



SUBMISSION

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TO:

The Ministry for Primary Industries

ON:

Developing a Cost Recovery Framework for the Ministry for Primary Industries

MPI Discussion Paper No: 2016/07

BY:

Beef + Lamb New Zealand Ltd



1. About Beef + Lamb New Zealand Ltd

- 1.1 Beef + Lamb New Zealand (B+LNZ) welcomes the opportunity to provide feedback on these proposals described in the MPI Discussion Document – Paper No: 2016/07 (henceforth the ‘Consultation Document’ or the ‘Proposals’).
- 1.2 Beef + Lamb New Zealand (B+LNZ) is the farmer-owned organisation representing New Zealand’s sheep and beef farmers. B+LNZ is funded under the Commodities Levies Act 1990 through a levy paid by producers on all cattle and sheep commercially slaughtered in New Zealand.
- 1.3 B+LNZ represent around 12,300 commercial farming businesses, creating around 35,000 jobs (wages, salaries and self-employment) in the sheep and beef sector. Around three quarters of pastoral land and just under a third of New Zealand’s total land area is used for sheep and beef farming. Sheep and beef exports are New Zealand’s second largest goods export earner.
- 1.4 The export value of the sheep and beef sector (the sector) was \$8.6¹ billion for the year ending December 2015, making it New Zealand’s second-largest goods export earner, accounting for approximately 18% of New Zealand’s overall goods export earnings for the year.
- 1.5 B+LNZ’s purpose is to help sheep and beef farmers make informed business decisions and promote their collective interests. B+LNZ supports farmers through investing in research and development, developing farm and farmer capability, and delivering knowledge to drive farm performance. B+LNZ advocates on behalf of New Zealand sheep and beef farmers and provides advice on issues affecting the sector, including trade, market access, environment, health and safety, technical and regulatory issues. B+LNZ’s role is to also build sector confidence and profile.
- 1.6 The contact for this submission is:
- Dr Chris Houston
 Manager – Technical Policy
 Beef + Lamb New Zealand Ltd
 PO Box 121
 Wellington
 Email: chris.houston@beeflambnz.com

2. Background

- 2.1 B+LNZ supports the intent of this first principles review to ensure a strong and consistent foundation for cost recovery across MPI and is pleased that the Ministry has sought to align its approach with the Treasury and Office of the Auditor-General Guidelines.
- 2.2 The New Zealand red meat industry, comprising farmer producers and meat processing companies, pays more for MPI’s services that are subject to cost recovery than any other. In 2014/15 these totalled approximately \$36.6 million.
- 2.3 In many cases, farmers pay for these charges via direct deductions from returns received from meat companies for animals slaughtered. Because these activities occur at meat processing plants, it has previously been considered satisfactory for engagement about the delivery of these services to occur primarily between the meat companies and MPI. However, given that the deductions and costs are the same for each company on a per head basis, this is effectively a cost borne by producers.
- 2.4 New Zealand agriculture receives the least support among any OECD country². B+LNZ is concerned that moves to extend cost recovery for the comparatively few services that MPI undertakes that benefit the sector will further erode the competitiveness of our exports in international markets.
- 2.5 B+LNZ notes that MPI intends to consult separately on plans to develop a cost recovery regime to support the Government Industry Agreements (GIA) on biosecurity readiness and response. We look forward to seeing these and discussing them with officials when available.

¹ Total from Global Trade Atlas

² Organisation Economic Cooperation and Development. Agricultural Policy Monitoring and Evaluation 2016

3. Objectives and principles

- 3.1 B+LNZ supports the four principles – equity, transparency, efficiency and justifiability – as the basis for MPI's cost recovery. We are, however, disappointed that accountability has been omitted.
- 3.2 Specifically, we believe that MPI should be accountable to those who pay for services it undertakes. This is likely to be most practically achievable for services deemed to be club goods, where organisations representative of the beneficiaries or exacerbators exist.
- 3.3 We propose that for club goods, affected industries must be afforded the opportunity to participate in decision making about prioritisation and delivery of the services they are paying for, and to share information and intelligence relevant to that service.
- 3.4 Accordingly, B+LNZ believes that, in addition to the four principles that underpin its cost recovery activities, MPI should, with stakeholders, develop a list of rights / entitlements that those subject to cost recovery can expect to receive.

4. Developing policy

- 4.1 Section 4.1 describes standard definitions of private, club and public goods and acknowledges that most services MPI undertakes have some element of public good. The Consultation Document then states: *'We think it will usually be more equitable for those receiving direct benefits to pay for the services rather than the taxpayer. This approach may also encourage people to use the service only when benefits outweigh costs.'* B+LNZ disagrees.
- 4.2 First, it is not equitable for the general public to free-ride on services that are solely paid for by industry. Secondly, for the sorts of services (e.g. biosecurity readiness) which may take the form of club goods it is highly unlikely that charging the club will dis-incentivise use of the service.
- 4.3 The description of public good provided in table 4 which implies that a public good is one where *'everyone receives direct benefits'* is far too restrictive – in effect this excludes practically all Government services except domestic and external security.
- 4.4 B+LNZ agrees that determining the share of benefits and / or risk exacerbation attributable to industries and the public is challenging but a principled, standardised method for doing this must be found.
- 4.5 Section 4.13 states that the key considerations for apportioning costs between groups are efficiency and practicality. However, B+LNZ insists that considerations of equity are also very important, and that MPI should not charge industries merely because they represent the most convenient beneficiary. Policy developed in the GIA context may be applicable here, where MPI has acknowledged that it will contribute the shares of other beneficiaries (either public, club or private) where it is considered impractical to recover costs from them.
- 4.6 It is encouraging to see that in table 5, MPI proposes that exceptions to cost recovery include where *'cost recovery has a significant negative effect on market participation, innovation or competition, there may be a case for partial or temporary reduction in charges'*. As described above, New Zealand agriculture is the least supported compared with other major producers, who enjoy direct assistance and/or government services provided without charge. In this situation, extra costs imposed in New Zealand must be absorbed rather than passed onto consumers – the Consultation Document is deficient in not acknowledging this reality.
- The potential for the competitiveness of the red meat industry to 'die a death of one thousand cuts' brought about by numerous cost or regulatory imposts, each one in itself viewed as being manageable, is a strategic issue the Government must seriously consider.**
- 4.7 It is helpful that in Table 6, MPI provides indicative examples of the application of the proposed funding policy to its services. Whilst understanding and accepting most of the examples presented, B+LNZ does not agree that biosecurity screening and clearance should be considered a club good, owing to the broad range of risks that these procedures manage, including many to the natural environment and public health.
- 4.8 Concerning compliance activities, MPI will be aware that farmers (via meat processing companies) currently pay for the annual on-farm verification survey, which has the principal purpose of supporting official assurances provided to the European Union. This clearly has a trade benefit for which cost recovery from the red meat sector is accepted.

- 4.9 However, B+LNZ would be extremely concerned to see MPI move towards seeking cost recovery from farmers or meat processors for animal welfare compliance and enforcement activities. Whilst acknowledging that New Zealand's reputation does have some elements of club good, there is strong domestic public support for ensuring that adequate standards of animal welfare are maintained and that these activities have the characteristics of a public good, similar to general policing.

5. Which costs should be recovered?

- 5.1 B+LNZ is pleased to see that on page 19 MPI notes: *'The principle of justifiability means we should, as much as possible, only charge the service user for the costs we incur in actually providing the service. The relationship between costs of the service and charges should also be transparent enough to enable scrutiny (particularly of indirect costs), and encourage incentives for improving service performance.'*
- 5.2 In section 4.2.1., MPI states that it is inappropriate for the government to share the costs of activities where there is both public and private benefit. The reasons cited are that cost sharing is difficult and that costs can merely be passed onto consumers. It is then acknowledged that sometimes it is appropriate, referring to GIA.
- 5.3 In this regard, MPI's position is contradictory and unprincipled. As described above, for exporters competing with producers not subject to similar charges extra costs must be absorbed rather than passed onto consumers. In any case, this position fails the founding principle of equity where MPI is seeking to absolve itself from properly recognising, on behalf of the public, the public good benefits from these services. This equates to expecting farmers to subsidise the public.
- 5.4 The development and operation of NAIT, GIA and the National Pest Management Plan for Bovine Tuberculosis are examples where cost sharing has been based on a mix of public and private (club) benefits. B+LNZ will strenuously oppose any fees, charges or levies imposed on sheep and beef farmers, either directly or indirectly, for services where significant public benefit is identified and this is not reflected in cost sharing.
- 5.5 To meet the principle of transparency, B+LNZ agrees with MPI that it will need to develop better systems and processes for characterising and recording the costs of its activities. This is particularly important noting that MPI is a monopoly provider of services, which by its nature, does not therefore face the challenges to improve efficiency that would otherwise exist in a competitive environment.
- 5.6 We further agree that particular care needs to be taken with respect to indirect costs for services to ensure that only those overheads associated with the service provided are included. In this regard, we reject the definition of indirect costs as all those overheads *"required in order for MPI as a whole to function effectively"* (section 4.2.4), as this is likely to include a variety of functions, e.g. communications, Ministerial services etc. that contribute little to the operation of the services provided.

6. How should charges be designed?

- 6.1 B+LNZ supports that charges should be designed to be simple to understand, predictable, inexpensive to administer and ensure transparency, as described in section 4.3. However, we fail to see why limiting variation in costs between users should be a key consideration, as this should be determined by the degree of benefit or use of a service (depending on the context). Unfortunately, we do not have any idea what is meant by *'Which party will pay if the service delivery is not efficient (the efficiency risk)'*
- 6.2 In future, B+LNZ wishes to see MPI require that these key considerations AND the founding principles described earlier (equity, transparency, efficiency and justifiability) are acknowledged when fees, charges or levies are designed under any act that the Ministry administers.
- 6.3 Recently, and with MPI's support, the revised National Pest Management Plan for Bovine Tuberculosis was approved, including the 'differential cattle slaughter levy' (DCSL). The DCSL was included to allow the dairy industry to pay its share of the TB Plan costs by placing a disproportionate amount of the impost onto cull dairy animals. The simple and efficient alternative of a levy on milk solids was dismissed as unacceptable to dairy industry representatives for reasons that did not include the key considerations presented in the discussion document.
- 6.4 The DCSL is a lamentable example of where considerations of equity, efficiency and transparency (three of the four founding principles for the proposed Cost Recovery Framework) came second to the preferences of a large industry organisation. B+LNZ hopes that the Cost Recovery Framework will, in

future, provide a sound platform that will enable MPI to better champion the principles of good public policy than has occurred with the DCSL.

7. Management processes

- 7.1 As an organisation established under the Commodity Levies Act (1990), B+LNZ agrees with MPI that 'Compared with other types of charges, levies are less transparent as there is often not a clear link between the use of specific services and the levy payer. This means it is important to provide information on what activities are being funded using the levy' (page 25).
- 7.2 B+LNZ notes that section 5.1.4. describes the consultation obligations incumbent upon MPI when developing specific proposals for cost recovery. These may be appropriate for fees charged directly for services but fall short of the engagement necessary and appropriate when applied to levies placed on whole industry sectors.
- 7.3 With reference to biosecurity readiness and response, officials have repeatedly suggested that sectors subject to cost recovery, i.e. outside the GIA framework, will be denied the opportunity for information sharing and any significant input into prioritisation, decision making and reporting of performance. B+LNZ believes this is inconsistent with the principles articulated in the Consultation Document and would like the Ministry to clarify its position on this as soon as possible.

8. Recommendations

- 8.1 B+LNZ recommends that MPI works with stakeholders to develop a principled and standardised process for determining the share of benefits and / or risk exacerbation attributable to industries and the public associated with the services for which it is seeking to recover costs.
- 8.2 B+LNZ recommends that MPI works with stakeholders to develop a 'charter' or list of rights/entitlements that those subject to cost recovery can expect to receive.
- 8.3 B+LNZ recommends that MPI invests in developing systems and processes for quantifying and reporting on the performance and costs of the activities and services it undertakes.