



Regulatory Impact And Compliance Cost Statement:

FIN Paper On Seven Applications For Commodity
Levies On Vegetables

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Statement of the problem and the need for action

- The New Zealand Vegetable and Potato Growers Federation Incorporated (Vegfed) has applied under the Commodity Levies Act 1990 (the Act) for a commodity levy order on Asparagus, Export Squash, Fresh Tomatoes, Fresh Vegetables, Process Tomatoes, Process Vegetables and Potatoes, produced variously for export from New Zealand or for processing or consumption in New Zealand. The levies are wanted to fund:
 - Research and Development
 - Market Development & Promotion
 - Development of Quality Assurance
 - Education and Information
 - Day-to-day administration of Vegfed
 - Grower Representation
- Vegetable growers currently pay levies under the following seven levy orders which are all due to expire on 17 December 2001:
 - Commodity Levies (Asparagus) Order 1995
 - Commodity Levies (Export Squash) Order 1995
 - Commodity Levies (Fresh Tomatoes) Order 1995
 - Commodity Levies (Fresh Vegetables) Order 1995
 - Commodity Levies (Potatoes) Order 1995
 - Commodity Levies (Processing Tomatoes) Order 1995
 - Commodity Levies (Processing Vegetables) Order 1995
- To secure its funding Vegfed has applied for a new order to replace and combine the above seven levies. The proposed order is estimated to provide over \$2 million in its first year of operation. When the above orders expire 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 policy objective of the proposed order is to enable the vegetable industry, represented by Vegfed, to fund industry good activities, such as research and development, which confer benefits on all industry participants, that in the absence of a compulsory levy would not be funded.

Statement of options for achieving the desired objective

- The option considered by Vegfed 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. The option of a voluntary levy is not considered practical because of the "free-rider" problem likely to be experienced, especially given the generic nature of Vegfed's activities.
- Vegfed further argues that fluctuations in voluntary contributions would create problems for Vegfed funding medium to long-term research and promotional campaigns and impose greater collection costs on the industry due to the geographical spread of vegetable growers and the wide range of crops grown.

Statement of the net benefit of the proposal

Benefits

- Vegfed presented a budget for the first year of operation of the levies. The budget estimates the combined levy income for all seven sectors to be \$2,220,875 net of collection fees.
- The Vegfed Council spends 0.15 percent of each sector's sales on generic industry issues and administration. This equates to an estimated \$631,507 or 28.4 percent of total levy expenditure. The Vegfed Council acts as the focal point for communication, facilitating the exchange of information between growers and representing growers on issues facing the industry such as environmental, biosecurity, food safety and education. The Council is also involved in the development of the Fresh Produce Quality Assurance Scheme and plays a primary role in co-ordinating research, education and training.
- Vegfed Council activity is expected to facilitate the ongoing expansion of the industry. According to Vegfed, the estimated quantified benefit of Council activity in five selected areas of Council involvement (research, biosecurity, labelling of agrichemicals, opposition to the Chemical Trespass Bill and the environment) alone is \$4,332 per grower. The net benefit per grower is shown below for each sector.

Vegfed Sector	Average Levy* (\$ / grower)	Estimated Net Benefit** (\$/grower)
Asparagus	76	4,256
Export Squash	328	4,004
Fresh Tomatoes	849	3,483
Fresh Vegetables	619	3,713
Potatoes	1,482	2,850
Process Tomatoes	286	4,046
Process Vegetables	214	4,118

* The average levy per grower for each sector is calculated from estimated total levy income for the sector divided by the number of ballot papers sent out for that sector.

** The estimated net benefit per grower for each sector is a measure of benefit per grower from Vegfed activities (\$4,332) minus the average levy per grower for that sector.

- For sectors with levy rates higher than 0.15% of sales the remaining levy income will be spent on sector activity. Sector activity relates to promotion and research specific to the sector concerned and general administration. Promotional campaigns are largely aimed at promoting consumption of vegetables through 5 + A Day, Green Cuisine and providing promotional resources to schools. All three campaigns have had considerable success increasing consumption and Green Cuisine has been credited with stimulating demand for the products featured. Most sectors have annual funding rounds to prioritise and identify specific research and development needs for the sector. The results of all research projects are reported through the Commercial Grower.

Costs

- The disadvantage to growers would be the opportunity cost of using the levy money elsewhere. The direct costs to the industry would be the cost of paying the levy by the levy payers and any administrative costs borne by levy payers and collection agents. Vegfed expects to collect over \$2 million in the first levy year. Levy payers were aware of the costs when they voted in favour of the levy. Furthermore, the maximum levy rates under the proposed new levy order are the same as under the existing seven levy orders.

Business Compliance Cost Statement

Sources of compliance costs

- Collection agents will be required under the order to maintain systems capable of recovering levy money from levy payers at the first point of sale and paying the levy to Vegfed. Ongoing costs of record keeping and returns are imposed on collection agents and levy payers.

Parties likely to be affected

- Both levy payers and collection agents have obligations under the existing levy orders. Collection agents within the industry already have systems in place to collect levies and report to Vegfed.

Key compliance cost issues identified in consultation

- During consultation with potential collection agents, both Turners & Growers and Heinz Wattie's Ltd objected to providing Vegfed with a list of growers from whom the levy was deducted, and their addresses. Heinz Wattie's Ltd believes the information is commercially sensitive, that the information is not needed to efficiently collect the levy or for Vegfed to comply with the Act and, finally, that providing the information violated the privacy of vegetable growers.
- Section 6(2)(d) of the Act allows Vegfed to require collection agents to provide information about vegetable growers that will assist Vegfed to determine levies payable. Collection agents are only required to provide such information on the request of Vegfed and Vegfed must not disclose this information without the prior consent of the grower concerned.
- Turners & Growers further objected to being used as a "tax collector" and requested compensation. Under the proposed levy order collection agents are entitled to a collection fee to cover the costs and imposition of collection. The maximum collection fee ranges from 7.5 percent to 10 percent (plus GST) of the amount collected over the seven vegetables covered by the proposed levy order. In relation to collection fees prescribed under other levy orders 10 percent is considered to be at the higher end of the scale. This is considered sufficient compensation to cover collection agents' compliance costs. Moreover, collection agents are likely to benefit from the levy imposed on growers without a similar level of monetary contribution. An example of this could be levy funded research and development leading to a better quality product and higher returns for collection agents.

Overlapping compliance requirements

- Collection agents are familiar with a first point of sale levy because they already are collecting levies under the current Vegfed levy orders, and a number of other fruit and vegetable commodity levy orders use this method of collection.

Steps taken to minimise compliance costs

- The proposed levies retain the same maximum levy rates and the same mechanisms for collecting those levies as currently imposed therefore no additional compliance costs are imposed on the industry.

Consultation

Vegfed 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, the lowest support for a levy was 77 percent of all participants, and the lowest by total value of production was 66 percent.

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