 and 2024/25 relative to Option (1a).

Option (1b) only does this very slightly with a levy that is 3.1% lower than Option (1a) in 2023/24. The average financial gain is $8 per levy payer over three years. The administration cost per levy payer of Option (1b) is likely to exceed this. For this reason, Option (1b) is unlikely to be preferred over Option (1a).

Option (1c) reduces the immediate financial cost more substantially, with a levy that is 27.3% lower than Option (1a) in 2023/24. The average financial gain is $63 per levy payer over three years. This might exceed administration costs.

A further equity consideration is the level of turnover among levy-payers over time. If turnover is high, shifting costs to the future might unreasonably disadvantage future levy-payers. An analysis of MPI's accounts shows no change in the list of operators paying the bee export levy between 2017 and 2020.

[59] Includes the deadweight loss from industry production decisions being distorted by higher than actual cost levies and the deadweight loss from taxpayer contributions.
The industry deadweight loss is calculated using current export and domestic prices, finding the new price if new levies were charged and estimating the change in volumes with an assumed elasticity of demand of -3 and perfectly elastic supply. The taxpayer deadweight loss is, as per Treasury cost benefit analysis guidelines, 20% of taxpayer expenditure which is the funding required to eliminate the accumulated deficit and annual deficits for the three year period.
The industry deadweight loss assumes levy payers pass costs through in the year they are incurred, rather than treating any levy cost for generating enduring benefits as an expense to be smoothed over time (see Issue 2).
The industry deadweight loss does not include the distortion caused by small exporters and large exporters paying the same amount despite benefitting to different degrees.
The estimated industry deadweight losses are small because the cost changes are small compared to total revenue. Small changes in cost cause only small changes in price and, therefore, only small distortions in production.
The industry and taxpayer values may not be directly comparable.

**Figure 24: Efficiency and Equity impacts**

| Option | Efficiency | | Equity | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Deadweight loss** | **Administration cost** | **Total financial gain** | **Average financial gain to operators** | **Percent of operators where financial gain exceeds $50** | **Redistribution of cost** | **2022/23** | **2023/24** | **2024/25** |
| Status quo | Industry: $2,399<br>Taxpayer: $263,444 | No cost | Inequitable – charges taxpayers rather than industry | | | | | | |
| Option (1a) – single levy | Industry: $495<br>Taxpayer: $16,292 | Higher than the status quo – One-off administration cost of understanding the new levy | NA | | | | | | |
| Option (1b) – variable levy | Industry: $492<br>Taxpayer: $16,770 | Higher than the status quo and Option (1a) as levies vary within the three years | Industry: +$2,394<br>Taxpayer: -$2,394 | +$8 | 0% | Large exporter:<br>Small exporter: | -$75<br>-$75 | +$42<br>+$42 | +$36<br>+$36 |
| Option (1c) – graduated levy | Industry: $639<br>Taxpayer: $36,636 | Higher than the status quo and Option (1a) as levies vary within the three years | Industry: +$19,327<br>Taxpayer: -$19,327 | +$63 | 100% | Large exporter:<br>Small exporter: | -$666<br>-$666 | +$347<br>+$347 | +$347<br>+$347 |
| Option (3) – defer changes a year | Up to the status quo, with the extent depending on what levy rates are ultimately chosen | Higher than the status quo, with the extent depending on what levy rates are ultimately chosen | Inequitable – charges taxpayers rather than industry | | | | | | |

## 8.5 ISSUE 2: LEVY UNIT

### 8.5.1 WHAT IS THE POTENTIAL ISSUE?

The second issue is about whether it is reasonable to charge businesses a single charge no matter their production or export levels.[60]

Efficiently recovering the costs of club goods requires charging businesses in proportion to the benefits they each receive. It is generally difficult to establish the precise level of benefit a business receives from a service.[61] As a result, MPI usually uses a proxy (such as units produced or exported) to quantify the benefits provided to each business. This approach is consistent with MPI's cost recovery policy and Treasury guidance.

Charging on a per operator basis might be more efficient if each operator is only producing a small amount such that any difference between operators might be small (and the compliance costs of billing on volumes not justified), if there is significant variety in products such that it is difficult to settle on an appropriate unit, or if a volume-basis is too difficult to monitor and enforce.

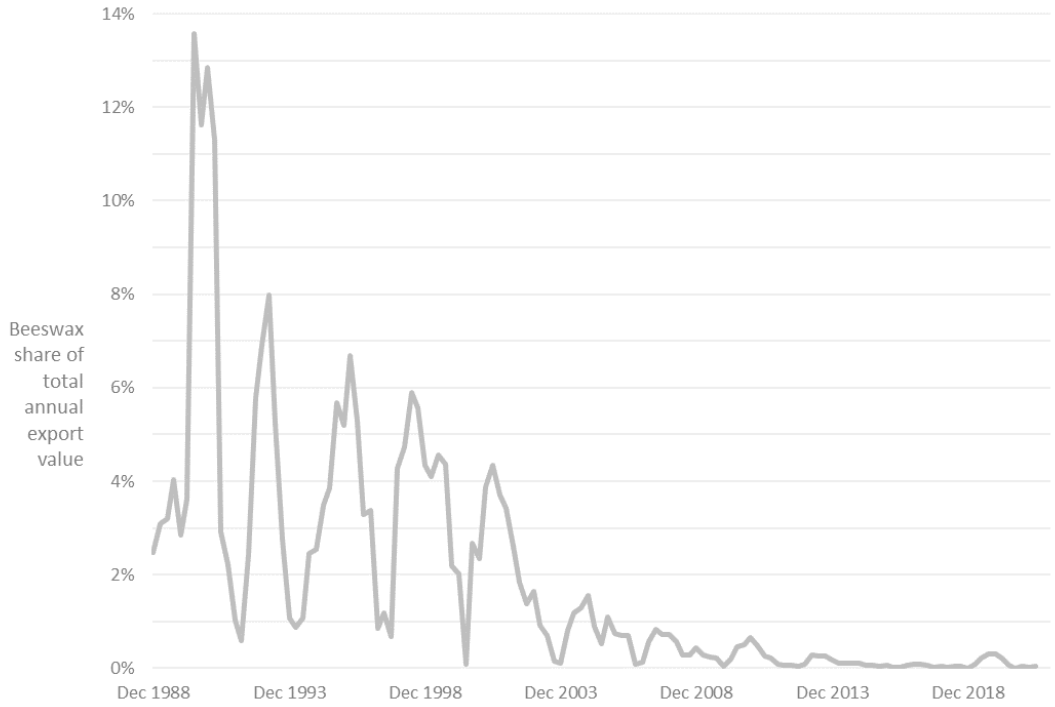
### 8.5.2 WHAT ABOUT IN THE CASE OF BEE LEVIES?

Both low volumes and a variety of products may have been important factors when the levy was first introduced in 2008.

On volumes, honey exports grew 7.7% per annum (annualised compounding) between 2008 and 2021 from 4,800 tonnes per annum to 12,400 tonnes per annum. Growth in the total value of honey exports has been 15.8% per annum. For comparison, meat exports grew 1.0% in volume per annum and 2.4% in value.

On variety of products, beeswax exports were historically a notable share of export volumes (see Figure 25).[62] While beeswax's share had fallen to around 0.5% by 2008, it is possible that higher historical volumes had contributed to the choice of operator rather than volumes as the choice of levy unit. Beeswax's share has since fallen to less than 0.1%.

**Figure 25: Beeswax share of total annual export value**




[60] Average export prices for the June 2021 quarter for bulk and retail combined were $52 per kg of monofloral mānuka honey, $30 per kg of multifloral mānuka honey, and $18 per kg for other honey.
[61] Even where, for instance, there's a difference between mānuka honey and other honey prices, differences in profit margins may not be so large.
[62] Data on other products like propolis is not available and live bees are covered by other charges.

MPI does not hold information on volumes produced or exported by operator, but MPI does hold some relevant information from beekeeping enterprises. From this, we expect that there is likely to be considerable variation in production and exports across operators and time.

The 2020 *Apiculture monitoring report* notes that in 2020:[63]

- 6,100 beekeeping enterprises had five or less hives;
- 2,214 had six to 50 hives;
- 920 had 51 to 500 hives;
- 181 had 501 to 1,000 hives;
- 125 had 1,001 to 3,000 hives; and
- 45 had more than 3,000 hives.

The average difference in yield between North Island and South Island hives over the past ten years has been 15%, with differences in one year as high as 50%.

If operator production and exports are as diverse as beekeeping enterprises, then the 25% lowest volume operators would be processing around 2.5 tonnes of honey per year and the 25% highest volume operators would be processing around 25 tonnes (with the average around 82 tonnes[64]). Assuming that domestic production receives around the same price as exports ($40 per kg average), operators with honey revenue of $100,000 (lower quartile) per annum and operators with revenue of $1 million will be paying the same fixed annual levy (currently $1,005.70).

This is a considerable amount of variability, inefficiency and inequity. Even if the true variability among operators is much less, variability in volumes at an operator level is still likely to be significant and outweigh concern about not accounting for less than 0.1% of production value relating to non-honey products such as beeswax and propolis.

We consider there is significant merit in moving to a volume-based levy.

Figure 26 shows total honey production, the amount exported and the amount domestically consumed between 2015/16 and 2020/21. Not all production is exported or consumed in each year. This has created a stockpile of honey which may increase or decrease in future.

**Figure 26: Honey production over time**

| | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
|---|---|---|---|---|---|---|
| Total production (tonnes)[65] | 19,885 | 14,855 | 20,000 | 23,000 | 27,000 | 20,500 |
| Annual domestic consumption[66] | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 |
| Annual exports[67] | 8,122 | 7,720 | 8,132 | 7,870 | 9,965 | 12,445 |
| Change in stockpile[68] | +6,763 | +2,135 | +6,868 | +10,130 | +12,035 | +3,054 |
| Total produced for export[69] | 14,885 | 9,855 | 15,000 | 18,000 | 22,000 | 15,499 |

Because there is a stockpile, there is a question about whether to levy when businesses receive services (in line with production levels) or when businesses receive income (in line with when production is exported).

### 8.5.3 WHAT ARE THE OPTIONS?

The options are:

- Status quo: The levy is charged on a per operator basis
- Option (1a): The export levy is charged on a volume basis at the point of production

[63] MPI's apiculture monitoring report 2020, https://www.mpi.govt.nz/dmsdocument/44068-Apiculture-Moniotoring-Report-2020, page 3.
[64] Some beekeeping enterprises have so many hives that the average enterprise is very high and a large majority of enterprises have fewer hives.
[65] MPI's apiculture monitoring report 2020, https://www.mpi.govt.nz/dmsdocument/44068-Apiculture-Moniotoring-Report-2020, page 3.
[66] 'A proposed plan of action for meeting the immediate requirements and future expectations of the New Zealand Honey Industry', Kellogg Rural Leadership Programme, 2021, https://ruralleaders.co.nz/wp-content/uploads/2021/07/Reid_Kathryn_A-proposed-plan-for-meeting-the-immediate-requirements-and-future-expectations-of-the-NZ-honey-industry_K43-1.pdf
[67] Statistics New Zealand Infoshare
[68] Total production minus domestic consumption and annual exports.
[69] Total production minus domestic consumption.

- Domestic levy of $6.47 per tonne for domestic consumption
- Export levy of $47.20 per tonne produced for export
- Option (1b): The export levy is charged on a volume basis at the point of export
- Domestic levy of $6.47 per tonne for domestic consumption
- Export levy of $77.41 per tonne actually exported

The above options assume a single levy rate for the 2022/23 to 2024/25 period rather than a variable or graduated levy.

The export levy includes recovering the accumulated deficit. Once the deficit is recovered, our current estimates for the export levy are around $30 for Option (1a) and $48 for Option (1b).

All options include a one-off refund of $359.31 to past domestic and export levy payers. This is because it is likely to be deemed inequitable to have accumulated a surplus under the domestic levy by charging small and large producers the same amount and then to return more of that surplus to large producers via a production levy. If a production levy is pursued, the accumulated surplus should be returned via a refund to ensure that small producers are treated equitably.

### 8.5.4 DISCARDED OPTIONS

Another production-based levy option is to levy in the same way as the Dairy Standards Processor Levy, which sets the total amount to be recovered in each year and bills operators on the basis of their share of production. We have not explored this option further for a couple of reasons.

First, if volumes and revenue decreases this encourages MPI to engage with industry to decide what to do avoid the deficit persisting, including reducing less important services. Conversely, if volumes are higher MPI should engage with industry about whether they wish to see more services provided. A fixed revenue levy may bring with it weaker incentives to engage with industry.

Second, a large part of MPI's costs for bees are compliance and residue testing which vary with production levels. If production levels turned out to be higher or lower than expected, then expenditure would be higher or lower. Revenue will scale to somewhat follow production with a per tonne levy reducing the risk of over- or under-recovery compared to a total amount levy.

### 8.5.5 HOW WERE THE LEVY RATES ESTIMATED?

At the suggestion of industry submissions, MPI modified its forecast volume estimates from those in the consultation document for production and exports to be the average of the past five years to June 2021.

Domestic consumption is assumed to remain at 5,000 tonnes.

If total production fell, then the export levy under Option (1a) would be too low. If the stockpile was increasingly used up then the export levy under Option (1b) would be too high.

Settling on an accurate levy rate could be difficult in the initial period if a production-based levy is pursued. As with other production-based levies where volume and revenue forecasting is not easy, MPI would need to monitor the account closely and review rates if needed.

### 8.5.6 ASSESSMENT AGAINST THE COST RECOVERY PRINCIPLES

#### 8.5.6.1 TRANSPARENCY AND JUSTIFIABILITY

From the discussion in Issue 1 and the additional information above around production level assumptions (included in January 2022's consultation document), MPI considers it has sufficiently met the Transparency and Justifiability principles.

#### 8.5.6.2 EFFICIENCY AND EQUITY

While both options would allocate costs closer to the benefit of services received by operators than the status quo, both options are also harder to forecast revenue for. Both options, therefore, carry a greater risk that deficits or surpluses arise than the status quo.[70] This greater risk is inherent in any production-based levy. Overall, we consider that the Efficiency and Equity gains of a production-based levy will likely outweigh the administration costs of more frequent changes in levies.

[70] Apiculture New Zealand also emphasised this in their submission.

Option (1a) has the advantage of recovering costs across all those that generated the costs in the proportion that they generated costs, but has a higher risk of under-declarations, necessitating a further increase in the levy to recover any deficits that arise as a result.

Option (1b) has the advantage of recovering costs at the point of export with greater confidence of an accurate declaration, but the disadvantage of not recovering costs across all those that generated the costs in proportion that they generated costs.

Between 2015/16 and 2019/20, the difference between the amount actually exported and the amount produced to eventually be exported in each year has been large (see Figure 26).

Our current view is that the efficiency and equity of recovering costs from all production under Option (1a) outweighs the gains of more accurate declarations under Option (1b).

Option (1b), however, charges industry only when they receive export revenue. Industry may consider that charging industry once they receive revenue to be more equitable (rather than being charged on production going into a stockpile).

MPI received one submission from an individual business who submitted in favour of moving to a volume-based levy on the grounds that smaller businesses were bearing a disproportionate amount of cost. That submitter also emphasised the impact these costs can have on start-ups.

Apiculture New Zealand and New Zealand Beekeeping saw merit in a volume-based levy, but identified some practical issues that would need to be resolved first, for example, that businesses will often not know the ultimate destination of their product – whether for domestic consumption or export.

MPI considers that there is good reason to move to a volume-based levy if a reasonable and practical way can be established. More time is needed to investigate the plausibility of this.

## 8.6 ISSUE 3: ALLOCATION OF COSTS ACROSS INDUSTRY

### 8.6.1 WHAT IS THE POTENTIAL ISSUE?

The third issue, raised by New Zealand Beekeeping during consultation on the two bee levies in early 2021, is about whether it is reasonable for non-mānuka operators to be charged for costs associated with mānuka, particularly given the difference in price between mānuka and other honey.[71]

### 8.6.2 WHAT ARE THE POTENTIAL OPTIONS?

The options are:

- Status quo: Costs are allocated to all operators
- Option (1): Allocate costs by product type

### 8.6.3 ASSESSMENT AGAINST THE COST RECOVERY PRINCIPLES

#### 8.6.3.1 GENERAL DISCUSSION

This issue is about whether and when it is efficient and equitable to charge all businesses for all expenditure where a significant amount benefits only a portion of businesses.

A key factor is administration costs.

More precise allocation of costs requires increasing number of charges, and the associated costs to industry and government of operating and complying with those.

If cost differences across product types are large and persistent enough, then introducing differentiated charges will be Efficient and Equitable.

#### 8.6.3.2 WHAT ABOUT IN THE CASE OF BEE LEVIES?

As noted under Issue 1, mānuka may account for up to around $136,000. This compares to $1.15 million in export expenditure over the three years to 2020/21 and $2.67 million in expected expenditure over the seven years between 2018/19 and 2024/25.

[71] Average export prices for the June 2021 quarter for bulk and retail combined were $52 per kg of monofloral mānuka honey, $30 per kg of multifloral mānuka honey, and $18 per kg for other honey.

This is a small amount of expenditure. Instead of a single $47.02 export levy, a mānuka levy would be no more than 2% higher at $48.02 and a non-mānuka levy would be no more than 6% lower at $44.39 between 2022/23 to 2024/25, before reverting back to a single rate from 2025/26.[72]

Additionally, if MPI adopted an expenditure threshold of 5% over the long term[73] this would potentially break the levy into numerous levies.

In this situation, we prefer to keep a single export levy, noting that in some years effort will be spent on certain particular services with the understanding that, over time, expenditure will average out.

Had MPI cost recovered the millions of dollars in actual expenditure on the mānuka levy, the case for a separate levy could have potentially been strong.

## 8.7 ISSUE 4: ALLOCATION OF COSTS ACROSS TIME

### 8.7.1 WHAT IS THE POTENTIAL ISSUE?

The fourth issue, raised by New Zealand Beekeeping during consultation on the two bee levies in early 2021, is about whether it is efficient and equitable to charge current businesses for market access work given that future businesses might be the ones making use of new access agreements while current businesses are the ones paying the costs.

This issue does not just apply to market access. This question could be asked of any service currently funded by the levies as these services typically have enduring benefits. New standards endure until they are updated, for example, and compliance work provides confidence to markets over time (a compliance incident risks undermining trade for years).

### 8.7.2 WHAT ARE THE POTENTIAL OPTIONS?

The options are:

- Status quo: Costs are allocated as they are incurred by MPI (during the current three-year period) – a pay-as-you-go approach
- Option (1): Costs are averaged and allocated over the number of years the service is expected to last
- Option (2): Costs are allocated in proportion to when benefits are expected to occur
- Option (3): Costs are paid by the Crown

### 8.7.3 ASSESSMENT AGAINST THE COST RECOVERY PRINCIPLES

#### 8.7.3.1 OVERALL

Option (3) is unlikely to ever meet the Efficiency and Equity principles.

Unless the expenditure is extremely large and accompanied by a commensurate business case, Option (2) is likely to be administratively costly.

Option (1) does not appear to be prohibitively difficult in terms of calculating each year's share of costs. There are legal impediments though, with legislation allowing recovery only over three years. This limits the degree to which costs can be smoothed over time.[74]

Whether Option (1) or the status quo would also depend on the extent of 'turnover' within the industry and how smooth or lumpy expenditure is over time. If there is a lot of turnover and/or expenditure is lumpy, Option (1) might be preferred. If there is not much turnover or expenditure is smooth, then the status quo might be preferred.

In the case of both levies, expenditure is fairly smooth over time. In light of this, our preferred option is the status quo.

[72] Assuming mānuka honey makes up 78% of exports by volume as Statistics New Zealand records for the year to June 2021.
[73] $136,000 is 5% of $2.67 million.

[74] Costs could still be smoothed to some degree in some situations. For example, if MPI is looking to reset levies and knows that there will be a spike in expenditure in year 1 and 2 before dropping in year 3, it might maximise efficiency and equity to set a levy for year 1 (being the average of years 1 to 3) and a levy for year 2 (being the average of 2 to 4). This would spread the spiked expenditure costs over one more year than if a single levy rate was used for the Standard three-year period (years 1 to 3)

#### 8.7.3.2 GENERAL DISCUSSION

Option (3) is unlikely to ever be optimal in terms of Efficiency and Equity, particularly where the service is the result of industry demand rather than Government insistence, as it would allocate costs to general taxpayers rather than to industry. For example, if industry in the current period has demanded that further market access work be done then industry, rather than general taxpayers, should bear the cost.

If feasible, Options (1) and (2) would better allocate costs to beneficiaries than the status quo, with Option (2) being better at doing so than Option (1).

There are two situations, however, where the status quo would allocate costs roughly as well as Options (1) and (2).

The first situation is where expenditure is smooth over time. Businesses in the current period might pay for services of benefit to businesses in future periods, but businesses in future periods will be paying for services of benefit to businesses in further future periods. If expenditure is smooth over time, businesses in each period will be paying similar amounts. In this situation, the Efficiency and Equity concerns should be small. If expenditure is lumpy, businesses will be paying different amounts and Efficiency and Equity concerns will be larger.

The second situation is where there is little change over time in which businesses are levied and how much they are levied. In this case, it should not matter much whether MPI smooths costs over time before charging businesses or MPI charges businesses that then smooth costs over time. An exception to this situation might be where the costs are large and businesses have little access to borrowing to smooth costs.

Stability in levy payers is important as services provided under levies are the result of industry demand as expressed by businesses at the time. The more stability there is in levy payers, the more confidence MPI can have that services with substantial cost and enduring benefits are worthwhile as the business stating their demand are those receiving the benefits and bearing the cost.

A final relevant consideration is around administration costs. More time would need to be spent working out how best to allocate costs under Options (1) and (2) relative to the status quo, with the administration costs of Option (1) likely to be considerably lower than for Option (2).

Option (1) would be a relatively simple exercise of taking the costs associated with a service, making a judgement about how long it could be expected to last, and averaging the costs over those years. In contrast, Option (2) would require a forecast of benefits over time, something typically only done for very large expenditure as part of a large scale business case. If Option (2) was ever to be used, it might need to be limited to very large expenditure only.

#### 8.7.3.3 WHAT ABOUT IN THE CASE OF BEE LEVIES?

Expenditure on domestic services and export services appears to have been fairly smooth over time, increasing between 2018/19 and 2019/20 primarily due to the identification of costs that should have been recovered historically.

Expenditure on export services has also been smooth with maximum expenditure only 7.4% higher than the minimum expenditure between 2018/19 and 2020/21.

Additionally, the number of levy payers has been very stable over time. An analysis of MPI's accounts shows no change in the list of operators paying the bee domestic levy and bee export levy between 2017 and 2020.[75]

Between stability in levy payers and the smoothness in expenditure, we consider that there is no reason to depart from the status quo approach.

Had MPI cost recovered the millions of dollars in actual expenditure on the mānuka levy over a period, the case for allocating those costs over a longer time period could have potentially been strong.

## 8.8 PRELIMINARY CONCLUSION AT CONSULTATION, OPTIONS CONSULTED ON, AND ESTIMATED FINANCIAL AND ECONOMIC IMPACTS

At consultation, MPI considered the following:

> *There is a potentially a strong case on Efficiency and Equity grounds to shift from a levy per operator to a levy per tonne. A per tonne charge would mean operators pay in proportion to their production.*[76]

[75] There have been small changes in those with an active risk management plan, however, which has ranged between 308 and 321 (2019 to 2021). Revenue is estimated based on the numbers of businesses with risk management plans.

[76] The per tonne levies in this table are if export production is levied at the time it is produced rather than the time it is exported. See earlier in this chapter for a discussion of charging at the point of production versus at the point of export.

*For the export levy, there are good reasons to fully recover costs including the accumulated deficit, and that this could be done through a single change in the levy or a graduated change in the levy depending on whether equity concerns are large enough to outweigh the deadweight loss and administration costs of a graduated charge.*

*The domestic levy is over recovering actual costs and should be reduced.*

*The surplus in the domestic memorandum account can be returned to domestic-only operators and export operators through a gradual reduction in cost recovery over time or via a one-off refund. We consider that a one-off refund of up to $359.31 for each operator over the past three years is most efficient and that industry would likely prefer this option as well, but welcome industry's views.*

*The case for a one-off refund is very strong if the basis of the levy is changed from a fixed rate per operator to a levy per tonne. If the surplus in the domestic memorandum account is returned gradually over time, the surplus would have accumulated on a per operator basis and be returned on a volume basis. This would disadvantage lower volume operators and advantage higher volume operators.*

*Only a very small amount of mānuka costs may have been allocated for cost recovery. As such, it is not appropriate to have a differentiated mānuka levy and non-mānuka levy, or to look to spread costs over a longer time period.*

Figure 28 summarises the impacts of the eight combinations of options this left. Other options are considered earlier in this chapter. Key features of each option that differ from the status quo are bolded in **red**. Among the impacts are the annual cost for different sized operators (2.5 tonnes, 25 tonnes, and 250 tonnes annually)[77] and the total financial impact on industry. Options (A) to (D) keep the fixed levy per operator. Options (E) to (H) are the same as (A) to (D) but with a per tonne levy instead.

Other than the status quo, all options aim to recover costs with total recovery increasing from $939,000 to $2,256,000 between 2022/23 to 2024/25. The cost increase would, if passed through to customers, cause an approximate 0.1% increase in honey prices.

The options with a graduated increase in the export levy – Options (C), (D), (G) and (H) – cannot fully recover costs, however, as some costs were incurred long enough ago that they must be written off if revenue is not high enough in 2022/23. The write-off risk for these options is $80,000 which is 4.1% of total expenditure.

Our preference at consultation was Option (F) – production-based levies set for the next three years with a one-off refund to domestic and export operators during the last three years to return the surplus in the domestic memorandum account.

Figure 27 sets out how much more or less operators would pay per year under Option (F) compared to the status quo which does not fully recover costs and Option (B) which does but with a fixed levy per operator.

**Figure 27: Distributional impacts of Option (F) compared to Option (B)**

| Export or domestic | Small operator (2.5 tonnes annually) | Large operator (25 tonnes annually) | Very large operator (250 tonnes annually) |
|---|---|---|---|
| **Option (F) relative to the status quo** | | | |
| Domestic only | -$390 | -$310 | +$1,150 |
| 25% domestic<br>75% export | -$910 | -$30 | +$8,760 |
| Export only | -$890 | +$170 | +$10,790 |
| **Option (F) relative to Option (B)** | | | |
| Domestic only | -$350 | -$270 | +$1,190 |
| 25% domestic<br>75% export | -$2,470 | -$1,590 | +$7,200 |
| Export only | -$2,450 | -$1,390 | +$9,230 |

[77] If operator volumes have the same pattern as beekeeping enterprises, operators in the upper quartile ('large operators') have about 10 times the volume of those in the lower quartile ('small operators'), and the 10% highest volume operators ('very large operators') have about 10 times the volume of upper quartile operators.

## 8.9 INDUSTRY FEEDBACK ON THE LEVY OPTIONS

MPI released a consultation document covering the above analysis in January 2022. Consultation was open for four weeks.

Earlier sections of this chapter outlined MPI's ongoing consultation with the sector. Earlier sections have also incorporated relevant feedback from the January 2022 consultation.

MPI received one submission from an individual business who submitted in favour of moving to a volume-based levy on the grounds that smaller businesses were bearing a disproportionate amount of cost. That submitter also emphasised the impact these costs can have on start-ups. The submitter was happy to bear an increase in compliance costs from reporting volumes.

New Zealand Beekeeping supports a levy which more fairly charges small businesses, but identified a practical difficulty that would need to be addressed. Apiculture New Zealand and apiarists submitting via The New Zealand Food & Grocery Council said more time was needed to consider a move to a per tonne levy, including on how it would be implemented. MPI also received a submission from a small, start-up enterprise that favoured shifting to a per tonne levy.

MPI considers that there is good reason to move to a volume-based levy if a reasonably practical way can be established. More time is needed for this.

## 8.10 CONCLUSION

MPI agrees with the individual business that there is good reason to move to a volume-based levy. MPI also agrees with the other submissions that more time is needed to work out how this could be implemented that is sufficiently practical and reliable.

MPI's preferred approach is to adjust the per operator levy from 1 July 2022 with an intention to switch to a per tonne levy in the next year or two once the practicality of implementation has been explored and if plausible, implementation plans are established[78]. This approach would see:

- from 1 July 2022:
    - a refund to domestic and export operators of up to $359.13 to eliminate the domestic surplus
    - a reduction in the bee domestic levy from $471.80 per year to $431.08 per year so that surpluses do not re-emerge; and
    - an increase in the bee export levy from $1,005.70 per year to $2,566.08 per year to address the export deficit;
- pending an implementation plan and a further regulatory change, from 1 July 2023 or 2024, a switch to a volume-based levy. For illustration, current rough estimates of a per-tonne levy are that:
    - the bee domestic levy would be $6.47 per tonne for domestic consumption; and
    - the bee export levy would be around $47.20 per tonne of honey exported.

A change to a per tonne levy would see:

- operators that produce 2.5 tonnes a year charged up to around $2,500 less than if they were charged a per operator levy;
- operators that produce 25 tonnes a year charged up to around $1,600 less; and
- operators that produce 250 tonnes a year charged up to around $9,200 more.

## 8.11 Monitoring and review

Apiculture New Zealand and The New Zealand Food & Grocery Council were concerned about the size of the changes. They asked MPI to act more quickly when a imbalances under the levies arise and to share more information with the sector. MPI is taking action to improve processes. This includes developing a policy which sets thresholds beyond which MPI will begin addressing a deficit or surplus and that sets out expectations for how quickly a deficit or surplus should be eliminated.

[78] Regulatory change would be sought as part of next year's cost recovery package.

**Figure 28: Combined option examples**

| Option | Levy rate | | | | Annual cost by operator size and share of production for export<br>Note: * indicates situations where an operator would receive a refund of up to $359.31 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Levy | 2022/23 | 2023/24 | 2024/25 | Production share | Small operator (2.5 tonnes annually) | | | Large operator (25 tonnes annually) | | | Very large operator (250 tonnes annually) | | |
| | | | | | | 2022/23 | 2023/24 | 2024/25 | 2022/23 | 2023/24 | 2024/25 | 2022/23 | 2023/24 | 2024/25 |
| **Options with a fixed levy per operator** | | | | | | | | | | | | | | |
| **Status quo**<br>(i) Costs not fully recovered<br>(ii) Single rate over three years<br>(iii) Fixed levy per operator | Domestic | $471.80 | $471.80 | $471.80 | Domestic only | $471.80 | $471.80 | $471.80 | $471.80 | $471.80 | $471.80 | $471.80 | $1,005.70 | $1,005.70 |
| | Export | $1,005.70 | $1,005.70 | $1,005.70 | 20% domestic 80% export | $1,005.70 | $1,005.70 | $1,005.70 | $1,005.70 | $1,005.70 | $1,005.70 | $1,005.70 | $1,005.70 | $1,005.70 |
| | | | | | Export only | $1,005.70 | $1,005.70 | $1,005.70 | $1,005.70 | $1,005.70 | $1,005.70 | $1,005.70 | $1,005.70 | $1,005.70 |
| | Total cost recovered across 2022/23 to 2024/25 is $939,000. This option under-recovers costs by $1,317,000.<br>As the under-recovery would be paid by taxpayers and as domestic-only operators would be over-charged, this option does not achieve MPI's Efficiency and Equity principles. | | | | | | | | | | | | | |
| **Option (A)**<br>(i) **Costs are fully recovered**<br>(ii) Single rate over three years<br>(iii) Fixed levy per operator | Domestic | $308.00 | $308.00 | $308.00 | Domestic only | $308.00 | $308.00 | $308.00 | $308.00 | $308.00 | $308.00 | $308.00 | $308.00 | $308.00 |
| | Export | $2,443.00 | $2,443.00 | $2,443.00 | 20% domestic 80% export | $2,443.00 | $2,443.00 | $2,443.00 | $2,443.00 | $2,443.00 | $2,443.00 | $2,443.00 | $2,443.00 | $2,443.00 |
| | | | | | Export only | $2,443.00 | $2,443.00 | $2,443.00 | $2,443.00 | $2,443.00 | $2,443.00 | $2,443.00 | $2,443.00 | $2,443.00 |
| | Option (A) achieves the Efficiency and Equity principles better than the status quo by recovering costs and by ensuring domestic-only operators are not over-charged and export operators are not undercharged. | | | | | | | | | | | | | |
| **Option (B)**<br>(i) **Costs are fully recovered**<br>(ii) Single rate over three years<br>**A one-off refund around the domestic component**<br>(iii) Fixed levy per operator | Domestic | $431.08<br>One-off refund of up to $359.31 | $431.08 | $431.08 | Domestic only | *$431.08 | $431.08 | $431.08 | *$431.08 | $431.08 | $431.08 | *$431.08 | $431.08 | $431.08 |
| | Export | $2,566.08<br>One-off refund of up to $359.31 | $2,566.08 | $2,566.08 | 20% domestic 80% export | *$2,566.08 | $2,566.08 | $2,566.08 | *$2,566.08 | $2,566.08 | $2,566.08 | *$2,566.08 | $2,566.08 | $2,566.08 |
| | | | | | Export only | *$2,566.08 | $2,566.08 | $2,566.08 | *$2,566.08 | $2,566.08 | $2,566.08 | *$2,566.08 | $2,566.08 | $2,566.08 |
| | Option (B) achieves the Efficiency and Equity principles better than the status quo by recovering costs and by ensuring domestic-only operators are not over-charged and export operators are not undercharged.<br>In MPI's assessment, Option (B) achieves the Efficiency and Equity principles better than Option (A) by returning the surplus faster. This provides a benefit to industry of being able to use the returned surplus for other uses faster and is likely to outweigh greater administration costs to MPI of processing refunds. | | | | | | | | | | | | | |
| **Option (C)**<br>(i) **4% ($80,000) of costs are written off**<br>(ii) Single domestic rate over three years<br>**Graduated export rate**<br>(iii) Fixed levy per operator | Domestic | $308.00 | $308.00 | $308.00 | Domestic only | $308.00 | $308.00 | $308.00 | $308.00 | $308.00 | $308.00 | $308.00 | $308.00 | $308.00 |
| | Export | $1,776.93 | $2,789.92 | $2,789.92 | 20% domestic 80% export | $1,776.93 | $2,789.92 | $2,789.92 | $1,776.93 | $2,789.92 | $2,789.92 | $1,776.93 | $2,789.92 | $2,789.92 |
| | | | | | Export only | $1,776.93 | $2,789.92 | $2,789.92 | $1,776.93 | $2,789.92 | $2,789.92 | $1,776.93 | $2,789.92 | $2,789.92 |
| | Option (C) achieves the Efficiency and Equity principles better than the status quo by recovering 95.9% of costs and charging domestic and export operators more accurately.<br>As less cost is recovered in 2022/23 compared to Option (A), there is an interest cost to taxpayers of about $19,327 (and a corresponding benefit to industry). This creates a small economic inefficiency which means that Option (C) is slightly less efficient than Option (A).<br>A further economic cost arises from $80,000 being written off and paid by taxpayers.<br>Option (C) might be preferred to Option (A) by industry if there is consensus among industry that is sufficiently more equitable and there is confidence that this consensus would be held by future levy payers. Option (C) recovers $666 less from each export operator in 2022/23 and recovers that in 2023/24 and 2024/25.<br>For Option (C) to be preferred by the Government, the Government would need to be satisfied that equity benefits outweigh the write-off. | | | | | | | | | | | | | |
| **Option (D)**<br>(i) **4% ($80,000) of costs are written off**<br>(ii) Single domestic rate over three years<br>**A one-off refund around the domestic component**<br>**Graduated export rate**<br>(iii) Fixed levy per operator | Domestic | $431.08<br>One-off refund of up to $359.31 | $431.08 | $431.08 | Domestic only | *$431.08 | $431.08 | $431.08 | *$431.08 | $431.08 | $431.08 | *$431.08 | $431.08 | $431.08 |
| | Export | $1,900.00<br>One-off refund of up to $359.31 | $2,913.00 | $2,913.00 | 20% domestic 80% export | *$1,900.00 | $2,913.00 | $2,913.00 | *$1,900.00 | $2,913.00 | $2,913.00 | *$1,900.00 | $2,913.00 | $2,913.00 |
| | | | | | Export only | *$1,900.00 | $2,913.00 | $2,913.00 | *$1,900.00 | $2,913.00 | $2,913.00 | *$1,900.00 | $2,913.00 | $2,913.00 |
| | Option (C) achieves the Efficiency and Equity principles better than the status quo by recovering 95.9% of costs and charging domestic and export operators more accurately.<br>As less cost is recovered in 2022/23 compared to Option (B), there is an interest cost to taxpayers of about $19,327 (and a corresponding benefit to industry). This creates a small economic inefficiency which means that Option (C) is slightly less efficient than Option (B).<br>A further economic cost arises from $80,000 being written off and paid by taxpayers.<br>Option (D) might be preferred to Option (B) by industry if there is consensus among industry that is sufficiently more equitable and there is confidence that this consensus would be held by future levy payers. Option (C) recovers $666 less from each export operator in 2022/23 and recovers that in 2023/24 and 2024/25. | | | | | | | | | | | | | |

In MPI's assessment, Option (D) achieves the Efficiency and Equity principles better than Option (C) by returning the surplus faster. This provides a benefit to industry of being able to use the returned surplus for other uses faster and is likely to outweigh greater administration costs to MPI of processing refunds.

For Option (D) to be preferred by the Government, the Government would need to be satisfied that equity benefits outweigh the write-off.

**Options with a levy per tonne**

**Option (E)**

(i) **Costs are fully recovered**

(ii) Single rate over three years

(iii) **Levy per tonne**

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Domestic | $4.62 | $4.62 | $4.62 | Domestic only | $77.50 | $77.50 | $77.50 | $115.60 | $115.60 | $115.60 | $928.07 | $928.07 | $928.07 |
| Export | $45.35 | $45.35 | $45.35 | 20% domestic 80% export | $87.93 | $87.93 | $87.93 | $879.29 | $879.29 | $879.29 | $7,090.27 | $7,090.27 | $7,090.27 |
| | | | | Export only | $113.39 | $113.39 | $113.39 | $1,133.86 | $1,133.86 | $1,133.86 | $8,630.82 | $8,630.82 | $8,630.82 |

Option (E) achieves the Efficiency and Equity principles better than the Option (A) by recovering from operators in proportion to their production and, therefore, the share of benefits from services they receive.

**Option (F)**

(i) **Costs are fully recovered**

(ii) Single rate over three years

**A one-off refund around the domestic component**

(iii) **Levy per tonne**

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Domestic | $6.47 One-off refund of up to $359.31 | $6.47 | $6.47 | Domestic only | *$77.50 | $77.50 | $77.50 | *$161.79 | $161.79 | $161.79 | *$1,617.88 | $1,617.88 | $1,617.88 |
| Export | $47.20 One-off refund of up to $359.31 | $47.20 | $47.20 | 20% domestic 80% export | *$97.64 | $97.64 | $97.64 | *$976.40 | $976.40 | $976.40 | *$9,763.98 | $9,763.98 | $9,763.98 |
| | | | | Export only | *$118.01 | $118.01 | $118.01 | *$1,180.05 | $1,180.05 | $1,180.05 | *$11,800.50 | $11,800.50 | $11,800.50 |

Option (F) achieves the Efficiency and Equity principles better than the Option (B) by recovering from operators in proportion to their production and, therefore, the share of benefits from services they receive.

In MPI's assessment, Option (F) achieves the Efficiency and Equity principles better than Option (E) by returning the surplus faster. This provides a benefit to industry of being able to use the returned surplus for other uses faster and is likely to outweigh greater administration costs to MPI of processing refunds.

**Option (G)**

(i) **4% ($80,000) of costs are written off**

(ii) Single domestic rate over three years

**Graduated export rate**

(iii) **Levy per tonne**

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Domestic | $4.62 | $4.62 | $4.62 | Domestic only | $77.50 | $77.50 | $77.50 | $115.60 | $115.60 | $115.60 | $1,155.96 | $1,155.96 | $1,155.96 |
| Export | $33.42 | $51.22 | $51.43 | 20% domestic 80% export | $77.50 | $104.75 | $105.17 | $691.43 | $1,047.51 | $1,051.68 | $6,914.31 | $10,475.06 | $10,516.81 |
| | | | | Export only | $83.54 | $128.05 | $128.57 | $835.39 | $1,280.48 | $1,285.70 | $8,353.89 | $12,804.83 | $12,857.03 |

Option (G) achieves the Efficiency and Equity principles better than the Option (C) by recovering from operators in proportion to their production and, therefore, the share of benefits from services they receive.

As less cost is recovered in 2022/23 compared to Option (E), there is an interest cost to taxpayers of about $19,327 (and a corresponding benefit to industry). This creates a small economic inefficiency which means that Option (G) is slightly less efficient than Option (E).

A further economic cost arises from $80,000 being written off and paid by taxpayers.

Option (G) might be preferred to Option (E) by industry if there is consensus among industry that is sufficiently more equitable and there is confidence that this consensus would be held by future levy payers. Option (G) recovers, for example, $30 less from each small export operator and $298 less from each large export operator in 2022/23 and recovers that in 2023/24 and 2024/25. The gains to small operators of shifting costs are small and might be outweighed by higher administration costs in terms of MPI and operators ensuring right rate in any year is paid – the more frequently rates are changed, the bigger the chance of a mistake or potential for confusion to arise. As such, Option (G) may be a net cost to small operators relative to Option (E).

For Option (G) to be preferred by the Government, the Government would need to be satisfied that equity benefits outweigh the write-off.

**Option (H)**

(i) **4% ($80,000) of costs are written off**

(ii) Single domestic rate over three years

**A one-off refund around the domestic component**

**Graduated export rate**

(iii) **Levy per tonne**

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Domestic | $6.47 One-off refund of up to $359.31 | $6.47 | $6.47 | Domestic only | *$77.50 | $77.50 | $77.50 | *$161.79 | $161.79 | $161.79 | *$1,617.88 | $1,617.88 | $1,617.88 |
| Export | $35.26 One-off refund of up to $359.31 | $53.07 | $53.28 | 20% domestic 80% export | *$77.50 | $109.37 | $109.79 | *$737.62 | $1,093.70 | $1,097.87 | *7,376.22 | $10,936.98 | $10,978.73 |
| | | | | Export only | *$88.16 | $132.67 | $133.19 | *$881.58 | $1,326.68 | $1,331.89 | *$8,815.81 | $13,266.75 | $13,318.95 |

Option (H) achieves the Efficiency and Equity principles better than the Option (D) by recovering from operators in proportion to their production and, therefore, the share of benefits from services they receive.

As less cost is recovered in 2022/23 compared to Option (F), there is an interest cost to taxpayers of about $19,327 (and a corresponding benefit to industry). This creates a small economic inefficiency which means that Option (H) is slightly less efficient than Option (F).

A further economic cost arises from $80,000 being written off and paid by taxpayers.

Option (H) might be preferred to Option (F) if there is consensus among industry that is sufficiently more equitable and there is confidence that this consensus would be held by future levy payers. Option (H) recovers, for example, $30 less from each small export operator and $230 less from each large export operator in 2022/23 and recovers that in 2023/24 and 2024/25. The gains to small operators of shifting costs are small and might be outweighed by higher administration costs in terms of MPI and operators ensuring right rate in any year is paid – the more frequently rates are changed, the bigger the chance of a mistake or potential for confusion to arise. As such, Option (H) may be a net cost to small operators relative to Option (F).

For Option (H) to be preferred by the Government, the Government would need to be satisfied that equity benefits outweigh the write-off.

# DESIGN CHANGES

# 9 VET WORK OUTSIDE OF NORMAL HOURS

## 9.1 SHIFT RATES FOR ESTABLISHMENT SERVICES

### 9.1.1 BACKGROUND AND SERVICE DESCRIPTION

MPI's Verification Services makes sure New Zealand's animal products meet New Zealand standards and the standards of the countries we're exporting to. Verification Services are provided by veterinarians and include services such as:

- certifying food and animal products for export
- verifying and certifying processing facilities for meat, seafood, game, and dairy
- certify imported animal products at airports or seaports
- monitor containment facilities of animals (like zoos) to ensure that they are free of biosecurity risk
- monitoring animal welfare compliance at processing facilities.

Verification services can be provided during the day, evening, or night. When establishment verification services are provided during the evening or night, staff are entitled to a shift rate under employment agreements. The shift rate compensates for the inconvenience and cost of working outside of normal hours (e.g. buying meals rather than eating at home, less access to public transport, away from family, etc).

### 9.1.2 STATUS QUO AND PROBLEM

The evening shift rate and night shift rate are both currently $41.[79] The evening shift rate has not changed since 2015. The night shift rate has not changed is was established in regulations.

The last Professional Verifiers Institute Collective Employment Agreement[80], which took effect from 1 July 2019, set shift rates ("shift allowances") at $45 for both evening and night.

This means the cost to MPI of evening and night shifts is $4 higher than the amount recovered. There are around 8,000 shifts a year with the total financial difference being around $32,000.

### 9.1.3 OPTIONS

We have identified the following options:

- Status quo – shift rate of $41
- Option (1) – shift rate of $45

### 9.1.4 ESTIMATED FINANCIAL AND ECONOMIC IMPACTS

Option (1) will increase cost to customers by about $32,000 a year. Between approximately 60 customers, the per customer cost will be about $550 per annum.

The proposed change is small. As such, we have not analysed the impact on different parts of the sector (e.g. small and large customers), or on production and trade.

### 9.1.5 ASSESSMENT AGAINST THE COST RECOVERY PRINCIPLES

We consider that Option (1) meets the Justifiability principle (that costs are reasonable) for the following reasons:

- The $45 amount is equivalent to approximately a 10% increase on standard pay which is not unreasonable to encourage staff to do shift work.
- The increase is from $41 to $45. If the regulations had been amended as soon as possible after the collective agreement, the change would have taken effect in 2020. The increase would have been equivalent to 1.9% per annum. If changes are made in 2022, the actual increase in cost would be 1.3%. Both the 1.9% and 1.3%

[79] Item 1(B)(1)(b) of Part 7 in Schedule 1 of the Animal Products (Fees, Charges, and Levies) Regulations 2007 at https://www.legislation.govt.nz/regulation/public/2007/0130/latest/whole.html.
[80] https://professionalverifiersinstitute.org.nz/wp-content/uploads/2021/02/2019-CA-1.pdf

are similar to labour cost inflation with Statistics New Zealand's labour cost index for Professional, Scientific and Technical Services increasing 1.5% per annum between June 2015 and June 2020.

The services that the shift rate supports and why it is reasonable to change it are set out above. We consider that this meets the Transparency principle.

Charging full costs encourages customers to use services during the evening and night only when the benefits of urgent services outweighs the additional cost. As such, Option (1) best meets the Efficiency principle.

We have not identified any Equity issues.

### 9.1.6 CONSULTATION

Deer Industry New Zealand said they would have preferred that more information about costs be provided, but said they did not oppose Option (1).

### 9.1.7 CONCLUSION

MPI's preferred option is to increase the shift rate from $41 to $45.

By charging beneficiaries for the reasonable costs of services they receive, Option (1) best meets the Efficiency and Equity principles.

### 9.1.8 MONITORING AND REVIEW

This is a small charge. As such, we do not propose tracking this cost and reporting on it publicly or to industry on an on-going basis. We will review whether this charge should be changed on an as-needed basis, likely following future collective employment agreement negotiations.

## 9.2 ON CALL RATES FOR VETS

### 9.2.1 BACKGROUND AND SERVICE DESCRIPTION

Veterinarian services can be provided on call. Being on call means that the veterinarian is expected to be available at any time, usually with short notice, to carry out work. When the duties are undertaken this is known as a call-out.

On-call services are only provided to one customer for two to four weeks per year.

### 9.2.2 STATUS QUO AND PROBLEM

MPI currently provides these on call services free of charge. This is a cost to MPI while the benefits are received by customers. The lack of a charge risks customers demanding services where the benefits do not exceed the costs or MPI underproviding services because it cannot cover its costs.

### 9.2.3 OPTIONS

We have identified the following options:

- Status quo – Not charging for providing on call services
- Option (1) – Pursuing a non-regulatory voluntary agreement to pay $45 per on call shift.
- Option (2) – Regulating a $45 per on call shift for providing on call services.

### 9.2.4 ESTIMATED FINANCIAL AND ECONOMIC IMPACTS

Under the status quo, on-call services are only provided to one customer for two to four weeks per year, at no charge.

Option (1) and (2) will increase the cost to this customer by about $600 to $1,400 a year. If more customers request this service, the total cost would be higher.

### 9.2.5 ASSESSMENT AGAINST THE COST RECOVERY PRINCIPLES

Option (1) and (2) both involve charging an on call rate that matches the shift rate from section 9.1. The $45 amount is equivalent to approximately a 10% increase on standard pay which is not unreasonable to compensate staff for the inconvenience of being available at short notice (e.g. cancelling attendance at family events at short notice). For this reason, we consider that the cost is reasonable and the Justifiability principle has been met.

The services that the on-call rate supports and why it is reasonable to change it is set out above. We consider that this meets the Transparency principle.

Charging full costs encourages customers to demand services on call only when the benefits of urgent services outweigh the additional cost. Both Options (1) and (2) would do this whereas the status quo would not. Under the status quo, either the costs fall on general taxpayers rather than customers who request on-call services (an inefficient and inequitable outcome) or MPI will under-provide on-call services through a lack of funding (an inefficient outcome).

Option (1) would have higher administration costs in comparison to Option (2), particularly when taking into consideration that the annual revenue is $600 to $1,400 from the current customer.

A regulated rate under Option (2) will reduce administration costs to a level where providing services is worthwhile. A clear regulated rate is also likely to encourage other businesses to purchase on call services where this provides a sufficient benefit to them.

We have not identified any Equity reasons why customers should not pay full reasonable costs.

### 9.2.6 CONSULTATION

MPI received no submissions on this proposal.

### 9.2.7 CONCLUSION

MPI's preferred option is to create a new regulated charge of $45 per on call shift.

By charging beneficiaries for the reasonable costs of services they receive and by minimising administration costs, Option (2) best meets the Efficiency and Equity principles.

### 9.2.8 MONITORING AND REVIEW

As this is a new charge there is some uncertainty. For instance, there may be IT issues associated with implementing on call payments into the payroll and payment system. As such, we propose to monitor the amount of revenue received in the first financial year and whether this matches expected revenue.

## 9.3 AFTER HOURS RATES FOR VETS PROVIDING LIVE ANIMAL & GERMPLASM AND ANIMAL WELFARE SERVICES

### 9.3.1 BACKGROUND AND SERVICE DESCRIPTION

Services under the Animal Products (Fees, Charges, and Levies) Regulations 2007, and the Animal Welfare (Cost Recovery) Regulations 2015 can be provided during the day, evening, or night. When services are provided during the evening or on a public holiday, there is an hourly or daily fee that is charged to customers. The charges compensate for the inconvenience and cost of working outside of normal hours (e.g. buying meals rather than eating at home, less access to public transport, away from family, etc).

### 9.3.2 STATUS QUO AND PROBLEM

The regulations charge $186.30 per hour of vet time during normal business hours.

Under the animal products regulations, after hours rates around the export of live animals and germplasm are only charged where an employee's employment contract specifies that they are entitled to after-hours rates. If the employee is entitled to after-hours rates, the regulated rates are:

- $252.17 per hour at time and a half rates
- $318.04 per hour at double time rates
- $845.13 per day plus $211.28 per hour for public holidays.

Vet employment agreements widely specify that they are entitled to after hour rates including time and a half, double time, and public holiday rates. Nevertheless, the reference in the regulations to rates only being charged conditional on employment agreements specifying this may create uncertainty in customers' minds. It also risks a breach of employee privacy by revealing conditions of their employment.

The animal welfare regulations allow after hours rates to be charged (whether or not specified in individual employment agreements) but only at the $252.17 rate. This rate does not fully recover costs when vets are working in situations entitling them to double time and public holiday rates.

### 9.3.3 OPTIONS

We have identified the following options:

- Status quo – MPI continues to apply the Animal Products Regulation to charge for after-hours animal welfare services.
- Option (1) – Amend the animal products regulations to remove the reference to employment agreements,and amend the animal welfare regulations to include double time and public holiday rates consistent with those in the animal products regulations .

### 9.3.4 ESTIMATED FINANCIAL AND ECONOMIC IMPACTS

We have not estimated the total financial impact of this proposal or to a typical customer. A couple of examples are provided below instead:[81]

- Services provided at double time rates under the animal welfare regulations will increase from $252.17 per hour to $318.04. For a service that takes 8 hours to complete, the cost will increase by $526.96 from $2,017.36 to $2,544.32.
- Services provided on public holidays will change from $252.17 per hour to $211.28 per hour plus $845.13 per day. For a service that takes 8 hours to complete over one day, the cost will increase by $518.01 from $2,017.36 to $2,535.37.

### 9.3.5 ASSESSMENT AGAINST THE COST RECOVERY PRINCIPLES

The changes to the animal welfare regulations under Option (1) will enhance Transparency by making it certain when after hours rates will be charged.

With regards to Justifiability, we consider that it is reasonable that vets receive after hours rates including double time and public holiday rates in order to encourage them to make their time available when services are demanded.

The beneficiaries of having vet services available outside of normal hours are businesses. Option (1) therefore best meets the Efficiency and Equity principles.

We have not identified any Equity issues specific to this charge.

### 9.3.6 CONSULTATION

MPI received no submissions on this proposal.

### 9.3.7 CONCLUSION AND RECOMMENDATION

MPI's preferred option is Option (1).

By charging beneficiaries for the reasonable costs of services they receive and by minimising administration costs, Option (1) best meets the Efficiency and Equity principles.

Alignment and certainty between the three regulations meets the Transparency principle.

[81] While there are cost increases on paper, MPI has already been applying double-time and public holiday rates to animal product act services so customers will see no change between what they have been charged and what they will be charged.

### 9.3.8 MONITORING AND REVIEW

This is a small change. As such, we do not propose tracking it or reporting on it publicly or to industry on an on-going basis. We will review whether this charge should be changed on an as-needed basis which is expected to be the next time the $186.30 base hourly rate is reviewed.

# 10 ASSISTANCE DOGS

## 10.1 BACKGROUND AND SERVICE DESCRIPTION

New Zealand has biosecurity requirements to keep harmful pests and diseases out of the country. This includes harmful pests and diseases carried by dogs. The activities and services that MPI may charge for importing dogs include:

- border clearance inspections;
- veterinary inspections; and
- travel costs for MPI inspectors.

Assistance dogs are highly trained animals that help disabled persons. The process for importing them into New Zealand is similar to that of importing non-assistance dogs, but with provisions for special home quarantine arrangements.

## 10.2 STATUS QUO AND PROBLEM

The cost recovery regulations around assistance dogs are not well aligned, and have outdated criteria for when assistance dogs are exempt from charges.

Under the Biosecurity (Costs) Regulations 2010 ("Biosecurity Regulations" for this document), a pet imported into New Zealand will be held in quarantine where there are associated costs. However, no costs apply where the imported animal is an assistance animal travelling with the person requiring assistance. Section 3 of the Biosecurity Regulations defines an 'assistance animal' as "an animal that is trained to assist a person with a disability". This definition is broad.

Under the Animal Products (Fees, Charges, and Levies) Regulations 2007 ("Animal Products Regulations" for this document), Section 8 specifies that no fee, charge, or levy is payable for exporting of a dog that is certified by the Royal New Zealand Foundation for the Blind, Hearing Dogs for Deaf People New Zealand, or Top Dog Companion Trust. Listing specific organisations means the Animal Products Regulations definition is narrow. Some of the organisations listed are also outdated, for example, the Top Dog Companion Trust is not currently operating.

This means that if an assistance dog enters New Zealand it is unlikely to incur a charge as it will probably fall within the wide definition of 'assistance animal' under the Biosecurity Regulations. However, if that same assistance dog leaves New Zealand it will incur a charge if it does not meet the requirements of Section 8 of the Animal Products Regulations i.e. if it is not certified by the Royal New Zealand Foundation for the Blind, Hearing Dogs for Deaf People New Zealand, or Top Dog Companion Trust

## 10.3 OPTIONS

We have identified the following options:

- Status quo
- Option (1) – amend the Animal Products Regulations to align the definition of assistance dogs with that in the Biosecurity Regulations.

## 10.4 ESTIMATED FINANCIAL AND ECONOMIC IMPACTS

Approximately 14 dogs are imported per year that meet the Biosecurity Regulations definition for an assistance animal, while only one to two assistance dogs are exported per year that meet the Animal Products Regulations definition.

Option (1) will reduce cost to customers by about $400 per customer. We estimate that a further four assistance dogs per year may be exported with a total decrease in revenue to MPI of $1,600 per year.

## 10.5 ASSESSMENT AGAINST THE COST RECOVERY PRINCIPLES

By making the two regulations consistent, Option (1) better meets the Transparency principle than the status quo.

Additionally, it is administratively burdensome for exporters and MPI to verify if a dog meets the narrow criteria in the Animal Products Regulations. Option (1) will reduce administration costs for exporters and MPI, and avoid confusion among people importing and exporting assistance dogs.

## 10.6 CONSULTATION

MPI contacted the following organisations:

- Assistance Dogs NZ trust
- Blind Low Vision NZ
- K9 Medical Detection NZ
- Hearing Dogs NZ
- NZ Epilepsy Assist Dog Trust
- Mobility Assistance Dogs Trust
- Perfect Partners Assistance Dogs Trust

MPI received no submissions on this proposal.

## 10.7 CONCLUSION

MPI's preferred option is Option (1) – to amend the Animal Products Regulation to align the definition of assistance dogs with that in the Biosecurity Regulations.

## 10.8 MONITORING AND REVIEW

This is a small change. No review is scheduled.

# 11 CAT AND DOG IMPORTS – ABILITY TO CHARGE TRANSITIONAL FACILITIES

## 11.1 STATUS QUO AND PROBLEM

MPI provides certain services by contractual agreement between MPI and third parties. Currently, MPI invoices transitional facilities for cats and dogs requiring quarantine, and these costs are then passed on to the cat and dog owners.

Under the Biosecurity Regulations, the costs of inspecting and monitoring cats and dogs at transitional facilities are payable by the importer. However, transitional facilities are not always importers. The importers more often are the cat and dog owners.

This means that when MPI invoices the transitional facilities under the Biosecurity Regulations, there is ambiguity regarding whether fees can legally be charged to transitional facilities.

## 11.2 OPTIONS

The options are:

- Status quo – Biosecurity Regulations specify that importers pay for inspection
- Option (1) – Biosecurity Regulations specify that MPI can charge importers or transitional facilities

## 11.3 ESTIMATED FINANCIAL AND ECONOMIC IMPACTS

Option (1) has no additional financial or economic impacts for any party.

## 11.4 ASSESSMENT AGAINST THE COST RECOVERY PRINCIPLES

Option (1) clearly establishes in regulation that MPI can charge transitional facilities. This provides a sound legal basis for MPI's charges and helps achieve the Justifiability principle.

Existing practice means that importers will usually only face one bill – from the transitional facility. If MPI was to bill importers directly, importers would pay transitional facilities for quarantine and MPI separately for inspection. Option (1) ensures that administration costs for customers and MPI can be minimised, helping achieve the Efficiency principle.

## 11.5 CONSULTATION

MPI received no submissions on this proposal.

## 11.6 CONCLUSION

MPI's preferred option is Option (1) – that Biosecurity Regulations specify that MPI can charge importers or transitional facilities.

## 11.7 MONITORING AND REVIEW

This is a small change. We anticipate no need for a review.

# 12 LARGE DAIRY PROCESSORS

## 12.1 BACKGROUND AND SERVICE DESCRIPTION

MPI charges all dairy processors a levy based on the amount of raw milk solids the processor collects each financial year. The levy recovers the costs of providing services to dairy processors, such as:

- monitoring programmes for dairy products to ensure consumer safety;
- monitoring and management of systems performance;
- developing and maintaining New Zealand standards.

## 12.2 STATUS QUO AND PROBLEM

There is an error in regulations that prevents MPI from properly levying some large processors.

- 'Small processors' handle up to 151 tonnes of milksolids and are levied $400 per year.
- 'Large processors' handle more than 151 tonnes of milksolids with the levy each processor paying depending on a formula. The formula takes a targeted amount of revenue and apportions it to large processors according to the share of milksolids the large processor handled in the previous year.

Sometimes the formula will result in a calculation for individual large processors that is less than $400. For example: The current revenue target is $4,935,867. If there are two large processors (to keep the example simple) and one of them handled 152 tonnes, the formula would say that that processor would pay less than $400 if the second processor handled more than 1.86 million tonnes. As the first large processor handles more milksolids than small processors, it would be inequitable for them to pay less than small processors do.

To address this, section 7(3) of the Animal Products (Dairy Industry Fees, Charges, and Levies) Regulations 2015 intends to ensure that large processors pay no less than smaller processors. Instead of referring to small processors, however, section 7(3) refers to 'medium processors'. Medium processors was a historical category which no longer exists. As section 7(3) refers to medium processors rather than small processors, MPI cannot charge the $400 rate.

## 12.3 OPTIONS

The options are:

- Status quo – Section 7(3) of the Animal Products (Dairy Industry Fees, Charges, and Levies) Regulations 2015 refers to 'medium processor'
- Option 1 – Section 7(3) refers to 'small processor' rather than 'medium processor'

### 12.4 ESTIMATED FINANCIAL AND ECONOMIC IMPACTS

There are 19 large processors. It is unclear how often large processors will pay the $400 rate as, in the example above, it depends on the distribution of volumes across processors in each year.

### 12.5 ASSESSMENT AGAINST THE COST RECOVERY PRINCIPLES

Option (1) achieves the original intention of section 7(3) which is about ensuring that large processors do not pay less than small processors (Equity principle).

### 12.6 CONSULTATION

MPI received no submissions on this proposal.

### 12.7 CONCLUSION

MPI's preferred option is Option (1) – that Section 7(3) refers to 'small processor' rather than 'medium processor'

### 12.8 MONITORING AND REVIEW

This is a small change. We anticipate no need for a review.

## 13 EQUINE SEMEN

### 13.1 BACKGROUND AND SERVICE DESCRIPTION

The semen and embryos export system requires constant review and maintenance to ensure the certification issued for the export of semen is accepted by the importing country.

### 13.2 STATUS QUO AND PROBLEM

Part 8 of Schedule 1 of the Animal Products (Fees, Charges, and Levies) Regulations 2007 sets out the unit charges, hourly rates, and callout charges with respect to the export of animal germplasm.

Equine semen's unit fee is charged at $3.09 per straw. While the unit is 'straw,' equine semen is not exported in straws. When exporting equine semen, 'vials' or 'bags' are used. This means that the regulations do not reflect operational reality.

### 13.3 OPTIONS

We have identified the following options:

- Status quo – The unit is 'straws'
- Option (1) – The unit is "straws, vials, or bags'

### 13.4 ESTIMATED FINANCIAL AND ECONOMIC IMPACTS

There are approximately three exporters involved who make about 30 transactions per year.

Both the status quo and Option (1) will not increase costs as only the term for the unit is changing, not the charge.

## 13.5 ASSESSMENT AGAINST THE COST RECOVERY PRINCIPLES

The status quo and Option (1) are the same except for the status quo being less clear. Option (1) improves clarity and therefore better meets the Transparency principle.

## 13.6 CONSULTATION

MPI received no submissions on this proposal.

## 13.7 CONCLUSION

MPI's preferred option is Option (1) – that the unit be "straws, vials, or bags'.

## 13.8 MONITORING AND REVIEW

This is a small change. We anticipate no need for a review.

# 14 FOOD SAFETY BORDER CLEARANCE OF IMPORTED FOOD

## 14.1 BACKGROUND AND SERVICE DESCRIPTION

MPI regulates food imported for sale in New Zealand so that it is safe and suitable for human consumption.

Roughly 14% of all food importers import the highest risk foods, accounting for approximately 7% of all food consignments. Each high-risk consignment presents a risk which is managed through food safety border clearance.

Services provided to importers include:

- identifying all consignments that require food safety clearance;
- checking information to assess eligibility of a consignment;
- seeking further information if required;
- inspection and taking of food samples for testing;
- sending test samples to approved laboratories for analysis;
- analysing test results;
- making and communicating clearance decisions;
- managing rejected consignments;
- managing appeals;
- monitoring and improving food safety border clearance services.

## 14.2 STATUS QUO AND PROBLEM

Under section 109 of the Food Act 2014, consignments of imported food for the purpose of sale in New Zealand can be cleared by Food Safety Officers (MPI staff) at the border if the requirements of s109 are met. The MPI teams who together deliver this service are: Target Evaluation, Border Clearance Services Team, Imported Food, Chemical & Microbiological Assurance, Food Compliance. A rate is charged for the time taken to do this work.

Item 45 in Part 2 of the Schedule to the Food (Fees and Charges) Regulations 2015 ("the Regulations") currently charges $60.00 per imported food clearance plus $120.00 per hour spent processing the clearance after the first 30 minutes. Item 46 charges $120.00 per hour spent on administration activity for each consignment of imported food categorised an increased regulatory interest.

The current rates under recover costs. The current rates are only sufficient to recover staff costs plus overheads. The current rate does not cover other direct costs such as travel, equipment, maintenance of IT systems and ensuring staff capability is maintained.

MPI's standard rates for similar services (see items 1 to 44 and item 47 in Part 2 of the Schedule to the Regulations) are $67.50 and $135 per hour after the first 30 minutes.

## 14.3 OPTIONS

We have identified the following options:

- Status quo – Item 45 charged $60.00 per imported food clearance plus $120.00 per hour spent processing the clearance after the first 30 minutes. Item 46 charged at $120.00 per hour spent on administration activity for each consignment of imported food.
- Option (1) – Item 45 at $67.50 per clearance and $135 per hour after the first 30 minutes. Item 46 at $135 per hour.

## 14.4 ESTIMATED FINANCIAL AND ECONOMIC IMPACTS

Option (1) will increase cost to customers by about $117,390 a year. Spread across approximately 447 customers, the per customer cost increase will be about $262 per annum.

## 14.5 ASSESSMENT AGAINST THE COST RECOVERY PRINCIPLES

This chapter sets out the reasons why the status quo is undercharging. We consider that this sufficiently meets the Transparency principle.

We have not undertaken a full cost review in selecting the appropriate charge under Option (1). We consider that this would be excessive for a small change and that it is reasonable to base costs on other established services. Option (1) uses the rates of other services to establish what reasonable costs are. We consider this sufficiently meets the Justifiability principle.

Option (1) charges customers the reasonable costs of services they benefit from. The status quo has taxpayers paying around $117,390 per year. Option (1) best meets the efficiency principle by having beneficiaries pay.

We have not identified any Equity reasons why customers should not pay full reasonable costs.

## 14.6 CONSULTATION

MPI received no submissions on this proposal.

## 14.7 CONCLUSION

MPI's preferred option is Option (1) – that in Item 45 in Part 2 of the Schedule to the Food (Fees and Charges) Regulations 2015 be $67.50 per clearance and $135 per hour after the first 30 minutes, and Item 46 be $135 per hour.

## 14.8 MONITORING AND REVIEW

We do not anticipate review being needed of this specific change. We will review whether the charges under items 45 and 46 need to be updated in future on an as-needed basis.

# 15 AQUACULTURE SERVICES LEVY

## 15.1 BACKGROUND AND SERVICE DESCRIPTION

Fisheries New Zealand works to ensure that fisheries resources are sustainably managed to provide the greatest overall benefit to New Zealanders.

Aquaculture is the farming of aquatic plants and animals. Farms can be marine or land-based. Marine fish farmers are registered under Part 9A of the Fisheries Act 1996. Land-based fish farmers hold licences under the Freshwater Fish Farming Regulations 1983.

Marine fish farmers and land-based fish farmers are required to pay for certain services that Fisheries New Zealand provides. The services provided include:

- processing applications for new or changed fish-farm licences;
- processing aquaculture decisions;
- registration of aquaculture agreements or compensation declarations;
- maintaining the registry for fish-farmers.

Most of these services are cost recovered using direct charge fees. Until 2019, annual levies have also been set to recover the costs for registry services related to fish farming.

## 15.2 STATUS QUO AND PROBLEM

MPI is currently not charging an annual aquaculture levy for fisheries services because of an issue identified with the basis for the levy.

The Fisheries (Cost Recovery Levies for Fisheries Services) Order 2019 (the "2019 Order") set out the annual aquaculture levies. The 2019 Order required marine fish farmers to pay annual levies for each coastal permit held and for land-based fish farmers to pay for each licence held. The 2019 levy per coastal permit or licence was $88.49.

Between 2006 and 2019, the levies for registry services were allocated the same way. However, under the Fisheries (Cost Recovery) Rules 2001 (the "Rules"), this is not permitted for marine fish farms. Under clause 6(1)(e) of the Rules, marine fish farmers pay levies based on the aggregate area of all the fish farms they are registered for.

For land-based fish farmers, this allocation method is allowed under the Rules. Land-based fish farmers were charged based on the number of licences held. This comes within the meaning of 'other authorisations' in clause 6(1)(d)(ii) of the Rules.

To address the issue with charging marine fish farmers, the annual aquaculture levy was not included in the Fisheries (Cost Recovery Levies for Fisheries Services) Order 2020, and has not been reinstated in the levy order for 2021. This means that no levies are currently payable for registry services provided to both marine fish farms and land-based fish farms.

## 15.3 OPTIONS

The options are:

- Status quo – No aquaculture levies payable
- Option (1) – Amend the Rules to allow registry services for aquaculture to be charged based on licence held or site of fish farm registration.

## 15.4 ESTIMATED FINANCIAL AND ECONOMIC IMPACTS

Option 1 will reinstate total annual costs to fish farmers for registry services of approximately $84,000 per year. Of this, the cost allocated to land-based fish farmers will be about $5000, and the cost to marine fish farmers will be about $79,000. The proposed cost per licence or coastal permit will be approximately $88.50.

## 15.5 ASSESSMENT AGAINST THE COST RECOVERY PRINCIPLES

Fish farmers do not currently contribute to the costs of the registry services they receive. Costs are currently being paid by taxpayers. This is neither efficient nor equitable.

We are not proposing an increase in the total amount levied. Option (1) sets the levy at the same rate it was prior to being removed. This rate was justified, as it only recovered the costs for the services provided. The level of service has not changed since then.

## 15.6 CONSULTATION

MPI received no submissions on this proposal.

## 15.7 CONCLUSION

MPI's preferred option is Option (1) – to amend the Rules to allow registry services for aquaculture to be charged based on licence held or site of fish farm registration.

## 15.8 MONITORING AND REVIEW

This is a small annual levy that we are reinstating at the same rate. The rate of the levy will be reviewed on an as-needed basis in line with MPI standard review practices.

# APPENDIX 1: MPI'S COST RECOVERY PRINCIPLES

MPI's four Cost Recovery Principles are:

- Transparency – costs are transparent;
- Justifiability – costs are reasonable;
- Efficiency – net benefits are maximised; and
- Equity – costs are fair.

These four principles appear in the Animal Products Act 1999 and the Wine Act 2003.[82]

The legislative definition and interpretations of each principle are set out below.

## Transparency

### Legislation

'Costs should be identified and allocated as closely as practicable in relation to tangible service provision for the recovery period in which the service is provided.'

### Policy interpretation

'Transparency' means providing adequate information to people such that they can understand charges and have an opportunity to input into their calculation and setting.

'Identified and allocated…' means presenting the costs in a way that people can see what services generate what costs and when. 'Allocated' does not mean 'charged'. How costs are charged is a result of consideration of all the principles.

## Justifiability

### Legislation

'Costs should be collected only to meet the reasonable costs (including indirect costs) for the provision or exercise of the relevant function, power, or service.'

### Policy interpretation

'Reasonable costs' are those necessary to deliver the service at the demanded quantity and quality.

## Efficiency

### Legislation

'Costs should generally be allocated and recovered in order to ensure that maximum benefits are delivered at minimum cost.'

### Policy interpretation

Efficiency is made up of several elements:

- Costs should be the lowest necessary to meet customer demand. Customers can include businesses, members of the public, and the Government including other agencies. Meeting customer demand might involve treating different customers differently.
- Costs should be charged to:

[82] https://www.legislation.govt.nz/act/public/1999/0093/latest/whole.html#DLM35716
https://legislation.govt.nz/act/public/2003/0114/latest/DLM223236.html

- Those who benefit from the service – If the customer pays, they have the incentive to demand only those services that provide them benefit compared to other things they might purchase. If parties other than the beneficiary pays, then the beneficiary will demand more services than otherwise.
- Those whose behaviour can reduce the need and cost of the service – Typically both the supplier (MPI) and the customer will be able to do things to reduce the need and cost of the service. For example, MPI could adopt innovative technologies to reduce labour costs, while businesses might locate in urban, rather than rural, areas to reduce distance from market (including MPI's services).

  If MPI has transparently justified its costs, it will not normally be appropriate for MPI to contribute to the costs.

  Where there are externalities, it may be efficient to charge the third party as well, or instead of, charging the customer/beneficiary.

- Charges should account for administrative costs – for instance, sometimes it will be administratively prohibitive to charge according to precisely charge those that benefit or those that can reduce costs so a simplified approach is warranted.
- Charges should be competitive neutral – MPI should not use any dominant market position to charge inflated prices and make more than a fair economic return.

## Equity

### Legislation

'Funding for a particular function, power, or service, or a particular class of functions, powers, or services, should generally, and to the extent practicable, be sourced from the users or beneficiaries of the relevant function, power, or service at a level commensurate with their use or benefit from the function, power, or service.'

### Policy interpretation

The Government will usually deem it fair that beneficiaries pay.

On other occasions, the Government will determine that other fairness considerations mean that another party contributes to the costs. For example, sometimes industry will be happy to support parts of its industry. Other times, Governments will want to provide additional support.

## Relationship between the Cost Recovery Principles

The principles build on each other with Transparency and Justifiability providing a foundation to the consideration of Efficiency and Equity.

Figure 29 summarises the relationship between the principles.

### Transparency and Justifiability come before considering Efficiency and Equity

The APA says about Justifiability that MPI can only recover reasonable costs.

While the Transparency principle itself doesn't have a similarly strong statement, the very next clause says that costs should not be recovered unless there's been adequate consultation with affected parties including 'sufficient time and information to make an informed contribution'. Adequate consultation can only happen if MPI has been transparent.

With language of 'should not' and 'only', Transparency and Justifiability require[83] some minimum standard to be met. In contrast, Efficiency and Equity are to be achieved 'generally'.

This sequential approach to the principles, rather than considering the principles simultaneously, makes sense. It is not possible to be confident that the efficient way of cost recovering has been identified if costs have not been sufficiently justified, or affected parties have not had a reasonable opportunity to test the costs.

[83] The Animal Products Act 1999 and Wine Act 2003, however, also say that failure to consult sufficiently does not affect the validity of cost recovery charges.

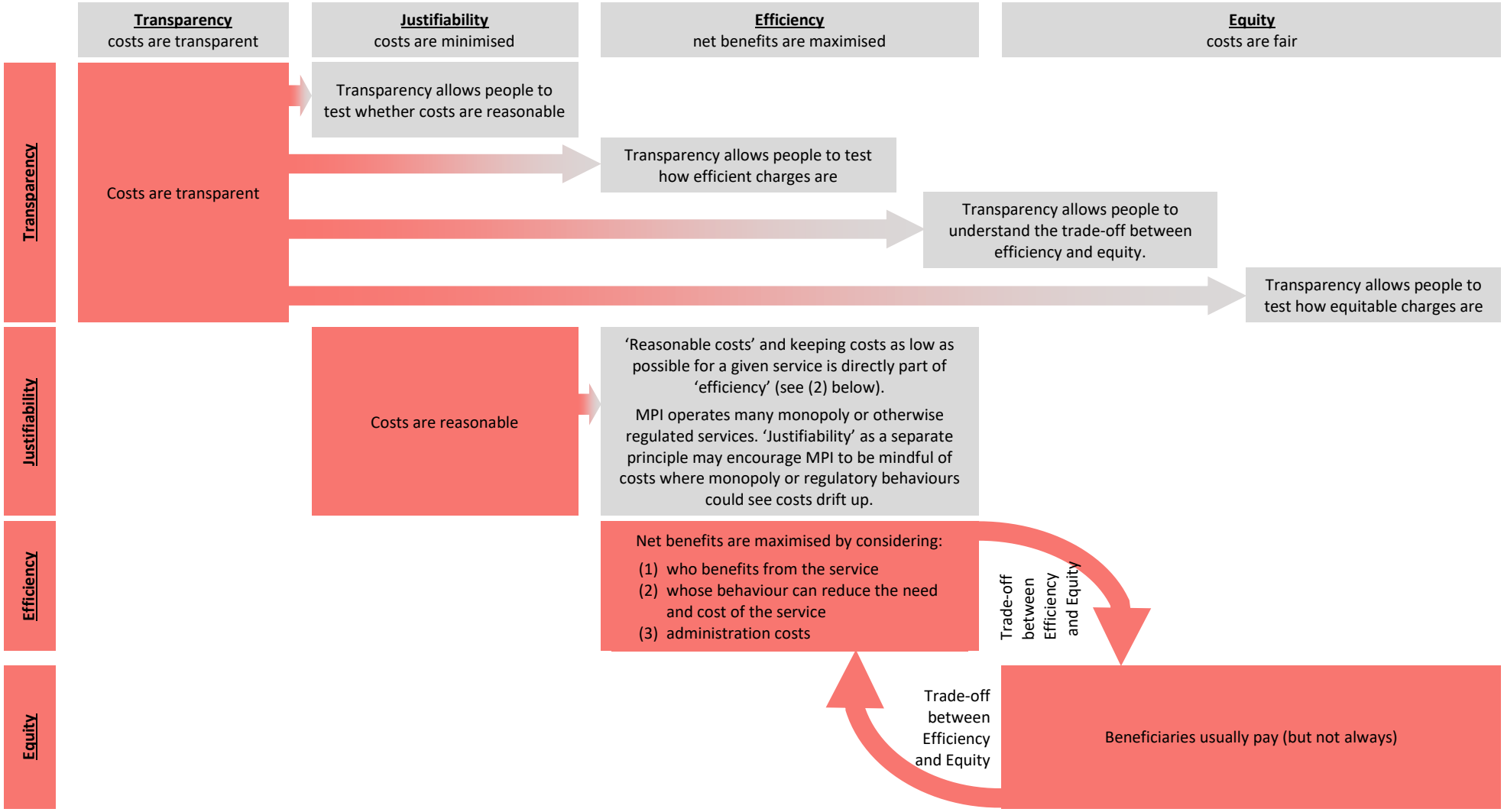
## There will sometimes be trade-offs between Efficiency and Equity

The ‘generally’ in the Equity principle means that a Government might decide to charge someone other than the beneficiary. The ‘generally’ in the Efficiency principle means that cost recovery settings will not always maximise benefits and minimise costs.

This also makes sense. If the Government determines that it is more equitable to pay for a service through Crown funding rather charging beneficiaries or those whose behaviour can reduce the need for the service, then the cost recovery setting will not be maximising net benefits.

The two ‘generally’s allow for trade-offs to be made between Efficiency and Equity.

**Figure 29: Relationship between the Cost Recovery Principles**



# Appendix 2: Industry volumes, prices and values

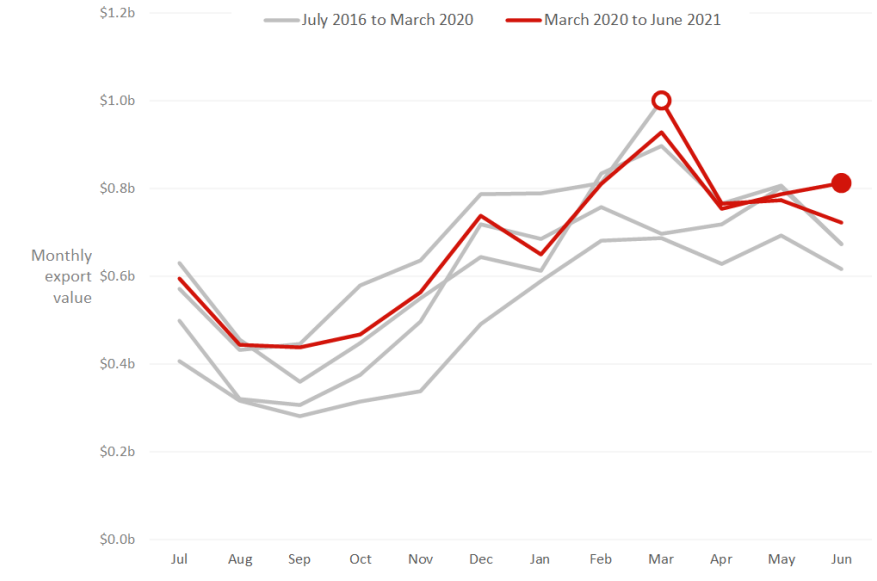
## Meat

Full time series

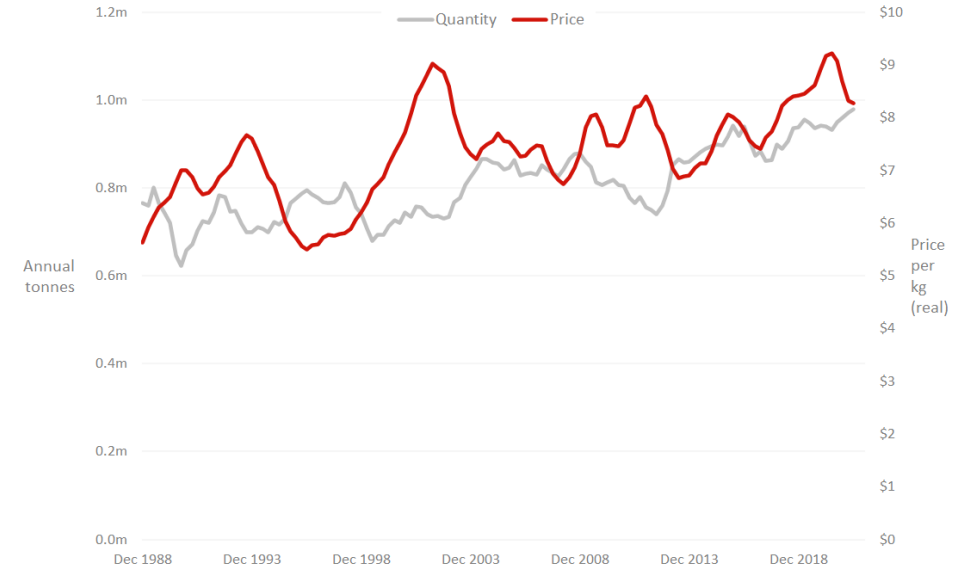
Annual export value


Pre- and post-Covid-19

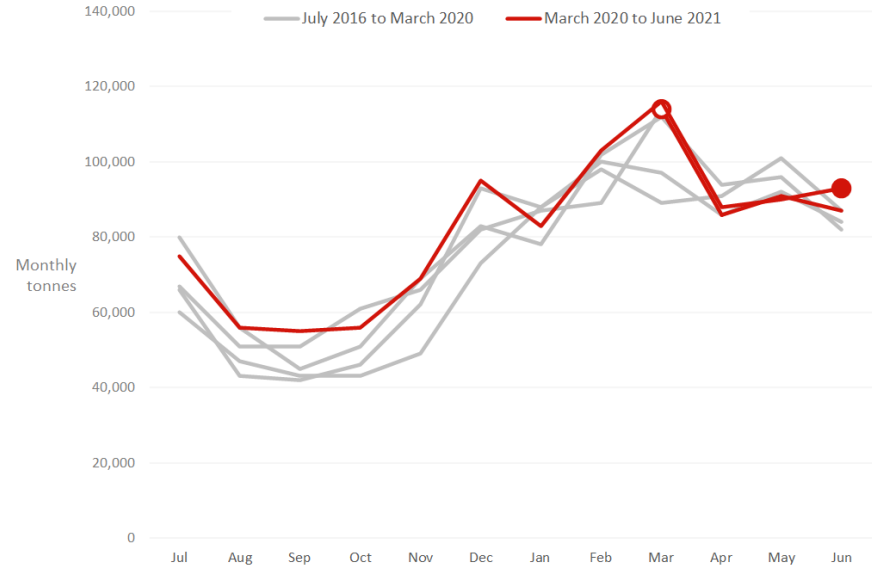
Monthly export value



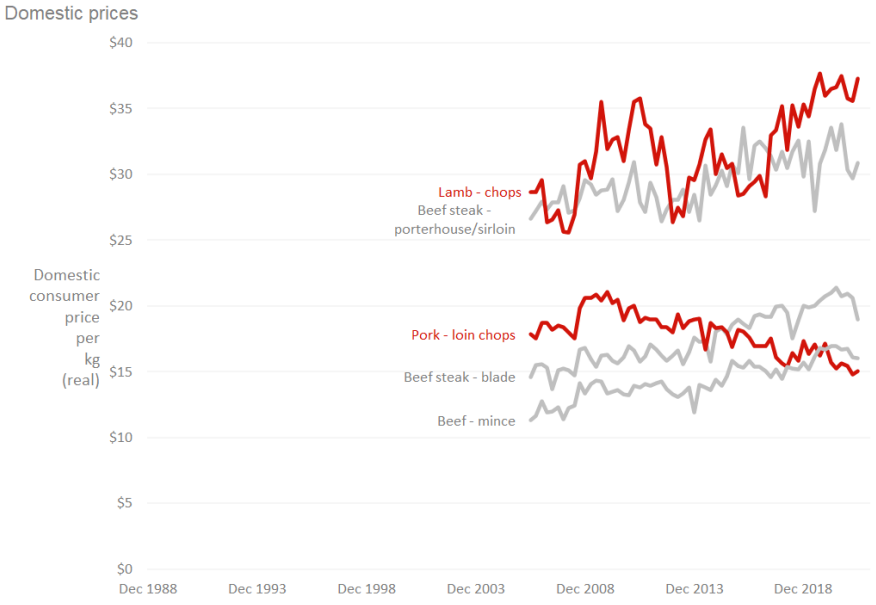

Annual export volumes and prices



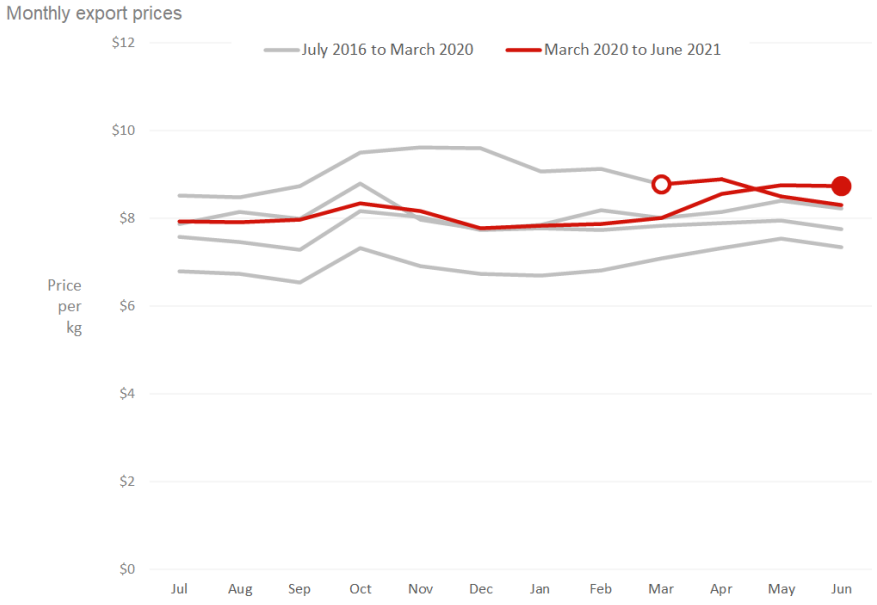

Monthly export volumes




Domestic prices



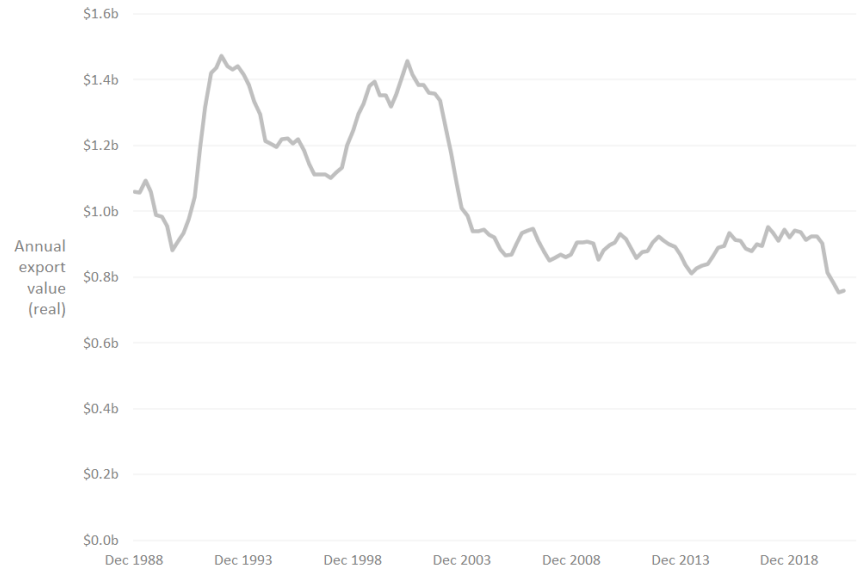

Monthly export prices



# Fish

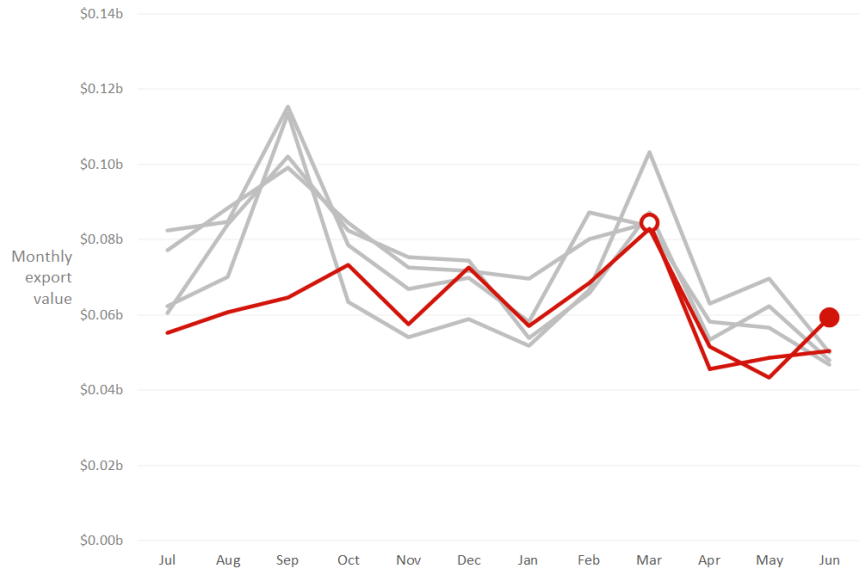
Full time series

Annual export value

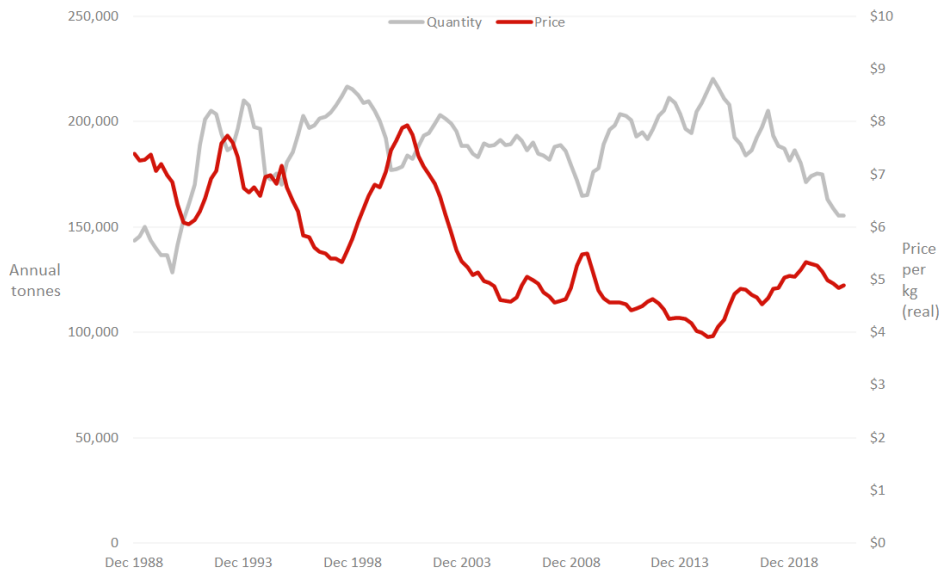



Pre- and post-Covid-19

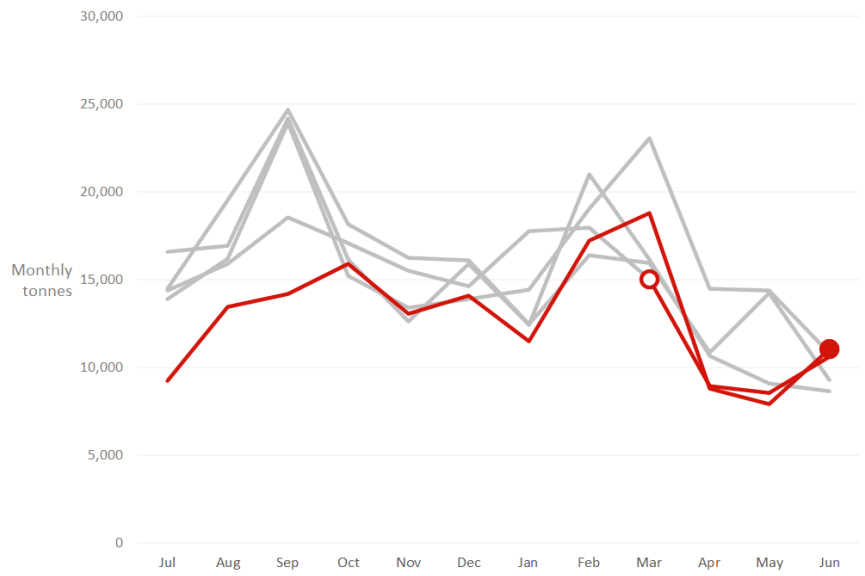
Monthly export value



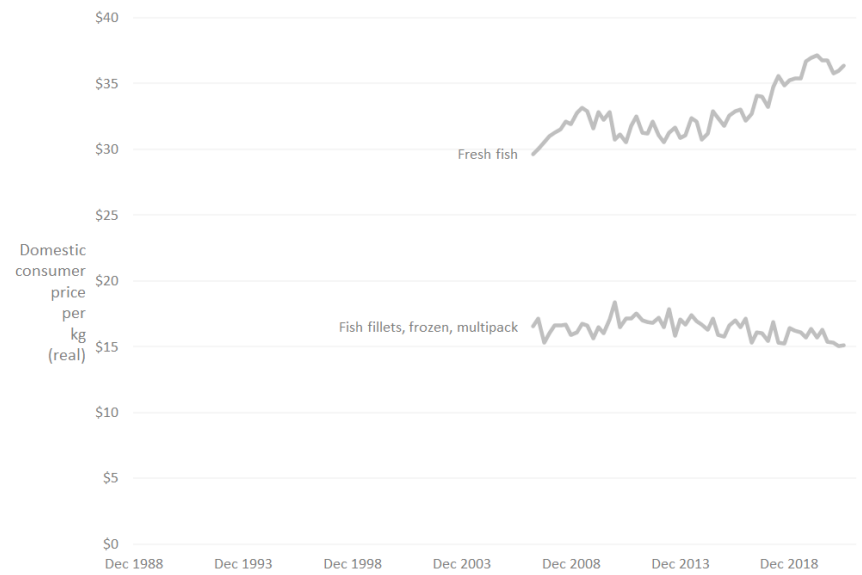

Annual export volumes and prices



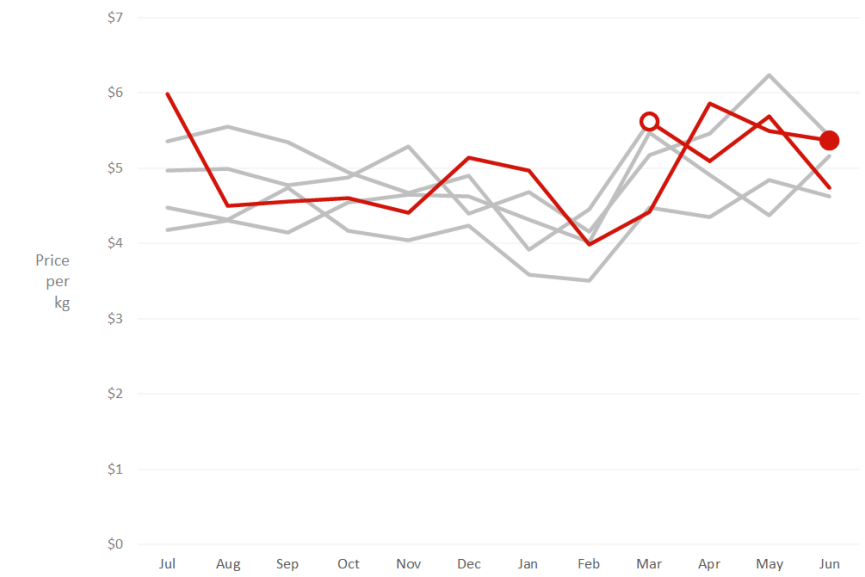

Monthly export volumes




Domestic prices



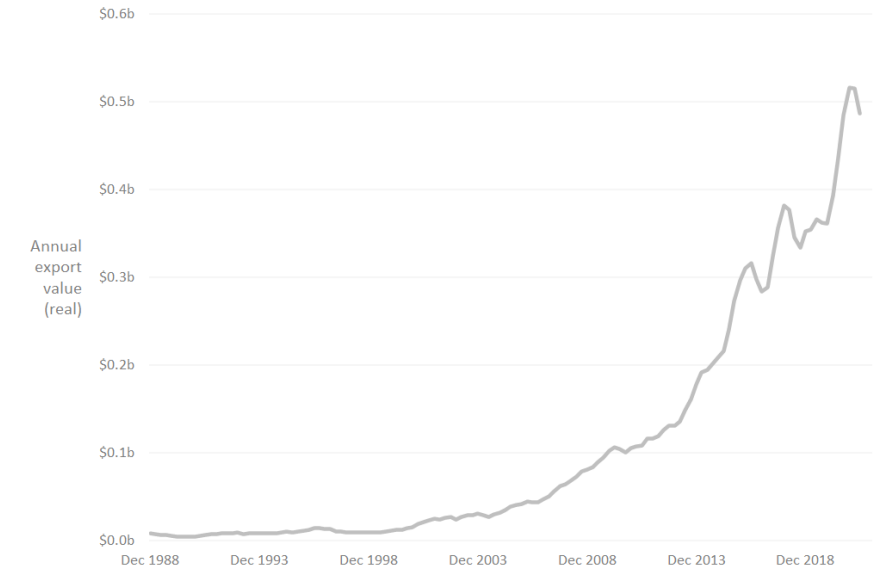

Monthly export prices



# Honey

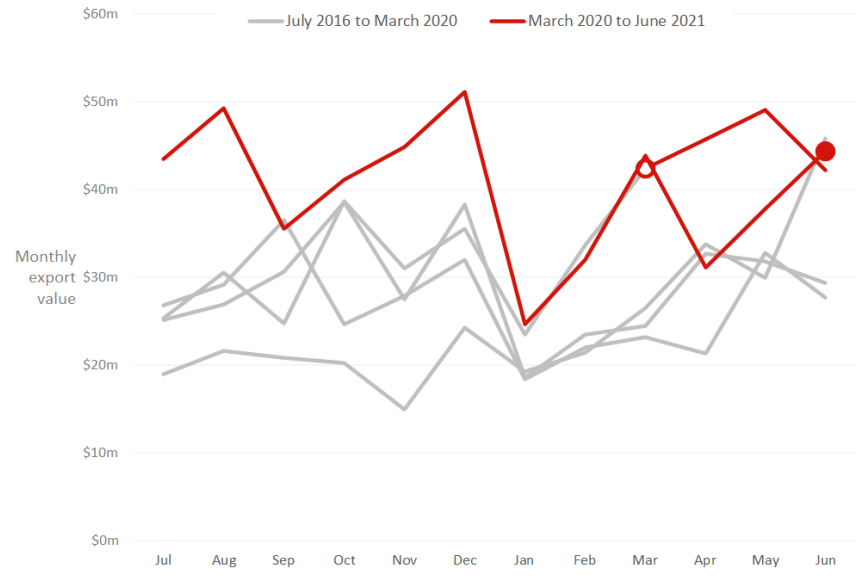
Full time series

Annual export value

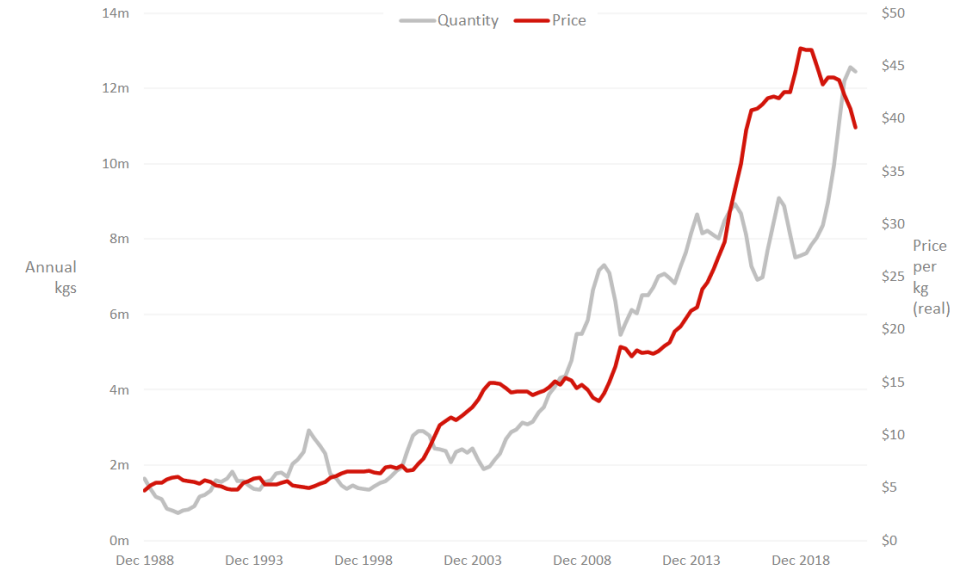



Pre- and post-Covid-19

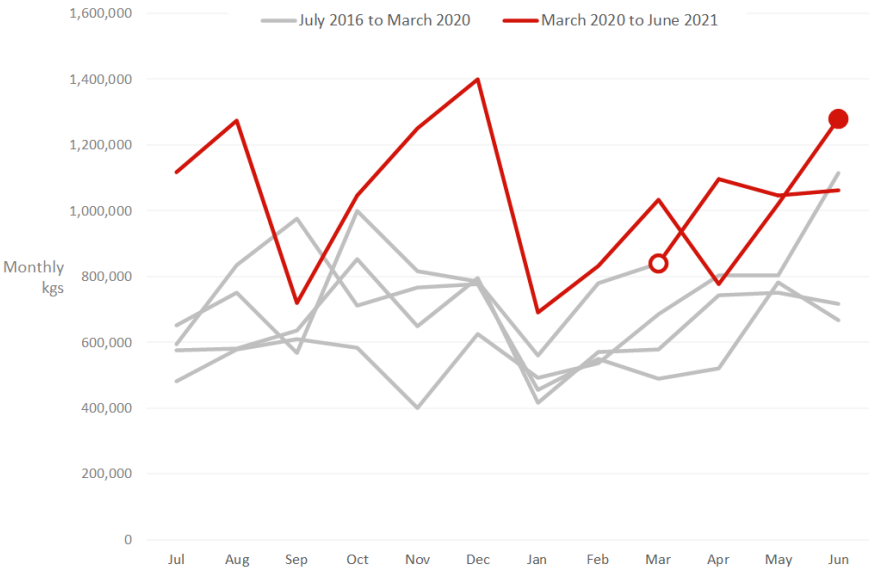
Monthly export value



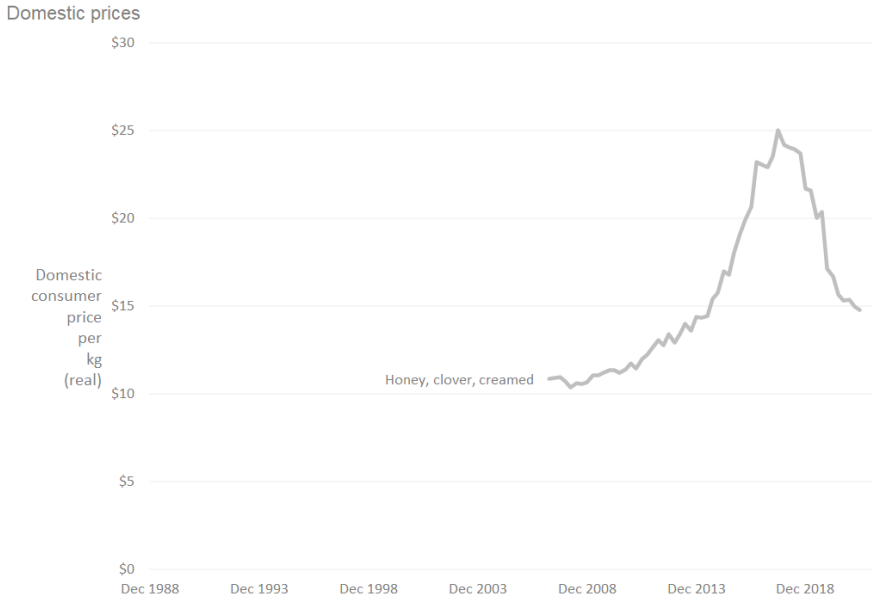

Annual export volumes and prices



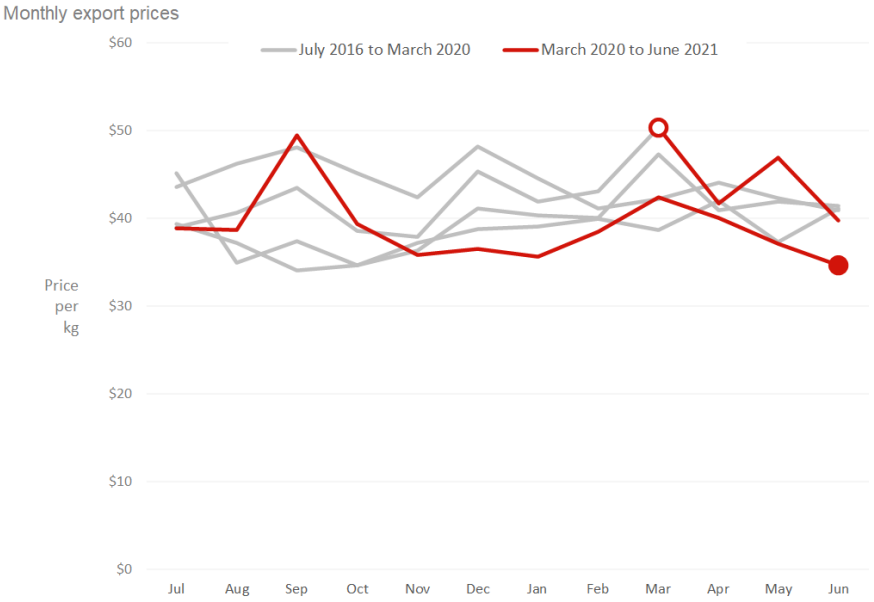

Monthly export volumes




Domestic prices



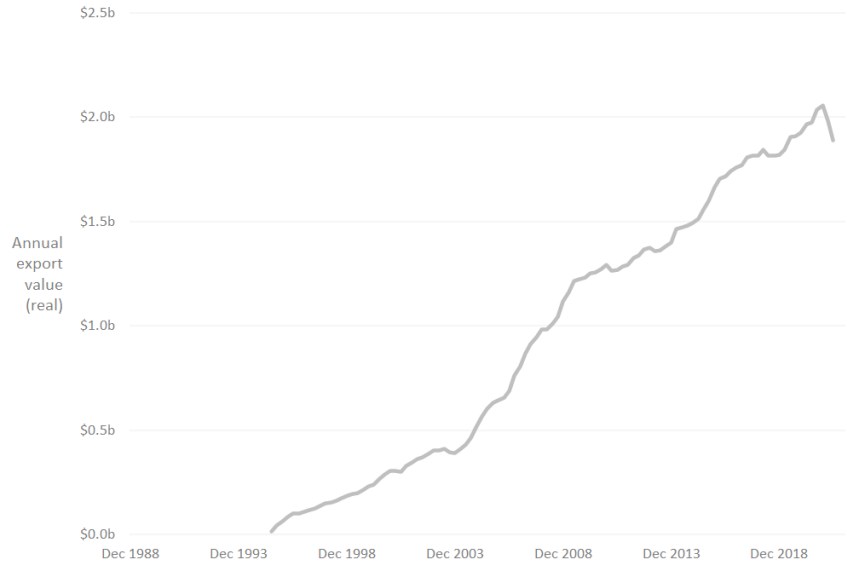

Monthly export prices



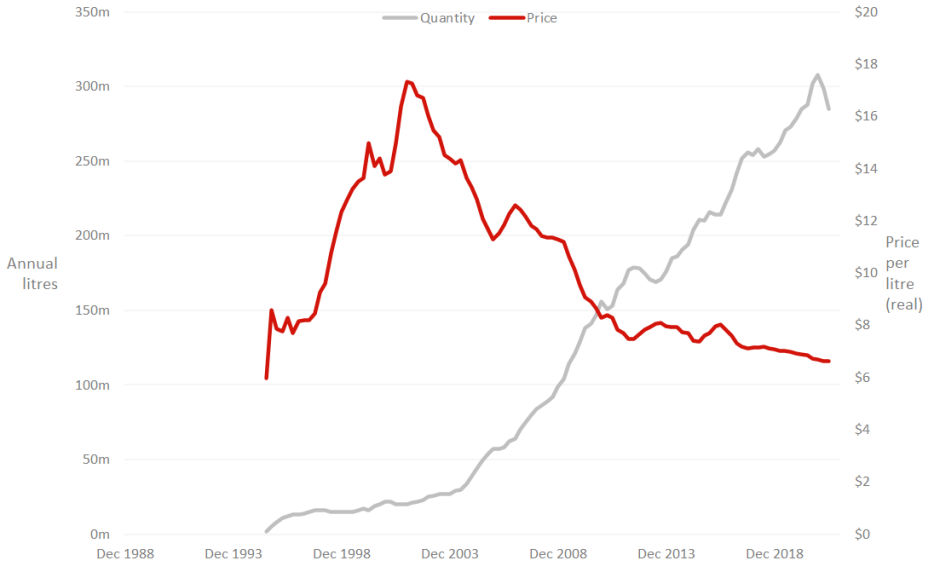
# Wine

Full time series

Annual export value

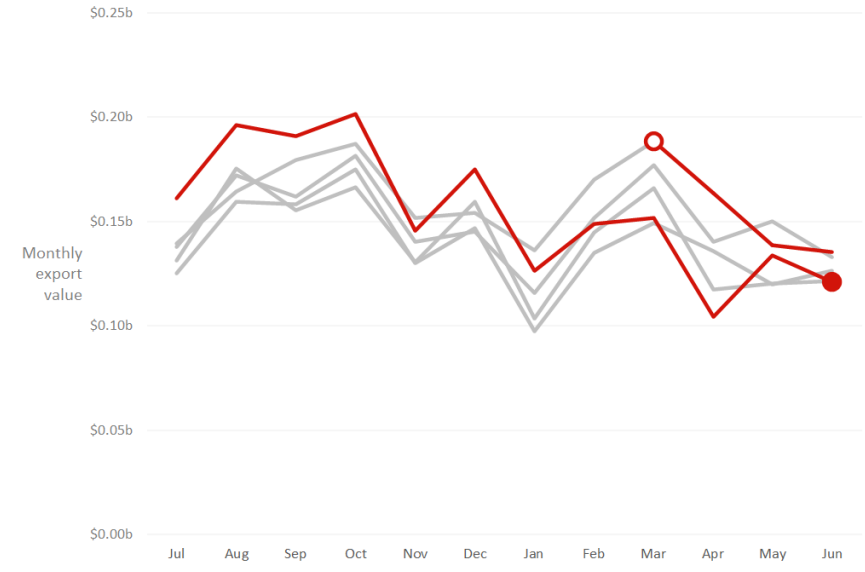



Annual export volumes and prices

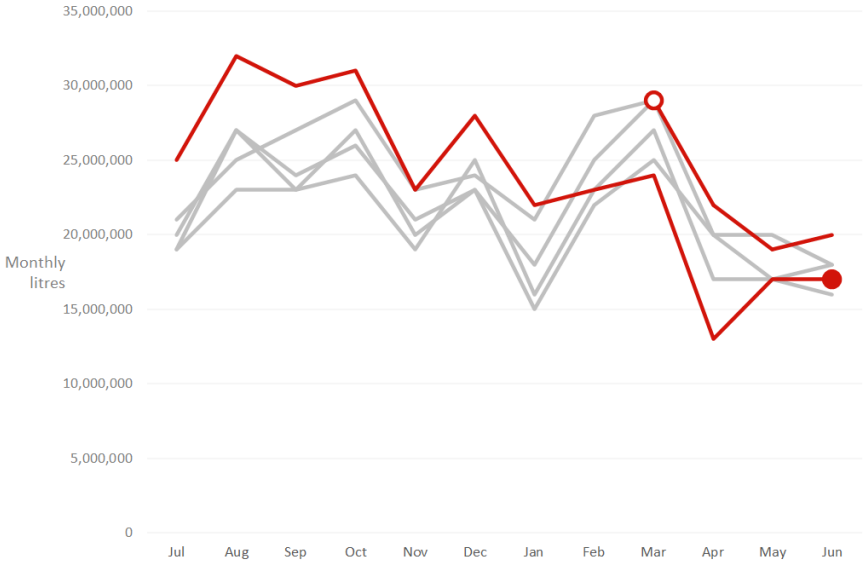



Pre- and post-Covid-19

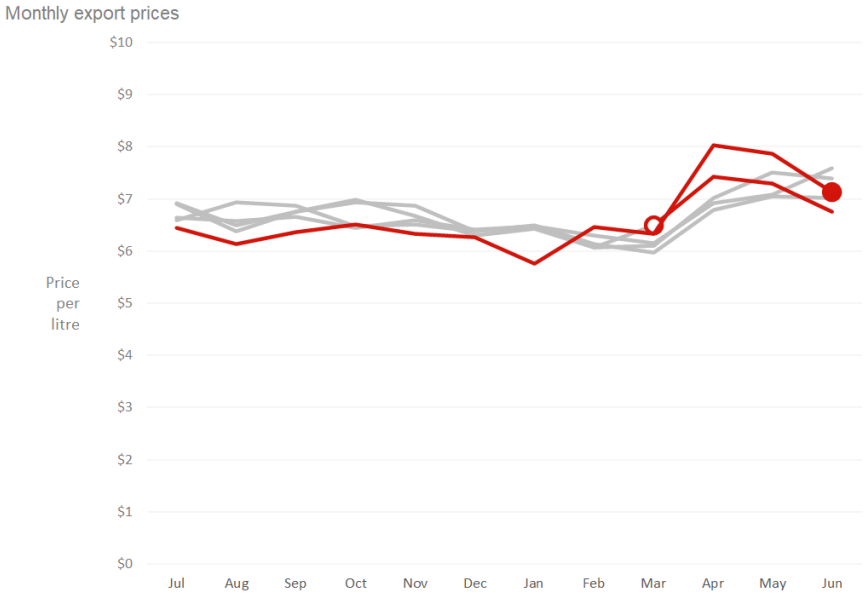
Monthly export value




Monthly export volumes




Monthly export prices



# Appendix 3: Financial data under the status quo

| Year<br>Actual or forecast | 2018/19<br>Actual | 2019/20<br>Actual | 2020/21<br>Actual | 2021/22<br>Forecast | 2022/23<br>Forecast | 2023/24<br>Forecast | 2024/25<br>Forecast | 2025/26<br>Forecast |
|---|---|---|---|---|---|---|---|---|
| Wine export[84] | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
| Opening balance | $1,914,761 | $2,829,155 | $3,885,000 | $4,847,453 | $389,694 | $1,592,527 | $2,781,746 | $3,959,696 |
| Revenue | $2,440,632 | $2,611,341 | $2,609,112 | $2,370,608 | $2,631,375 | $2,649,795 | $2,668,343 | $2,687,022 |
| Expenditure | $1,526,238 | $1,555,496 | $1,646,659 | $2,253,367 | $1,428,543 | $1,460,576 | $1,490,393 | $1,520,800 |
| Closing balance | $2,829,155 | $3,885,000 | $4,847,453 | $389,694 | $1,592,527 | $2,781,746 | $3,959,696 | $5,125,918 |
| Fish export | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
| Opening balance | $97,684 | $14,003 | -$70,261 | -$97,878 | -$158,355 | -$225,215 | -$315,916 | -$407,953 |
| Revenue | $289,874 | $289,874 | $305,850 | $297,286 | $297,286 | $282,422 | $288,352 | $294,408 |
| Expenditure | $373,554 | $374,138 | $333,467 | $357,763 | $364,146 | $373,123 | $380,389 | $387,784 |
| Closing balance | $14,003 | -$70,261 | -$97,878 | -$158,355 | -$225,215 | -$315,916 | -$407,953 | -$501,329 |
| Circuits[85] | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
| Opening balance | -$644,029 | -$2,022,687 | -$4,024,578 | -$3,279,535 | -$4,699,830 | -$5,681,331 | -$6,823,384 | -$8,138,851 |
| Revenue | $8,636,213 | $8,955,232 | $8,741,568 | $8,685,509 | $8,746,307 | $8,790,039 | $8,825,199 | $8,860,500 |
| Expenditure | $10,014,871 | $10,957,123 | $7,996,525 | $10,105,804 | $9,727,808 | $9,932,092 | $10,140,666 | $10,353,620 |
| Closing balance | -$2,022,687 | -$4,024,578 | -$3,279,535 | -$4,699,830 | -$5,681,331 | -$6,823,384 | -$8,138,851 | -$9,631,971 |
| Bee domestic | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
| Opening balance | -$64,417 | $4,644 | $47,533 | $93,958 | $116,777 | $137,282 | $145,985 | $155,424 |
| Revenue | $154,750 | $150,504 | $156,166 | $153,335 | $153,335 | $145,668 | $148,727 | $151,851 |
| Expenditure | $85,689 | $107,615 | $109,741 | $130,516 | $132,830 | $136,966 | $139,289 | $141,637 |
| Closing balance | $4,644 | $47,533 | $93,958 | $116,777 | $137,282 | $145,985 | $155,424 | $165,637 |
| Bee export | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
| Opening balance | $35,070 | -$171,064 | -$409,275 | -$612,755 | -$813,961 | -$1,020,857 | -$1,244,708 | -$1,471,987 |
| Revenue | $170,314 | $164,441 | $171,382 | $168,179 | $168,179 | $159,770 | $163,125 | $166,550 |
| Expenditure | $376,448 | $402,652 | $374,862 | $369,385 | $375,074 | $383,621 | $390,403 | $397,269 |
| Closing balance | -$171,064 | -$409,275 | -$612,755 | -$813,961 | -$1,020,857 | -$1,244,708 | -$1,471,987 | -$1,702,706 |

[84] 2021/22 includes a one-off expenditure increase of $850,000 and a surplus return of $4,575,000.

[85] The opening and closing balances before 2020/21 are after any historical write-offs. The balances from 2020/21 do not account for any future write-offs if the fee is unchanged.