

20 December 2018

Consultation: Cost Recovery Proposals targeting 1 July 2019
Cost Recovery Directorate
Ministry for Primary Industries
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Dear Sir/Madam

Attached are the comments that the New Zealand Food & Grocery Council wishes to present on ***Proposals to improve cost recovery in MPI's food system: MPI Discussion Paper No: 2018/15.***

Yours sincerely

Katherine Rich
Chief Executive



***Proposals to improve cost recovery in
MPI's food system: MPI Discussion Paper
No: 2018/15***

**Submission by the New Zealand Food & Grocery
Council**

20 December 2018

NEW ZEALAND FOOD & GROCERY COUNCIL

1. The New Zealand Food & Grocery Council (“NZFGC”) welcomes the opportunity to comment on ***Proposals to improve cost recovery in MPI’s food system: MPI Discussion Paper No: 2018/15.***
2. NZFGC represents the major manufacturers and suppliers of food, beverage and grocery products in New Zealand. This sector generates over \$34 billion in the New Zealand domestic retail food, beverage and grocery products market, and over \$31 billion in export revenue from exports to 195 countries – some 72% of total merchandise exports. Food and beverage manufacturing is the largest manufacturing sector in New Zealand, representing 44% of total manufacturing income. Our members directly or indirectly employ more than 400,000 people – one in five of the workforce.

COMMENTS

Proposal 1: Update Base Hourly Rates across the Food System

3. It is clear from the memorandum account forecasts (Table 3) that in all but one area (Verification of the Food Regulatory Programme) surpluses of approximately \$20,000 to over \$1 million (in two cases) have been generated by excessive rates applied by MPI and that downward adjustments are generally required. What is particularly disappointing is that these over-recoveries were foreshadowed in the March 2018 cost recovery exercise and have now come to fruition in the 2017-18 actuals.
4. So while we commend MPI for identifying 127 charges to be reduced from a base rate of \$155 per hour to \$135 per hour to prevent ongoing over-recovery of costs, it has a legislative obligation to do so and this should have been effected earlier. The over-recovery currently represents over \$5 million of industry funds collected from the very smallest to the very largest food companies in New Zealand. This is set to blow out to in excess of \$8 million in 2018-19. The comment might be made that with a turnover of \$76 billion in food retail, food service and food manufacturing, \$8 million is small change. This is not the case for New Zealand’s competitiveness internationally nor for our SMEs or consumers where the burden of Government charges is greatest.
5. For 51 of these 127 charges (over 40%), the charges are to have the ‘variableness’ of the time taken to deliver the service replaced by a fixed charge. NZFGC supports this approach but notes that none of these are to apply under the Food (Fees and Charges) Regulations 2015. We would have expected that after three years’ operation some consistency, especially for renewals of a plan based on a template and for non-significant amendments based on a template. We note that three years is enough time for changes to be made in relation to other Proposals in this Consultation (see below)

Proposal 1 Q1 Do you agree with the proposal to decrease approval fees across the food system?

Proposal 1 Q2 What are the reasons for your opinion?

6. NZFGC agrees with the proposal to decrease approval fees across the food system, a position that we have held over the past two years. This is based on almost all memorandum accounts trending up (or decreasing debt) over recent years.

Proposal 1 Q3 What impact will the proposed reductions in approval and related fees have on you and your business?

Proposal 1 Q4 Please describe any impact and quantify this if possible.

7. NZFGC members will welcome the proposed reductions and we would expect this to have a positive or neutral impact (the latter if the bulk of the service is one off and already been met [evaluation?]) but for some who may have lost market share to imports or in overseas markets, recouping those losses will be a lengthy exercise.

Proposal 1 Q5 Do you agree with the proposal to convert the majority of approval and related fees to fixed charges?

Proposal 1 Q6 If not why not?

8. NZFGC agrees with the proposal to convert many of the approval and related fees to fixed charges but we are disappointed that none of these apply under the Food Act 2014. We would have expected after 3 years' operation that a flat rate might have been possible especially in relation to template-based fees.

Proposal 1 Q7 Are there any other issues with approval and related fees that you think MPI should be aware of?

9. NZFGC has no other issues to raise under Proposal 1.

Proposal 2: Update Trade Name Product (TNP) Registration Fees under the Agricultural Compounds and Veterinary Medicines Act 1997 (ACVM Act)

10. NZFGC has no comments to make on Proposal 2.

Proposal 3: Cost Recovery for Approvals of Manufacturers or Suppliers of Official Devices under the Animal Products Act 1999

11. Official devices provide assurance as to the origin of the product (such as brands) and security of the product such as container seals. There are fewer than 10 approved official devices under the *Animal Products Act 1999* even though the likes of container seals have been widely used throughout the life of the Act (20 years). It is therefore surprising that there have been "1-2 applications per year" for an approved device or to be a device manufacturer over the past 15 years. We assume that the majority of these are rejected.

Proposal 3 Q1 Do you agree that the cost of assessing applications to be approved manufacturers or suppliers of Official Devices should be recovered from applicants?

Proposal 3 Q2 What are the reasons for your opinion?

12. NZFGC agrees that, in line with all other applications for approval from MPI and MPI provides that service, a charge should be applied.

Proposal 3 Q3 What impact will the proposed charge have on you and your business?

Proposal 3 Q4 Please describe any impact and quantify this if possible.

13. NZFGC considers that with a single application on average every two years there will be no or very little impact on our members.

Proposal 3 Q5 Are there any other issues with approval and related fees that you think MPI should be aware of?

14. NZFGC has no other issues to raise under Proposal 2.

Proposal 4: Update Official Assurance (Animal Material and Non-Live Animals) Fees under the Animal Products Act 1999

15. Official assurances are very widely used with an estimated 127,000 issued every year. The base rate of \$32 is per 15 minutes and appears based on a charge of \$128 per hour and not related to the current hourly rate of \$155. Table 8 states that an official assurance charge after the first 15 minutes (the hourly rate) is not currently charged suggesting that no official assurance takes longer than 15 minutes and suggesting perhaps that many might take a lot less.

16. MPI claims that economies of scale present limited opportunities. With streamlining of systems and the experience built up from 127,000 approvals per year, we would ask what analytics have been undertaken to reduce the fixed current rate of the first 15 minutes to 7.5 minutes or 10 minutes? As volumes have increased, it appears productivity by MPI assessors has decreased.

17. It also appears that MPI might have intended to include a graph of costs to increase at around 4% per annum and track estimated increases in the volumes of official assurances. However, instead the consultation paper (p31) has included duplicate graphs of the volume of official assurances.

Proposal 4 Q1 Do you agree with the proposal to align the minimum charge for Official Assurances with the food system?

Proposal 4 Q2 What are the reasons for your opinion?

18. NZFGC agrees that the minimum charge for official assurances should be aligned with the food system rate of \$135 per hour or \$33.75 per 15 minutes. However, we consider a reduced time of per 7.5 minutes (\$16.875) or per 10 minutes (\$22.50), could reflect the similarity of at least some of the 127,000 assurances issued each year and reflect an increase in the productivity of the certifiers.

Proposal 4 Q3 What impact will the proposed charge have on you and your business?

Proposal 4 Q4 Please describe any impact and quantify this if possible.

19. NZFGC considers that any increase in official assurances will have a significant impact on many of our members because many are exporting and if they are not exporting now, they will be aspiring to in the future. The largest exporters are likely to experience the bulk of these costs since they will have a larger proportion of the 127,000 official assurances issued each year.

Proposal 4 Q5 Are there any other issues with approval and related fees that you think MPI should be aware of?

20. We draw attention to the issues above concerning a 7.5 minute or 10 minute fee.

Proposal 5: Align Charges for Animal Welfare Export Certificates under the Animal Welfare Act 1999 and Official Assurances for Live Animals or Germplasm under the Animal Products Act 1999

21. NZFGC has no comments to make on Proposal 5.

Proposal 6: Update Unit Charges for Export of Live Animals and Animal Germplasm under the Animal Products Act 1999

22. NZFGC has no comments to make on Proposal 6.

Proposal 7: Update Circuit Verification Charges under the Animal Products Act 1999

23. Circuit verification has been recording a deficit over the past few years and is forecast to be in deficit by \$2.3 million by 1 July 2019. MPI is proposing to recoup current costs and the deficit that has accumulated.

24. In addition, MPI is proposing to remove a split between programme charges (covering indirect costs) and verifier charges (covering salary and other direct costs). This is on the basis that the split is not relevant for many sectors on the circuit since it was developed for the export red meat sector where overtime and variable hours were relevant. This does not appear to be the case since in the fish and cool stores area, an additional charge is already being applied to “recoup an under-recovery of the programme charge from those premises during the 2015/16 financial year”. While separation was modelled on export red meat, it provided transparency for two other sectors.

25. In an environment when transparency is a key principle in all areas, to reduce that transparency now by removing the split is a backward step. We also expect the transparency for the red meat sector to remain an important consideration.

Proposal 7 Q1 Do you agree with the proposal to increase charges but not to over-recover for circuit verification and combine charges into a single inclusive rate?

Proposal 7 Q2 What are the reasons for your opinion?

26. NZFGC does not agree to Q1. We agree to the proposal to increase charges agrees that the charge the deficit accrued by circuit verification. We strongly oppose combining charges into a single inclusive rate. The loss of transparency when this has been important in the last three years suggests this is not meeting the principle of transparency at this time.

Proposal 7 Q3 What impact will the proposed increase in charges for circuit verification have on you or your business?

Proposal 7 Q4 Please describe any impact and quantify this if possible.

27. NZFGC considers that any increase in charges for circuit verification will have a significant impact on many sectors but we recognise the importance of recovering the deficit from those currently in the in those sectors.

Proposal 7 Q5 Are there any other issues with circuit verification charges that you think MPI should be aware of?

28. NZFGC has no other issues to raise under Proposal 7.

Proposals to Simplify, Improve Transparency, and Make Charges More Equitable

Proposal 8: Simplify the Process for Amending Levy Rates under the ACVM Act 1997 and the Wine Act 2003

29. MPI is proposing to simplify the process to change the rate of the Wine Export Levy (NZFGC is not commenting on the ACVM levy process although the two are being dealt with in this proposal together). A formula would be prescribed that determines the levy rate with components of that formula being able to be set by MPI's Director-General. Consultation on changes would remain a requirement and changes would be within a regulated upper limit.

30. The proposed maximum for wine is to be set at \$0.011 per litre per exporter (excluding the first 200,000 litres per annum. This is 10% above the current rate of \$0.01.

Proposal 8 Q1: Do your members currently pay a) the Wine Export Levy?

31. NZFGC members pay the wine export levy.

Proposal 8 Q2 Do you agree with the proposed process for the Director-General of MPI setting the levy rate through notice in the Gazette?

Proposal 8 Q3 What are the reasons for your opinion?

32. NZFGC considers that there is value in streamlining the process but only if the speed of levy changes can go either way – so that significant over-recovery can be subject to adjustment more promptly than has been in the past.

Proposal 8 Q4 Are there any other issues associated with the proposal for the Director-General to set the levy rate that you think MPI should be aware of?

33. NZFGC has no other issues to raise under Proposal 8.

Proposal 9: Clarify the Provisions Governing the Levy under the ACVM Act 1997

34. NZFGC has no comments to make on Proposal 9.

Proposal 10: Modify Dairy Levies for Small Processors and Exporters under the Animal Products Act 1999

35. MPI is proposing annual levies for small (by volume) dairy operators to be based in future on level of risk presented. Small processors present disproportionate risks relative to the volume of milk they process but even so MPI is proposing a decrease in the levy of \$65 to \$400. It is not clear how a disproportionate risk translates into a levy decrease.

36. MPI states that small exporters do not present risks to the same extent and a lower levy is proposed that makes a reasonable contribution to MPI's costs of \$200 per annum, a reduction of \$110.

37. NZFGC is concerned at the prospect of cross-subsidisation by medium and large operators to offset the costs of small operators and exporters that present a much higher risk. For example, templates and guidelines should be a cost proportionate to the small processors levies as should future work on raw milk sellers.

Proposal 10 Q1 Do you agree with the proposed rates and thresholds for the small processor levy?

Proposal 10 Q2 What are the reasons for your opinion?

38. NZFGC agrees with the proposed rates and threshold for the small processor levy. However, we are surprised there is a reduction when these processors present a higher risk. We would also be concerned if this decrease was offset by any cross-subsidisation amongst processors.

Proposal 10 Q3 Do you agree with the proposal to eliminate the medium processor levy?

Proposal 10 Q4 What are the reasons for your opinion?

39. NZFGC has no view on this proposal.

Proposal 10 Q5 Do you agree with the proposed rates and thresholds for the small exporter levy?

Proposal 10 Q6 What are the reasons for your opinion?

40. NZFGC agrees with the proposed rates and thresholds for the small exporter levy. However, we are surprised there is a reduction when the risk these processors present to the economic well-being of the country if things were to go wrong.

Proposal 10 Q7 Are there any other issues with approval and related fees that you think MPI should be aware of?

41. NZFGC has no other issues to raise under Proposal 10.

Proposal 11: Minor Updates to Cost Recovery Provisions under the Animal Products Act 1999

Extend levy categories for coolstores

42. MPI charges non-dairy operators of coolstores and other storage premises an annual levy for development and maintenance of standards for these facilities including dairy coolstores. However, operators of dairy coolstores are not charged. In effect the non-dairy sector is cross-subsidising the dairy sector.

43. NZFGC is not commenting on the export approved premises of hides and skins, animal fibres, feathers, shells and game trophies.

44. MPI estimates there are around 30 dairy coolstores that would be subject to an annual \$207.30 levy raising around an additional \$6,200.

45. NZFGC is concerned that the non-dairy operators would merit an equivalent decrease in their levy in order to maintain the revenue stream at current levels for MPI's standard setting work. However, we note that current rates result in an under-recovery of \$75,000

per annum and that this will be addressed 2019. We suggest this be addressed now. If the deficit is known and a group of new levy payers are to be levied at one rate now (a deliberately deficit creating level) with another change in 12 months' time, we suggest strongly that the levies for all change now. The new levy payers would have one rate likely for the next 3 years instead of experiencing change in the short term. This would also allow for forecasting costs beyond 2019.

Market access service charges

46. MPI is proposing alignment between the wording used for providing a business-specific service to non-dairy exporters and dairy exporters.

47. NZFGC concurs with the proposal.

Change the fee for infant formula export declarations

48. Infant formula export declarations are the equivalent of Official Assurances for markets where government certification for infant formula is required. MPI proposes that instead of calculating the charge based on the previous year's approval costs divided by the previous years' number of declarations, the approach should be the same as for official assurances. This would result in the current charge of \$23 per declaration increasing to \$33 per declaration plus \$135 per hour for time over 15 minutes per declaration. MPI provides no indication of the revenue generated currently at \$23 nor the expected increase in revenue from a \$10 increase per declaration.

49. NZFGC is concerned at the lack of transparency around this proposal in terms of change in charges and the extent of the 'windfall' revenue generated by the change. This is presented as minor yet with the significance and growth of the infant formula industry in New Zealand, the proposal warrants reassessment.

Update reporting requirements

50. In relation to non-dairy products, businesses are required to provide volume based information to MPI monthly or annually. MPI currently requires large fish and shellfish processors to estimate volumes then reconcile this against actuals. MPI proposes to require only actual volumes processed.

51. NZFGC has no comments on the animal processing.

52. NZFGC supports the change in reporting for fish and shellfish operators on the basis that this should deliver administrative cost savings for those operators.

Proposal 11 Q0 Which proposals do wish to comment on?

53. NZFGC is commenting on Proposal 11-1 (dairy coolstores), Proposal 11-3 (market access for non-dairy), Proposal 11-4 (infant formula declarations) and Proposal 11-5 (reporting requirements)

Proposal 11-1 Q1 Do you agree with the proposal to expand this levy category to include dairy coolstores?

Proposal 11-1 Q2 What are the reasons for your opinion?

54. NZFGC agrees that the approximately 30 dairy coolstores be subject to an annual levy.

55. NZFGC does not agree to the level of the levy. We are concerned that these new levy payers have a rate set that is stable for the next 2-3 years rather than be subject to further change within 12 months. If the deficit is known and a group of new levy payers are to be levied at one rate now (a deliberately deficit-creating level) with another levy change in 12 months' time, we suggest strongly that the levies for all change now.

56. We therefore also support non-dairy operators having a rate change now to address a known under-recovery of \$75,000 per annum rather than leaving this to increase for another year.

Proposal 11-3 Q1 Do you agree with the proposal for an hourly change to market access services in the Non-dairy Fee Regulations?

Proposal 11-3 Q2 What are the reasons for your opinion?

57. NZFGC concurs with the proposal on the basis of logic and consistency.

Proposal 11-4 Q1 Do you agree with the proposal to change the fee for infant formula declarations to a fixed charge (similar to Official Assurance fees)?

Proposal 11-3 Q2 What are the reasons for your opinion?

58. NZFGC considers the lack of transparency around this proposal in terms of change in charges and the extent of the 'windfall' revenue generated by the change is unacceptable. This is presented as a minor change yet with the significance and growth of the infant formula industry in New Zealand, the proposal warrants more information and reassessment.

59. NZFGC does not support the change in the absence of any information as to the impact of change on the industry.

Proposal 11-5 Q1 Do you agree with the proposal to change the requirements for reporting of volumes of certain species to the Director-General of MPI for the purposes of calculating levies? Actual monthly or annual volumes for large fish and shellfish processors?

Proposal 11-5 Q2 What are the reasons for your opinion?

60. NZFGC supports the change in reporting for fish and shellfish operators on the basis that this should deliver administrative cost savings for those operators.