Analysis of Submissions:

Funding Review of Live Animal and Germplasm Exports

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Executive Summary

In December 2006, Biosecurity New Zealand released a discussion paper entitled *Funding Review of Live Animal and Germplasm Exports* (No: 2006/05) and invited submissions on cost recovery proposals for export services under the Animal Products Act 1999.

The primary purpose of the proposals in the discussion paper was to redistribute fees so that they are more equitable and justifiable, and allocated more closely to those exporters benefiting from the work. The overall level of cost recovery from industry will be slightly higher than in previous years due to existing shortfalls in some areas.

Ten weeks were allowed for feedback on the discussion paper. This document provides a summary of the issues raised in submissions and presents Biosecurity New Zealand’s response and modified proposals for cost recovery.

The majority of submitters objected to the increases in fees and charges and some argued that the increases may affect the viability of some export industries. Feedback from industry indicated that stakeholders were generally supportive of the need to address the issue of who should fund new market access work, although many still consider the Crown should be funding all export related services.

As a result of consultation Biosecurity New Zealand has changed its proposed option for recovering the costs of new market access work. It now recommends that this be fully funded by the exporter(s) requesting the work (except for cat and dog exports). Industries have expressed their desire to be able to make better use of their resources and this option should encourage this change. Biosecurity New Zealand agrees that this will reduce time spent on market access arrangements where trade is unlikely to occur.

In the case where more than one exporter can foresee benefits in a new overseas market access protocol, we hope that they will work together to prioritise and fund the work. This currently occurs in the plant and forestry sectors, and exporters of live animals and germplasm have already indicated their desire to begin working this way.

Since consultation Biosecurity New Zealand has also reforecast its costs and revenue for exporters of embryos and corrected the relevant fees down from those initially proposed.

Biosecurity New Zealand recommends proceeding with the remaining proposals outlined in the discussion paper.

Biosecurity New Zealand is now seeking Cabinet approval to update the Animal Products (Fees, Charges, and Levies) Regulations 2002. This will ensure that export related services are adequately cost recovered in an equitable manner.
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1 Introduction

Biosecurity New Zealand’s Exports Group is responsible for the provision of official assurances to overseas governments. These assurances relate to the zoosanitary certification of all live animals and germplasm, and the phytosanitary certification of forestry, horticultural and arable plant products exported from New Zealand.

In December 2006, Biosecurity New Zealand released a discussion paper entitled Funding Review of Live Animal and Germplasm Exports (No: 2006/05) and invited submissions on the proposals. The paper presented proposals for the funding of services associated with the export of live animals and germplasm under the Animal Products Act 1999.

Changes were proposed to:

- remove the Biosecurity New Zealand export certificate fee;
- rationalise the current export categories and revise unit fees to more accurately reflect the volume of work for each category;
- increase the Biosecurity New Zealand hourly charge from $118.13 to $132 (including GST) to offset a minor deficit in revenue; and
- increase the official assurance fee from $25 to $36 and the mileage rate from $0.61/km\(^1\) to $0.69/km (including GST) to offset a deficit in revenue for export verification activities provided by the New Zealand Food Safety Authority Verification Agency (NZFSA VA).

In addition, a major change to the funding of new market access work was proposed. Three options were presented:

1. updated status quo (the costs of new market access work are funded by industry through unit fees);
2. new market access work is fully funded by the individual exporter requesting the work;
3. half of new market access work is funded by the individual exporter requesting the work, with the other half funded by industry through unit fees (preferred option in discussion paper).

Biosecurity New Zealand met with live animal and germplasm exporters at meetings in Hamilton, Palmerston North and Christchurch. The proposed options for future cost recovery were developed as a result of these discussions.

Biosecurity New Zealand placed the discussion paper on its website and directly notified approximately 160 stakeholders from its exports database of the proposed amendments. Articles about the review and discussion paper were placed in the Biosecurity magazine.

Ten weeks were allowed for feedback on the discussion paper. This document provides a summary of the issues raised in submissions and presents Biosecurity New Zealand’s response and modified proposals for cost recovery.

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\(^1\) The discussion paper inadvertently listed the current mileage rate as $0.54/km (including GST). This should have been $0.61/km (including GST) and has subsequently been corrected.
2 Consultation Outcome

Biosecurity New Zealand received 13 individual and joint submissions from exporters of live animals and germplasm. The joint submissions represented almost all germplasm processors and exporters, zoos, and a significant proportion of cattle and bee exporters in New Zealand.

After reviewing the submissions, Biosecurity New Zealand has decided to proceed with the proposed changes but recommends that a different option be adopted for recovering the costs associated with new market access work. In addition, Biosecurity New Zealand has corrected the proposed unit fee for embryo exports down from that initially proposed, to account for a re-adjustment of statistics for this sector.

Biosecurity New Zealand recommends that the remaining proposals should proceed:
- remove the Biosecurity New Zealand export certificate fee;
- rationalise the current export categories and revise unit fees to more accurately reflect the volume of work for each category;
- increase the Biosecurity New Zealand hourly charge from $118.13 to $132 (including GST) to offset a minor deficit in revenue; and
- increase the official assurance fee from $25 to $36 and the mileage rate from $0.61/km to $0.69/km (including GST) to offset a deficit in revenue for export verification activities provided by NZFSA VA.

In light of submissions, Biosecurity New Zealand now recommends adopting option two in the discussion paper, whereby all new market access work is to be fully funded by the exporter(s) requesting the work, at the proposed hourly charge of $132 (including GST). This will allow industries to make best use of their resources in pursuing new market access. The recommended unit fees, which are lower than those originally recommended under option three, will continue to cover the costs of market access maintenance and export standards and systems.

The fees and charges that Biosecurity New Zealand recommends are summarised in Appendix 2.

Biosecurity New Zealand proposes to make stakeholder consultation a priority in 2007. The majority of submitters emphasised the need for effective communication and several indicated a desire to form industry bodies that could work with Biosecurity New Zealand to prioritise future market access work.

Cabinet approval is currently being sought to amend the Animal Products (Fees, Charges, and Levies) Regulations 2002 to enable the implementation of the proposals outlined above. Biosecurity New Zealand intends for any changes to cost recovery mechanisms and charges to take effect from 1 July 2007.
3 Issues for Review

The analysis section is organised according to the issues listed below.

1. Principles of cost recovery
2. Removal of the Biosecurity New Zealand export certificate fee
3. Increased hourly charge, mileage rate and official assurance fee
4. Revised export categories and unit fees
5. Who pays for new market access work
6. Ways for Biosecurity New Zealand to work with industry
7. Quality of service
8. Submitters’ general comments

Some submitters made comments or raised issues that are outside the scope of this cost recovery review. These are addressed in Section 6 (‘Other Issues’) on page 17.

Several submitters made comments and raised questions specific to their business or industry. While all the general issues are covered by this document, any additional issues specific to a business will be addressed directly with the relevant submitter.

4 Submitters

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<th>Key issues</th>
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<td>2. Donquest Kennels, Cattery, Kiwipet Transporters</td>
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<td>3. Australasian Regional Association of Zoological Parks and Aquaria (</td>
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<tr>
<td>representing 27 zoos, wildlife parks and public avaries in New Zealand)</td>
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<td>4. Kintail Honey Ltd</td>
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<td>5. National Beekeepers Association New Zealand</td>
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<td>6. Animal Breeding Services Ltd</td>
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<td>7. New Zealand Animal Genetics Association (includes the Tararua Breeding</td>
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<td>Centre, Pacific Basin Exports, Genetic Enterprises, EmbryoCo, Hamer Genetics,</td>
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<tr>
<td>Independent Genetics, Premier Genetics, Semex, Xcell Breeding Services,</td>
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<tr>
<td>Genetic Gains, Brenco Livestock, Farmtech, Dalstud, Samen, Mainstream</td>
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<td>Seedstock, Advanced Genetics, International Veterinary Consultants and Chris Ashby)</td>
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<tr>
<td>8. Livestock Improvement Corporation</td>
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<tr>
<td>9. New Zealand Live Cattle Exporters (representing Austrex (NZ) Ltd, PGG</td>
<td>1,3,4,5,6,8</td>
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<tr>
<td>Wrightson Ltd, Xcell Cattle Exporters, Hedley John Exporters, and Pacific</td>
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<td>Rim International Ltd)</td>
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<td>10. Austrex</td>
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<td>13. Southland Ferrets</td>
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5 Analysis

5.1 PRINCIPLES OF COST RECOVERY

Submitter comments
Six of the 13 submitters (four of which were joint submissions) felt strongly that exporters should not have to pay for export related services. Some submitters argued that this funding review of live animal and germplasm exports has not given sufficient regard to the guiding principles of equity, efficiency, justifiability and transparency.

The majority of these six submitters consider that developing new market access is essential for the expansion of export activity and the subsequent economic benefits to New Zealand. For example, one submitter highlighted how bee pollination underpins our economy. These submitters argued that export work should be treated as a public good and be fully Crown funded.

One joint submission from the beekeeping industry argued that they do not believe that bee exporters are able to make choices about their use of a service and respond accordingly, as the Biosecurity Funding Review prescribes, and therefore some Crown funding is desirable. Because of the geographical dispersion of beekeeping activities the submitter argued that they have been penalised by the declining provision of certification services, and that live bee exporters can have no influence over market access requirements.

One submitter considered that the three options for funding new market access present a barrier to free and productive trade. Two submitters from the cattle industry argued that by charging for export work the Government is putting the industry in an uncompetitive situation with other exporting countries, for example Australia, where all new market access work is fully government funded.

Another submitter, representing an association for many germplasm processors and exporters, maintained that developing new market access is vital to trade and should be funded by the Crown through the Ministry of Foreign Affairs and Trade. The submitter noted that they will lobby for the Animal Products Act to be amended so that all Biosecurity New Zealand export related work, except for non-primary sector exports such as cats and dogs, is Crown funded.

One submitter proposed that MAF costs associated with all non-commercial zoo animal exports should be funded by the Crown, in recognition of the fact that zoos promote biodiversity and conservation by providing animal management, recreation and education programmes.

Biosecurity New Zealand Response
Under section 113 of the Animal Products Act, Biosecurity New Zealand is required to recover costs that are not provided for money appropriated by Parliament in accordance with the principles of equity, efficiency, justifiability and transparency. Biosecurity New Zealand is attempting to promote economic efficiency and equity by instilling cost consciousness among users. The proposed changes will ensure that export related services are adequately cost recovered in as equitable a manner as possible.

Biosecurity New Zealand recognises the importance of, for example, the bee industry for the pollination of horticultural and arable crops. This cost recovery review, however, deals only
with the additional export of package and queen bees. Exporters sending products to
countries with import restrictions seek the service and are well placed to decide whether they
want the certification services, taking into account the costs and benefits they receive.

The Government agreed in May 2005 that the Biosecurity Funding Review principles be
adopted for the assessment of any future changes to the funding of biosecurity services.
These principles have consequently been applied to this review of the charges in the Animal
Products (Fees, Charges, and Levies) Regulations 2002. The Biosecurity Funding Review
identified that those paying for a service should be in a position to make choices about their
use of a service, and respond accordingly. Through dialogue with Biosecurity New Zealand,
all industries are able to influence work plans and prioritise them to their own benefit.

By modifying the way new market access work is cost recovered, we are attempting to design
a system whereby exporters are encouraged to make decisions based on the full costs of their
actions. The review has been guided by high-level Government funding principles that
indicate full cost recovery for export certification work is appropriate. Biosecurity New
Zealand considers that charging requesting exporters the full cost of developing new market
access should result in work being carried out that is most beneficial for exporters.

Biosecurity New Zealand notes that some exporters consider export work should be Crown
funded, with the exception of work relating to cats and dogs because they do not return
economic value to the country. The Animal Products Act does not provide for this
differentiation and we consider it would be difficult to justify. All exporters, whether they
trade commercially or not, benefit from Biosecurity New Zealand’s services and should pay
for the reasonable costs of these according to Government guidelines.

While the more general activities of a zoo could be considered a public good it is not clear
that the exporting of zoo animals always constitutes a public good. Although the public can
use and benefit from zoos, the main benefactor of export services can be clearly identified as
the zoo or park. Exempting zoos from the proposed fees and charges would create a
perceived inequity and Biosecurity New Zealand does not believe that the export of zoo
animals reaches the standards required for such an exemption.

5.2 REMOVAL OF THE BIOSECURITY NEW ZEALAND EXPORT
CERTIFICATE FEE

Submitter comments
Five out of the 13 submitters commented on this proposal, with the majority supporting the
removal of the Biosecurity New Zealand export certificate fee. One submitter recognised that
this is a step in the right direction for small exporters. Another pointed out that this is less of a
consequence to some industries as the total cost of export compliance is of more concern.

Only one submitter suggested that the export certificate fee should be retained and increased
to enable the unit fee (a volume based fee) to be reduced. This submitter argued that
removing the export certificate fee is neither justifiable nor equitable because the costs to
Biosecurity New Zealand are more proportionate to the export certificates issued than the unit
volume, and therefore large exporters are being disproportionately disadvantaged.
Biosecurity New Zealand recommends removing the export certificate fee because it unduly penalises the small exporter and does not provide for the costs of services to be shared equitably or at a level commensurate with usage. We appreciate that this is of far less concern to many exporters than overall compliance costs.

Increasing the export certificate fee to cover a higher proportion of export work would be unfair on smaller exporters and does not allow for differences in work between species, which the unit fee does. Deciding which cost recovery mechanism to adopt often comes down to an evaluation of efficiency versus equity. Biosecurity New Zealand considers it is more efficient to remove the export certificate fee.

5.3 INCREASED HOURLY CHARGE, MILEAGE RATE AND OFFICIAL ASSURANCE FEE

Submitter comments

Five out of the 13 submitters commented on the proposed increases to the Biosecurity New Zealand hourly charge, the mileage rate for verification services and the NZFSA VA official assurance fee. The majority of these submitters opposed the increases.

Three submitters from the beekeeping industry stressed the difficulty for their industry in meeting the proposed increased costs. Of these one considered that while the proposed increase in hourly rate from $118.13 to $132 per hour may seem reasonable, it is not justifiable in the eyes of smaller exporters who work for a considerably lesser hourly rate.

The same submitter considered the increase in the mileage rate to $0.69/km to have an unreasonably high impact on rural businesses and another submitter questioned the basis for this increase.

One joint submitter expressed concern that the review does not cover NZFSA VA charges. The same submitter pointed out that the review does not address the cumulative effects of charges on the industry (e.g. those of AgriQuality and Gribbles) and that exporters have little opportunity to influence these charges. They argued that the increase in NZFSA VA charges does not justify the level of service provided.

Biosecurity New Zealand Response

Under the Animal Products Act, MAF is required to recover the costs of export certification work. Biosecurity New Zealand has not increased its hourly charge rate since May 2003. Since that time our direct and indirect costs have increased. With more countries adopting a risk-based approach to importing animals, more stringent importing requirements are being applied to these commodities. As a result, negotiating overseas market access requirements is becoming increasingly difficult and the process taking considerably longer.

Biosecurity New Zealand recognises the difficulties facing the beekeeping industry and that increased charges can have an impact on the viability of some industries. However, cost recovery is to cover actual costs only. Biosecurity New Zealand considers that there are steps exporters can take to keep compliance costs down, for example by focusing requests for new market access in areas with commercially significant opportunities.
The proposed new mileage rate of $0.69/km is consistent with the rate set in the Biosecurity (Costs) Regulations 2006. Where an NZFSA VA inspector needs to travel to undertake an inspection or to undertake any activity required by the regulations, MAF is required to recover its travel costs.

Included within this review are costs incurred by NZFSA VA for providing verification services and issuing official assurances to exporters of live animals and germplasm. These costs were covered in Section 6.2 of the discussion paper and are currently being provided at a rate which results in a deficit of $67,000. The proposed increases in the official assurance fee and mileage rate are to cover the actual costs. Additional fees for exporter registration and the registration of recognised agencies are being addressed in a separate review by NZFSA. Issues relating to the quality of services provided and the cumulative effect of compliance costs are addressed in Sections 5.7 and 6 of this paper.

5.4 REVISED EXPORT CATEGORIES AND UNIT FEES
12 out of the 13 submitters commented on the proposed export categories and unit fees. Most submitters supported the broad differentiation of export categories although most did not agree with the revised unit fees presented in the discussion paper.

Biosecurity New Zealand has considered all comments and decided to proceed with the proposed division of export categories. As a result of our recommendation to proceed with a different option for funding new market access work, the unit fees for almost all categories are now lower. These are outlined in Appendix 2. Biosecurity New Zealand has corrected the unit fee for embryo exports down from that initially proposed, to account for a re-adjustment of statistics for this sector.

**Revise export categories**

**Submitter comments**
One submitter argued that to be equitable, there should be species differentiation within the embryo category to more accurately reflect costs. Another submitter suggested that the number of bovine semen exports in 2005/06 was large enough to indicate that it should be a separate category. This would ensure that bovine semen exports do not continue to subsidise work related to caprine, ovine, cervine and equine semen exports.

One submitter, while supporting the proposed changes to export categories, pointed out that there are very few export consignments in excess of 2,200 cattle.

**Biosecurity New Zealand Response**
In practice, bovine semen does represent the majority of the semen category (about 97% of semen exports). Of the total Biosecurity New Zealand time spent on market access for semen, it represented approximately 75% of staff time in 2004/05 and 60% of staff time in 2005/06. Biosecurity New Zealand must consider simplicity as well as fairness and in this case we consider there is no strong rationale for separating the germplasm categories further. The new proposal that new market access work is privately funded will ensure that cross subsidisation of one type of commodity by another will be reduced.

Biosecurity New Zealand notes that very large consignments of cattle are not common. The reduced fee is intended for any special cases that may arise.
Revised unit fees

Submitter comments
One joint submission questioned the use of unit fees to recover costs for Biosecurity New Zealand, when the work done for a new market access protocol is independent of volume. Another joint submission argued that charging unit fees for larger shipments does not reflect the effort required to develop and maintain market access.

Two submitters suggested that the only fair way to prioritise export related services is to move away from unit fees and towards total funding by individual exporters (or exporter groups if they arise) on an hourly basis. One of these submitters suggested that this method of cost recovery should be adopted for all export related work, not just new market access work. This will encourage exporters to make commercial decisions about the merit of the work that they directly benefit from, and enable Biosecurity New Zealand to keep costs to a minimum.

One submitter argued it is not justifiable to increase the unit fees and still propose that exporters pay for the partial or full costs of new market access work. During the 2002 cost recovery review exporters were told that the unit and export certificate fees were intended to cover the full costs of developing and maintaining overseas market access.

Two submitters argued that the unit fee is too high and should be reduced to reflect the value of the animal and the cost impacts on the industry. One of these submitters suggested that the unit fees should also be reduced to reflect economies of scale.

Two submissions from the cattle industry suggested that the balance of the funds required for export work should be evenly split by exporters of that commodity through a “live animal exporters’ accreditation and registration” system. After meeting stringent minimum requirements regarding their competency and financial ability, exporters would be required to make an annual lump sum payment to Biosecurity New Zealand. This would discourage opportunistic operators who can pose a risk to the export trade and generate greater costs than are met by export revenue.

One submitter argued that the increase in unit fees for embryos is excessive and will have a detrimental impact on the industry by making New Zealand uncompetitive in a trade which other countries have identified as a safe mode of movement for genetics. The submitter argued that Biosecurity New Zealand has spent excessively on non-mainstream activities and should seek alternate funding as an interim measure to accommodate the shortfall.

Two submissions suggested that non-commercial exports should be charged at a different rate than commercial exports as they can withstand a higher fee structure.

Two submitters suggested that to reduce costs exporters should be able to create and maintain their own operational standards, which could be signed off by Biosecurity New Zealand.

Biosecurity New Zealand Response
A unit fee is a simple mechanism by which to recover costs. The proposed unit fees are to be used for activities related to market access maintenance and export systems and standards. While the work done is independent of the subsequent volume, the costs are spread equitably across the volume of exports.
Biosecurity New Zealand agrees that new market access work is best driven directly by the exporter requesting the work because they are well placed to make choices about the value of the work. Our final recommendation reflects this by requiring that direct beneficiaries pay on an hourly basis. Market access maintenance, however, occurs due to external factors such as overseas countries changing their import requirements because of emerging information about pests and diseases. It would be useful to be able to consult with industry about prioritising this work so that these costs can also be kept to a minimum.

Several exporters indicated a strong desire for new market access work to be at least partially funded by the requesting exporter. For market access maintenance, however, unit fees are necessary because the demand for this service is not usually driven by one exporter, but by industries as a whole and the requirements of importing countries. The new unit fees are lower for most categories because they no longer cover the costs of new market access work.

The reality is that if the cost of a service outweighs the value of the product, then its export may not be viable. Exporters are well placed to make this commercial decision. Biosecurity New Zealand is required to recover the full actual and reasonable costs of providing a service, not to influence the viability of a business one way or another. Costs are based on the time incurred, not on the value of the animal. We do not consider that a system based on the value of an animal could be robustly developed.

Biosecurity New Zealand considers that establishing an exporter accreditation system could be usefully discussed further at stakeholder meetings. As the submitters suggested, it would be a useful way to increase industry involvement, commitment and collaboration with MAF. To be equitable and justifiable, however, annual fees would need to be set proportionate to the size of the company. Nevertheless, we consider that a livestock industry body would be an effective mechanism for priority setting.

Biosecurity New Zealand acknowledges that there is a significant increase in its charges for some export categories. However, the provision of official assurances is costly work and MAF has been under recovering in this area. The proposal that new market access be fully funded by the requesting exporter will encourage requests for work that is more likely to result in significant exports and minimise the time spent on non-mainstream areas.

We do not consider it fair to treat exporters of cats and dogs as an exception. All exporters, whether they trade commercially or not, benefit from Biosecurity New Zealand’s services and should pay for these according to Government guidelines. It is important not to lose sight of the fact that the primary benefactor is still the individual exporter.

Standard setting is a minor part of Biosecurity New Zealand’s activities and costs for live animal and germplasm exports. International regulatory agreements require MAF as the competent authority to be responsible for standards, in order for credible official assurances to be issued. Exporters are not able to create their own export standards and systems.

**Basis for calculations**

**Submitter comments**

One submitter from the beekeeping industry was concerned that the cost recovery proposals were calculated over only two years and do not provide a true picture of the export industry. The same submitter questioned the assumption made in the discussion paper that the volume
of exports is likely to remain stable over the next three years. Two submitters noted that the level of trade in their respective industries is constantly changing and not highly predictable.

Two submitters sought clarification on components of the projected Biosecurity New Zealand costs for some activities (although these activities were not specified). One suggested that the methodology used by Biosecurity New Zealand to calculate unit fees is not accurate.

Individual and joint submissions from the germplasm industry expressed frustration at the financial information available and apparent differences in export numbers held by Biosecurity New Zealand and industry. They highlighted that such anomalies are contributing to an over-calculation of unit fees for embryos. One of these submitters argued that an increase in excess of 500% is excessive for any industry to bear, will be detrimental to the industry, and will affect their ability to compete in the marketplace.

One submitter questioned the justification for the large increase in Biosecurity New Zealand costs for market access maintenance and export standards and systems since the 2002 review. The submitter pointed out that this highlights the desire by industry to see more transparency, equity, efficiency and justifiability in the proposed cost recovery mechanism.

**Biosecurity New Zealand Response**

Biosecurity New Zealand recognises that export numbers may vary, which highlights the need to review the cost recovery regime. By assuming that exports are likely to remain stable over the next three years we were able to predict that the projected budgets for 2007/08 are expected to remain the same as for 2006/07. We met with exporters at three meetings in October 2006 and questioned this assumption at each one. Market information for any industry was not provided then, nor has it been provided subsequently. For the beekeeping industry, statistics show that the export of bees was comparable for both years.

The cost recovery methodology used to calculate the unit fees was based on Biosecurity New Zealand staff time incurred for each export category, not on the value of the animal. Costs incurred over the previous two to three years were divided by the number of exports. The ratio of time spent on market access maintenance and new market access was calculated from Biosecurity New Zealand’s time-recording system and estimated overall to be 50:50. This will vary according to the export category and by year, but overall is robust. More historical data would not necessarily improve the robustness as a future estimator.

Biosecurity New Zealand acknowledges that there are some problems with its current recording systems and is moving to address these. The data presented in the discussion paper for export numbers was generated from statistics held by NZFSA VA. The data relating to Biosecurity New Zealand costs was generated from the direct time spent on each export category plus material and overhead costs. Further analysis of NZFSA VA data has showed that two significant embryo consignments were not recorded. Thus the export data for that year was underestimated. The number of embryo exports for 2007/08 has been recalculated at 7937, which equates to a new unit fee of $4.11 for embryo exports. Biosecurity New Zealand recommends rounding this to $4.00 (including GST).

Biosecurity New Zealand costs in 2002 were estimated at $400,000. The animal exports group had just undergone restructuring at this time and there was no system available for capturing the time spent on different export services. It has since become clear that these estimates were not sufficient. Costs for market access maintenance and export standards and
systems for 2007/08 are estimated at $600,000 (including GST). The increase is mostly due to the increased workload for new market access and market access maintenance that has been requested by exporters, and necessitated by increased regulatory international requirements for exporting. The projected costs for 2007/08 are the same as for 2006/07 and are approximately $37,000 greater than the actual cost of these services in 2005/06.

5.5 WHO PAYS FOR NEW MARKET ACCESS WORK

Submitter comments
Ten out of the 13 submitters commented on this issue. Several agreed that it can be problematic to determine who should pay for new market access. Only one submitter agreed with Biosecurity New Zealand’s preferred option in the discussion paper that half of new market access work should be funded by the requesting exporter and half by industry. Two submitters preferred an updated version of the status quo. Five submitters argued for some Crown funding (although two of these also specified a preferred option if Crown funding was not adopted). A side from the comments about Crown funding, the majority of submitters supported new market access work being funded by the exporter(s) requesting the work.

Two submitters from the beekeeping industry suggested that if an exporter chooses not to pay the costs of developing a new protocol, then the wider industry for that commodity should be given the opportunity to consider whether they think it is worthwhile funding as a group. If the industry chooses not to support the work, then negotiations should only proceed if the exporter agrees to pay in full.

Those that favoured the option of requesting exporters paying for new market access work welcomed a system whereby the majority of exporters are not penalised by the uncontrolled expenditure of one or two exporters. This would reduce the level of expenditure in areas of no interest to major exporters and result in reduced costs overall.

One submitter questioned the proposal to exclude exporters of cats and dogs from having to pay directly for new market access work, arguing that it is inconsistent for the Government to reduce fees for this category because they are profitable. The submitter viewed the proposal as an attempt to increase the costs of obtaining export revenue from the primary sector.

One submitter, who strongly supported the option that new market access work is funded by the individual exporter(s) requesting the work, noted that the possibility of an exporter paying for a protocol that can be used by others is a minor disadvantage, as most of the important export protocols have already been developed. A joint submission from the germplasm industry, despite arguing that all market access work should be Crown funded, acknowledged that by the exporter paying directly for services on a time basis they can now make a commercial decision on development costs, with the knowledge of the risk of other exporters also benefiting from the new protocol.

Biosecurity New Zealand Response
Government guidelines provide for the full recovery of costs relating to export certification. As already stated, Biosecurity New Zealand does not consider that new market access work should be Crown funded. If Crown funding is not an option then there appears to be clear support from submitters for option two in the discussion paper. This involves new market access work being fully funded by the exporter(s) requesting the work. Industries have
expressed their desire to be able to make better use of their resources and this option should encourage this change.

Biosecurity New Zealand understands the approach proposed by the beekeeping industry to be a variant of option two, whereby the exporter pays directly for new market access. This enables exporters within an industry to work together and pay collectively for work that they value. We consider that this approach is preferable because of the commercial understanding and existing relationships within industry.

Biosecurity New Zealand agrees that requiring new market access work to be funded by the exporter requesting the work is efficient because it potentially avoids protocols being developed in areas of export where there is not a strong likelihood of a market.

The Animal Products Act does not provide for commercial exporters to be favoured over non-commercial exporters. We are not seeking to recover additional funds from the primary sector, except in areas of under-recovery, but to redistribute the actual and reasonable costs of export work in a fair and justifiable way. The existing fees and charges have led to substantial cross subsidisation which is not consistent with the Treasury’s objectives for user pays.

Biosecurity New Zealand notes that the possibility of some exporters benefiting from export protocols that were funded by another exporter is not as significant an issue for industry as the need for efficient, customer driven services. Biosecurity New Zealand is therefore proposing a more efficient system that will limit new market access work being carried out when there is little chance of worthwhile export activity.

5.6 WAYS FOR BIOSECURITY NEW ZEALAND TO WORK WITH INDUSTRY

Submitter comments
The majority of submitters welcomed the opportunity to comment on the proposals and develop a closer partnership approach to exporting. One submitter suggested that any way that reduces costs is the most effective approach to take, while two others emphasised the need for a more positive, rather than purely regulatory approach.

Several submitters emphasised the need for more structured consultation, such as a round table meeting with MAF officials to discuss and formulate strategies to manage issues around improving market access opportunities, including the development of an accreditation system for exporters. One of these submitters suggested that to assist exporters, consultation needs to be on a wider scale and include the relevant Minister, senior MAF management and all other sectors that are likely to have export related compliance costs.

One submitter suggested that the proposal to meet with exporters annually is inadequate, and that Biosecurity New Zealand’s Exports Group staff need to become familiar with industry interests through more regular on-site visits. Two submitters suggested that while they welcome more structured consultation to improve the understanding that Biosecurity New Zealand staff have of the industries they are servicing, these visits should be Crown-funded.

Biosecurity New Zealand Response
Biosecurity New Zealand welcomes opportunities to meet with industries and understand their businesses better. We agree that a team approach is the most effective to take and will
be making stakeholder consultation a priority in 2007. A working group has recently been established with the germplasm industry to address their current needs.

Biosecurity New Zealand appreciates that exporters are facing increased charges other than those directly from MAF and will endeavour to consult as widely as appropriate.

Biosecurity New Zealand recognises the importance for staff to better understand the needs of the different industry sectors. By making stakeholder consultation a priority and by meeting with industry at least annually, Biosecurity New Zealand hopes to improve the provision of export certification services in an efficient way and at reasonable cost. The costs of such consultation are not able to be covered by the Crown.

5.7 QUALITY OF SERVICE

Submitter comments
Several submitters expressed dissatisfaction with the quality of service from Biosecurity New Zealand and emphasised the need to be assured that the services being provided meet the needs of the exporters. Three submitters were unhappy with the perceived lack of efficiency, effectiveness and communication when negotiating market access with overseas countries.

One submitter from the beekeeping industry expressed concern that the projected increase in revenue for their industry is not reflected in the level of success in achieving access to new overseas markets.

A joint submitter from the germplasm industry also expressed concern that costs are rising and productivity is not. They considered New Zealand to have potentially excessive biosecurity requirements that are expensive to maintain and possibly more onerous than competitor countries.

Another submitter suggested that the Government should be more proactive in encouraging overseas countries to accept AgriQuality certificates without also requiring the Biosecurity New Zealand export certificate.

Biosecurity New Zealand Response
Biosecurity New Zealand is aware that it has a responsibility to industry, the Government and taxpayers to keep administration and transaction costs low and run an efficient, streamlined service. Any issues of staff competency will be addressed internally. Exporters are welcome to discuss specific matters of concern with the Exports Group’s manager as they arise.

The revenue required from the bee industry has increased due to additional requests from bee exporters for new market access over the past two years, and considerable work on maintaining market access for some countries. We appreciate the frustration that can come from not having clear advice on the cost implications for an upcoming export season. It has, however, become more difficult to secure overseas market access for the bee industry as an increasing number of countries are requiring export certification to confirm freedom from bee related diseases. It is therefore inevitable that the costs for negotiating market access will increase but does not indicate any weakness in Biosecurity New Zealand’s export systems and services.
Biosecurity New Zealand acknowledges that semen and embryo exports are generally considered safe and cost effective methods for transporting livestock internationally. However, as the recent audit of germplasm to the European Union has shown, there are significant inadequacies in the current export system that must be addressed.

Biosecurity New Zealand has a responsibility to maintain New Zealand’s integrity through its export certification process. It is the responsibility of the importing country to establish import conditions, not the exporting country.

5.8 SUBMITTERS’ GENERAL COMMENTS

Some submitters made general comments relating to cost recovery and charging for biosecurity services. These included:

- Support for a regular review of the regulations and the need to address the funding of new market access work, although one submitter pointed out that this review is occurring one year late according to legislative requirements.

- Concerns that the scope of services being cost recovered appears to have increased since the last review in 2002 (for example, “export standards and systems” are listed here as a service being cost recovered but was not specifically listed in 2002) and that costs need to be clearly justified to demonstrate that they are not unnecessarily high or excessive.

- Objections to any increases in fees and charges and concerns that the charges will affect the viability of some export industries.

Biosecurity New Zealand Response

Under the Animal Products Act 1999, MAF is required to review its cost recovery mechanisms and charges every three years. A review was due in 2006. Biosecurity New Zealand began addressing this funding review in late 2005 but due to a lack of resources was not able to complete it until now. Biosecurity New Zealand is working hard to ensure that any changes to cost recovery mechanisms and charges take effect from 1 July 2007.

The activities involved in developing export standards and systems are not new, nor are they additional services that Biosecurity New Zealand is now cost recovering. The costs were included in the 2002 review but were not specified as a separate service. They do not comprise a major component of the Biosecurity New Zealand’s work for live animal and germplasm exporters but it was decided to include them here for completeness, and because they constitute a significant area of activity for other export commodities (such as plants).

The Animal Products Act and government guidelines provide for the full recovery of export certification costs and overheads. Biosecurity New Zealand’s fees and charges have not increased since May 2003. The recommended changes reflect current costs and changes in export related work since that time.
6 Other Issues

The submissions highlighted some contentious issues that, while outside the scope of this cost recovery review, are significant for the industries concerned. These included:

- Concerns regarding the role of NZFSA VA and independent verification agencies (IVAs) and statements that there should be one authority responsible for issuing official assurances so that the system can be made more efficient, affordable and accountable.
- Requests for private veterinarians to be recognised as MAF official veterinarians in order to undertake activities that AgriQuality has been doing.
- Concerns from several submitters about increasing cumulative compliance costs and the fact that this review does not cover the effects of charges from other export related service providers, particularly for the germplasm and beekeeping industries.

Biosecurity New Zealand’s response

We acknowledge the frustrations that exist for exporters in having to work with three authorities relating to export certification. Both Biosecurity New Zealand and NZFSA VA have begun looking for ways to make efficiency gains in the overall system and Biosecurity New Zealand is currently reviewing its official assurance programme.

The current export certification system operates through the delegation of authority. Under the Animal Products Act and to remain in line with international trade agreements, MAF is required to issue official assurances as the competent agency. To enable this, NZFSA VA is responsible for verifying all export consignments and checking eligibility documents before they issue an official assurance. In some overseas countries the government agency is also responsible for preparing the eligibility documents and carrying out associated treatments and testing. In New Zealand, this role has been delegated by MAF to recognised agencies (or IVAs) such as AgriQuality and Gribbles.

As recognised agencies, AgriQuality and Gribbles cannot become competent authorities and issue official assurances because it would not be recognised under international trading agreements. The role of recognised agencies will be looked at under a review currently underway of the official assurance programme. Veterinarians can become recognised persons within a recognised agency if they comply with the requirements in the Animal Products Act.

Biosecurity New Zealand has a responsibility to maintain New Zealand’s integrity through its export certification process. The existing system ensures that official assurances are credible and accurate.

For many exporters, Biosecurity New Zealand’s fees and charges are a minor part of greater costs that their industries face. Included within this review are costs incurred by NZFSA VA for providing verification services and issuing official assurances. Recognised agencies such as AgriQuality and Gribbles operate in a competitive commercial environment and MAF does not have jurisdiction over the fees they set.
Appendix 1: Definitions

Biosecurity New Zealand – The department of the Ministry of Agriculture and Forestry (MAF) that fulfils the role as lead agency in New Zealand’s biosecurity system.

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

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.

Exports Group – The group within MAF Biosecurity New Zealand responsible for the development and negotiation of export certification procedures for live animals and germplasm, plants, and forestry.

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

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

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.

MAF – New Zealand Ministry of Agriculture and Forestry.

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 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, these were defined as ‘accredited persons’).

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 2: Schedule of Recommended Changes

The table below shows Biosecurity New Zealand’s recommended amendments to the Animal Products (Fees, Charges and Levies) Regulations 2002.

<table>
<thead>
<tr>
<th>1</th>
<th>Unit charges payable for each relevant unit to be exported</th>
<th>Charge $ (GST incl.)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Type of unit</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cats and dogs (including semen) (per animal or straw)</td>
<td>25.00</td>
<td></td>
</tr>
<tr>
<td>Livestock (only bovine, caprine, cervine, ovine and porcine) (per head of livestock)</td>
<td>1.75</td>
<td></td>
</tr>
<tr>
<td>Cattle over and above a consignment size of 4,000 cattle per exporter (per additional head of cattle)</td>
<td>1.00</td>
<td></td>
</tr>
<tr>
<td>Sheep over and above a consignment size of 5,000 sheep per exporter (per additional sheep)</td>
<td>1.00</td>
<td></td>
</tr>
<tr>
<td>Bloodstock (only equine) (per horse)</td>
<td>3.45</td>
<td></td>
</tr>
<tr>
<td>Semen (only equine, bovine, caprine, cervine, and ovine) (per straw)</td>
<td>0.08</td>
<td></td>
</tr>
<tr>
<td>Embryos and ova (only equine, bovine, caprine, cervine, and ovine) (per embryo or ovum)</td>
<td>4.00</td>
<td></td>
</tr>
<tr>
<td>Day old chicks and hatching eggs (only poultry and ducklings) (per chick or egg)</td>
<td>0.0013</td>
<td></td>
</tr>
<tr>
<td>Ferrets (per ferret)</td>
<td>2.10</td>
<td></td>
</tr>
<tr>
<td>Queen bees and bumble bees (per bee), and other honey bees (per kilogram)</td>
<td>0.75</td>
<td></td>
</tr>
<tr>
<td>Other animals and animal germplasm not specified above (per animal, egg, or straw)</td>
<td>4.95</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2</th>
<th>Hourly charges</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)</td>
<td>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:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(a) for each hour (excluding final part-hour)</td>
<td>96.10</td>
</tr>
<tr>
<td></td>
<td>(b) for each 15-minute block in final part-hour</td>
<td>24.05</td>
</tr>
<tr>
<td>(2)</td>
<td>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:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(a) for each hour (excluding final part-hour)</td>
<td>132.00</td>
</tr>
<tr>
<td></td>
<td>(b) for each 15-minute block in final part-hour</td>
<td>33.00</td>
</tr>
<tr>
<td>(3)</td>
<td>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):</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(a) for each hour (excluding final part-hour)</td>
<td>132.00</td>
</tr>
<tr>
<td></td>
<td>(b) for each 15-minute block in final part-hour</td>
<td>33.00</td>
</tr>
</tbody>
</table>

### Schedule 1, Part 1

| 12 | Issue of official assurance under section 63 | $36 |
| 12A | Additional fee in relation to official assurance issued for export of live animals, or export of animal germplasm (being animal semen, animal embryos or ova, or hatching eggs of birds) (Omit) | $50.18 plus any appropriate charge under Part 7 (Omit) |

### Schedule 1, Part 4

Where travel of a Ministry officer or employee is required for any of the matters specified in Parts 1, 2, 3, 6, and 7, an additional amount of $0.69 per kilometre travelled by the officer or employee is payable in addition to the relevant fee or charge.