



Regulatory Impact And Compliance Cost Statement:

FIN Paper On Application For A Commodity Levy Order
On Orchard Fruit

September 2001



Ministry of Agriculture and Forestry
Te Manatū Ahuwhenua, Ngāherehere

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Contents

Page

| | |
|---|----------|
| Background | 1 |
| Statement of the problem and the need for action | 1 |
| Statement of the public policy objective | 1 |
| Statement of options for achieving the desired objective | 1 |
| Statement of the net benefit of the proposal | 1 |
| Business Compliance Cost Statement | 2 |
| Consultation | 2 |

Background

This statement is brief because the policy for the Commodity Levies Act 1990 (the Act) has already been agreed to and FIN is not being asked to make a substantive policy decision. The Minister responsible for the Act is charged with deciding whether an organisation applying for a levy order has complied with the requirements of the Act. The purpose of the paper to FIN and the Regulatory Impact and Compliance Cost Statement is to inform FIN of the proposal.

Statement of the problem and the need for action

- New Zealand Fruitgrowers Federation (the Federation) has applied under the Act for a commodity levy order on a range of orchard fruit produced for commercial purposes in New Zealand. The levy will fund research and development, market development and promotion, education and information, representing the views of fruitgrowers, and the administration of the Federation.
- Orchard fruit growers currently pay a levy under the Commodity Levies (Orchard Fruit) Order 1995, which is due to expire on 10 September 2001. To secure its funding the Federation has applied for a new order with a new levy basis, which it estimates will provide \$600,000 in its first year of operation. When the Commodity Levies (Orchard Fruit) Order 1995 expires the new order will come into force.

Statement of the public policy objective

- The purpose of the Act is to enable the making of Orders-in-Council imposing on certain commodities levies payable to bodies corporate representing the views and interests of the persons primarily responsible for paying those levies. The Act enables industries to finance "industry-good" activities, for which voluntary funding would lead to a "free-rider" problem or would be impracticable.

Statement of options for achieving the desired objective

- The option considered by the Federation was to bring funding of its activities within the ambit of a commodity levy order under the Act. This is the only regulatory option available.

Statement of the net benefit of the proposal

- The Federation has demonstrated its anticipated benefits from investment in each area of expenditure. Activities in the environment expenditure area (\$122,600 in the first year) include submissions to regional and district councils, representation of fruitgrowers' interests on resource management issues such as water use, agrochemical spray drift, and noise from bird-scaring equipment and frost protection fans.
- The total amount to be spent on information and communication in the levy's first year of operation is expected to be \$122,600. The Federation views itself as a focal point for communication to and from growers. No other body in New Zealand represents all orchard fruit growers. Levy money will be spent on writing articles for *The Orchardist*,

the development of an email newsletter to growers, maintaining the Federation website and regional meetings.

- Levy money will also be spent on biosecurity (\$91,950 in the first year). The Federation will use this money to represent growers in any biosecurity forum where the generic interests of fruit growers are at stake. For example the Federation is currently involved in the Varroa Planning Group. Fruitgrower input into the development of the National Biosecurity Strategy will also be funded by levy money.
- The Federation plans to spend \$42,910 annually on food safety and quality assurance. The Federation is continuing to play a key role in the development of the Fresh Produce Quality Assurance Scheme devised to satisfy the Food Act 1981. Fruitgrowers benefit from the existence of an industry-wide quality assurance system for all buyers through reduced verification costs and an enhanced quality reputation.
- The costs to growers would be the opportunity cost of using the levy money elsewhere and the direct costs of paying the levy by the levy payers and administrative costs borne by levy payers and collection agents. Levy payers were aware of the costs when they voted in favour of the levy.

Business Compliance Cost Statement

- The Federation has proposed changing the basis on which the amount of levy is to be calculated from an area-based levy, as is currently the basis under the Commodity Levies (Orchard Fruit) Order 1995, to a value-based levy collected at the first point of sale by collection agents. A collection agent is someone whose business is, or includes, buying orchard fruit from or selling fruit on behalf of fruitgrowers. Under the current area-based levy, collection agents are not involved in levy collection. Under a new value-based levy, collection agents must recover the amount of the levy (and any GST payable on it) from the fruitgrower by reducing the amount otherwise payable to the fruitgrower.
- In the long term the marginal costs a compulsory levy imposes on collection agents will decrease. Companies in the business of exporting, processing or selling fruit domestically will incur once-off costs associated with setting up systems for collecting levies and recording information required under the levy order, and understanding the new levy regime. Once companies have these systems in place the ongoing costs of collecting another levy will decrease. A number of other fruit and vegetable groups have levies based on gross sales value and 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 the Federation considered this to be the most effective and efficient means of collection.
- Collection agents are entitled to retain up to 10 percent of the levy they collect as a collection fee to reimburse them for the costs and imposition of collection. In relation to other collection agent fees this is considered to be at the higher end of the scale. It should also be noted that some levy orders do not provide for collection fees at all as the collection agents see benefits of having a levy in place. An example of this could be research and development leading to a better quality product and higher returns for collection agents.

Consultation

The Federation 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. In the levy

payer referendum, supporters of the proposal made up 73 percent of all participants, and they produced 62 percent of the total value of production of orchard fruit by all eligible participants.

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