



# Regulatory Impact and Business Compliance Cost Statement: Application for Levy to Fund the American Foulbrood National Pest Management Strategy

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## Background

American foulbrood (AFB) is a disease of honey bee colonies caused by the bacterium *Paenibacillus larvae* larvae. AFB causes total hive mortality. With good management it is possible to reduce the incidence of the disease in hives to below economically significant levels. The American foulbrood National Pest Management Strategy (AFB NPMS) is an industry-led initiative that has been in place since 1998, with the objective of reducing the reported incidence of disease in New Zealand hives to below 0.1%. The management agency for the NPMS is the National Beekeepers' Association of New Zealand Inc (NBA). The AFB NPMS includes administrative and operational activities such as levy collection, a Disease Elimination Conformity Agreement scheme, AFB recognition courses, maintaining and updating the apiary register, and producing and mailing Annual Disease Returns.

## Statement of the nature and magnitude of the problem and the need for government action

Previously the NBA funded the NPMS through a commodity levy charged under the Commodity Levies (Bee Products) Order 1996. This levy funded the organisation's industry good activities as well as the AFB NPMS. Hobbyist beekeepers (defined as those with less than eleven hives on less than four apiaries) were not required to pay this levy, but were included in NPMS activities. Thus, NPMS costs attributable to hobbyists were subsidised by commercial beekeepers (the 'free-rider' problem). In 2002 this levy rate was \$54.00 excluding GST for the first eligible apiary site, and \$26.00 excluding GST for each subsequent site. The total funding collected in 2002 was approximately \$470,000, with approximately \$100,000 funding the NPMS operational activities. NPMS administration activities are included in the residual. The commodity levy expired on 1 December 2002.

The NBA has applied for a levy under the Biosecurity Act 1993 (the Act) to fund the AFB NPMS because it decided to separate the funding mechanisms for their industry good activities and the AFB NPMS. The NBA currently has no funding mechanism in place to fund the AFB NPMS. There are approximately 3600 registered beekeepers in New Zealand with approximately 300,000 hives. Currently 0.4% of New Zealand hives are infected by AFB. Without the AFB NPMS, AFB is expected to cost the industry \$39.5 million dollars over ten years, in present value terms. The NBA requires approximately \$240,000 to fund the AFB NPMS in 2003. Total NPMS funding has been increased from 2002 as the previous funding level was considered insufficient for adequate operation of NPMS activities.

The Act enables the imposition of levies, payable to a management agency for the purposes of funding a pest management strategy. The Act sets out a number of conditions that a Minister must be satisfied of before recommending that an Order in Council striking a levy be made. These relate to adequacy of consultation with levy payers, appropriateness of a levy for funding the NPMS, and accountability of the management agency to levy payers.

## Statement of the public policy objective

The objective of government action is to ensure that the levy application meets the requirements of the Act, i.e. that there was adequate consultation with levy payers, the levy is appropriate for funding the NPMS, and there is adequate accountability of the management agency to levy payers.

## Statement of options for achieving the desired objective

### Status quo

There is currently no mechanism in place for funding the NPMS. The only source of funding for the NPMS is out of the NBA's reserves, which are not sufficient to fund the NPMS in 2003.

### Impose a levy under the Biosecurity Act 1993 - the preferred option

The key features of the proposed levy order to fund the NPMS are:

- **Persons paying the levy and the basis on which the levy is to be calculated:** All beekeepers will be responsible for paying the levy. This is a change from the previous levy, in which hobbyist beekeepers were exempt from paying the levy. The levy will be calculated on two different bases. Each beekeeper will be required to make a set annual payment (the base levy). In addition, beekeepers will be required to make a payment for each apiary the beekeeper owns on March 31 each year (apiary levy). There is a maximum limit of one apiary levy payable each year for hobbyist beekeepers (defined as those who own fewer than eleven hives on fewer than four apiaries).
- **Levy use and accountability:** The levy will be spent on NPMS administration and operational activities with the aim of reducing the incidence of AFB to 0.1% of New Zealand hives. The NBA will make copies of the NPMS financial accounts available to beekeepers, and will consult with beekeepers on future levy use by sending beekeepers a proposed NPMS budget for the following year's levy expenditure. Beekeepers will be able to comment on the proposed budget by sending submissions to the management agency.
- **Levy rate:** The maximum rate of the base levy is \$20 per beekeeper; the maximum rate of the apiary levy is \$15.17. The actual levy rate will be decided upon by the management agency, based on the NPMS budget, as consulted on with beekeepers. The levy will collect approximately \$240,000 in 2003.

## **Statement of the net benefit of the proposal**

- Including the total regulatory costs (administrative, compliance and economic costs) and benefits (including non-quantifiable benefits) of the proposal and other feasible options

### **Government**

As the levy is collected and handled by the management agency, there are minimal costs for government. The main costs are administrative, as the levy order must be confirmed each year. The Minister may be required to appoint an auditor at the request of the NBA, or during a dispute under arbitration to audit either the collection of the levy, or the affairs of a levy payer.

### **Beekeepers**

The key benefit to the beekeeping sector of the levy is that it enables the NPMS activities to continue. A cost-benefit analysis for the AFB NPMS estimates net benefits to the sector of \$7.5 million over ten years, in present value terms. The key cost of AFB is hive mortality, with consequent reduction in honey production. The key benefit of the NPMS is that it allows the promotion and enforcement of practices designed to reduce AFB incidence, with a consequent reduction in hive mortality and thus reduced losses of honey production.

The proposed levy order will raise approximately \$240,000 in its first year. There will be associated compliance costs; these are covered in the BCCS. All beekeepers will be required to pay the new levy, removing the free-rider problem of hobbyist beekeepers. By allowing the separation of NPMS funding from the NBA's industry good activity funding, the levy provides more transparency and accountability to beekeepers. The direct costs of paying the levy may result in hobbyist beekeepers quitting the hobby, or in de-registering their hives but continuing beekeeping outside the NPMS. This is not allowed under the NPMS, and would have a detrimental effect on the NPMS.

### **Economy**

The NPMS, via reduced hive mortality, has unquantified benefits for the horticultural, pastoral and arable sectors, which rely on beekeepers to provide pollination for their crops, and the wider public, who receive beneficial pollination for household gardens and commercial enterprises from the bees.

New Zealand beekeepers are price-takers on the international market, thus they have no ability to pass the levy costs onto consumers.

## **Statement of consultation undertaken**

Consultation with the beekeepers was undertaken by the NBA over the space of two years from April 2001 to May 2003. Consultation took the form of three consultation documents summarising three levy proposals, and 18 public meetings. Fifty submissions were received on the final consultation document, regarding the final levy proposal.

The primary concern of the majority of the submissions was the fairness of including hobbyist beekeepers in paying the levy. MAF considers that including the hobbyist beekeepers in the levy carries a risk of increasing non-compliance with apiary registration requirements.

However, as hobbyist beekeepers are included in NPMS activities, and are both beneficiaries of the NPMS and exacerbators of the spread of NPMS, it is inappropriate for commercial beekeepers alone to fund the NPMS.

Some hobbyist beekeepers submitted that they tend to own fewer hives on more apiaries than commercial beekeepers; thus the apiary portion of the proposed levy could result in hobbyist beekeepers paying a disproportionate amount of the levy budget. As a result of this consultation feedback, the NBA has amended their levy proposal to limit the amount of levy payable by hobbyist beekeepers (i.e. those with fewer than eleven hives on less than four apiaries).

Two submitters, including the New Zealand Beekeepers' Industry Group of the Federated Farmers (NZBIG), consider that the apiary basis is unfair to South Island and lower North Island beekeepers, as they have lower numbers of hives per apiary than beekeepers in the upper North Island. Apiary data indicates that there is little difference in the regional average number of hives per apiary for non-hobbyist beekeepers.

Following the final round of consultation, the NBA considered several potential levy structures that would include both apiary and hive numbers. Ultimately, these structures were considered to be too impractical to administer. Beekeepers report hive numbers only once a year, while apiary registrations must be kept current throughout the year. The additional administrative and compliance costs from requiring constant updating of hive numbers was estimated to be significant, and the NBA considers there would be significant non-compliance. The NBA considers that enforcement of hive reporting or registration is impractical. The NZBIG passed a remit at their AGM supporting an apiary based levy, in order to allow the levy to be progressed.

The Treasury was consulted in the preparing of this cabinet paper, and is satisfied with the proposal.

## Business Compliance Cost Statement

Compliance costs include a one-off requirement for staff time in becoming familiar with the new levy requirements. This will be incurred by all beekeepers. There are on-going staff time requirements for handling the levy account, participating in consultation on the budget, and inspecting the NBA's NPMS accounts. Participation in consultation on the budget and inspection of levy accounts are voluntary activities.

Beekeepers who own ten hives or less are classed as hobbyist beekeepers. This is because beekeepers with more than ten hives are almost certainly producing honey that will be surplus to their domestic requirements, and they may choose to sell this honey. It is possible that a beekeeper who owns more than 300 hives could make a living from them, however it is more common to require 400-500 hives. There are 793 beekeepers who are classified by the NBA as non-hobbyists. Of these 264 own more than 250 hives; 181 own more than 500 hives.

It has not been possible to estimate a dollar value of the compliance costs. However, it is estimated that the one-off cost to become familiar with the levy requirements will be

approximately one hour of staff time. The on-going costs could range from one hour annually, to a full day, depending on the level of voluntary involvement in the consultation on the NPMS budget, and inspection of NPMS accounts.

The management agency will use the information already provided under NPMS requirements to calculate the levy amounts, keeping compliance costs for completing returns low. The NBA has advised that they will notify beekeepers of the levy via their website, their official journal and letters to known clubs and associations of hobbyist and commercial beekeepers.

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