



16 December 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 ***Investing in Biosecurity: Proposals to update cost recovery for New Zealand's Biosecurity System, Biosecurity New Zealand Discussion Paper No.:2019/01.***

Yours sincerely

Katherine Rich  
**Chief Executive**



***Investing in Biosecurity: Proposals to  
update cost recovery for New Zealand's  
Biosecurity System  
Biosecurity New Zealand Discussion Paper  
No.:2019/01***

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

**16 December 2019**

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## NEW ZEALAND FOOD & GROCERY COUNCIL

1. The New Zealand Food & Grocery Council (“NZFGC”) welcomes the opportunity to comment on the *Investing in Biosecurity: Proposals to update cost recovery for New Zealand’s Biosecurity System, Biosecurity New Zealand Discussion Paper No.:2019/01* (BNZ Discussion Paper)
2. NZFGC represents the major manufacturers and suppliers of food, beverage and grocery products in New Zealand. This sector generates over \$40 billion in the New Zealand domestic retail food, beverage and grocery products market, and over \$34 billion in export revenue from exports to 195 countries – representing 65% of total good and services exports. Food and beverage manufacturing is the largest manufacturing sector in New Zealand, representing 45% of total manufacturing income. Our members directly or indirectly employ more than 493,000 people – one in five of the workforce.

### Summary of Response

3. NZFGC recognises the critical importance of the role of Biosecurity New Zealand in protecting New Zealand and this has been to the fore in arriving at position on the Proposals that are the subject of current consultation.
4. In relation to **Proposal 2 – Changes to the Biosecurity System Entry Levy**, NZFGC supports the increase in the BSEL and the higher cap of \$35 noting the latter will not have an immediate impact on proposed rates. We are concerned that the forecasts from previous years have not been realised and are concerned if this is again the case in out years and the potential impact this will have.
5. In relation to **Proposal 3 – Updates to number of fees for border Biosecurity Services**, NZFGC considers a 35% increase in the hourly rate from \$102.27 to \$138 in a single year to be excessive and we do not support the increase. We believe it is excessively limiting to stakeholders to have considered the status quo as ‘the only alternative option’. We strongly recommend reconsideration of options that include a phased implementation of rate increases over the next three years.
6. The need for Biosecurity has been as critical over the previous 5 years as it will be in the future, yet during this past period no adjustment has been made to the fees even though the deficit was growing. We strongly recommend a phased fee increase and annual reporting to provide updated information on progress towards returning the memorandum accounts to positive.

### COMMENTS

7. This submission focusses on Proposals 2 and 3 (Biosecurity System Entry Levy and Border Biosecurity Services).

#### **Proposal 2 – Changes to the Biosecurity System Entry Levy**

8. Proposal 2 sets out, in Table 5 of the BNZ Discussion Paper, actual data for 2018/19 and forecast data for 2019/20 to 2021/22. When compared to earlier forecast information for 2018/19, it seems clear that the forecast expenditure and revenue for services for cargo were not achieved and were ambitious. For example, the forecast expenditure for 2018/19 was \$48.5m and the actual was \$36.8m, a gap of \$11.7m or almost 25%. The revenue was forecast as \$44.7m and the actual was \$35.78m a gap of \$8.92m or around 20%. Expenditure did decrease more than revenue but not enough to curb the slide of the closing balance further into deficit (\$3.47m to \$3.53m).

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9. In part, we assume this was due to a decrease in total levied consignments from the forecast 1.815 to 1.782. It is therefore unclear on what basis the currently forecast increase in levied consignments is made given it anticipates a higher increase than was forecast for last year. If levied consignments are again lower, unless expenditure can be reigned in, the forecast closing balance of negative \$3.53m could be worse.
  10. We also note that the BSEL rate increased by \$2.99 from \$17.37 in 2017/18 to \$20.36 (17% for the 2018/19 period) and \$2.64 to \$23 (11.5% in 2019/20). The forecast is an increase of \$4 (17%) for 2020/21 and beyond.
  11. The solution beyond the increase in the BSEL is to rely on increases in levied consignments and the Crown contribution for low-value goods to contribute the difference. There is a real risk that the forecast deficit for 2020/21 of \$0.30m will not be achieved and the deficit may actually be higher.
  12. In the absence of any additional information, NZFGC supports the increase in the BSEL.

#### Proposed BSEL Cap

13. Two options are proposed in relation to the cap, \$30 (11% above the proposed BSEL rate) or \$35 (30% above the proposed BSEL rate). The cap simply means that the Director-General can reset the levy rates in future years through the normal BSEL process. We note the cap set last year has not lasted a year. We therefore support the higher cap of \$35 noting this will not have an immediate impact on proposed rates.
14. Under the alternatives considered, it is suggested that the only way to avoid an increase to the BSEL in 2020/21 is for MPI to reduce expenditure attributable to the levy through a reduction in frontline staff. This would not seem to be the only way. Another way would be to defer in part or in full the planned investment around the Biosecurity systems that support frontline staff. While it is important to establish and maintain improvement programs, in the current economic climate, these could be slowed or deferred.

#### Impact of proposed levy rates on business

15. The proposed increase in this levy rate coupled with expected increases in all the other imposts on importing present cumulatively a significant negative impact on many businesses particularly small to medium businesses.

#### **Proposal 3 – Updates to number of fees for border Biosecurity Services**

16. The proposal is to increase the hourly rate from \$102.27 to \$138 per hour. NZFGC considers a 35% increase in the hourly rate in a single year to be excessive and we do not support the increase. With a flattening economic outlook, this is not the time to make such a significant increase and we strongly recommend the increase be spread over 3 years to allow the balance of the memorandum accounts to trend towards zero over a longer period.
17. The only alternative option considered in the BNZ Discussion Paper (p17) was the status quo. An increase of less than 35% was not considered in the paper and we consider this to be a serious omission. We recognise that some sectors may consider the charges acceptable as a means of protectionism. This is not a rationale for supporting significantly higher fees.
18. It is not clear why a 35% increase in a single year in these fees will NOT have a material impact on industry or business-level profitability. Extracting a further \$14m from industry is likely to have an impact, the extent of which will vary across businesses.

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19. We recognise the critical importance of the role of Biosecurity New Zealand in protecting New Zealand but this has been as critical over the previous 5 years during which time no adjustment was made to the fees even though the deficit was growing. We strongly recommend a phased fee increase and annual reporting to provide updated information on progress towards returning the memorandum accounts to positive.