



Review of Live Animal and Germplasm Export Certification Charges

Proposed changes to the Animal Products (Fees, Charges,
and Levies) Regulations 2007

Submissions Analysis

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Executive Summary

In 2010, MAF reviewed charges for live animal and germplasm export certification services according to the requirement of the Animal Products Act 1999 and Government guidelines to review charges in the public sector at least every three years. The charges for these services are set in the Animal Products (Fees, Charges, and Levies) Regulations 2007 (the 2007 Regulations).

The 2010 review identified a significant under-recovery of costs incurred by MAF in providing the services to exporters of live animals and germplasm and some gaps in charging for cost-recovered activities. By the end of the 2009/10 financial year, the deficit in MAF's cost recovery for those services reached \$575,000 or 64% of actual costs. The areas of largest under-recovery were market access maintenance and export standards and systems.

MAF released a discussion paper, *2010 Review of Live Animal and Germplasm Export Certification Charges* for public consultation on 30 March 2011. The discussion paper outlined four options for cost recovery for MAF's services in the areas of largest under-recovery, proposed other changes to charges under the amended regulations and invited feedback from all affected parties.

Consultation on the proposed changes to the 2007 Regulations took place over four weeks and included three workshops with live animal and germplasm exporters in Hamilton, Palmerston North and Ashburton. The main industry association and representatives of several sectors of the live animal and germplasm export industry made submissions and provided feedback on the proposed changes and options for cost recovery.

This document summarises the issues raised in the submissions and MAF's position on these issues.

As a result of consultation, MAF has formulated the preferred option for recovering the costs of the service provision in the two areas of largest under-recovery.

MAF recognises that achieving full cost recovery in one step would require significant (multi-fold) increases in unit fees, which would be untenable for many exporters' current business and any expansion into new export markets. In formulating the preferred option, MAF has taken into account submitters' suggestions, feedback from consultation workshops and the proposal of the Live Animal and Germplasm Trade Association on methods for apportioning costs to user sectors and calculating unit fees.

The preferred option is partial cost recovery via unit fees and no export system fee. The target revenue from unit fees is just over \$0.5 million per annum. Unit fees for some export categories have been re-calculated based on suggestions from submitters representing several live animal and germplasm export sectors.

In the next review MAF expects to progress to full cost recovery of export certification and official assurance services provided to exporters of live animals and germplasm.

Cabinet has approved an amendment to the 2007 Regulations to ensure that export-related services are adequately cost recovered in an equitable manner.

Introduction

The Ministry of Agriculture and Forestry (MAF) is responsible for official assurances and export certification of live animals and germplasm exported from New Zealand. Charges for these services are set out in the Animal Products (Fees, Charges, and Levies) Regulations 2007 (the 2007 Regulations).

In 2010, MAF reviewed the cost recovery levels and charges for live animals and germplasm export certification services in accordance with the Animal Products Act 1999 and Government guidelines to review charges in the public sector at least every three years.

The 2011 review identified a significant under-recovery of costs of the service provision, lower than forecast revenue from unit fees, considerably increased costs of maintaining an upgraded regulatory regime, and some gaps in charging for cost-recovered activities.

On 30 March 2011, MAF released a discussion paper, *2010 Review of Live Animal and Germplasm Export Certification Charges* outlining the results of the review and proposed changes to charges for MAF's export certification services set in Schedule 1 Part 8 of the 2007 Regulations.

The main proposed changes were for the two areas of largest under-recovery - market access maintenance and export standards and systems. MAF proposed four options for recovering the costs of the service provision in these areas:

- **Option 1:** Full recovery of costs of providing services through unit fees only.
- **Option 2:** Full recovery of the costs of the service provision in the two areas via unit fees plus an export system fee per shipment.
- **Option 3:** Partial cost recovery of the service provision in the two areas, with capped increases in unit fees and the Crown covering the shortfall in revenue from cost recovered activities.
- **Option 4:** Partial cost recovery with the Crown covering the same level of shortfall as under Option 3, and recovery of the costs of services in the two areas via unit fees plus an export system fee per shipment.

The discussion paper also included proposals to:

- increase an hourly rate charge for negotiating new market access or alternatives to existing market access requirements;
- increase an hourly rate charge for verification and other veterinary functions and activities necessary for the export of live animals or germplasm;
- introduce call-out charges for inspection and verification work outside normal working hours; and
- extend the existing fees and charges for recognitions and approvals under the Official Assurance Programme to the new Export Laboratory Programme.

MAF invited feedback from all interested parties on the changes proposed in the discussion paper and allowed four weeks for consultation and submissions. This analysis provides a summary of the issues raised in the submissions and MAF's response to them. The number in square brackets [] indicates the number assigned to the submission in which the issue was raised.

CONSULTATION AND STAKEHOLDER FEEDBACK

Consultation on the proposed changes to export certification charges under the amended 2007 Regulations took place over four weeks from 30 March to 28 April 2011. MAF published the discussion paper on its website and notified over 7,500 subscribers to the Biosecurity New Zealand exporters/importers web pages about the consultation process. Over 100 individual

e-mails were sent to exporters listed in the Animal Exports Team customer database and the main stakeholder groups including members of the Livestock and Animal Germplasm Trade Council.

During the consultation period MAF conducted three workshops for industry and the public in Hamilton, Palmerston North and Ashburton (11-13 April 2011) to discuss proposed options, answer questions and identify major issues. The workshops attracted about 20 industry representatives and produced quality discussions and valuable feedback on the proposed options for cost recovery.

MAF received nine submissions by the end of the consultation period. While providing comments on particular changes proposed in the discussion paper, submitters also commented on the overall costs associated with export of live animals and germplasm and meeting overseas market access requirements. Only three of nine submitters provided direct responses to the discussion paper questions on specific impacts of the proposed changes on their business.

The majority of submitters were concerned about significant increases in unit fees for most export categories required for full cost recovery, as well as escalation of other regulatory and compliance costs. The submitters also raised issues of the required level of MAF's service delivery and complained about the complexity of the existing export certification system, multiple charges by different agencies involved in verification and assurance of live animal and germplasm exports, and increased compliance requirements.

Feedback from consultation with the live animal and germplasm export industry indicated industry's preference for applying unit fees only, without an export system fee, to recover MAF's service costs in the two areas of largest under-recovery - market access maintenance and export standards and systems.

PROFILE OF SUBMITTERS

MAF received nine submissions from five stakeholder groups. These groups represent several sectors with interests in export of live animals and germplasm as well as a primary industry association.

Of the nine submissions received by MAF:

- two were from the bee keeping sector;
- one was from the equine semen sector (a large exporter of equine semen);
- two from the livestock breeding and germplasm sector;
- one from the poultry breeding and germplasm sector;
- one from a commercial exporter of birds;
- one from the live animal and germplasm industry association; and
- one from a primary industry association.

1. Cost Recovery Principles

Five of nine submitters commented on proposed changes to cost recovery for live animal and germplasm export certification services with reference to the cost recovery principles of equity, justifiability and transparency.

1.1.1 EQUITY

Submitters comments

One submitter [3] considered that it is not equitable to charge the same unit fees when there are two exporters, one shipping small volumes of expensive animals to 10 countries and another shipping large volumes of cheap animals to the same countries.

One submitter [5] considered that the proposed collection of bovine embryo unit fees is wide of the mark in respect to equity and needs particular attention. While understanding that free-on-board values alone cannot be the basis of unit fees, the submitter believes that they must be taken into account in setting of fee to avoid severe harm to a particular sector. The submitter also noted that export of livestock embryos has a greater strategic value and benefit to New Zealand in the long-term than the very modest trade revenue created in the short-term.

Another submitter [8] acknowledged that it is difficult to design a fair and equitable system under which one method of cost recovery fits all exporters and export commodities. Live animal and germplasm exports are a collection of dissimilar industries with export commodity items that vary in free on board value from a few to perhaps a million dollars.

This submitter further noted that bovine semen exports have tangible benefits to other exporters who sell their products in the same markets. This has direct benefit to “New Zealand Inc” and provides a basis for continuing financial support from Government in the live animal and germplasm exports area.

The same submitter also commented that live animal and germplasm exporters do not receive a fully dedicated service from the Animal Exports Team, which is also the guardian of the importing country’s health status. While this may be understandable, the arrangement implies a public good position by MAF in applying any export regulation.

MAF response

All exporters selling their products in international markets are direct beneficiaries of a government agency’s services ensuring access to those markets. The Animal Products Act principle of equity requires MAF to ensure that funding of MAF’s export certification and official assurances services is sourced, as far as practicable, from the exporters using or benefiting from these services, at a level commensurate with their use or benefit from the service.

Exporters’ decisions to sell products in particular overseas markets are commercial decisions based on their evaluation of costs and benefits of doing business in those markets. Exporters are well placed to decide if the value of a product they send to an overseas market outweighs the costs of getting the product to that market or whether this product’s export is viable.

A unit charge for an exported live animal or germplasm reflects the costs incurred by MAF in ensuring access to overseas markets for that particular animal species or germplasm. The costs of ensuring market access for one and the same animal species are not defined by the

value of this animal species in a particular market or its market size, but rather by the amount of MAF activities associated with providing official assurance for this animal species to meet overseas competent agencies' requirements.

Unit fees for all export categories have been calculated on the basis of costs incurred by MAF in providing the services to particular live animal and germplasm sectors and the cost of activities related to a particular animal species or its germplasm. The revenue from unit fees is expected to cover MAF's costs of maintaining market access and supporting export standards and systems.

1.1.2 JUSTIFIABILITY

Submitters comments

One submitter [5] considered that it was not fair or justified that MAF had very high expenses relating to particular export centres or projects which, in effect, the rest of the sector has to retrospectively pay for.

Another submitter [4] questioned justifiability of MAF's collection of \$28,000 per annum in unit fees from bee exporters in the previous period and asked if the bee exporters should be applying for a refund since the estimated costs for the next three years are \$14,000 per annum.

MAF response

In the 2010 review, MAF did not seek to address under- and over-recovery of the service costs retrospectively. The proposals in the discussion paper were to set fees and charges that would only meet the reasonable costs incurred by MAF in providing the services to exporters of live animal and germplasm. The proposed fees and charges therefore meet the Animal Products Act requirement of justifiability.

MAF intends to implement memorandum accounting for the live animal and germplasm export certification services starting from the date when the new fees and charges under the amended 2007 Regulations come into effect. Memorandum accounts will allow to carry forward any under- or over-recovery of service costs into subsequent years and adjust fees and charges accordingly in the next review. Any over-recovery of the service costs from a particular sector will be returned back to the sector via lower fees in the next review; and *vice versa* any under-recovery of costs will be recovered through higher charges in the future.

1.1.3 TRANSPARENCY

Submitters comments

One submitter [5] was concerned about transparency of allocation of MAF costs related to the upgrade of the Official Assurance Programme in response to the audit by the Food and Veterinary Office of the European Union (the EU Food and Veterinary Office), which demonstrated structural shortfalls in the New Zealand system. The submitter wanted to make sure that firstly, this was a one-off cost and the costs should not be transferred to future years. Secondly, the submitter considered the allocation of costs should not be even between live animals, semen and embryos, but more related to the size of each of the three export sectors.

Another submitter [6] disputed that the principles of accountability and transparency were applied or achieved because out of 6500 allocated hours only 1027 (16%) hours were accurately recorded and used as the basis for the calculation of unit fees for each commodity.

The submitter considered that such badly recorded data should not be the basis of a whole cost recovery system.

The same submitter expressed an opinion that industry needs to be more proactive in monitoring and requesting full accountability from the service provider (MAF) so that MAF becomes more cost efficient and effective at its service provision. The submitter suggested that this could be achieved by insisting on six-monthly (or similar) financial reporting back to stakeholders via the Live Animal and Germplasm Trade Advisory Council along with continual monitoring of activities and their necessity against the goals and requests of industry. The submitter's view was this would be far better than the current model where the industry effectively receives a statement in arrears after three years and has to fight to pick up the pieces.

MAF response

MAF costs have been identified and allocated by export category at a level that corresponds only to the reasonable costs of providing the service for each export category or animal or germplasm species. For example, the costs were allocated and identified separately for bovine, cervine, porcine, ovine and caprine semen, and for bovine, cervine, ovine and caprine embryos. This has enabled MAF to easily implement the industry-proposed groupings of these export commodities into new unit fee categories proposed for cost recovery under the amended 2007 Regulations.

MAF therefore has met the Animal Products Act principle of transparency that requires identifying the costs of the service provision as closely as possible to the activity areas where the costs have been incurred and to the period in which they have been provided. The estimates of the future costs of the service provision in the next three years are based on the expected costs of supporting the upgraded regulatory regime and maintaining adequate export standards and systems.

However, the 2010 review has identified that MAF's cost tracking and charging systems need to be tightened up. MAF has already started discussing its work priorities and activities with the Live Animal and Germplasm Trade Advisory Council at their quarterly meetings. In addition, a joint working group is proposed under the auspices of the Live Animal and Germplasm Trade Advisory Council that will look at MAF's costs, work and revenue streams before the next review.

1.2 BIOSECURITY FUNDING REVIEW

One submitter [9] requested clarification around the justification for including Market Access Maintenance as a cost-recovered activity. The submitter pointed out to the findings of the 2005 Biosecurity Funding Review¹ that the Crown should continue funding "plurilateral ...and general bilateral work" and "policy and technical advice to government". The submitter considered that activities around maintaining market access are part of MAF's core business and should come under the heading of "general bilateral work". Therefore, they should be fully funded by the Crown.

¹ Future Funding of Biosecurity Services - Biosecurity New Zealand Discussion Paper No: 04/01
<http://www.biosecurity.govt.nz/bio-strategy/papers/biosecurity-funding-review.htm> #P147_11406

MAF response

Activities in the service area of market access maintenance comprise negotiations of specific market access conditions and technical veterinary specifications according to changing overseas authorities' requirements. Therefore, these are specific bilateral market access negotiations - not general bilateral work that covers negotiation of free trade agreements or/and developing closer economic partnerships.

The established policy is that actual costs of these services are recovered from users or beneficiaries as appropriate.

2. Services Provided and Current Cost Recovery Regime

Four of the nine submitters commented on the services provided by MAF and the current cost recovery regime in the context of the proposed changes to cost recovery for export certification of live animals and germplasm.

2.1 THE EU FOOD AND VETERINARY OFFICE AUDIT

Submitters comments

One submitter [6] considered that MAF had been inconsistent in the application of its own regulatory model by failing to be an effective standard setter. The consequence of this was that, following the 2007 audit by the EU Food and Veterinary Office, MAF effectively rewrote most of the official assurance programme for germplasm. In the submitter's opinion a huge amount of time was wasted by MAF that was clearly due to lack of continuity by MAF staff and management. This submitter considered that the \$850,000 plus costs spent on the redevelopment of the official assurance programme and the EU official market access requirements were one-off items and should not have been included in the assumptions about future costs for the calculation of future fees.

The same submitter [6] disagreed with MAF's view that the size of the Animal Exports Team needed to increase significantly as a result of the outcome of the EU Food and Veterinary Office audit. The submitter considered this was nonsense as the audit only related to bovine germplasm, which constitutes only about 12% of total MAF Exports Team portfolio, with EU exports being only a small segment of this. In fact, the number of current EU certificates is only four from a total of over 500 on the MAF website.

Another submitter [8] considered that many exporters would find it hard to reconcile MAF contention that the current workload requires the ongoing employment of three extra staff, making up to 6.5 full-time equivalents, when the audit by the EU Food and Veterinary Office was just about bovine germplasm.

This submitter [8] suggested that MAF needs to explain to exporters exactly what work is being carried out on an on-going routine basis that is over and above what was occurring prior to the audit.

MAF response

The Crown funded the redevelopment of the Live Animal and Germplasm Official Assurance Programme and re-approval of affected people and centres. In part this recognised the failure of MAF's system overview role that was revealed by the EU Food and Veterinary Office audit.

MAF considers that the current staffing level of the Animal Export Team matches the current and ongoing workload. MAF now discusses its work priorities and activities at the quarterly meetings of the Live Animal and Germplasm Trade Advisory Council. In addition, a joint working group is proposed under the auspices of the Council that will look at MAF's costs, work and revenue streams before the next review.

2.2 EXPORT CERTIFICATES

Submitters comments

One submitter [6] noted that charging for new market access development separately from the unit fee system was difficult for MAF to administer and resulted in massive under-recovery, as well as causing problems in industry when the ownership of official market access requirements was discussed.

Another submitter [7] commented that as far as negotiating new access is concerned, the sector was happy with the pay as you go system that has been operating for a few years.

A different submitter [9] pointed out that the beneficiaries of being granted export certificates are those exporting the live animals and germplasm. Therefore the service of issuing export certificates is in the nature of a private good and it is appropriate that those who benefit should meet the costs of providing that service.

MAF response

MAF's charging is based on who is the beneficiary of the service and assumes that that person is in the best position to determine the relative costs and benefits. Individual exporters are the beneficiaries of export certificates and are in the best position to decide whether negotiating new market access will be a good investment for them. MAF will continue to charge exporters individually for negotiating new market access and issuing export certificates.

3. Main Findings of the 2010 Review and Proposed Changes

3.1 PROPOSED OPTIONS

Submitters comments

Five submitters expressed their views on the proposed options for cost recovery and the preferred option.

One submitter [1] commented that Options 1 and 2 were virtually untenable for the company business, and Option 4 would also be very difficult. The submitter indicated that the company is unable to pass any increased charges on to their customers. The submitter strongly opposed the implementation of an export system fee.

One submitter [3] was opposed to subsidies for industry in general and considered that if an industry is not economically viable, there must be good socio-economic reason to subsidise it. The submitter does not oppose paying for services offered by MAF and believes that an explicit user-pays system is the way to go for his industry specifically. However, this submitter noted the Crown should consider subsidising the costs of service to a sector exporting animals that are pests in New Zealand because of the environmental spin-off of the business to "New Zealand Inc".

The submitter further commented that the proposed increases in fees and the competitiveness of the sector internationally, as well as other regulatory hurdles mean that realistically only about five species of aviary birds will still be exportable and these are in short supply. The submitter's view is that the net result of the increased fees will be a decrease in revenue for MAF with no corresponding decrease in expenses.

The same submitter made proposals on other methods of cost recovery. One proposal was to introduce a user-pays system, whereby the exporter pays for market access and maintenance via the hourly rate charges proposed in the discussion document. Another proposal was to introduce an exporter registration fee. The reason for this is to allow MAF to charge an appropriate unit fee for exporters who export many animals frequently and know the system and do not waste time, and another for those people who only want to send one pet parrot to Fiji and are not registered exporters.

One submitter [5] argued that the proposed unit fee increases would destroy the embryo export business and all the work over the years developing export capability for embryos, the safest germplasm vehicle, would be undone. The submitter felt that the embryo export business has been unfairly singled out in three main ways:

- inappropriately assigned costs (with live animals and semen, which have much higher numbers exported) relating to Official Assurance Programme re-development;
- over-reaction to the audit by the EU Food and Veterinary Office; and
- probable high costs assigned from massive over-expenditure around one specific exporter.

Another submitter [6] noted that the MAF proposal is based on a 'one size fits all' model, which doesn't work for the diversity of commodities under the live animals and germplasm official assurance programme. The submitter considered that MAF has ignored the major differences in volumes and value per unit and free on board values that may destroy some commodity exports.

When commenting on the preferred option, this submitter suggested using unit fees only (and no export system fee), along with a proportion of Crown funding. The submitter considered that in this case the combined revenue represents fair return for "New Zealand Inc". The submitter's view on the proposed export system fee was that most commodities covered by the Official Assurance Programme would not benefit from this approach while it would complicate the accounting system.

One submitter [9] expressed preference for the two options enabling full cost recovery (Option 1 and Option 2). Of these two options the submitter preferred Option 2, as it is likely to favor exporters of large shipments of live animals and germplasm.

MAF response

MAF agrees with the majority of the live animal and germplasm export industry submitters on the preferred option. The preferred option is a refined Option 3 which is for partial cost recovery via unit fees and no export system fee.

The policy rationale for MAF recommending a partial cost-recovery option is as follows. MAF recognizes that these costs have increased significantly, and that full cost recovery would be untenable for most exporters and may adversely impact their business and prevent expansion into new markets. This would be inconsistent with the Government's wish to see export-led economic growth. MAF therefore considers that a partial cost recovery approach

is more appropriate for the purposes of the current review, which targets a reduction in MAF's deficit in cost recovery while ensuring the charges remain equitable, justifiable and not unnecessarily high.

However, MAF intends to move to full cost recovery for live animal and germplasm export certification services in the next review.

In developing the preferred option, MAF has adopted some of the suggestions made by submitters, such as:

- taking into account the number of export certificates managed on behalf of a sector when apportioning costs to user sectors;
- the industry-proposed grouping of commodities into export categories; and
- looking at free-on-board values of exported commodities over the last 10 years for defining a cap for unit fees requiring multi-fold increases.

The target revenue from unit fees under the preferred option is just over \$0.5 million per annum with the Crown covering the shortfall in cost recovery of about \$0.25 million.

3.2 AREAS OF UNDER-RECOVERY AND REQUIRED RESOURCE LEVELS

Submitters comments

One submitter [6] considered that MAF has done a huge amount of work that is under-recovered and unnecessary and should have been monitored. The submitter asked why MAF's costs have escalated so much when the workload (i.e. output of certificates) upon which the unit fees are set has nearly halved. This submitter believes that MAF Animal Exports Team needs to scrutinize its expenditure and staffing levels and find savings.

The submitter further noted that exporters of horses, equine semen, chickens and eggs, cats and dogs have been under-contributing. In the submitter's opinion, the more the unit fees increase on low-volume commodities and drive up unit fees as a proportion to free on board values, the greater the risk of making exports of that commodity unviable, e.g. bovine embryos, sheep/deer/goat germplasm, queen bees etc.

Another submitter [7] expressed concerns about the uses to which the monies raised via unit fees would be applied, especially export standards and systems maintenance. The submitter believes that maintaining a functional computer system is what taxes are paid for.

One submitter [8] considered that following the 2007 audit by the EU Food and Veterinary Office, there was a major upheaval within MAF to address the shortcomings, resulting in many more employees engaged to complete the extra workload. The submitter was concerned that the equivalent of these costs was included in the assumptions for future work in 2011/12 and beyond.

The same submitter noted that it has not been satisfactorily explained what activities Export Standards and Systems and Market Access Maintenance actually entails.

MAF response

With the benefit of hindsight, MAF considers that its resource levels before the 2007 audit by the EU Food and Veterinary Office were inadequate to maintain live animal and germplasm export systems. Resources have increased from 3.5 to 6.5 FTEs.

Increased costs also arise from the increasing demand for operational support of trade in live animals and germplasm, including high-value and high-volume trade in livestock, horses, and their germplasm to major markets for New Zealand exports.

MAF expects that the measures being taken now to be more transparent with key stakeholder representatives will address most of these concerns. The key measures are discussing MAF's work priorities and activities with the Live Animal and Germplasm Trade Advisory Council at their quarterly meetings and holding a joint working group to review MAF's costs, revenue and work.

MAF activities comprising Market Access Maintenance work include:

- Negotiating technical market access conditions and specifications when the Animal Exports Team has been notified of a change by overseas authorities;
- Maintaining access as overseas market access requirements change over time; and
- Responding to queries from exporters.

MAF's work on Export Standards and Systems entails:

- Developing and implementing operational standards and guidance for industry, such as the New Zealand Official Assurance Programme
- Clarifying and interpreting export standards and specifications
- Reviewing the effectiveness of standards and systems
- Managing incidents and responding to events.

4. Specific Changes Proposed under Four Options

4.1 CALCULATION METHODOLOGY

Submitters comments

Six of nine submitters commented on the approach to allocating MAF service costs to industry sectors and methods for calculating unit fees.

Four submitters [4, 5, 6, and 8] suggested that the methodology of calculating unit fees should take into account the free on board values of exported commodities.

Two submitters [3, 7] did not support the idea of a free-on-board or profit-based value system for the reason that this system would not reflect the costs of providing the service, which are independent of the value of commodities exported, and could also result in incentives to under-declare the value of these commodities.

One submitter [5] commented that the proposed cost recovery options would cripple the livestock genetics sector where export markets are volatile, with surges of activity when new markets are developed and much quieter periods once the market is established. This submitter believed that allocation of MAF costs to a sector should be more related to the size of the export sector.

One submitter [4] pointed out to a large disparity between the value of two products exported, queen bees and packaged bees, and MAF charging the same unit fee for export certification of these products. The submitter indicated that the current unit fee for a queen bee was 3% of its free-on-board value and wanted to see the unit fees collected from the bee sector reduced. The submitter also commented that the current cost recovery from bee exporters was much greater than justified with high unit fees affecting the viability of queen bee exports.

The submission from the Live Animal and Germplasm Trade Association (the Association) considered that allocation of MAF service costs to industry sectors based on apportioning of time spent by MAF on market access maintenance and export certificates alone was potentially flawed and would lead to gross inequities. The submission noted that consideration of the free-on-board values of various commodities would ensure equity and avoid a situation where some sectors are penalised due to lack of understanding on this matter.

The Association proposed to use a fee calculation model combining three parameters:

- i. MAF time allocation related to market access maintenance.
- ii. The percentage of Export Certificates issued by MAF VAFP for each commodity annually (measured and reliable).
- iii. The percentage of Export Certificates for each commodity on the MAF website (i and iii are closely linked).

The Association also proposed to apply a cap to unit fees taking into consideration the free-on-board value of each commodity unit. This would make the unit fee a combination of three variables, plus a cap that affects each commodity differently and can be weighted accordingly. The Association believes that regular monitoring at least once a year by Live Animal and Germplasm Trade Advisory Council would minimize fluctuations. Commodities with low volumes of units per consignment would need slightly different weighting to account for the extra work incurred.

The Association suggested a different grouping of animal germplasm into unit fee categories as compared to that proposed by MAF in the discussion paper, for example including equine and cervine semen in the same commodity grouping as embryos of all species, and having a separate unit fee category for bovine semen. The reason for separating bovine semen was to avoid disadvantaging this germplasm export category by combining it with other commodities that have required a significantly larger amount of MAF time.

The Association proposal was to not apply Crown funding proportion under a partial-cost recovery option to either domestic cats or dogs, or other non-production animal species. The Association felt that applying partial Crown funding only to production animals would recognize the overall contribution of this sector to the New Zealand economy through exports of production-based animal genetics.

MAF response

As mentioned in section 3.1 above, MAF has adopted the method for calculating unit fees, apportioning costs to industry sectors and grouping commodities into unit fee categories that has been proposed by the live animal and germplasm export industry.

The average annual number of units to be exported in each export category was estimated using the data on live animal exports over the last six to ten years derived from the Statistics New Zealand datasets, previous live animal and germplasm funding reviews, Verification Animal and Food Products Directorate (former NZFSA Verification Agency) reports and information provided in submissions.

The revenue to be recovered via unit fees from each live animal export sector is proportionate to the costs incurred by MAF in providing the services to that sector. The costs of MAF's services to the sectors is determined 50% by time recorded in MAF's time recording database

(Time Disciple) and 50% by the number of export certificates developed by MAF for each sector since the 2007 review. For this purpose the sectors are defined as:

- Livestock (bovine, caprine, cervine, ovine, porcine, live animals, semen and embryos)
- Bloodstock (equine, live animals and semen)
- Day-old chicks and hatching eggs
- Bees
- Cats and dogs
- Other.

4.2 COSTS OF SERVICES PROVIDED BY ANIMAL EXPORTS TEAM

Submitters' comments

One submitter [1] noted that given there has been no real increase in the direct fees since 2007, they were not opposed to some sort of increase. However, the submitter considered that the increase of charge per dose of equine semen by some 4000% was frightening.

Another submitter [6] commented that MAF's model assumes that MAF staff is delivering a competent service and is an efficient service provider. The submitter argued that by making this assumption, MAF tried to justify the increased costs and increases in fees to be paid by stakeholders. The submitter felt that MAF made no attempt to look at efficiencies or lower costs and MAF expenses.

MAF response

The total cost of services provided by the Animal Export Team for the export of live animals and germplasm is projected to average \$1.157 million per annum in the next three years. This is based on the existing 6.5 full time equivalent staff and the current MAF structure that determines the organisational overheads. As stated earlier, MAF will keep this under review with the Live Animal and Germplasm Trade Advisory Council.

The review notes that the Government expects some cost savings from the amalgamation of MAF and NZFSA. However the amalgamation has not progressed to the stage where any savings could be taken into account.

4.3 FEES UNDER PROPOSED OPTIONS

Submitters comments

Most submitters were concerned about significant increases in unit fees for most export categories required under full-cost recovery options. Several submitters commented on the impact of proposed cost recovery options and specific unit fees on their business costs and overall trade in a particular live animal and germplasm export sector.

One submitter indicated that changes to fees proposed under Option 1 would increase the charges for their business by 79% and those under Option 2 by 147%. This submitter considered both options to be untenable for the equine semen export business.

One submitter [5] felt that the proposed options would disadvantage exporters of bovine embryos.

One submitter [4] commented that unit fees for queen bees had already made their export unviable except in very large numbers. The submitter considered that New Zealand queen bee exports would increase if the fees were set at something realistic such as five cents.

The majority of submitters opposed the introduction of an export system fee proposed under full-cost recovery Option 2 and partial-cost recovery Options 4. Two submitters requested that this fee not be applied to exports of germplasm and live production animals.

A submitter from the commercial birds sector commented that the export of wild-caught low-value birds such as finches had died off completely after an increase in unit fees to \$5 per bird in the 2007 Review. This submitter noted that a number of low-value birds, some of which are considered pests in New Zealand, could potentially be exported if unit fees for these birds were significantly reduced.

A submitter from the poultry sector indicated Option 3 was the best option for that sector. This submitter was against Option 1 as it would produce high costs for high-volume and low-value hatched egg exports.

MAF response

In forming a view on the preferred option, MAF has taken into account submitters' comments on the impact of changes proposed under four options on the live animal and germplasm exporters' business and their suggestions on commodity groupings and defining unit fee categories.

In defining unit fee categories, MAF has included the suggestions of the Live Animal and Germplasm Trade Association on the commodity groupings. MAF has also agreed to the proposal to set a cap for unit fees based on free-on-board values of exported commodities. Increases in unit fees under the preferred option have been capped at 1% to 2% of the current free-on-board value of the corresponding commodities.

MAF has extended the list of existing fee categories (under the 2007 Regulations) to accommodate the industry-proposed groupings by sector while reflecting significant differences in the costs of the service provision between export categories within the same sector.

As stated in section 3.1, MAF's preferred option is a refined Option 3 (no export system fee) with re-calculated unit fees and the target revenue averaging \$514,700 per annum. Under the preferred option the Crown would continue covering the estimated shortfall in cost-recovered activities of about \$254,500 per annum for three years until the next review.

MAF believes that by the time of the next review, efficiency gains from the amalgamation of MAF with NZFSA in the post-2010 review period and from the impending amalgamation with the Ministry of Fisheries would accrue to allow some cost savings across all cost-recovered areas. In the next review MAF expects to move to full cost recovery of export certification and official assurance services.

4.4 HOURLY RATE FOR ANIMAL EXPORTS TEAM DIRECT SERVICES

No specific comments were received on the proposed changes to hourly rates charged for direct services provided by the Animal Exports Team to exporters. One submitter stated that the company was happy to pay for its specific requests at the new hourly rate.

4.5 COST OF VERIFICATION AND INSPECTION SERVICES AND PROPOSED CHARGES

Submitters did not make specific comments on the proposed changes to charges for MAF's verification and inspection services. One submitter stated that the company is willing to pay the required hourly rate for the service.

5. Other Issues Raised

5.1 SERVICE QUALITY

Submitters comments

One submitter [5] commented that in general the service from MAF Biosecurity New Zealand is good overall and systems are becoming clearer and more user-friendly.

MAF response

MAF is thankful for this comment and is consciously trying to be more transparent about the wider system and improve delivery of services.

Submitters comments

One submitter [2] felt that whatever conditions other countries propose, MAF accepts without debate or challenge, while these conditions are essentially trade barriers.

MAF response

In its negotiations with trading partners, MAF pursues the minimum requirements that are technically and scientifically defensible. However, if a negotiation is being funded by an individual, that person has an opportunity to decide whether MAF should continue pursuing a particular technical point.

Submitters comments

One submitter [4] suggested that the annual exporter registration process should include a tick box to confirm that the exporter is prepared to pay for services during the following year. The submitter felt frustrated that MAF is the only service provider that requires them to agree to pay at the time each service is requested.

MAF response

MAF has received relatively few complaints about this aspect of its service and does not, at this stage, intend to change its requirements.

Submitters comments

The same submitter [4] wanted the correct allocation of costs, no double dipping and assurance that charges made are processed correctly. The submitter mentioned that the company was charged directly for the translation of the existing EU certificate into a second language. Since this work was not requested by the company and was not seen as new market access the submitter considered the request to pay for the translation as an example of "double dipping" by MAF. The submitter viewed this work as maintenance of market access and export standards, which had already been funded by the unit fee.

MAF response

If an EU country requires an export certificate in a language other than English and such a certificate does not exist, MAF considers this as a new market access work.

Submitters comments

One submitter [7] noted that any cost increases for his clients could be largely compensated with less bureaucratic rigidity in the movement of documents to NZFSA VA. Allowing documentation to move earlier would reduce costs to exporters.

MAF response

After the amalgamation of NZFSA with MAF, the NZFSA Verification Agency has become part of MAF. MAF has started streamlining the process and procedures in all areas of export certification and official assurance services that would lead to faster documentation movement in the system. MAF is also working with other parties in the export system to improve the overall system efficiency.

5.2 WIDER COMPLIANCE COSTS OF EXPORTING

Submitters comments

One submitter [1] commented on other quarantine compliance costs that have sky-rocketed, for example AsureQuality audit costs that are charged whenever equivalence or the like is to be considered, as well as costs associated with increased requirements for the work performed by centre veterinarians. The submitter noted that extra compliance costs will have a detrimental effect on the viability of their export business.

Another submitter [2] suggested that MAF should look at the potential in overseas markets, not only at its charges, and be less concerned about revenue to MAF, but more about revenue to the country as a whole. With greater export volumes, cost recovery would be spread over more businesses, with less discouragement to potential new exporters. The submitter further noted that although New Zealand bees have worldwide recognition for good quality, there is little possibility of market growth because of hindrance from MAF and AsureQuality.

One submitter [6] considered that MAF response to the audit by the EU Food and Veterinary Office was unwarranted, in that it increased the level of unnecessary compliance and the resulting levels of auditing to all sectors and commodities. The submitter called for more accountability and independent peer review of decision making on such critical issues.

Another submitter [7] expressed a view that the level of MAF charges needs to be considered in relation to all the other regulatory costs. The submitter also noted that requirement for an Animal Welfare Export Certificate is a bureaucratic pin-prick which achieves nothing, as it states that the export complies with New Zealand law i.e. is packed and shipped in accordance with IATA rules, and is accompanied by an export certificate. The submitter pointed out that many of the export certificates (also signed by NZFSA VA) already have this statement in them, but exports have to have this documentation.

MAF response

Increased compliance requirements in New Zealand are being driven by the requirements of importing countries. However, MAF is aware of the burden these requirements place on exporters and is working with other parties to minimise costs to exporters.

Appendix A: Definitions

Animal Exports Team – The group within MAF responsible for the development and negotiation of export certification procedures for live animals and germplasm.

Approvals – Confirmation by the regulator that the person or agency satisfactorily meets the legal requirements. It does not cover requirements for export approvals (these are ‘official assurances’) or any matters concerned with the statutory appointment or delegations.

Authorised person – A person employed by MAF, and authorised pursuant to section 65 of the Animal Products Act, to issue official assurances. Authorised persons may also be recognised where they are required to undertake pre-export preparation of live animals and germplasm.

Certification – Procedure by which official written or equivalent assurance is given that live animal or germplasm exports conform to requirements.

Consignment – One or a number of live animals, or germplasm, being moved from one country to another and covered, where required, by an **official assurance** (see below).

Direct cost – The portion of cost that is directly expended in providing a good or service. The cost can be traced to a given output in an economically feasible manner.

Equivalence – Equivalence to an importing country’s requirement may be requested where it can be shown on technical grounds that the requirement can be met by alternative means.

Export certificate – A certificate setting out the conditions agreed by New Zealand and the importing country to be met when exporting live animals or germplasm. Once the certificate is completed, signed and stamped by an authorised person, it becomes an official assurance.

Export Laboratory Programme – The requirements for laboratories and persons conducting the testing of live animals and germplasm for export where an official assurance is required.

Fee – A charge to an individual for a particular good or service.

Germplasm – Includes semen, embryos, ova, eggs, and broodcomb of bees.

Indirect cost – the portion of cost that is indirectly expended in providing a good or service. The cost cannot be traced to a given output in an economically feasible manner. Indirect costs can also be referred to as ‘overheads’.

Live animals – Any member of the animal kingdom. This includes any mammal, bird, finfish, shellfish, reptile, amphibian, insect, or invertebrate, but does not include human beings.

Official assurances – Certificates signed by the New Zealand Government for the purpose of assuring a foreign government about the product being exported. In the context of live animal and germplasm exports these include, but are not limited to, statements regarding New Zealand’s animal health status and the residency, isolation, health, testing, treatment and inspection status of the exported commodity. The form of an official assurance is usually an export certificate.

Official Assurance Programme – requirements for the export of live animals and germplasm where an official assurance is required.

Official Veterinarian – This is the terminology that appears on many export certificates and is used by the OIE for a veterinarian authorised to perform animal health inspections. Veterinarians authorised or accredited under the Animal Products Act can be called ‘official veterinarians’. However, only authorised persons may issue official assurances.

Recognised person – A person recognised by MAF, pursuant to Section 103 of the Animal Products Act, to undertake the verification or other specialised function or activity of live animals and germplasm (prior to 2005, the definition was ‘accredited person’).

Shipment – A number of live animals, or germplasm, of the same type, exported by the same exporter to the same importer in the same country on the same day, that may be covered by one or more official assurances.

Standard – A regulatory requirement, generally of a technical nature.

Verification – The application of methods, procedures, tests and other checks by recognised persons to confirm that the product for export complies with regulatory requirements and statements on the official assurance.

Appendix B: Recommended Changes to the 2007 Regulations

The table below shows MAF's recommended amendments to Schedule 1 Part 1 and Part 8 of the Animal Products (Fees, Charges and Levies) Regulations 2007.

Part 8		Charge (\$)
1	<i>Unit charges payable for each relevant unit to be exported</i>	
	Type of unit	
	Cats and dogs (including semen) (per animal or straw)	38.33
	Horses (per animal)	38.33
	Equine semen (per straw)	1.74
	Livestock (only bovine, caprine, cervine, ovine and porcine) (per head of livestock)	4.24
	Semen bovine (per straw)	0.07
	Semen caprine and ovine (per straw)	0.42
	Semen cervine (per straw)	3.40
	Embryos and ova (only bovine, caprine, cervine, equine and ovine) (per embryo or ovum)	3.40
	Day old chicks and hatching eggs (only poultry and ducklings) (per chick or egg)	0.0027
	Bees packages (per kilogram)	0.40
	Queen bees and bumble bees (other than packages) (per bee)	0.26
	Ferrets (per animal)	2.15
	Alpacas/ Lamoids (per animal)	33.51
	Avians (per bird)	27.45
	Finches and rosellas (wild caught) per bird	0.30
	Zoo animals	38.33
	Other animals and animal germplasm not specified above (per animal, egg, or straw)	10.12
2	<i>Hourly charges</i>	
(1)	Hourly rate (including GST) for recognised persons who are employees of the Ministry undertaking specialist functions and activities necessary for the export of live animals or germplasm:	
	(a) for each hour (excluding final part-hour)	102.20
	(b) for each 15-minute block in final part-hour	25.55
(2)	Hourly rate (including GST) for services undertaken by an employee of the Ministry, on behalf of an exporter, to negotiate with the importing country alternative measures for meeting access requirements for overseas markets:	
	(a) for each hour (excluding final part-hour)	140.28
	(b) for each 15-minute block in final part-hour	35.07
(3)	Hourly rate (including GST) for services undertaken by an employee of the Ministry, on behalf of an exporter, to negotiate new access requirements for overseas markets (except for exporters of cats and dogs):	
	(a) for each hour (excluding final part-hour)	140.28
	(b) for each 15-minute block in final part-hour	35.07
3	<i>Call-out charges for recognised persons who are employees of the Ministry undertaking specialist functions and activities necessary for the export of live animals or germplasm</i>	
(4)	Time and half rate	129.86
(5)	Double time rate	157.51
(6)	Day-off cost (Average hourly rate x 8 hours)	\$442.31
(7)	Call-out charge for a statutory holiday is a double-time hourly rate plus a day-off cost	
Part 1		
12a	Application for recognition or approval under the Export Laboratory Programme	140.30
	plus assessment charge on hourly basis specified in Part 2	