



# Regulatory Impact And Business Compliance Cost Statement: Application For A Commodity Levy Order On Satsuma Mandarins

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Ministry of Agriculture and Forestry  
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## Background

The Commodity Levies Act 1990 (the Act) enables the imposition of levies on certain commodities, payable to organisations that are representative of levy payers. Levy payers can only be producers of the commodity. Levies are imposed by Order-in-Council, signed by the Governor-General on the recommendation of a Minister. An application has been received under the Act for a commodity levy order on satsuma mandarins grown in New Zealand for commercial purposes.

### Statement of the problem and the need for action

- In the March 2002 year satsuma mandarins accounted for 85 percent of all mandarin production in New Zealand. Satsuma mandarins are grown mainly in the Gisborne area and in Northland. In the March 2002 year these regions produced 61 percent (2,838 tonnes) and 24 percent (1,106 tonnes) respectively of total New Zealand production (4,687 tonnes). There are around 280 satsuma mandarin growers known to New Zealand Citrus Growers Incorporated (NZCGI) and 117 of these were members of NZCGI in September 2002. The satsuma mandarin production of NZCGI members represents 90 percent of total New Zealand production.
- Growers are concerned about the future of their industry. Current plantings of satsuma mandarins indicate an increase in total New Zealand production to over 12,000 tonnes within eight years which would represent a 2.6 fold increase on present production. The current market for satsuma mandarins consists of one major export market (Japan) and the domestic market. There is a need to diversify markets and increase sales to absorb the projected surplus. This need was illustrated in 2001 when the domestic market was unable to absorb satsuma mandarins that had been rejected by export markets and prices collapsed.
- Adequate funding of a number of initiatives is required to address the problems facing the industry. These initiatives include development of new export markets, development of strategies to increase consumption, research into quality improvement, development of techniques to spread the season, introduction of grading standards to improve consumer confidence and improvement of post-harvest storage and handling.
- In the 2001/02 year NZCGI collected \$89,000 in voluntary levies. These levies have decreased in recent years relative to the increasing number of growers and increasing production. This indicates a free-rider problem. NZCGI has budgeted \$145,000 to be spent in the 2003/04 year on issues facing the industry. These projects require greater funding and certainty of funding but the voluntary levy provides neither.

### Statement of the public policy objective

- The public policy objective of the proposed commodity levy order is to promote the most efficient and effective means of financing industry-good activities for the satsuma mandarin industry whilst protecting the interests of levy payers.

# Statement of options for achieving the desired objective

- Status Quo

1. NZCGI currently collects a voluntary levy on satsuma mandarins at a rate of 2 cents per kilogram but the amount collected has declined in recent years relative to the increasing number of growers and increasing production. The funding provided by the voluntary levy is insufficient and uncertain which prevents projects important for the future of the industry from being undertaken. Collection of the voluntary levy is hampered by a free-rider problem. In the year ended 31 March 2002 only 51 percent of NZCGI members paid the voluntary levy and very few non-members paid. As the voluntary levy is used to fund activities that benefit all growers the voluntary levy payers are subsidising non-payers. This is likely to eventually lead to a decline in the levy collected as increasing numbers of voluntary levy payers recognise the inequity. The problem is likely to worsen as the industry is forecast to grow rapidly from present production.

- Non-Regulatory Options

1. A voluntary levy paid to NZCGI appears to be the only practical non-regulatory funding option but it does not provide sufficient or stable funding for projects that are important for the future of the industry and it is hampered by a worsening free-rider problem.

- Regulatory Options: Commodity Levy Order (preferred option)

1. This option involves a referendum of potential levy payers who vote on whether there should be a compulsory levy. This referendum took place in 2002 and the majority of those who voted supported bringing the funding of NZCGI's activities within the ambit of a compulsory commodity levy order under the Commodity Levies Act 1990 (the Act). If the majority of potential levy payers in a referendum give their support then agreement to the proposed levy is sought from the Minister of Agriculture. The Minister has to be satisfied that the application meets all the requirements of the Act.
2. The initial rate of the levy is proposed to be 1.5 cents per kilogram with a maximum rate of 2 cents per kilogram of satsuma mandarins sold or exported. The initial proposed rate is lower than the current voluntary rate as more growers will be paying the levy.
3. A compulsory levy is usually collected by "collection agents". In this instance, a collection agent is someone whose business is, or includes, buying mandarins from commercial mandarin growers for resale or exporting, or selling or exporting mandarins on behalf of the growers. The collection agent periodically remits the levy to the levy organisation after deducting its collection fee. The use of collection agents makes the collection process more efficient and effective. Growers may also periodically pay the levy directly to the levy organisation.
4. Collection agents are entitled to retain up to 10 percent (plus GST) of the levy they collect as a collection fee to reimburse them for the costs and imposition of collection. In relation to other collection fees under other levy orders this is considered to be at the higher end of the scale. Some levy orders do not provide for collection fees at all as the collection agents see benefits of having a levy in place, for example to fund research and development leading to a better quality product and higher returns for collection agents.

## Statement of the net benefit of the proposal

5. NZCGI has provided a budget which shows most expenditure in 2003/04 will be on new technologies and damage detection for the harvested crop, quality improvement, product and market development, and disease and pest management.
6. In 2001/02 NZCGI received voluntary levies of \$89,000 (the proposed compulsory levy is expected to provide \$90,000 in 2003/4 which is its first year of operation). The difference between the \$90,000 and NZCGI's budgeted expenditure in 2003/04 of \$145,000 is supplied by accumulated funds derived from past voluntary levies and investment proceeds. The negligible difference between the voluntary levy total and the compulsory levy total in the first year is because enough growers paid the voluntary levy, set at 2 cents per kilogram, to offset the effect of more growers paying the compulsory levy but at a lower initial rate of 1.5 cents per kilogram. Therefore the initial benefit of the proposed compulsory levy is certainty of funding instead of extra funding. However, the proposed compulsory levy allows for increased funding later because the levy rate can be raised to 2 cents per kilogram and this rate will be payable by all growers unlike the voluntary levy.
7. Based on figures provided by NZCGI, the average levy paid per grower would be approximately \$340 per year although most of the levy will be paid by ten large growers. The majority of growers (approximately 270 growers or 96 percent of growers) produce less than 10 tonnes per year and for them the average levy would be \$150 per year. The NZCGI application recognises it is not possible to quantify a net benefit from levy spending due to the nature of the activities being funded. The application estimates benefits from specific projects although these estimates are based on assumptions including assumptions about the future market. These benefits range from 5 cents per kilogram to 87 cents per kilogram with the average being 34 cents per kilogram, or 17 times the maximum levy rate. It is not possible to accurately quantify the expected benefits of most of the work to be undertaken, especially expected benefits from expenditure on promotion and research.
8. Disadvantages of the levy for growers would include the opportunity cost of using the levy money elsewhere and any administrative costs associated with recording levy details. The proposed compulsory levy would also be an actual cost for growers who currently do not pay the voluntary levy. However, based on the qualitative information NZCGI has provided, it is likely that overall the benefits to levy payers from the spending of the levy proceeds will outweigh the disadvantages to them of the levy.
9. Collection agents are in the business of exporting or selling fruit domestically and already have systems for collecting levies and recording information required under the levy order. As a result the additional costs of collecting another levy are negligible and there may even be a net benefit to collection agents after the up to 10 percent (plus GST) collection fee. A number of other fruit and vegetable groups have levies based on production and it is therefore a basis well recognised by collection agents. Given most collection agents within the industry already have systems in place under existing levy orders this is considered to be the most effective and efficient means of collection. Collection agents will also benefit from the levy spending as the levy will be spent on activities that include market development and quality improvement.
10. Collection agents will collect most the levy from most of the approximately 280 levy payers because both levy payers and NZCGI find this method of collection to be efficient and convenient. Only 2 or 3 large growers will pay the levy directly to NZCGI. Collection agents will pay growers their sale proceeds after deduction of the levy. The collection agent will then remit the levy to NZCGI after deducting a collection fee of up to 10 percent (plus GST) of the levy.

## Consultation

- Growers and Collection Agents

1. NZCGI carried out an extensive information and consultation programme with potential levy payers and collection agents. From the evidence provided, it is considered unlikely that any potential levy payers would not have been aware of the proposal. The consultation identified one collection agent opposed to the proposed levy because of administrative difficulties it would cause, and one grower opposed on various grounds including a belief that the levy would represent a subsidy from Bay of Plenty growers to Northland growers.
2. In the levy payer referendum, the participation rate was 44 percent. Supporters of the proposal made up 74 percent of all participants, and they produced 78 percent of the total production of mandarins produced by participants. This support rate is higher than for most other referenda under the Act.

- Government Agencies

1. The Treasury, Te Puni Kokiri, the Department of Prime Minister and Cabinet and the Ministry of Economic Development were consulted on a paper.

## Business Compliance Cost Statement

- Sources of Compliance Costs

1. Compliance costs imposed by the proposed levy arise from the need by growers or collection agents to calculate and remit the levy to NZCGI and keep information about the levy.
2. In the case of the 2 or 3 large growers who will pay the levy directly to NZCGI this will involve multiplying the weight of satsuma mandarins sold or exported by the levy rate, completing a remittance form provided by NZCGI and posting the remittance form with a cheque.
3. In the case of the remaining growers there will be no compliance cost.
4. In the case of the 12 to 15 collection agents there is expected to be net compliance benefit. They already collect other commodity levies and have systems in place that can accommodate the proposed levy at negligible additional cost. The additional cost is likely to be more than compensated for by the collection fee of up to 10 percent (plus GST) of the levy.

- Parties Likely to be Affected

1. There are approximately 280 growers who will pay the proposed levy, 12 to 15 collection agents who will collect the levy and NZCGI who will receive the levy.

- Estimated Compliance Costs

1. Compliance costs for small growers with production of less than 10 tonnes per year, who do not currently pay the voluntary levy, will be any time taken to calculate and remit the levy payment and grower details, if the grower chooses to pay direct to NZCGI.
2. The compliance costs for the 2 or 3 large growers who pay the levy directly to NZCGI will be approximately 1 hour each to complete the calculations, the NZCGI remittance



form and writing a cheque or making a direct credit to remit the levy to NZCGI. The additional compliance cost for the 12 to 15 collection agents from the proposed levy will be negligible because they already have systems set up for collecting other commodity levies. Consultation with collection agents revealed a single exception to this and that collection agent has declined to collect the levy. It has also advised NZCGI that it does not trade in satsuma mandarins. A collection agent may recover the amount of the levy (and any GST payable on it) from the grower by reducing the amount otherwise payable to the grower or by debt due. Effectively this means a collection agent can make a profit by determining and collecting the levy.

- Longer Term Implications of the Compliance Costs

1. Compliance costs are ongoing.

- Level of Confidence in Compliance Costs Estimates

1. The levy collection fee that collection agents will receive is up to 10 percent (plus GST) of the levy collected. There is a high level of confidence that any additional compliance costs incurred by the collection agents as a result of the proposed levy will be covered by the levy collection fee. The compliance costs to growers can not be quantified.

- Key Compliance Cost Issues Identified in Consultation

1. The only compliance cost issue identified in the NZCGI consultation was raised by a single potential collection agent which claimed its accounting system could not calculate a levy based on production although it already calculates other commodity levies based on value. This potential collection agent advised NZCGI it will not collect the levy and that it does not trade in satsuma mandarins.

- Overlapping Compliance Cost Requirements

1. There are no known overlapping compliance costs.

- Steps Taken to Minimise Compliance Costs

1. NZCGI will provide a paper remittance form to be completed by 2 to 3 large growers who pay their levy directly to NZCGI. Growers and collection agents may remit the levy to NZCGI by cheque or by direct credit.

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