

Chair
Cabinet Economic Development Committee

Proposed updates to cost recovery for selected services provided by the Ministry for Primary Industries

Proposal

1. I seek agreement to direct the Parliamentary Counsel Office (PCO) to draft revisions to the regulations and levy orders to implement proposals to improve the Ministry for Primary Industries' (MPI's) cost recovery arrangements.
2. I will seek agreement to the updated charges and policy changes when I seek Cabinet approval to submit the draft regulations and levy orders to the Executive Council.

Executive Summary

3. Cost recovery plays a significant role in funding biosecurity and food safety services. In 2016/17, MPI received approximately \$200 million via cost recovery (approximately 40 percent of its total departmental revenue).
4. Following Cabinet approval (CAB-18-MIN-0041 refers), in February and March 2018 MPI consulted on a number of cost recovery proposals – three in the biosecurity system and four in the food system.¹ These proposals were considered high priority as they sought to prevent the need for sharper rate increases in future and avoid unrecoverable debts of approximately \$6.4 million.
5. The consultation document sought specific comment on the impacts of the proposals on small² and regional businesses. In light of conditions then affecting farmers in many parts of New Zealand, it also included options for the timing of increases to the levies charged to dairy, meat and fish processors under the Animal Products Act 1999 (APA levies).
6. MPI received 39 submissions. Feedback on the three biosecurity proposals generally recognised the importance of biosecurity to protect New Zealand's primary industries and the need to properly fund MPI's biosecurity services.

¹ MPI Discussion Paper No: 2018/08 *A review of cost recovery for selected services provided by the Ministry for Primary Industries*.

² Although there is no official definition of a small business in New Zealand, enterprises with fewer than 20 employees has traditionally been used and referred to in some legislation.

7. Six of the seven proposals involve net increases in charges. As would be expected, affected businesses raised concern about these increases. Most focused on the proposed increase to the rate for circuit verification services.³
8. Other themes that emerged from consultation included that the proposed cost increases require more justification, and comments on the efficiency of MPI services. While acknowledging that MPI has made improvements, submitters also sought more detail on costs and improved reporting.
9. In reaching my decisions, I have been especially mindful of the impact of any cost increases on small and regional businesses. As circuit verification costs disproportionately affect small businesses I have decided not to implement the general increase to fees for this service at this time. I do not consider the other proposals need to be deferred.
10. It will be important to recover the costs for circuit verification services in future years. However, I consider it is important that the existing MPI work programme supporting our commitment to reducing impacts on small and regional business is completed before decisions are made on fee increases.
11. In the majority of cases, fee and levy updates need to be in place by 1 July 2018 to take effect in the 2018/19 year. If this deadline is not met, new charges will not be able to be put in place until 1 July 2019, larger fee increases are likely to be required, and \$6.4 million will become unrecoverable.
12. Having carefully considered all feedback, I propose to implement six of the seven proposals from 1 July 2018, subject to one change arising from consultation (to increase the maximum specified rate for the Biosecurity System Entry Levy to \$23, rather than the \$25 consulted on).
13. I seek agreement to issue drafting instructions to PCO now and will seek Cabinet agreement to the updated charges and policy changes when I seek approval to submit the draft regulations and levy orders to the Executive Council.

Background

14. MPI provides a range of services to ensure that New Zealand is protected from biosecurity risks, that the food we produce is safe and suitable, and that our natural resources are sustainable. These services support rural and regional economies that tend to be particularly reliant on primary industries.
15. Where appropriate and practical, MPI's costs are recovered from the parties who directly benefit from MPI services or create the risks that MPI manages. This means cost-recovered services do not need to be funded from general taxation.

³ Circuit verifications are undertaken by verifiers travelling around the country undertaking audits of meat, dairy, seafood, and other premises. These services ensure that businesses are operating consistently with legal requirements and risk management programmes.

16. In total, MPI administers more than 300 fees and levies, authorised under 10 different Acts. The businesses that pay fees and levies to MPI are diverse, located in all parts of New Zealand and range from part-time owner-operators to some of New Zealand's largest corporate entities.
17. MPI is undertaking a First Principles Review (the review) of its cost recovery arrangements. Results to date have confirmed that settings are broadly appropriate, but there are a number of areas where changes could be considered. The current proposals incorporate a number of improvements identified from the review. Further proposals are being developed and will be progressed later in 2018.
18. MPI also completed a comprehensive review of existing charges and identified several that need updating. This will minimise the risk of unrecoverable deficits accumulating in memorandum accounts and reduce the size of future adjustments to fees and levies.
19. To support the review and the wider cost recovery work programme, MPI has been working with a cost recovery Industry Reference Group (IRG) comprised of the key industry bodies from within the primary industries.⁴

Consultation on proposals targeting 1 July 2018 implementation

20. On 19 February 2018, Cabinet authorised the release of a consultation document that included seven proposals for amendments to cost recovery arrangements – three in the biosecurity system and four in the food system (CAB-18-MIN-0041 refers). Six of the proposals included specific changes to:
 - increase the Biosecurity System Entry Levy (BSEL) from \$17.37 by (an indicative) \$2.99 to \$20.36 per consignment and increase the maximum levy rate from \$18.00 to \$25.00
 - amend the Biosecurity (Border Processing Levy) Order 2015 to enable the Traveller Border Clearance Levy to be set for a period of up to 3 years
 - amend the Biosecurity (Costs) Regulations 2010 to align inspection rates for all jurisdictions
 - introduce new charges for services under the Food Act - primarily related to approvals of Food Control Plans and subsequent renewals and amendments
 - update the hourly rate for circuit verifications to address historical and ongoing under-recovery for these services
 - introduce a new targeted rate to address a historical under-recovery for circuit verifications of storage premises and seafood processors.

⁴ IRG is independently chaired by Sir John Hansen, former High Court Judge, and includes Deer Industry New Zealand; New Zealand Wine; Dairy NZ; Federated Farmers; Food and Grocery Council; AGCARM; Horticulture New Zealand; Pipfruit New Zealand; New Zealand Forest Owners Association; Seafood New Zealand; Meat Industry Association; Retail NZ (includes Pet Industry Association of New Zealand); Dairy Companies Association of New Zealand; Board of Airline Representatives New Zealand; and Port Companies of New Zealand.

21. The seventh proposal related to forecast deficits for services funded by levies charged to meat, dairy and fish processors. In light of conditions then affecting farmers in many parts of New Zealand, I included options for the timing of levy increases in the consultation document.
22. Public consultation was open from 21 February to 21 March 2018. MPI directly advised stakeholders of this consultation via approximately 2700 emails and 575 letters. MPI also worked with the IRG to help ensure that all sectors were advised of the public consultation and arrange meetings with relevant industry bodies. MPI met with 16 organisations during the consultation period to discuss the proposals.
23. MPI received 39 submissions (19 industry organisations, 19 businesses and one individual). In addition, two organisations representing businesses affected by the proposals (Beef + Lamb New Zealand and Horticulture New Zealand) decided not to submit on the proposals. A comprehensive summary of submissions will be published on the MPI website after final Cabinet decisions.

Consultation themes

24. The following key themes emerged from consultation.

Biosecurity

25. For the three biosecurity proposals, there was general recognition of the importance of biosecurity to protect New Zealand's primary industries and the need to properly fund MPI's biosecurity services.

Cost increases and efficiency of service delivery

26. Six of the seven proposals involve net increases in charges. As would be expected, affected businesses raised concern about these increases. A number of submitters consider the cost increases to be significant and sought more justification of these. These comments largely applied to circuit verification services. Submitters also commented on the efficiency of MPI's services.

Impacts on small business

27. Cabinet invited me to report back specifically on the impacts of the proposals on small and regional businesses (CAB-18-MIN-0041 refers). Comment was specifically sought on these impacts in the consultation document.
28. Seven small businesses, and some industry bodies, submitted on the likely financial impacts on small businesses. Most of these submitters considered the proposed cost increases would have a significant impact on their businesses. In line with submissions on larger businesses, most focused on the proposed increase to the rate for circuit verification services, with a number suggesting that MPI is more expensive than alternative service providers. Concern was also raised that travel time inflates costs for regional and remote businesses.

Transparency

29. It was acknowledged that MPI has made improvements to the cost recovery information it provides. However, submitters sought more detail on costs, improved reporting of cost recovery charges and memorandum accounts⁵, and assurance that no cross-subsidisation is occurring.

Response to issues raised in consultation

30. The key issues from consultation were mostly around the size of the increase to circuit verification charges and its' impacts on small and regional businesses, and improvements sought to the transparency of MPI's costs and service delivery. My response to these key issues is provided below.

Work to support small and regional business

31. I have directed MPI to continue working on minimising the costs of providing services across the organisation, while maintaining quality standards. This includes a specific focus on the costs to small and regional businesses. This work-stream will provide options to support these businesses for inclusion in the next round of cost recovery changes scheduled for the second half of 2018.
32. MPI's work to improve the delivery of services to small and regional businesses, particularly those with a domestic focus, includes:
- innovative use of technology to reduce compliance costs (e.g. verification via camera to reduce or eliminate travel costs)
 - working with businesses to improve their understanding of exporting and audit requirements
 - [REDACTED]
 - investigating benchmarking for all cost recovered services.
33. This work to improve efficiencies without reducing quality is ongoing. For example, in December 2017 MPI moved its verification services model to nationally-focussed business oversight (from regional). This will improve financial transparency, prevent cross subsidisation and is the building block on which efficiencies in training, resourcing and utilisation of new technologies will be achieved. [REDACTED]
34. Appendix 1 summarises work MPI is undertaking on minimising costs to small and regional businesses.

⁵ Memorandum accounts monitor revenue and expenditure associated with third party charges and enable MPI to identify when it is under- or over-recovering costs of services. While memorandum account balances fluctuate over time, they should generally trend towards zero.

35. Managing the costs of providing circuit verification services to small and regional businesses is a long-standing issue, with no easy solution. It is driven by a range of factors, including that MPI is the verifier of last resort for businesses that would be unprofitable for alternative providers. In addition the need to meet the requirements of overseas jurisdictions to ensure market access for products limits MPI's ability to achieve cost reductions for export markets.
36. Implementing this proposal now would impose significant increases on small business costs. Given the work programme underway to reduce costs to small and regional businesses (as described above), I consider it is more appropriate to complete this work before imposing any increased costs. Appendix 2 provides further information on the impact of this proposal on a range of different businesses.

Improving transparency

37. MPI has undertaken a significant review of its methodology to calculate costs for all cost recovered services. The consultation document outlined this methodology, and set out the financial impacts for each proposal.
38. The consultation document also contained information about the costs of each proposal, including the drivers of costs and planned investments, the different types of costs that make up charges, service volumes, and information on service efficiency and effectiveness. This level of detail exceeded anything provided by MPI for past consultations on updates to cost recovery charges.
39. While industry acknowledged that transparency has improved, MPI recognises that reporting can be further improved and is working with industry to ensure regular reporting of costs of services to all stakeholders and regulated sectors. Officials advise me that feedback from IRG members through consultation was supportive of the commitment to progress this work over the next few months.

Progressing the proposals

40. Having carefully considered all feedback, I propose to implement six of the seven proposals from 1 July 2018, including a change to update the Biosecurity System Entry Levy rate and maximum rate (set out below). I also intend to consult on two further changes later in 2018, as part of a wider set of improvements to MPI's cost recovery arrangements.

Defer circuit verification changes pending work on small business impacts

41. Taking account of feedback received, and in light of the ongoing work by MPI, I propose not to implement the proposed fee increase for circuit verifications at this time. I still intend that MPI should recover these costs in the medium term. However, as circuit verification services disproportionately affect small and regional business, it is first important to ensure service delivery is as efficient as possible and small business compliance requirements are thoroughly examined.

42. To avoid repeated changes to fees in this area, I have directed MPI to focus on these improvements in the short term and then revisit the costs of providing the service to industry. This will require a write-off of approximately \$200,000 of historical debt that cannot be recovered after 2018/19, and result in a further under-recovery of approximately \$1.6 million in 2018/19.

Timing of Animal Product Act (APA) levy changes

43. In view of farming conditions at the time, the consultation document sought feedback on options for the timing and amount of any levy increases for red meat, dairy and fish processors under the APA.
44. There was little feedback on timing for this proposal, with most submitters silent or requesting implementation from 1 July 2018. However, the dairy industry requested a delay of twelve months to align with their forward planning and budgeting.
45. I consider that implementing the changes for 1 July 2018 will not significantly impact the industry. For example, the proposed change to the levy for the dairy sector equates to approximately \$100 per year for an average dairy farm with \$730,000 annual revenue. Therefore I propose to implement the changes to APA levies for all sectors from 1 July 2018.

Change to Proposal 1: Biosecurity System Entry Levy (BSEL)

46. The consultation document proposed an indicative BSEL increase of \$2.99 per consignment (from \$17.37 to \$20.36). Implementing this increase requires an amendment to the maximum levy rate (cap) specified in the levy order. This cap was proposed in the consultation document to increase from \$18 to \$25.
47. The BSEL funds a range of activities associated with the clearance of imported goods. The Director-General of MPI can reset the BSEL rate by Gazette notice, up to the maximum rate specified in the Biosecurity (System Entry Levy) Order 2010. This allows MPI the flexibility to respond more efficiently to changes in volume and costs over time.
48. Feedback from submitters included that the proposed increase in the maximum levy rate to \$25.00 provides too much discretion for MPI to increase rates in future without Parliamentary scrutiny. I therefore recommend increasing the maximum levy rate to \$23.00. I consider this to be an appropriate balance between allowing enough flexibility in setting the rate and incentivising MPI to provide services efficiently. The indicative levy rate of \$20.36 has now been confirmed following the March Baseline Update.
49. The table below provides a summary of all six proposals, including the fee or levy rate changes. Appendix 3 provides a detailed list of proposed changes to the regulations and levy orders to implement the proposals. Appendix 2 provides further information on the impact of specific proposals on a range of different businesses.

Proposal	Rationale	Current rates	Proposed rates
1. Increase the maximum levy rate to allow for an increase in the Biosecurity System Entry Levy (BSEL), including recovering the full costs for the Joint Border Management System (JBMS) component of the BSEL	Improve equity by charging importers the full costs of biosecurity services at the border relating to goods	Maximum levy rate: \$18 BSEL rate only: \$13.15 JBMS rate: \$4.22 (paid in addition) Total: \$17.37	Maximum levy rate: \$23 BSEL rate only: \$15.24 JBMS rate: \$5.12 (paid in addition) Total: \$20.36
2. Allow the levy period for the Border Clearance Levy (BCL) to be extended to up to 36 months	Improve equity between travellers, reduce volatility in BCL rates and be more transparent for stakeholders	Levy period of 12 months	Levy period of up to 36 months
3. Align biosecurity inspection rates for all jurisdictions	Improve equity by ensuring charges are the same for importers of products from all jurisdictions. This will require updating charges for the European Union and Switzerland	Biosecurity inspections (animal/pet): \$28.19 Inspection of documents: \$28.19 Other types of inspection: \$56.37 Veterinary inspector: \$94.38 per hour	Charged according to time required ⁶ : Biosecurity inspector: \$102.27 per hour Veterinary inspector: \$186.30 per hour
4. Update Animal Products Act (APA) levies for red meat, dairy, and fish processors to recover historical and ongoing deficits	Improve equity and justifiability by ensuring businesses using APA services are charged full costs	20 rates, based on volumes processed or exported	Range from decrease in red meat domestic rates to increase in fish export rate
5. Introduce new charges relating to templates for food control plans developed by third parties under the Food Act, and for a small number of low volume services	Improve equity by ensuring comparability of MPI charges for these and other services	N/A – new charges	Approvals, amendments and renewal of a third party template: \$155 per hour Other charges: range of fixed fees, based on this hourly rate
6. Introduce a targeted rate to address 2015/16 under-recovery of circuit verifications for coolstores, drystores and fish processing facilities	Improve equity and justifiability by ensuring businesses using verification services are charged full costs	N/A – new charge	\$23.60 per hour for two years only (in addition to the general hourly rates)

6 The proposed change would move cost recovery charges from a fixed fee to an hourly rate. As inspections often take less than 1 hour, I do not expect the impact to be significant (\$30,000 per annum in total).

Next steps

50. In the majority of cases, fee and levy updates need to be in place by 1 July 2018 to take effect in the 2018/19 year. If this deadline is not met, new charges will not be able to be put in place until 1 July 2019, larger fee increases are likely to be required, and \$6.4 million will become unrecoverable.
51. Implementing the six proposals requires amendment to the following regulations and orders:
- Animal Products (Fees, Charges, and Levies) Regulations 2007
 - Animal Products (Dairy Industry Fees, Charges, and Levies) Regulations 2015
 - Biosecurity (Costs) Regulations 2010
 - Biosecurity (System Entry Levy) Order 2010
 - [Biosecurity \(Border Processing Levy\) Order 2015](#)
 - Food (Fees and Charges) Regulations 2015.
52. I seek agreement to direct the PCO to draft revisions to the above regulations and levy orders now in order to ensure the changes are in place by 1 July 2018. I will seek Cabinet agreement to the updated charges and policy changes when I seek approval to submit the draft regulations and levy orders to the Executive Council as doing so now would be inconsistent with the Budget moratorium.

Consultation

53. The following departments were consulted, with feedback taken into consideration in the development of this paper: Department of the Prime Minister and Cabinet (Policy Advisory Group), New Zealand Treasury, Department of Internal Affairs, New Zealand Customs Service, Ministry of Foreign Affairs and Trade, Ministry of Business, Innovation and Employment (MBIE), and Ministry of Transport. The State Services Commission has been informed.
54. MPI is one of a number of departments that make up the Border Sector.⁷ MPI works closely with these agencies to ensure any proposals are aligned with the border sector work programme. An important part of this is ensuring that the cumulative impacts of each agency's operations (including cumulative costs to travellers and traders from cost recovery charges) are clearly understood.
55. I am aware of a number of proposals for border charges beyond those in this paper. Other work in development, likely to be consulted on later in 2018 (subject to Ministerial approval) includes:
- A review of immigration-related fees and levies targeting consultation in May 2018 on options for potential mechanisms to improve the way the immigration system is cost recovered (MBIE).

⁷ Border Sector agencies include the Ministry for Primary Industries, New Zealand Customs Service, the Ministry of Business, Innovation and Employment (MBIE), the Ministry of Transport and the Department of Internal Affairs.

- Options for implementing an international visitor levy, targeting consultation in May 2018 on options for a levy (MBIE).
 - Options to collect GST on low value goods imported into New Zealand, targeting consultation in May 2018 (Treasury, Inland Revenue, and Customs).
 - Options for implementing an Electronic Travel Authority for visa-waiver travellers (MBIE) (timing for consultation to be confirmed).
 - Customs is undertaking a review of its cost recovery arrangements; the timing for consultation is to be confirmed.
56. I recommend that existing work and MPI services in the biosecurity sector is fully funded and new proposals are considered on their merits as they progress.

Financial Implications

57. MPI estimates that fully implementing the six proposals would result in an increase of approximately \$9.4 million in third party revenue from charges.
58. As a result of consultation I have decided to delay proceeding with proposal 6, which would increase charges for circuit verification services. This would provide MPI time to implement cost saving initiatives for small and regional businesses. However, delaying the proposal requires MPI to write off \$200,000, putting additional pressure on their cash position.
59. If the increases are not implemented on 1 July 2018, \$6.4 million will become unrecoverable:
- \$1.0 million in proposed fees under the Food Act 2014 will not be able to be collected in the absence of new provisions in the relevant regulations
 - \$5.4 million will be unrecoverable because under the Biosecurity (System Entry Levy) Order, any deficits must be recovered within one year of being incurred.
60. There are significant pressures on MPI's overall financial position. These proposals will alleviate some of MPI's cost pressures for cost recovered activities. However, they will not materially impact MPI's overall financial position as the majority of cost pressures relate to Crown-funded activities.

Legislative Implications

61. There are no proposals to amend primary legislation in this paper.

Regulatory Impact Analysis

62. The MPI Regulatory Impact Analysis Panel has reviewed the Stage 2 Cost Recovery Impact Statement (CRIS2) "A review of cost recovery for selected services provided by the Ministry for Primary Industries" produced by MPI in March 2018. A CRIS2 takes as given previous policy decisions and the decision in principle to recover, focussing on whether the proposed cost recovery level is appropriate and the impacts of the proposed changes.

63. On this basis, the review panel considers that the information and analysis summarised in the Cost Recovery Impact Summary meets the quality assurance criteria. This is based on the panel's current understanding of the quality assurance criteria, noting that the use of a CRIS2 is a relatively new process, and there are few existing CRIS2 against which to benchmark.
64. MPI's Regulatory Quality Team and the Treasury have determined that the proposal to align biosecurity inspections rates for all jurisdictions (Proposal 3) is exempt from the requirement to provide a regulatory impact assessment. The exemption has been granted on the grounds that these regulatory decisions are essential (the minimum necessary) to comply with the international obligations that are binding on New Zealand.

Human Rights, Gender Implications and Disability Perspective

65. There are no human rights, gender or disability implications resulting from the seven proposals set out in this paper.

Publicity

66. I propose that MPI should proactively release this paper (with any necessary redactions) and the resulting Cabinet minute at an appropriate time.
67. I will direct MPI to contact key industry representatives and other stakeholders to advise them of final Cabinet decisions and the proposed timing for changes to come into force.

Recommendations

68. The Minister of Agriculture, Biosecurity and Food Safety recommends that the Committee:

1. **note** that, following agreement from Cabinet on 19 February 2018 (CAB-18-MIN-0041 refers), the Ministry for Primary Industries publically consulted from 21 February to 21 March 2018 on seven cost recovery proposals in the biosecurity and food systems.
2. **note** that these proposals are considered high priority to avoid unrecoverable deficits accumulating in memorandum accounts, reduce the size of future adjustments to fees and levies and minimise the risk of unrecoverable deficits.
3. **note** that the Minister of Agriculture, Biosecurity and Food Safety has considered feedback received during consultation and proposes the following changes:
 - a. the proposed increase to the maximum levy rate for the Biosecurity System Entry Levy is \$23.00 (rather than \$25.00 proposed during consultation); and
 - b. implement changes to Animal Products Act 1999 levies for red meat, dairy, and fish processors, with effect from 1 July 2018 (preferred timing option).
4. **note** that maintaining the current rate for circuit verification services will result in a write-off of approximately \$200,000 of historical debt that cannot be recovered after 2018/19 and a further under-recovery of approximately \$1.6 million in 2019/20.
5. **agree** to maintain the current rate set out in regulations for cost recovery of circuit verification services.
6. **note** that as revenue forecasts in Budget 2018 documents are based on current fee levels, approving updates to charges and new policy now would be inconsistent with the Budget moratorium.
7. **agree** to authorise the Minister of Agriculture, Biosecurity, and Food Safety to issue instructions to the Parliamentary Counsel Office to prepare draft regulations and levy orders to give effect to the following revisions as set out in Appendix 3:
 - a. update the Biosecurity System Entry Levy rate and maximum rate;
 - b. extend the Biosecurity Border Processing Levy (BCL) levy period;
 - c. align the Biosecurity Inspection Fees;
 - d. update levies under the Animal Products Act for red meat, dairy and fish processors;
 - e. introduce new charges under the Food Act; and

- f. introduce a targeted rate over two years for storage premises and fish processors.
- 8. **agree** to authorise the Minister of Agriculture, Biosecurity and Food Safety to make decisions on any further minor or technical issues required to progress the revisions as set out in Appendix 3.
- 9. **Agree** to invite the Minister of Agriculture, Biosecurity and Food Safety to seek Cabinet approval to the updated charges and new policy when he seeks Cabinet approval to submit the draft regulations and levy orders to the Executive Council.
- 10. **note** that for the proposed changes to cost recovery arrangements to be in force by 1 July 2018, the agreed regulations and levy orders must be gazetted no later than 1 June 2018.

Authorised for Lodgement

Hon Damien O'Connor

Minister of Agriculture
Minister for Biosecurity
Minister for Food Safety

Appendix 1: Summary of MPI work programme on minimising costs to small and regional businesses

Project focus	Activity	Benefits	Delivery dates
<i>By September 2018</i>			
<i>Small and regional businesses that export</i>			
Improving MPI verification services	MPI efficiency: <ol style="list-style-type: none"> 1. Allowing national model to fully imbed 2. Review of all components of circuit verification overheads 3. Benchmarking and possible independent verification of MPI efficiency 		<ol style="list-style-type: none"> 1. Update in September 18 2. July 2018 3. July 2018
	Mobility – developing an environment where the circuit staff can be more mobile.	Reduces overheads (accommodation costs) and travel time, meaning less cost to businesses.	Options being considered
<i>Small and regional businesses in domestic market</i>			
Field trials for remote verification (virtual verifier)	Field trials for remote verification (virtual verifier) in food businesses in Auckland and Gisborne. The trials tested different technology options – a smart phone, skype and google glass (smart glasses) – to examine the feasibility for a verifier to carry out a verification without needing to be physically present.	Reduces travel cost which is a significant proportion of the charge for businesses in regional or rural locations. Could result in estimated savings to small food businesses from \$200 - \$1500 per verification.	MPI will brief the Minister for Food Safety by 30 April 2018, completing the assessment of virtual verifier and outlining an opportunity to launch this new initiative, initially in rural food businesses.

Reducing complexity and effort in understanding and complying with food safety and suitability requirements.	<p>Developing templated options, including templates for specialised processes, so a wider range of food businesses can select an “off the shelf” plan for their business.</p> <p>Over the next 18-24 months MPI expects to develop templates for: Wine-makers; Dairy products such as butter; yoghurt, ice cream and liquid milk; Dual operator butchers; Egg producers; Processing of honey and dried pollen; Cold and dry stores; Fish filleting (on inshore vessels); Handling and transporting of animal material and products.</p>	<p>Reduces time taken to complete requirements because small food businesses know what requirements are.</p> <p>Templates reduce or eliminate costs of evaluation (which can be thousands of dollars) for food control plans that have been written “from scratch”.</p>	MPI will release a new template for small cheesemakers on 14 May 2018.
Support a consistent approach across Councils towards food related markets.	<p>Promulgating best practice ‘practice notes’ and clear guidance among councils in applying the requirements of the Food Act to stalls and farmers markets. This would include guidance on appropriate use of current exemption provisions.</p> <p>Monitoring the impact of the Food Act 2014 implementation and identifying opportunities to reduce the cost, effort and time required food businesses to understand and meet requirements.</p>	Provides national consistency for the way market stalls are categorised and clarity about how current exemption provisions apply to market stalls.	MPI will develop guidance for Councils by 31 May 2018.
One business, one plan, one verifier for domestic food businesses	Developing processes and requirements to implement “one business, one plan, one verifier” so that food businesses operating under multiple pieces of food legislation can have all their activities managed together.	Reduces costs to some food businesses through recognising that a registration, food control plans, and verification under one piece of legislation, would meet the requirements of similar requirements under other related legislation.	It is likely MPI will be ready to start offering the initial service to domestic food businesses (non-exporters) from the end of April 2018.
Ongoing work for both export and domestic small food businesses			

Developing systems to enable businesses to provide their information once.	MPI will have supportive structures to enable businesses to advise of changes to their primary business data once and consume the primary business data from the New Zealand Business Number (NZBN) register for multiple purposes.	Expected to reduce time required to complete forms and advise MPI of changes.	Before the end of 2020
Identifying opportunities to partner on the Business Friendly Package of initiatives	MPI is working with the Ministry for Business, Innovation and Employment to explore the opportunities related to the development of e-invoicing and the proposed Business Connect platform.	Opportunity to resolve longstanding business and compliance challenges related to dealing with multiple government agencies.	Scoping work completed by May 2018
Export Regulatory Advisory Service	This service is developing a Customer Relationship Management tool to enable MPI to provide better support to exporters and are providing rules for exporters in multiple formats.	Audit completed quicker as exporter is more familiar with the requirements and therefore more compliant. Results in lower cost.	Ongoing

Appendix 2: Financial impact on MPI and examples of the impacts on industry

Changes to the Biosecurity System Entry Levy (BSEL)

Financial impact on MPI	Impact on importer															
\$5.4 million per annum	<p>This graph illustrates the import costs before and after the proposed increase to the BSEL of \$2.99 (plus GST) on a consignment of shoes worth \$400. The increase is relatively minor when compared to the current costs of importation and the value of the consignment.</p> <div><p>Import costs of shoes worth \$400</p><table><thead><tr><th>Cost Component</th><th>Before</th><th>After</th></tr></thead><tbody><tr><td>Customs Tariff</td><td>40</td><td>40</td></tr><tr><td>Customs IETF</td><td>25.44</td><td>25.44</td></tr><tr><td>GST</td><td>72.42</td><td>72.87</td></tr><tr><td>BSEL + JBMS</td><td>17.37</td><td>20.36</td></tr></tbody></table><p>Legend: Customs Tariff (Orange), Customs IETF (Red), GST (Blue), BSEL + JBMS (Green)</p></div>	Cost Component	Before	After	Customs Tariff	40	40	Customs IETF	25.44	25.44	GST	72.42	72.87	BSEL + JBMS	17.37	20.36
Cost Component	Before	After														
Customs Tariff	40	40														
Customs IETF	25.44	25.44														
GST	72.42	72.87														
BSEL + JBMS	17.37	20.36														

Update Animal Products Act (APA) levies for red meat, dairy, and fish processors to recover historical and ongoing deficits

Financial impact on MPI	Impact on industry																																								
\$2.4 million per annum	<p>The following tables provide examples of the impacts of Proposal 4 to increase the APA levies on a range of red meat, fish, and dairy processors.</p> <table><tr><th colspan="5">Red meat levies on sheep and beef farms</th></tr><tr><th></th><th>Current</th><th>New</th><th>Change</th><th>Revenue</th></tr><tr><td>North Island East Coast hill country</td><td>\$359.56</td><td>\$392.74</td><td>\$33.18</td><td>\$272,000</td></tr><tr><td>South Island Marlborough-Canterbury finishing</td><td>\$309.72</td><td>\$339.46</td><td>\$29.75</td><td>\$231,000</td></tr></table> <p><i>Note: these examples show levies payable from the most common types of sheep & beef farms based on the 2016 average payment per head, excluding revenue from other products.</i></p> <table><tr><th colspan="4">Fish processors of different sizes</th></tr><tr><th></th><th>Current</th><th>New</th><th>Change</th></tr><tr><td>Small processor (20 tonnes export, 20 tonnes domestic)</td><td>\$77.50</td><td>\$77.50</td><td>\$0</td></tr><tr><td>Medium processor (400 tonnes export, 150 tonnes domestic)</td><td>\$230</td><td>\$481</td><td>\$251</td></tr><tr><td>Large processor (7,500 tonnes export, 1,500 tonnes domestic)</td><td>\$4,050</td><td>\$8,730</td><td>\$4,680</td></tr></table>	Red meat levies on sheep and beef farms						Current	New	Change	Revenue	North Island East Coast hill country	\$359.56	\$392.74	\$33.18	\$272,000	South Island Marlborough-Canterbury finishing	\$309.72	\$339.46	\$29.75	\$231,000	Fish processors of different sizes					Current	New	Change	Small processor (20 tonnes export, 20 tonnes domestic)	\$77.50	\$77.50	\$0	Medium processor (400 tonnes export, 150 tonnes domestic)	\$230	\$481	\$251	Large processor (7,500 tonnes export, 1,500 tonnes domestic)	\$4,050	\$8,730	\$4,680
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	Large processor with multiple plants and vessels	\$37,900	\$84,440	\$46,540
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Dairy levies on different sized farms				
Herd size	Current	New	Change	Revenue
200-249	\$204.71	\$273.09	\$68.38	\$528,000
300-349	\$299.67	\$399.78	\$100.10	\$773,000
500-549	\$509.70	\$679.95	\$170.25	\$1,315,000
1500+	\$1,633.13	\$2,178.64	\$545.51	\$4,215,000

Note: These examples show the levy payable on milk from dairy farms at the lower quarter, middle and upper quarter marks of herd sizes, as well as on the largest farms. The revenue estimate is based on the current Fonterra payout of \$6.55 per kg.

Update rates for circuit verifications

Financial impact on MPI	Impact on industry																																																																																															
\$2.1 million per annum	<p>The following tables illustrate the impacts on industry if the proposal to increase the rates for circuit verification services (proposal 6 from the consultation document) and the proposal to introduce a targeted rate for storage premises and fish processors (proposal 7 from the consultation document).</p> <p>However, I have been mindful of the impact of any cost increases, especially on small and regional business and therefore recommend only to implement the targeted rate for storage premises and fish processors.</p>																																																																																															
	<table><tr><th colspan="5">Impact of circuit verification charges on an average operator</th></tr><tr><th>Processor category</th><th>Annual hours</th><th>Current charge</th><th>Proposed increase as consulted (Proposal 6 and 7)</th><th>Recommended increase (Proposal 7 only)³</th></tr><tr><td colspan="5">Typically small sized processors</td></tr><tr><td>Bee products</td><td>10.0</td><td>\$1,650</td><td>\$396</td><td>\$0</td></tr><tr><td>Dual operator butchers¹</td><td>5.0</td><td>\$825</td><td>\$198</td><td>\$0</td></tr><tr><td>Eggs</td><td>5.5</td><td>\$908</td><td>\$218</td><td>\$0</td></tr><tr><td>Hides and wool</td><td>4.0</td><td>\$660</td><td>\$158</td><td>\$0</td></tr><tr><td colspan="5">Typically medium sized processors</td></tr><tr><td>Shellfish</td><td>37.75</td><td>\$6,229</td><td>\$2,384</td><td>\$891</td></tr><tr><td>Petfood</td><td>30.75</td><td>\$5,074</td><td>\$1,216</td><td>\$0</td></tr><tr><td>Pharmaceutical</td><td>23.0</td><td>\$3,795</td><td>\$910</td><td>\$0</td></tr><tr><td colspan="5">Typically medium/large sized processors</td></tr><tr><td>Coldstore</td><td>69.75</td><td>\$11,509</td><td>\$4,405</td><td>\$1,646</td></tr><tr><td>Drystore</td><td>22.5</td><td>\$3,713</td><td>\$1,421</td><td>\$531</td></tr><tr><td>Wetfish</td><td>44.25</td><td>\$7,301</td><td>\$2,795</td><td>\$1,044</td></tr><tr><td colspan="5">Typically large sized firms</td></tr><tr><td>Secondary Processors²</td><td>76.5</td><td>\$12,623</td><td>\$3,026</td><td>\$0</td></tr><tr><td>Poultry</td><td>75.25</td><td>\$12,416</td><td>\$2,977</td><td>\$0</td></tr><tr><td colspan="5">Note: These examples show the charges payable by a range of processors. The number of verification hours is based on the median hours for each type of processor.</td></tr></table>	Impact of circuit verification charges on an average operator					Processor category	Annual hours	Current charge	Proposed increase as consulted (Proposal 6 and 7)	Recommended increase (Proposal 7 only) ³	Typically small sized processors					Bee products	10.0	\$1,650	\$396	\$0	Dual operator butchers ¹	5.0	\$825	\$198	\$0	Eggs	5.5	\$908	\$218	\$0	Hides and wool	4.0	\$660	\$158	\$0	Typically medium sized processors					Shellfish	37.75	\$6,229	\$2,384	\$891	Petfood	30.75	\$5,074	\$1,216	\$0	Pharmaceutical	23.0	\$3,795	\$910	\$0	Typically medium/large sized processors					Coldstore	69.75	\$11,509	\$4,405	\$1,646	Drystore	22.5	\$3,713	\$1,421	\$531	Wetfish	44.25	\$7,301	\$2,795	\$1,044	Typically large sized firms					Secondary Processors ²	76.5	\$12,623	\$3,026	\$0	Poultry	75.25	\$12,416	\$2,977	\$0	Note: These examples show the charges payable by a range of processors. The number of verification hours is based on the median hours for each type of processor.				
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(1) Dual operator butchers are where a retail butchery, who supplies for the market (domestic or																																																																																																

	export), and also processes homekill or recreational catch at the same premises.
	(2) If a business processes animal products beyond primary processing (which is defined as slaughter and dressing) then they are considered to be a secondary processor.
	(3) Proposal 7 would introduce a targeted rate on storage premises and fish processors over a 2 year period. The targeted rate would then be removed on 1 July 2020.

Combined impact on fish processors

The table below illustrates the current charges, new charges, and the combined impact on from the three proposals that will impact on fish processors:

- Proposal 4: Updating the Animal Products Act levies
- Proposal 7: Introducing a targeted rate on circuit verifications for storage premises and fish processors.

<i>Combined impact on fish processors of different sizes¹</i>			
	Current charge	New charge from 1 July 2018 until 30 June 2020 ²	Change from current charge
Small processor (20 tonnes export, 20 tonnes domestic, 15.5 hours of verification)	\$2,553	\$2,907	\$354
Medium processor (400 tonnes export, 150 tonnes domestic, 51.2 hours of verification)	\$8,480	\$9,911	\$1,431
Large processor (7,500 tonnes export, 1,500 tonnes domestic, 102.8 hours of verification)	\$20,550	\$27,590	\$7,040
Large processor with multiple plants and vessels (621.3 hours of verification)	\$145,150	\$207,030	\$61,880

- (1) The combined impact of these three proposals on a range of different sized fish processors. These charges are in addition to cost recovery under the Fisheries Act 1996 on commercial fisheries.
- (2) Proposal 7 would introduce a targeted rate on storage premises and fish processors over a 2 year period. The targeted rate would then be removed on 1 July 2020.

Appendix 3: Proposed revisions to cost recovery regulations and levy orders

All rates are exclusive of GST.

All changes are to come into force from 1 July 2018.

Increase the maximum rate for the Biosecurity System Entry Levy (BSEL) and increase BSEL rate to fully recover costs		
	Current	From 1 July 2018
Biosecurity (System Entry Levy) Order 2010	Maximum levy rate: \$18 BSEL only: \$13.15 JBMS component: \$4.22 BSEL plus JBMS: \$17.37	Maximum levy rate: \$23 BSEL only: \$15.24 JBMS component: \$5.12 BSEL plus JBMS: \$20.36

Enable the Traveller Border Clearance Levy (BCL) to be set for a period of up to 3 years)		
	Current	From 1 July 2018
Biosecurity (Border Processing Levy) Order 2015	levy period is defined as a period of 12 months beginning with 1 July and ending with 30 June.	levy period is redefined to be a period of up to 36 months beginning with 1 July and ending with 30 June.

Align biosecurity inspections rates for all jurisdictions			
Biosecurity (Costs) Regulations 2010	Schedule Item and service	Current EU and Switzerland rates	Aligned rates from 1 July 2018
	Item 8 Monitoring controls on new organisms in containment facilities	\$102.27 per hour for each general inspector \$94.38 per hour for each veterinary inspector	\$102.27 per hour for each general inspector \$186.30 per hour for each veterinary inspector
	Item 9 Inspection of animal after arrival	\$28.19 per animal imported directly from EU member country or Switzerland	\$102.27 per hour for each general inspector \$186.30 per hour for each veterinary inspector \$49.61 per pet animal unless the pet animal requires veterinary inspection
	Item 11 Inspection and monitoring of an animal or plant held in a transitional or containment facility	\$102.27 per hour for each general inspector \$94.38 per hour for each veterinary inspector	\$102.27 per hour for each general inspector \$186.30 per hour for each veterinary inspector
	Item 12 Inspection of a	\$28.19 for inspection of documents for each	\$102.27 per hour for each general inspector

	consignment of animal material (other than fish meal)	consignment imported directly from EU member country or Switzerland \$56.37 for other types of inspection for each consignment imported directly from EU member country or Switzerland	\$186.30 per hour for each veterinary inspector
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Update levies under the Animal Products Act for red meat, dairy and fish processors					
Animal Products (Fees, Charges, and Levies) Regulations 2007		Operators that process wholly or partly for export		Operators that process only for consumption within New Zealand	
		Current levy (per head)	Proposed levy (per head)	Current levy (per head)	Proposed levy (per head)
	Lambs, bobby calves	\$0.135	\$0.150	\$0.04	\$0.027
	Goats	\$0.12	\$0.125	\$0.04	\$0.027
	Sheep	\$0.157	\$0.169	\$0.04	\$0.030
	Pigs	\$0.31	\$0.311	\$0.09	\$0.067
	Cattle	\$0.974	\$1.047	\$0.25	\$0.188
	Deer	\$1.38	\$0.872	\$1.04	\$0.188
	Horses	\$0.86		\$0.25	
	Ostriches, emus	\$22.00		\$3.50	
		Current levy (per tonne)	Proposed levy (per tonne)	Current levy (per tonne)	Proposed levy (per tonne)
	Fish (other than bivalve molluscan shellfish)	\$0.50	\$1.12	\$0.20	\$0.22
Animal Products (Dairy Industry Fees, Charges, and Levies) Regulations 2015	Service area	TCMPI Annual, being the Ministry for Primary Industries' total cost payable by large processors		ETCMPI Annual, being the Ministry for Primary Industries' total cost payable by large exporters	
		Current	From 1/7/2018	Current	From 1/7/2018
	Standards setting, compliance and monitoring	\$3,441,944	\$4,935,867	\$1,258,824	\$1,355,100

New charges under the Food Act

Food (Fees and Charges) Regulations 2015	Service	New charge from 1 July 2018
	Approval, amendment and renewal of a section 40 template	\$155 per hour
	Amendment and voluntary suspension of a food control plan based on a section 39 template	\$77.50 per application, plus \$155 per hour after the first 30 minutes
	Registration of a food control plan based on a section 40 template	\$193.75 per application, plus \$155 per hour after the first 1 hour and 15 minutes
	Renewal of registration of a food control plan based on a section 40 template	\$77.50 per application, plus \$155 per hour after the first 30 minutes
	Renewal of laboratory approval and amendments between renewals of the details of laboratory approval	\$77.50 per application, plus \$155 per hour after the first 30 minutes
	Amendment between renewals of the details of recognition of agency, person or class of persons	\$77.50 per application, plus \$155 per hour after the first 30 minutes
	Waiver under section 53(3)(b) from the requirement for a custom food control plan to be evaluated	\$348.75 per application, plus \$155 per hour after the first 2 hours and 15 minutes
	Approval under section 291 to meet a requirement of the Act (except laboratory approvals) and renewal and amendments between renewals of the details of section 291 approvals	\$77.50 per application, plus \$155 per hour after the first 30 minutes

Introduce a targeted rate over two years for storage premises and fish processors			
Animal Products (Fees, Charges, and Levies) Regulations 2007		Current (\$ per hour)	From 1 July 2018 (\$ per hour)
	Additional targeted rate for verification of cool stores and other storage premises and fish processors		This charge applies for two years to 30 June 2020
		N/A	23.60