Appendix 1:
Impact Summary: LEVY ORDER TO FUND AVOCADO INDUSTRY BIOSECURITY RESPONSE COMMITMENTS UNDER THE GOVERNMENT INDUSTRY AGREEMENT

Section 1: General information

Purpose
The Ministry for Primary Industries (MPI) is solely responsible for the analysis and advice set out in this Impact Summary, except as otherwise explicitly indicated. This analysis and advice has been produced for the purpose of informing key policy decisions to be taken by Cabinet.

Key Limitations or Constraints on Analysis
This impact summary relies on information held by MPI and/or supplied by the New Zealand Avocado Growers Association Incorporated (NZAGA), the industry body recognised as representing the commercial avocado growers sector (avocado sector) for the purposes of the Government Industry Agreement (GIA). Annex 1 describes the organisational structure of the avocado sector. *Constraints on analysis* NZAGA's application for mandate to represent the avocado sector, for the purpose of signing the GIA Deed (the Deed), was approved by the Minister for Primary Industries on 2 December 2015, under section 100ZA of the Biosecurity Act 1993 (the Act). As part of gaining this approval, NZAGA proposed the establishment a new biosecurity levy, under section 100ZB of the Act. The purpose of the proposed levy is to fund NZAGA's cost-share commitments for any implemented GIA operational agreements, under the Act, relating to response activities. A further constraint on the analysis of NZAGA's proposed biosecurity levy is that the amount of funding required for GIA response activities is difficult to predict. If and when a response is implemented, the size of the response can vary significantly.
Responsible Manager (signature and date):
Andrew Bell Acting Director Biosecurity and Animal Welfare Directorate Ministry for Primary Industries

Section 2: Problem definition and objectives

2.1 What is the policy problem or opportunity?

Policy problem

NZAGA signed the Deed on 25 February 2016.

The policy problem for NZAGA is that, as the mandated Deed signatory representing the avocado sector, it must honour its cost-share commitments under the Deed. However, there is currently no dedicated funding mechanism to enable NZAGA to fund its cost-share commitments for any implemented operational agreements relating to response activities.

MPI has confidence in the evidence and assumptions for the policy problem, on the basis that:

- MPI and primary sector industry organisations collaborated on drafting the Deed; and
- under the terms of the Deed, operational agreement signatories would undertake joint decision-making and agreed cost-sharing for operational agreements signed and implemented under the Deed.

Context for the policy problem

Prior to GIA, most responses to unwanted organisms in New Zealand were fully funded by government. A primary driver for the development of GIA was a recommendation from the 2005 *Biosecurity Funding Review* that industry sectors should share decision-making and funding for biosecurity readiness or response services that are of direct benefit to them. A closer working relationship between government and industry can enable better identification of the biosecurity risks that are important to industry, and the opportunities to reduce those risks.

NZAGA has requested MPI to proceed with establishing a biosecurity levy that NZAGA had proposed as part of gaining approval to sign the Deed. The levy would enable NZAGA to fund its cost-share commitments for any implemented operational agreements relating to response activities.

2.2 Who is affected and how?

How the proposed biosecurity levy would fit into the GIA framework in terms of an operational agreement

Operational agreements prescribe the structure, roles, responsibilities, and cost-share arrangements, based on agreed benefit shares, for managing readiness and response activities for unwanted organisms. Operational agreements can be solely for either readiness or response activities, or can be for both readiness and response activities.

Section 100ZB of the Act provides for the imposition of a levy to wholly or partly fund an industry organisation's cost-share commitments under any implemented operational agreements.

Under the terms of the Deed, each operational agreement must have MPI, as signatory for government, and one or more industry organisation signatories.

Schedule 2 of the Deed (reproduced as Table 1 in the attached Appendix 2: Stage 1 Cost Recovery Impact Statement) provides the cost-share framework for operational agreement negotiations.

MPI, on behalf of the Crown, would pay its cost share, for an implemented operational agreement relating to GIA response activities, out of Crown taxation revenue (i.e. the proposed biosecurity levy is for NZAGA purposes only and not for Crown purposes).

MPI would pay up-front the full cost of an implemented operational agreement relating to response activities so that the response could proceed. MPI would seek repayment on agreed terms, pursuant to the relevant operational agreement. MPI would invoice NZAGA for the amount of NZAGA's agree cost-share for the response. The time period for NZAGA to make repayment to MPI may span several years, and potentially be up to ten years for a very large response.

The NZAGA Executive would activate the proposed biosecurity levy by setting the actual levy rates, for export market and domestic market avodados, above their default rates of zero but within the proposed maximum rates. This would enable NZAGA to recover funds from avocado growers (growers) to repay its cost-share for the operational agreement to MPI.

Once NZAGA had paid its cost-share for the response, the NZAGA Executive would re-set the actual levy rates to zero until NZAGA needed to fund its cost-share for a subsequent implemented operational agreement relating to response activities.

How the proposed biosecurity levy would affect avocado growers and purchasers

If the proposed biosecurity levy had been implemented in 2016/17, with its actual levy rates set at their proposed maximum rates, the average proportional impact on growers, would have been around 0.26% (i.e. around ¼ of 1%) of grower earnings per hectare for 2016/17 (see page 7 of the attached Appendix 2: Stage 1 Cost Recovery Impact Statement).

Therefore, even if the proposed biosecurity levy was implemented at its proposed maximum rates, domestic and international market purchasers of avocados would be unlikely to pay more than a very small amount more for avocados, as a consequence of the levy.

2.3 Are there any constraints on the scope for decision making?

The Deed provides the contractual basis for signatory industry organisations, such as NZAGA, to negotiate and sign operational agreements between themselves and other industry organisations and MPI.

As part of gaining approval for to sign the Deed, NZAGA proposed the establishment a biosecurity levy as a mechanism for funding its cost-share commitments for any implemented operational agreements relating to response activities. This effectively creates a constraint on the scope for NZAGA decision making on a response funding mechanism.

Section 3: Options identification

3.1 What options have been considered?

To be effective in supporting the objective of the Deed, the following six criteria have been chosen to assess options for a mechanism to fund an industry signatory's cost-share commitments under an operational agreement relating to response activities:

(I) flexible enough to allow for changes in costs to be funded;
(II) wide industry coverage (i.e. applicable to most or all of the avocado sector);
(III) covers costs of engaging with MPI and other industries throughout a response;
(IV) transparent to growers as levy payers;
(V) response activities are referable back to the purpose of the funding mechanism; and
(VI) provides security of funding (i.e. sustainable and not subject to renewal requirements).

MPI has reviewed the options for a funding mechanism for NZAGA to meet its cost share for an operational agreement relating to response activities. The options are:

Option 1: Status quo;

Option 2: Existing Commodity levies (Avocados) Order 2013;

Option 3: Proposed biosecurity levy; and

Option 4: Non-regulatory.

Option 1: Status quo

NZAGA, as a Deed signatory, has agreed to meet its requirements under the Deed. It has agreed, under the Deed, that if it were to benefit from an operational agreement it had not signed relating to response activities, it would act in good faith to become a signatory to that operational agreement. Therefore, the status quo option to do nothing would be counter to that Deed requirement. Also, to do nothing would be a contractual breach of a signed operational agreement.

Conclusion

Option 1 cannot satisfy any of the six criteria. Therefore the above analysis does not support this option for NZAGA.

Option 2: Existing Commodity levies (Avocados) Order 2013

The Commodity Levies (Avocados) Order 2013 (commodity levy) was established to support the activities of NZAGA. However, the implementation of the commodity levy predated the avocado sector joining GIA, and the levy funds collected are currently fully allocated to purposes other than GIA responses. Also, the actual levy rates for the commodity levy must be fixed for each subsequent year, which would limit flexibility to allow for changes in response costs.

NZAGA wants the actual levy rates for a proposed funding mechanism to be set at zero, until the mechanism is needed to fund NZAGA's cost-share commitment for an implemented operational agreement relating to response activities. However, the Commodity Levies Act 1990 does not make provision for an actual levy rate to be set at zero.

The commodity levy does provide wide industry coverage, and its operation is transparent to levy payers. However, the commodity levy does not allow the funds it collects to be used to meet the costs of NZAGA engaging with MPI and other industries under a response.

Growers must decide whether to vote to renew, amend, or shut down the commodity levy every six years, as is the case for all commodity levies. If growers are unhappy with how the commodity levy is operating, they are able to vote down the levy. Therefore, the commodity levy cannot be relied upon to provide sustainable security of funding for response purposes.

Conclusion

Option 2 can only satisfy criterions (II) and (IV). Therefore the above analysis weakly supports this option for NZAGA.

Option 3: Proposed biosecurity levy

NZAGA's proposal of the biosecurity levy, as a mechanism for providing funding for the avocado sector's response commitments, identifies growers as the primary beneficiaries as well as the primary funders.

All growers were consulted on the purpose and process of the levy.

The NZAGA Executive may change the actual levy rates, within the maximum rates, at any time, providing flexibility to allow for changes in response costs. The levy would apply to all growers and be fully transparent, given that NZAGA provided full details of the proposed biosecurity levy to growers during consultation.

The levy order would specify that use of levy funds would be referable back to the purpose of meeting NZAGA's cost-shares for implemented operational agreements relating to response activities, including costs of engagement in operational agreement negotiations.

Conclusion

Option 3 can satisfy all six criteria. Therefore the above analysis strongly supports this option for NZAGA.

Option 4: Non-regulatory

A non-regulatory option, e.g. a non-binding voluntary funding arrangement for growers, would need to be capable of meeting the contractual specifications, and security of funding, that an operational agreement would require relating to response activities.

Conclusion

Option 4 cannot satisfy any of the six criteria. Therefore the above analysis does not support this option for NZAGA.

3.2 Which of these options is the proposed approach?

Annex 3 provides a table summary and brief commentaries on the four options in terms of the analysis in section 3.1 above. The table illustrates how Option 3 is the proposed approach for NZAGA by satisfying all six criteria. In summary:

- Option 3 offers NZAGA a clear advantage over Option 2, as option 3 is not subject to termination after six years if not renewed via referendum as required for option 2;
- Option 1 would not be feasible as it would be counter to NZAGA's Deed requirement to act in good faith and become a signatory to an operational agreement it would benefit from relating to response activities; and
- Option 4 would not be feasible as it would not enable NZAGA to meet the contractual specifications, and security of funding, that an operational agreement would require.

NZAGA's proposed approach in terms of Option 3

NZAGA's proposed maximum levy rates

The proposed maximum levy rates would be 5 cents (plus GST if any) per 5.5kg tray equivalent for avocados sold for export, and 0.25% of the selling price (plus GST if any) for avocados sold domestically.

These proposed maximum levy rates are based on NZAGA's:

- modelling of past biosecurity response costs;
- understanding of the avocado sector's potential cost-share commitments for any implemented operational agreements relating to response activities;
- knowledge of what funding was needed, over a four-year period, when a voluntary grower levy was previously established for the sector's response to avocado sunblotch viroid (ASBVd);[1] and
- knowledge of what funding would be sustainable for the sector.

NZAGA's proposed actual levy rates

The proposed actual levy rates would be set at zero, under section 100ZD(3) of the Act, until NZAGA was required to fund its cost-share commitment for an implemented operational agreement relating to response activities.

NZAGA would only activate the proposed biosecurity levy to collect levy funds needed to repay, to MPI, NZAGA's cost-share commitment for an implemented operational agreement relating to response activities.

NZAGA would determine appropriate actual levy rates, within the maximum levy rates, by looking at avocado sector returns averaged across four years to ensure that the actual levy rates set would be fair and equitable across growers supplying export or domestic markets, or both.

Once NZAGA had fully paid its cost-share for a response, it would re-set the actual levy rates to zero until it was required to meet its cost-share for a subsequent implemented operational agreement relating to response activities.

Levy activation process

NZAGA would notify growers and collection agents when the proposed biosecurity levy was to be activated. This would be through existing communication channels including e-newsletters, grower forums, AGMs, and special general meetings.

[1] ASBVd is an important disease affecting avocado trees. Infections result in lower yields and poorer quality fruit.

Section 4: Impact Analysis (Proposed approach)

4.1 Summary table of costs and benefits

Affected parties	Comment	Impact
Additional costs of proposed approach, compared to taking no action		
Estimated monetised cost per hectare per year, on average, to growers if proposed biosecurity levy rates raised from zero to proposed maximum rates to meet NZAGA's cost-share commitment for an implemented operational agreement relating to response activities	Growers are currently producing avocados at a rate of around 11 tons per hectare per year, on average, which is equivalent to around 2000 5.5kg trays per hectare per year. *Export market* Under the proposed biosecurity levy, if the actual levy rate was set at the proposed maximum rate of 5 cents per 5.5kg tray, then a grower producing 2000 trays per hectare per year for the export market would pay $100 per hectare per year, on average. *Domestic market* Under the proposed biosecurity levy, if the actual levy rate was set at the proposed maximum rate of 0.25% of selling price, then a grower producing 2000 trays per hectare per year for the domestic market would pay $100 per hectare per year, on average. This is because 0.25% of the 2016/17 average market price of around $18.30 per 5.5kg tray would be equivalent to around 5 cents per 5.5kg tray. *Export and domestic markets* In 2016/17, an avocado grower received, on average, $38,886 orchard gate return per hectare. Therefore, if actual levy rates were set at the proposed maximum rates for both export and domestic markets, a grower's levy costs of around $100 per hectare per year, on average, would be equivalent to around 0.26% (i.e. around ¼ of 1%) of a grower's average orchard gate return of $38,886 per hectare per year. On average, an avocado grower's costs per hectare per year are around $10,000 plus contract picking costs of around $6,500 which some growers are able to reduce by managing their own picking. This range of costs between $10,000 and $16,500 would be around 26% to 42% of a grower's average orchard gate return of $38,886 per hectare per year. NZAGA's view is that the additional cost of a levy charge on growers of around $100 per hectare per year, on average, would be manageable if actual levy rates were set at their proposed maximum rates and 2016/17 prices were maintained, and MPI concurs.	Low

Estimated monetised cost of proposed biosecurity levy to growers for 2017/18, as a proportion of estimated monetised cost to growers of: proposed biosecurity levy, commodity levy, fees, and registrations (if levy rates raised from zero to proposed maximum rates to meet NZAGA's cost-share commitment for an implemented operational agreement relating to response activities)	Avocado trees are inherently biennial cropping due to their two-year growth phenology, as explained in the following section 4.2. NZAGA's estimated crop volume for 2017/18 is for 2.6 million trays in export markets, and 1.3 million trays sold in the domestic market. This estimated crop volume for 2017/18 is lower than the actual crop volume for 2016/17 as 2016/17 was a cyclically high crop volume year. Assuming 2016/17 avocado demand and prices maintain during 2017/18, and if the export and domestic actual levy rates for the proposed biosecurity levy are set at their maximum rates, the proposed biosecurity levy would generate an estimated $210,000 (i.e. $135,000 export plus $75,000 domestic). This would comprise around 7.7% of the estimated impact on growers of the proposed biosecurity levy, the commodity levy, fees, and registrations of $2,710,714. The above analysis indicates the potential for the proposed biosecurity levy to generate $210,000 in 2017/18, plus a gradually increasing yearly amount averaged over successive future years based on industry growth plans. The proposed biosecurity levy would earn up to around $200,000 per year if actual rates were set at their maximum rates. NZAGA considers this rate of levy collection to be: • manageable for growers; and • an upper limit of what may be needed annually to pay its cost share for a large response.	Low
Estimated NZAGA cost-share under a response operational agreement	NZAGA's cost-share for an implemented operational agreement relating to response activities will depend on its agreed cost-share per response cost (as agreed with the other signatories relative to their respective agreed cost-shares per response cost). Schedule 2 of the Deed (reproduced as Table 1 in the attached Appendix 2: Stage 1 Cost Recovery Impact Statement) provides the cost-share framework for operational agreement negotiations. By way of example, Table 2 in Annex 2 provides the agreed cost-share proportions for response levels 1, 2, and 3, under the current Fruit-Fly Operational Agreement for which NZAGA is a signatory. The MPI and overall industry cost-share proportions in Table 2 are derived from cost-share categories 7, 8, and 9 in Table 1 in the attached Appendix 2: Stage 1 Cost Recovery Impact Statement. Under the Fruit-Fly Operational Agreement, NZAGA's agreed cost-share is 4.06% of the overall industry cost-share. Table 3 in Annex 2 shows NZAGA's estimated cost-share for a level 3 fruit-fly response to be $487,200.	Range from Low to High

	Based on the above analysis and assumptions that indicate the potential for the proposed biosecurity levy to generate $210,000 in 2017/18, NZAGA could repay its estimated cost-share for a level 3 fruit-fly response within three years.	
Estimated monetised resource cost to MPI to establish the proposed biosecurity levy	Resource cost to MPI for: • processing the application for the proposed biosecurity levy; • drafting briefings and Cabinet papers for Cabinet and Executive Council approval of the proposed biosecurity levy; and • drafting subsequent briefings and Cabinet papers for Cabinet and Executive Council approval of a proposal to raise the actual levy rates of the biosecurity levy above zero, to fund NZAGA's cost-share commitments for any implemented operational agreements relating to response activities. An estimated range for this MPI resource cost, over six to eight weeks, would be $19,200 to $25,600 based on an MPI analyst cost rate of $80 per hour.	Low
Non-monetised cost to wider government	Resource costs to: • the Parliamentary Counsel Office for drafting the levy order, and • Cabinet and the Executive Council for confirming and bringing the levy order into effect.	Low

Expected benefits of proposed approach, compared to taking no action		
Non-monetised benefits to: • **the avocado sector, as a signatory to implemented operational agreements relating to response activities;** • **other industry sector signatories to those operational agreements; and** • **the New Zealand public indirectly via outcomes from those operational agreements**	In accordance with Part 5A of the Act, GIA enables joint decision-making and cost-sharing for operational agreements relating to response activities that provide a mix of public and private (i.e. industry) benefits. The proposed biosecurity levy would enable NZAGA to fund its cost-share commitments for any implemented operational agreements relating to response activities. The long-term benefit to growers would be expected to far outweigh the cost of the proposed levy on growers. This is because the agreed cost-shares for an operational agreement would be applied to MPI and other industry signatories in proportion to the corresponding estimated benefit-share percentages in Schedule 2 of the Deed (reproduced as Table 1 in the attached Appendix 2: Stage 1 Cost Recovery Impact Statement). Where multiple industry organisations are signatories to an operational agreement relating to response activities, their individual cost-share proportions of the overall industry cost-share would be negotiated and specified in the agreement.	High

	As potential beneficiaries, industry organisations are best placed to assess whether mounting a GIA response to an unwanted organism, in partnership with MPI, would deliver: • net industry benefits; and • the priority of those net benefits relative to alternative investments. Many of the benefits of improved biosecurity outcomes from GIA accrue directly to industry and indirectly to the New Zealand public. GIA will strengthen industries' focus on biosecurity, and make MPI more responsive to industry priorities and emerging biosecurity risks arising from New Zealand's increasing levels of international trade and international visitors.	

4.2 What other impacts is this approach likely to have?

Potential risks and uncertainties

Avocado trees are inherently biennial cropping due to the two-year growth phenology of avocado trees, with major differences in tree growth, flowering, and the amount of fruit to harvest in each year. This results in avocado trees alternately producing a larger crop every second growing season, and a smaller crop each intervening growing season, with production potentially varying by up to around 40% to 50% between growing seasons.

In the 'off'-flowering year, a large crop is harvested but flowering and fruit set is poor.
In the 'on'-flowering year, a smaller crop is harvested but flowering and fruit set is very good.

Biennial cropping can partly account for yearly differences in industry production values, as shown in Table 1 below.

Table 1: Avocado industry production values ($million) for the last six seasons

Year	Export	Domestic	Processed	Total
2016/17	$155.5	$40.3	$4.5	$200.3
2015/16	$91.4	$40.4	$2.1	$133.9
2014/15	$101.4	$30.5	$2.7	$134.6
2013/14	$102.9	$33.0	$0.0	$135.9
2012/13	$31.6	$28.7	$0.1	$60.4
2011/12	$62.9	$19.0	$0.2	$82.1

Biennial cropping, combined with annual fluctuations in market prices, would create potential risks and uncertainties for predicting income from the proposed biosecurity levy in future years.

Section 5: Stakeholder views

5.1 What do stakeholders think about the problem and the proposed solution?

From 2011, NZAGA provided a series of communications to engage with growers regarding signing the Deed, the proposed funding mechanisms, and how the avocado sector's views would be represented on national biosecurity issues.

Growers passed a motion at NZAGA's 2013 AGM requesting a postal ballot to determine sector support for NZAGA to sign the Deed and any related funding commitments. Formal consultation started in March 2015. Consultation included five grower roadshows across the major growing regions of Bay of Plenty and Northland, and a postal ballot. The purpose of the postal ballot was to determine the level of grower support for the proposals to sign the Deed and establish a biosecurity levy to fund response commitments.

At the roadshows, NZAGA discussed how the NZAGA Executive would make decisions on biosecurity issues under GIA. Prior to the NZAGA Executive making decisions relating to joint decision-making, cost-sharing, and levy arrangements under operational agreements, relevant information would be communicated to growers to enable them to provide feedback.

The question asked of growers during the postal ballot was:
"Do you support NZAGA becoming a signatory to the Deed and the establishment of a Biosecurity Act Levy on all avocados grown and sold for consumption as fresh fruit?"

NZAGA widely publicised the postal ballot which closed on 31 March 2015.

Growers were given the opportunity to attend a GIA roadshow and vote in the postal ballot. Of the 21% voter turnout, 87% were in favour of the postal ballot question and 13% were against, when weighted by their respective avocado production volumes. Voter turnout for previous NZAGA resolutions and commodity levy votes has regularly been between 18-26%.

There was very little negative feedback from growers on the proposed biosecurity levy. Communications from growers were mostly simple requests for further clarification. The requests, and the associated NZAGA responses, were posted on the New Zealand Avocado website (www.nzavocado.co.nz) to provide all growers with the opportunity to hear all industry viewpoints.

Some growers were concerned with the potential scale of response funding commitments under GIA operational agreements. Their concern was due to the two-year growth phenology of avocado trees that causes the trees, on average, to yield a larger crop every second year. NZAGA responded to these concerns by confirming that the NZAGA Executive would take production variability into account when it determines what actual levy rate to activate in the event of a response. That determination would look to ensure fair contributions across avocado growing regions.

Section 6: Implementation and operation

6.1 How will the new arrangements be given effect?

Implementation and operation of the proposed biosecurity levy

Legislative vehicle

The proposed biosecurity levy would be given effect by an Order In Council. Following publication of the required notice announcing the levy order in the New Zealand Gazette, the levy order would come into effect after 28 days.

Levy collection

The export market and domestic market proposed maximum levy rates each have a different basis, due to what NZAGA has found to be the most practical and effective means of levy collection in each market.

The companies that export avocados pay growers on the basis of what sales returns eventuate in export markets. Therefore, the most practical and effective way for exporting companies, as collection agents, to collect the proposed biosecurity levy from growers would be to apply the levy on volume of avocados supplied for export.

However, the most practical and effective way to collect the proposed biosecurity levy from growers who supply avocados for the domestic market would be to apply the levy on price at the first point of sale, i.e. by a collection agent whose business is or includes:

a) buying fresh avocados from a grower for resale, in which case the collection agent would collect the levy on the date of purchase of the avocados from the grower; or
b) selling fresh avocados on behalf of a grower, in which case the collection agent would collect the levy on the date of sale of the avocados to a third party.

The levy would be deducted from payments to growers and paid to NZAGA by collection agents. No collection fees would be permitted to be deducted by collection agents. Growers who sell other than to, or through, a collection agent would pay the levy directly to NZAGA on an annual basis. These levy collection arrangements would be the same as those currently in place for the existing commodity levy.

Communication during implementation

NZAGA would inform growers when a Gazette notice announcing the levy order was published. Growers would also be reminded of the date the levy would come into effect and the arrangement agreed to, during consultation, that the default actual levy rates for both export market and domestic market avocados would be set at zero. The NZAGA Executive would only activate the levy, by setting actual levy rates above zero, to fund NZAGA's cost-share commitment for an implemented operational agreement relating to response activities.

The NZAGA Executive would consult with growers through its existing communication channels to ensure their views were being taken into account prior to making significant decisions relating to joint decision-making, cost-sharing, and levy arrangements under operational agreements. All growers would be responsible for paying the proposed biosecurity levy once it was activated, and no growers would be exempt. A new commercial avocado grower would be subject to the levy from the time they began selling avocados, and there would be no exception if this was during a response.

NZAGA would use funds from the proposed biosecurity levy to fund NZAGA's cost-share commitments for any implemented operational agreements relating to response activities. The levy would not be used for any commercial or trading activity.

Resolving disputes about levy requirements

A party to a dispute about the requirements for the proposed biosecurity levy could ask the President of the Arbitrators and Mediators Institute of New Zealand to appoint a person to attempt to resolve the dispute by mediation. However, if mediation was unsuccessful, the parties could agree to submit the dispute to arbitration if the dispute was about whether or not a person was required to pay the levy, and the amount of levy.

The proposed biosecurity levy order would provide for the provisions of the Arbitration Act 1996. A party to a dispute who was unhappy with a decision of an arbitrator, would have the option of appealing to a District Court.

The proposed biosecurity levy order would include the same, or similar provisions, in terms of the option of appealing to a District Court, that the Biosecurity (Readiness and Response – Kiwifruit Levy) Order 2015 has applied. The proposed biosecurity levy order would state that if the contents of the order are inconsistent with the Arbitration Act 1996, the levy order prevails.

Implementation risks

The collection mechanisms for the proposed biosecurity levy would replicate the collection mechanisms for the commodity levy. The commodity levy has been operating effectively since it came into effect in 2013. Therefore, no collection risks or any other implementation risks are anticipated for the proposed biosecurity levy.

Section 7: Monitoring, evaluation and review

7.1 How will the impact of the new arrangements be monitored?

Monitoring the implementation of the proposed biosecurity levy order

The levy order would specify the following information to be kept by growers and NZAGA whenever the levy was activated by the NZAGA executive setting levy rates above zero. The information would enable compliance with the levy order to be reviewed by growers, NZAGA, and MPI.

Growers would be required to keep, and retain for ten years, detailed information on levy funds collected per avocado consignment, including whether their levies were paid to NZAGA via a collection agent, or directly to NZAGA. This information would be used to answer any queries by growers about whether levy collection had operated as intended while the levy was activated.

NZAGA would be required to keep, and retain for ten years, records of the amount of levy funds paid to it under the levy order and the manner in which the funds were spent or invested. This information would be used by NZAGA to ensure the required volume of levy funds was collected while the levy was activated, and the funds were spent in ways that were sanctioned by the levy order.

MPI would access any of the above information as necessary to ensure good governance of the levy order.

Further assessment from monitoring

Continued monitoring whenever the levy was activated would enable NZAGA to assess the success of its actual levy rate settings in terms of meeting its cost-share commitments for any implemented operational agreements relating to response activities.

7.2 When and how will the new arrangements be reviewed?

Review of actual and maximum levy rates

NZAGA would annually project the amount of funding potentially needed to be collected by the proposed biosecurity levy to fund any operational agreements it signs relating to response activities.

Each annual projection of levy funding would provide an opportunity to review the actual and maximum levy rates. For example, more than one response a year, or a single large-scale response, may require NZAGA to request MPI to arrange for the maximum levy rates to be increased by Order In Council. This would give the NZAGA Executive more flexibility to meet response costs by increasing actual levy rates in high-value production years. However, the NZAGA Executive would look to ensure fair contributions across the avocado growing regions.

The records that NZAGA would be required to keep and retain for ten years would provide the means for both NZAGA and MPI to assess the effectiveness and efficiency of the levy settings implemented by NZAGA to fund its readiness cost-shares.

Annex 1: Avocado sector organisational structure

NZAGA is the industry organisation that supports the interests of New Zealand's commercial avocado growers (growers). It does this by promoting the sale and consumption of avocados, managing a research and development programme, and creating a supportive structure that encourages development and growth within the avocado sector. NZAGA also coordinates and disseminates relevant industry information, and liaises with government in the interests of growers.

NZAGA represents almost 100% of New Zealand's commercial avocado growers. A very small number of domestic suppliers and backyard growers are not members of NZAGA and are therefore not captured within the commercial avocado supply chain.

Membership of NZAGA is created through the application and granting of a Property Identification Number (P-PIN) for the orchard. A member's P-PIN is used for product traceability purposes and to keep historical data about the member's orchard. It is also required for use in voting processes at NZAGA annual general meetings (AGMs), special general meetings, and industry postal ballots. NZAGA rules for voting processes give each member one vote, plus an extra vote for each 1000 5.5kg tray of avocados they produce based on their highest such production in the two growing seasons preceding the vote.

All growers supplying a registered packhouse must hold a P-PIN. Any grower exporting avocados must also be registered with the Avocado Industry Council (AIC), which is a 100% owned subsidiary of NZAGA and the operating entity for NZAGA. AIC deals with any contractual arrangements necessary for the management of the industry under the New Zealand Horticulture Export Authority Act 1987. AIC also implements quality standards, export grade standards, rules and procedures that must be followed by growers, pack houses and exporters.

Annex 2: Cost-shares for responses under the Fruit-Fly Operational Agreement

Under the current Fruit-Fly Operational Agreement, the scale of an implemented response would be categorised in terms of one of three increasing response levels 1, 2, and 3. Each shift between increasing response levels would assume a 10-fold increase in costs where:

- a level 1 response would apply to detection of 1 fruit-fly;
- a level 2 response would apply to detection of 1 fruit-fly plus a colony of fruit-flies; and
- a level 3 response would apply to detection of 1 fruit-fly plus multiple colonies of fruit-flies.

NZAGA's agreed cost-share under the Fruit-Fly Operational Agreement is 4.06% of the overall industry cost-share for each of the three response levels. Table 2 below shows the agreed cost-share percentages per response level for MPI and overall industry, where MPI's agreed cost-share percentage is inclusive of a 20% exacerbator contribution.

Table 2: Cost–share percentages for MPI and overall industry

	MPI cost-share inclusive of exacerbator contribution (%)	Overall industry cost-share (%)
Level 1 response	76	24
Level 2 response	84	16
Level 3 response	92	8

A recent response to a one fruit-fly detection indicated that a level 1 response is currently likely to cost around $1.5 million. On that basis, estimated cost-share amounts per response level for MPI, overall industry, and NZAGA are shown in Table 3 below, based on an assumed 10-fold increase in costs per response level. Consequently, estimated response cost-share amounts increase exponentially across response levels 1, 2, and 3.

Table 3: Estimated cost–share amounts for MPI, overall industry, and NZAGA

	MPI cost-share inclusive of exacerbator contribution ($)	Overall industry cost-share ($)	NZAGA cost-share ($) as 4.06% of overall industry cost-share
Level 1 response: $1.5 million	1,140,000	360,000	14,616
Level 2 response: $15 million	12,600,000	2,400,000	97,440
Level 1 response: $150 million	138,000,000	12,000,000	487,200

Annex 3: Table summary of four options in terms of six criteria

Criteria	(I) Flexible enough to allow for changes in costs to be funded	(II) Wide industry coverage	(III) Covers costs of engaging with MPI and other industries	(IV) Transparent to growers as levy payers	(V) Activities referable back to purpose of funding mechanism	(VI) Security of funding
Option 1: Status quo	**No** To do nothing would be a contractual breach of a signed operational agreement	**No** To do nothing would be a contractual breach of a signed operational agreement	**No** To do nothing would be a contractual breach of a signed operational agreement	**No** To do nothing would be a contractual breach of a signed operational agreement	**No** To do nothing would be a contractual breach of a signed operational agreement	**No** To do nothing would be a contractual breach of a signed operational agreement
Option 2: Existing avocado commodity levy	**No** Actual levy rate must be fixed for each subsequent levy year	**Yes** Applicable to all commercial growers	**No** Use of levy funds is not specific to GIA	**Yes** No growers are exempt from the levy and all are familiar with its purpose and process	**No** Purpose of levy is not specific to GIA	**No** Levy order is subject to six-yearly grower referenda on whether to renew levy, or terminate it
Option 3: Proposed biosecurity levy	**Yes** Actual levy rates may be activated at any time from zero to rates within, or at, proposed maximum rates	**Yes** Applicable to all commercial growers	**Yes** Covers cost-share of operational agreement inclusive of cost of engagement with other signatories	**Yes** No growers would be exempt from the levy and all have been consulted on its purpose and process	**Yes** Levy purpose is to fund cost-shares for implemented operational agreements relating to response activities	**Yes** Levy order would not be subject to renewal referenda and would only be terminated at the request of NZAGA
Option 4: Non-regulatory	**No** Non-regulatory mechanism not enforceable and therefore unreliable	**No** Non-regulatory mechanism not enforceable and therefore unreliable	**No** Non-regulatory mechanism not enforceable and therefore unreliable	**No** Non-regulatory mechanism not enforceable and therefore unreliable	**No** Non-regulatory mechanism not enforceable and therefore unreliable	**No** Non-regulatory mechanism not enforceable and therefore unreliable