14 February 2022

Cost Recovery Directorate
Ministry for Primary Industries
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Email: costrecovery@mpi.govt.nz

Dear Sir/Madam

Attached are the comments that the New Zealand Food & Grocery Council wishes to present on the *Proposed changes to cost recovery in MPI's Food System: MPI discussion Paper No. 2022/01.*

Yours sincerely

Katherine Rich
Chief Executive

Proposed changes to cost recovery in MPI's Food System: MPI discussion Paper No. 2022/01

Submission by the New Zealand Food & Grocery Council

14 February 2022

NEW ZEALAND FOOD & GROCERY COUNCIL

1. The New Zealand Food & Grocery Council (**NZFGC**) welcomes the opportunity to comment on the *Proposed changes to cost recovery in MPI's Food System: MPI discussion Paper No. 2022/01*.

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.

THE PROPOSAL

3. MPI is proposing changes to a range of services/areas associated with the Food Act 2014. NZFGC's interests particularly concern the reset to fees and levies:

Change	Current rate (excl. GST)	Proposed rate (excl. GST)	Percentage increase/decrease
Proposals to reset fees and levies			
1 – Decrease export wine levy	$0.01 / litre	$0.0055 / litre	45% decrease
2 – Increase export fish levy	$1.12 / tonne	$1.55 / tonne	38% increase
3 – Increase circuit verification fee rate	$176 / hour	$230.50 / hour	31% increase
4 – Increase export bee levy	$1005.70 / annum	$2443.00 / annum	143% increase
5 – Decrease domestic bee levy	$471.80 / annum	$308 / annum	35% decrease

OVERARCHING COMMENTS

4. Of greatest concern with the reset to fees and levies is the high percentage of change particularly increases. In the current tough trading and pandemic environment, for businesses to sustain increases of 30+ to 140+% is extremely disappointing. The severe cost impacts of freight (domestic and export) combined with employee impacts and difficult trading in key markets being faced due to the continual variations of the pandemic is not the time to make what we consider to be punitive increases in the levies, particularly for export.

5. In summary, our position is to oppose the one-off and significant increases from 2022/23 being proposed to recoup deficits that have accrued over time for the wine, seafood and bee sectors and as is also proposed for circuit verification.

6. It is of great concern that MPI has allowed significant deficits (and surpluses) to build up before reviewing cost recovery arrangements. Section 202 of the *Food Act 2014* states clearly that cost recovery charges must be reviewed "at least once in every 3-year period" (NZFGC's emphasis) and not every third year. Reviews could be more frequent. We strongly recommend that MPI review any deficits/surpluses **annually** in future, to avoid the significant changes for paying back surpluses and recovering deficits as well as to address the equity issues and frustrations that occur when deficits and surpluses are left to buildup.

DETAILED COMMENTS

Wine

7. NZFGC supports the decrease in the export wine levy as set out in Option (2).

8. We strongly recommend that the accumulation of surpluses and deficits be monitored more closely over time (annually) and rather than leave a levy untouched for 6 years, MPI should make a smaller adjustment in say 2-3 years. This is especially important since the proposal for a levy rate of $0.0055 (45% reduction) is still expected to deliver a surplus in year 1.

Fish

9. NZFGC supports aiming to recover future costs **and** the accumulated deficit but does not support a 38% increase in the export fish levy (Option 1). A graduated increase along the lines of Option (1c) is favoured but with a more even percentage increase of 30%, 35% 35% over 3 years (30/35/35) or 30/30/40.

10. Although MPI considers that deferring expenditure to later years, as under Option (1c) seems likely to increase the risk of unfairly charging small volume exporters, this assumes that the attrition in 2019/20 to 2020/21 will be replicated in future years. It also assumes that these participants have been long term and have not been opportunistic exporters in the period, moving on to other business opportunities after trying the export fish business.

11. A number of the points we make in relation to circuit verification and bees apply equally to fish: setting graduated changes in regulation at the outset to reduce administration costs; risk of operator mistakes or confusion is supposition since operators manage with many other changes especially for exporting businesses which manage well with regular changes to e-Cert charges; changing charges are part of good accounting practice and we believe, mistakes could be very low.

12. The severe cost impacts of freight combined with difficult trading in key markets and the domestic issues being faced with the pandemic is not the time to make a punitive increase in the export levy.

Circuit verification

13. NZFGC does not support a one-off 31% increase in the circuit verification fee, Option (1a). While MPI presents this as the most efficient, and its usual position on levy changes, these are unusual times, in the midst of a wave of the Omicron pandemic. It is harsh for industry in this year, as we enter the peak of the Omicron wave and the issues being faced by companies, particularly small companies, at this time. It is too easy to suggest that there are other tools that Government is applying to assist businesses. That is not the point and does not give credence to penalising businesses in this area.

14. Our preference would be to support adjustments over time but at a 30/30/40 or a 30/35/35 sequence (variations of Option (1b)) so as to better smooth recovery of the accumulated deficit.

15. We agree that the regulations would only need to be changed once for a one-off charge. However, this could also be the case for a graduated change if the graduations were included in the regulations at the outset. These would then not have higher administration costs for MPI if the changes are in regulations from the outset.

16. We do not agree that there would be mistakes or confusion by operators. Operators manage with many other changes and it is supposition that mistakes and confusion will occur. This would especially be the case for exporting businesses which manage well with

regular changes to e-Cert charges. Many charges, including circuit fees, are part of good accounting practice and we believe, mistakes could be very low.

17. In terms of equity, we understand that the operators in, for example, the poultry industry are relatively stable over time so those having accrued the deficit will be those paying it back over time.

18. It is of great concern that yet again, MPI has allowed a deficit to build up and we strongly recommend that MPI review any deficits/surpluses **annually** in future to avoid the significant changes, pay backs, equity issues and frustrations that leaving deficits and surpluses to build generates.

Bees

19. NZFGC supports the reduction in the bee domestic levy from $471.80 per annum to $308 per annum.

20. NZFGC strongly opposes the significant 143 percent increase in the export bee levy from $1005.70 per annum to $2443.00 per annum.

21. MPI has not provided a sufficient explanation for the reason the domestic account is in surplus or of the reasons for the significant increase in the export bee levy. We do not believe the principles of transparency and justifiability (which underpin MPI's cost recovery programme) have been applied in relation to the export bee levy.

22. The consultation document appears to use data that does not fairly reflect average production levels but rather is based on a record honey production year. If production fell, the export bee levy would need to rise even further in the future as a significant deficit could accrue over time.

23. MPI has requested feedback on whether to keep the export bee levy to a single charge per operator, or a levy per tonne. It is not clear to the industry how a levy per tonne option would work and neither we, nor the apiarists (Apiarists New Zealand – **ApiNZ**), have therefore not been able to properly evaluate this option against the single charge.

24. We understand that ApiNZ is concerned about the incorrect allocation of expenditure on export standards to the domestic standard, and the unexpected addition of a large amount of expenditure on developing and maintaining bee product standards that had been overlooked in the past. If prospective charging for standards development has not been signalled clearly and unambiguously in the past, then recovering those past costs should not be pursued.

25. While we appreciate the need for MPI to recover the costs of its services over time, MPI needs to act in a consistent, fair and transparent way that does not result in the addition of sudden and unexpected costs.

26. As noted above NZFGC is concerned about the current trend of large intermittent increases (and decreases) when fees are reviewed. Where surpluses and deficits are building, then levy/service fee reviews should be conducted **annually**. We recall that e-Cert charges, especially at the outset, were initially reviewed every quarter to ensure memorandum accounts remained within acceptable positive/negative levels over time. Leaving levy reviews for lengthy periods then reacting with large levy increase/decreases and surplus refunds or deficit recovery should simply not be occurring to the extent that it is now.