



Cost Recovery Proposals
under the Animal Products Act
1999

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Submissions

NZFSA seeks submissions from all interested parties on any aspect of the proposed fees and charges presented in this document.

The following points may be of assistance in preparing comments.

- Wherever possible, comment should be specific to a particular section of the document. All major sections are numbered and these numbers should be used to link comments to the document.
- Omissions should be clearly and separately indicated.
- Comments should be to the point and, where possible, reasons and data to support comment are requested.
- The use of examples to illustrate particular points is encouraged.
- As a number of copies may be made of your comments, please use good quality type, or make sure the comments are clearly hand-written in black or blue ink.

Please include the following information in your submission:

- the title of the discussion document
- your name and title (if applicable)
- your organisation's name (if applicable)
- your address, and
- the number(s) of the sections you are commenting on.

Please submit your response by 5.00pm on 15 December 2006. Comments should be sent to:

Submissions - Animal Products Cost Recovery

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Please note that your submission is public information and subject to the Official Information Act 1982. Therefore if you consider that any or all information in your submission should be treated as confidential or is commercially sensitive, please state this clearly when making your submission.

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1 Introduction

The purpose of this discussion paper is to present proposals for consideration for cost recovery under the Animal Products Act 1999 (Animal Products Act). It should be read in conjunction with the NZFSA Information paper 'Cost Recovery Policy and Framework' August 2006. The numbers presented are indicative of the final budget for 2007-2008 but gives examples of the impact of different charging mechanisms. Further consultation will occur, if necessary, in early 2007 on actual fees, levies and charges once the charging mechanisms have been finalised.

The paper has several key sections

Section Four details the policy and legislative framework that NZFSA is following

Section Five lists the services NZFSA provides to industry which are subject to the cost recovery proposals in this document.

Section Six details the costs of providing the services including how they are calculated

Section Seven categorises the services into public, private and industry goods and, based on those categories, proposes crown or industry funding.

Section Eight uses case studies to discuss where industry pays, who in industry it is best to charge.

Section Nine details the possible charging mechanisms

Section Ten proposes fees and charges for approval accreditation and registration functions

Section Eleven proposes the methodology for determining the mechanisms (fees, charges or levies) options for industry goods

Accompanying attachments have specific industry proposals on a sector by sector basis.

This discussion paper outlines the cost recovery principles and methods provided for in the Animal Products Act. In determining who should pay for the different service areas the

Treasury *Guidelines for Setting Charges in the Public Sector* and the Audit Office Guidelines on *Costing and Charging for Public Sector Goods and Services* have also been taken into account. This paper also takes into account the constitutional principles as set out in Parliament's Standing Orders and guidance received from reports of the Regulations Review Committee

The guidelines and legislative requirements have been consolidated into the NZFSA Background Paper 'Cost Recovery Policy and Framework' 29 August 2006 (available from www.nzfsa.govt.nz), which documents the policy basis for the proposals in this paper.

2 Background

Cost recovery for animal products was first implemented under the Meat Act 1981 in the late 1980s. Procedures for cost recovery remained largely unchanged until the implementation of the Animal Products Act. During the Animal Products Act transition period, cost recovery progressively moved from the Meat Act regime to the Animal Products Act regime. The transition period finished on 1 July 2006.

During the transition period a number of changes were made to the cost recovery regime. In 2002 NZFSA Verification Agency (NZFSAVA) charging mechanism moved from industry levies to charges based on the level of service provided. E-cert charging moved from industry levies to charges based on export eligibility requirements and use of the system. Those charging systems are not subject to this review. Nor are dairy fees and charges or fees for export of live animals, which are also set under the Animal Products Act. Those will be subject to separate proposals at a later date.

A number of factors have influenced the need to review the cost recovery regime;

- Some of the existing fees and charges do not fully meet government guidelines for cost recovery (which were developed after the Meat Act regime was put in place)
- The formation of NZFSA has changed the nature and therefore spread of indirect costs and overheads
- The restructure of NZFSA away from sector based service delivery to a functionality based service delivery approach over a wider base of services has necessitated a change in how services are costed and allocated to sectors or services delivered.

3 The Process of the Review

The next steps in this review process will be to analyse submissions, provide a summary to submitters, and draw on submissions to put forward a proposal to Government. It is likely a further consultation will occur in early 2007 on revised budgets and proposed fees, levies and charges. The next stage will involve implementing Government decisions that result from this process. The aim is to have new regulations in place by 1 July 2007.

4 Legislative Framework

Part 9 of the Animal Products Act provides for the recovery of costs of administering the Act which are not provided for by money appropriated by Parliament.

4.1 Cost recovery principles in the Animal Products Act

Once it has been determined that costs will be recovered from industry, the principles of how cost recovery will be achieved and the methods of cost recovery are provided for in sections 113 and 114 of the Animal Products Act. Section 113 provides the criteria that need to be considered when determining the most appropriate method of cost recovery. The criteria are:

- Equity
- Efficiency
- Justifiability
- Transparency

Equity

Equity means that users or beneficiaries of a function, power or service will generally be required to fund the cost of providing the function, power or service at a level that reflects their use or benefit.

Efficiency

Costs should generally be allocated and recovered in a manner that ensures maximum benefits are delivered at minimum cost.

Justifiability

The costs (including the indirect costs) associated with providing a function, power or service should be reasonable and justifiable.

Transparency

The cost of providing a service, function or power should be identifiable and allocated in a transparent manner.

NZFSA is not required to strictly apportion costs for a particular function, service or power based on usage. Fees or charges may be determined by averaging the costs or potential costs.

Fees and charges may also be set at a level that takes into account costs of services which are not directly provided to the person who pays the fees or charges but are indirect arising from the delivery of a service to a class of persons or all persons who use the service.

4.2 Cost recovery methods provided for in the Animal Products Act

The methods of cost recovery (Section 114) that can be used under the Animal Products Act are identified as:

- Fixed fees or charges
- Fees or charges based on a scale or formula or at a rate determined on an hourly or unit basis
- Fees or charges of actual and reasonable costs expended in or associated with the performance of a service or function

- Estimated fees or charges, or fees or charges based on estimated costs paid before the provision of the service or function followed by reconciliation and an appropriate further payment or refund after the provision of the service or function
- Refundable or non-refundable deposits paid before provision of the service or performance of the function
- Fees or charges imposed on users of services or third parties
- Levies
- Any combination of the above

Fees and Charges are prescribed by regulations (section 117) and levies can be imposed by regulation (section 118). Under section 120 the Director-General of MAF can also prescribe charges.

4.3 Government Guidelines

In determining the proposals, the Treasury document *Guidelines for Setting Charges in the Public Sector* and the Audit Office Guidelines *Costing and Charging for Public Sector Goods and Services* have been taken into account.

The government's guidelines for user charges are set out in a paper prepared by the Treasury titled "Guidelines for Setting Charges in the Public Sector". The Treasury paper was endorsed by the Government in December 2002.

In summary, the key principles for cost recovery from the government's guidelines that are most relevant to cost-recovery under the Animal Products Act are:

- charges should in general be set at the full costs of providing the service, where full cost includes all overheads and non-cash costs (such as the capital-charge), measured in accrual accounting terms;
- charges should not be excessive in relation to the costs incurred;

- charges can be set to vary by the location where the service is provided or by the time at which the service is provided but a balance needs to be struck between the gains from complex fee structures and the costs in terms of a loss of simplicity;
- the process for setting charges should be clear and appropriate;
- transaction costs in setting and collecting the charges should be kept low;
- appropriate consultation with those affected should be undertaken when setting and changing the charges;
- there should be a robust statutory basis for any charges; and
- there should be fair treatment for taxpayers, beneficiaries of the service and risk exacerbators.

The government's guidelines are at quite a high level. In addition to this, as the Treasury paper notes, given the widely varying nature of government provided services, no single charging formula can be developed that would apply to every case. The guidelines therefore set out a checklist of issues on which to base a sound analysis.

The New Zealand government's guidelines are consistent with those recommended by the OECD in its 1998 paper "User Charging for Government Services".

The proposals also take into account constitutional principles as set out in Parliament's Standing Orders and guidance received from reports of the Regulations Review Committee.

In August 2006, NZFSA published a background paper on the methodology to be applied in this cost recovery process. The methodology is consistent with the Treasury document 'Guidelines for Setting Charges in the Public Sector' and the Audit Office Guidelines on 'Costing and Charging for Public Sector Goods and Services'. That paper (which can be found at www.nzfsa.govt.nz) states that ultimately it is the Government that makes the decisions about the provision and funding of government provided function, through the budget and its associated appropriations and estimates. A range of considerations are taken into account in making funding decisions which are guided by the contents of the various guidelines, but may include, equity between taxpayers, trade considerations, behaviour and efficiency impacts on the regulator and regulated industry and consumer behaviour.

5 Services provided

This section details the services provided by NZFSA in administering the Animal Products Act, that are subject to the cost recovery proposals in this paper. The services are:

- Setting of New Zealand standards
- Setting export standards and systems and market access.
- Approvals, accreditation and registrations
- Event/Emergency Response
- Policy Advice (including technical input)

The main activities in these areas are:

New Zealand standards, specifications and guidance

- setting New Zealand safety and suitability standards
- developing and implementing operational standards and guidance for industry
- clarifying and interpreting standards or specifications
- setting verification requirements
- overall review of standards' effectiveness
- contributing to the development of international standards
- establishing import requirements
- provision of technical policy advice

Export standards and Market Access

- contributing to the development of international standards
- negotiating technical market access conditions and specifications
- providing certification and other assurance activities to meet international authority requirements
- setting verification requirements for industry
- overall review of industry export programmes
- provision of technical policy advice

Approvals, Accreditations and Registrations

- approval of
 - risk management programmes
 - agencies and persons, including third party verifiers (including warrants)
 - exporters
 - products and/or substances
 - facilities, equipment, premises
- providing the administrative systems and processes for approvals including evaluation and review
- assessment or evaluation of applications, systems or processes
- maintenance of associated public registers
- suspension and removal of approvals.

Event/Emergency Response

- establishing standards and systems for emergency management
- managing incidents and responding to events

6 Cost of providing services

This section details the costs of services NZFSA provides to its major stakeholders (Industry and Government). Budget information is provided on the proposed allocation of direct and indirect costs to each area of service.

6.1 Allocation of costs to services

NZFSA will incur direct and indirect, as well as fixed and variable costs, in delivering services to stakeholders.

Direct costs include personnel and operating costs (including fixed and variable costs).

Specific Costs are a form of direct cost that can be directly apportioned to particular sector or service areas, eg, residue monitoring programmes.

Indirect costs include management, a share of NZFSA management and support services and NZFSA/ MAF corporate overhead costs which include accommodation, equipment and communications. MAF Corporate costs and NZFSA fixed costs are apportioned to NZFSA outputs each year and form part of the cost of producing these outputs. 'Drivers' for allocating the MAF costs across five MAF businesses are determined by the MAF Planning and Budgeting Committee which includes representation from NZFSA. Drivers are selected to best represent a fair usage of the particular service. For example information management costs are spread on the basis of number of PCs and laptops used by the business and legal services on the basis of hourly usage.

Generic Standards are an output that is made up of direct and indirect costs. They have equal applicability across all food sectors. The key difference between generic standards and non-generic standards from an economic pricing perspective is the breadth of the industry to which the standards apply. In the case of industry-specific standards, the standards apply to a specific industry or sub-sector (eg, meat, game, poultry etc). In the case of generic standards, the relevant 'industry' for cost-recovery purposes is the group of sectors or sub-sectors to which the standards apply.

6.2 Basis of the Costs Estimates

The steps undertaken by NZFSA in calculating the costs of the services NZFSA provides to each sector under the APA are as follows:

1. New Zealand Standards, Export Standards and Market Access outputs (including overheads)

- estimates of time spent by each staff member on a full-time equivalent-basis (FTE) on NZFSA's different outputs for each sector covered under the APA in 2005/06 have been made by NZFSA's Directors;
- these estimates of the FTE time spent by staff for each sector have then been pro-rated against the total level of personnel costs expected to be incurred for each output in 2007/08 to obtain an expected level of personnel cost per output per sector for 2007/08;
- the estimates of the FTE time spent for each sector have also been pro-rated against the total level of operating and indirect costs expected to be incurred for each output in 2007/08 to obtain an expected level of operating and indirect cost per output per sector for 2007/08;
- the cost of specific programmes are allocated directly to the sectors or service they apply to, eg, the costs of the poultry residue monitoring programme will be a specific cost to the poultry sector etc.

Generic Standard Setting

Given that generic standards have equal applicability across all food sectors, the difficult question is how the costs should be allocated across the different sectors to which the generic standards apply. The costs incurred in developing generic standards are in the nature of a joint cost, with the costs being common across the different sectors to which the generic standards apply.

Options for allocating the costs of generic standards are: to pro-rata the costs across the sectors (eg, using FTE as a driver); to allocate the costs on the basis of a flat rate (uniform charge) for each sector, or to allocate costs in proportion to the sector size.

A flat rate charge could seem inequitable as it could mean smaller sectors which imposed relatively low costs on NZFSA may have to bear the same charge for developing generic standards as the much larger sectors. A pro-rata allocation of the costs of generic standards across the different sectors on the basis of FTEs would be compatible with the approach taken for allocating other joint costs, ie, overheads.

Wider considerations need to be taken into account when looking at allocating the cost of generic standard setting across all sectors covered by NZFSA. This includes the delivery of benefits to all persons producing or selling food whether they are a part of the Animal Products regulatory system or not. Allocation of generic costs on FTEs may not reflect an equitable distribution across all sectors.

NZFSA proposes that an equitable driver is to allocate New Zealand generic standard costs to sectors in proportion to the benefits received or allocate those costs on the use made of the standards as measured by the size of each sector (measured in value of total output, eg, both domestic and export).

Approvals, Accreditations, Registrations

Those costs have not been apportioned on a sector basis. The total direct and indirect costs of the services has been built into an hourly rate which has then been apportioned to particular functions based on estimated time taken.

6.3 Limitations of the costing methodology

It is important to remember that NZFSA is delivering a programme of work, some of which can be attributed to specific sectors, but a great deal of this work is generic in nature which benefits all food sectors. There are also necessarily wide variances from year to year in the focus for specific sectors, with some sectors requiring concerted attention for a period, but then needing little specific input for many years.

NZFSA must also be able to respond rapidly to areas where emerging issues are identified or attention must be given to unplanned activities to address problems arising.

While time recording provides historic information on the time that has been spent on specific sectors in the past, it cannot provide predictive information for the effort required in the future years to which charges will be applied. Due to the wide variances in focus that

may be required from year to year, historic time recording information is of limited use in allocating costs for future periods.

NZFSA must determine its charges for this programme for a whole industry made up of many sectors, not to individuals or companies (as a lawyer or a consultant would do) and must determine these some 12 – 18 months prior to the relevant charging year. Charges can therefore only ever be based on the best information available at the time tempered with considerable managerial judgement.

This managerial judgement is based on:

- experience of the sectors over time,
- knowledge of likely areas of focus for the forthcoming period and
- sound strategic planning.

It must be applied to assessments of future time allocation along with the principles of equity, efficiency, justifiability and transparency.

Unpredictable and extreme swings in the allocation of costs is difficult for both NZFSA and the industry to manage and a degree of 'smoothing' must be factored in over a five year period to ensure that charging rates are not based on a period that is in fact not representative of the total effort required.

Given the above, the charging regime applied is the best available but will be adapted and modified over time. In the meantime the Animal Products Act provides for the operation on memorandum accounting which allows for under or over recovery of costs to be kept aligned with a particular function or to the sector so in future years **the over or under recovery can be recovered or refunded accordingly.**

6.4 Current Operating Budget

The fees, charges and levies set under the Animal Products (Fees, Charges and Levies) Regulations 2002 were set to recover the industry's proportion of the total \$14.090 million budgeted for those services. It is difficult to compile a direct comparison between this and the proposal because the basis for cost allocation has been changed from a sector base to a functional base. However, since the last fee review cost increases have occurred in

- Corporate overhead, including MAF Overheads
- Personnel costs

6.5 Annual Operating Budget

The annual operating budget for industry type goods can be found in Appendix 2 and is based on the allocation described in section 6.2 . This is projected to comprise:

- \$960,000 for delivering market access
- \$2,980,895 for delivering export standards and systems
- \$2,839,000 for delivering New Zealand standards activities

Costs of goods with public good components (and therefore paid by the Crown) are estimated to be :

- \$596,077 for delivering multilateral standards
- \$854,800 for delivering technical input into policy advice
- emergency response outputs and contributions to trans Tasman activities which relates to animal product industries are also considered public goods

Cost for delivering approvals, accreditations, registrations, listings:

- \$857,388

7 Stakeholder Contributions to NZFSA Costs

This section details the criteria used for determining the Crown and industry contributions to the costs of providing services. Based on these criteria, the relative Crown and industry contributions are proposed.

The Crown and industry as the major stakeholders will be contributing to the cost of services provided by the NZFSA. In determining the respective contributions of the Crown and industry, the Treasury document *Guidelines for Setting Charges in the Public Sector* and the Audit Office *Guidelines Costing and Charging for Public Sector Goods and Services* have been taken into account.

7.1 Framework for determining service type

In principle, the appropriate source of funding of an activity depends on the nature of the good or service. Economic theory distinguishes between three types of goods or service: public goods (or services), industry goods (or services) and private goods (or services). The key characteristics of these three categories and their appropriate sources of funding are considered below.

Public Goods

The classic definition of a public good or service is where consumption of the good or service is both:

non-rival: where consumption of the good or service by one party does not reduce the amount of the good or service available to other potential consumer. An example is radio broadcasting because one person listening to the channel doesn't reduce the ability of others to tune in; and

non-excludable: where it is not possible (or too costly) to prevent a party from freely consuming the good or service. For example, in the case of public radio broadcasts, anyone with a suitable receiver can listen in.

Examples of pure public goods are rare. For example, some have argued that a lighthouse is a public good, as use by one ship of the light does not diminish the ability of another ship to use the light and it is generally difficult or impossible to prevent a ship from benefiting from the service. However, it has been noted that original lighthouse services were in fact provided by private

operators who funded the activity by charges on ships entering the harbour. Similarly, in the case of radio broadcasting, while it may meet the criteria for a public good, there are ways other than general taxation of funding the activity (ie, advertising).

In practice, the distinction between a public good, industry good and private good is not black and white. The issue is more one of degree, with the practical question being how costly it is to charge (or exclude) a user of the publicly provided service.

Industry Goods

In the case of an industry (or club) good, use by one person does not detract from its use by another (ie, consumption is non-rival, like a public good), but people can be excluded from the benefits at low cost (unlike a public good).

Industry goods can, in principle be provided by member-owned 'clubs' (eg, an industry organisation), by a separate organisation or by the public sector.

There are typically advantages in an industry good being funded by the industry (rather than by the taxpayer). These advantages can include:

- more equitable outcomes, as those who impose the cost of supplying the good or service, or who benefit from it (rather than the general taxpayer) pay for the costs of supplying the good or service;
- better incentives for the industry to moderate its demand for the publicly-provided services and to minimise the activities that give rise to the cost or risk associated with the activity; and
- better incentives for efficiency in the provision of the good or service, as the industry is likely to have better ability and greater incentives than the general taxpayer to monitor the performance of the supplier.

Where a publicly provided activity is industry (or privately) funded, the charging mechanisms used should be consistent, transparent, and implementable and the charges set should not over-recover the cost of the service.

Private Goods

In the case of private goods, people can be excluded from its benefits at low cost and its use by one person conflicts with its use by another.

Private goods are by far the most common. There is a strong case for recovering the costs of a private good from those who benefit from it.

7.2 Application of the Principles to NZFSA's Activities under the APA

This part of the section considers the extent to which each of the outputs provided by NZFSA under the APA are public, industry or private goods, as defined above. In assessing the nature of the goods or service, the following criteria are used:

- whether consumption of the service is non-rival;
- whether consumption of the service is non-excludable; and
- the costs of identifying and charging those person or persons that create or contribute to the costs or risks (the 'exonerator') or the user/beneficiary in the case of private goods.

Market Access

NZFSA's output Market Access activities are activities undertaken to promote and deliver animal product exports worldwide and include bilateral/regional negotiations for obtaining and maintaining access.

Market Access is primarily an industry good as, while its use by one exporter does not detract from its use by another, it is largely an excludable activity because exporters require registration and frequently require official assurances, such as certification of an export consignment from the government. Where the government undertakes specific market access negotiations for specific products, the activity is also an Industry Good because the industry or sector benefiting can be easily identified. It is generally feasible to charge the exporter for the costs of market access as part of the official assurance process or by way of general export charges.

Particular issues can arise in the case of new species, sectors or products (as has arisen recently, for example, with ostriches and emus) where the first entrant or entrants to the industry have to bear the establishment costs of negotiating market access for the new product. It can be argued

that those start-up costs only arise because the new entrant is seeking to export but it can also be argued that some costs should be recouped from other businesses entering later. In either case, if the taxpayer paid, the taxpayer would be subsidising the new industry and bearing the risk that the industry may fail. However, in some circumstances there is no ability, or it is difficult, to apply regulatory charges to recover start-up costs from persons prior to the activity commencing.

Some specific components of NZFSA's Market Access activities have public goods characteristics. These components are:

- technical input to policy (see under separate heading below)
- multilateral standards activities (see under separate heading below)
- a case can also be made for Crown funding of the costs incurred by NZFSA in Free Trade Agreements (FTAs) negotiations, especially where the FTA is politically rather than trade driven or where the agreement is plurilateral (like the P4 agreement and the ASEAN agreement that is currently being developed).

It would be appropriate for most of these three components of the costs of 'Market Access' to be publicly funded.

Export Systems and Standards

Export Systems and Standards relate to the development, maintenance, evaluation and review of export food and food-related product standards; the development and implementation of systems and processes for export food and food-related regulatory programmes; and the development and implementation of standards and implementation tools for verification of export requirements. This output includes the residue monitoring programmes such as the dairy, meat and poultry residue monitoring programs.

Export Systems and Standards is primarily an industry good. The development of the service is generally provided and the costs can be attributed, on an industry-by-industry basis. It is also quite practical to charge on an individual industry basis.

The full costs associated with the different residue testing programs (eg, meat, dairy) are included in the Export Systems and Standards output. These are significant cost items (\$1m plus in the case of meat). Residue monitoring activities are an industry good. It is generally quite feasible to identify the costs incurred by the different industries/sectors and to charge the industry/sector accordingly.

New Zealand Systems and Standards

New Zealand Systems and Standards are also primarily industry goods. In the case of the development and setting of operational standards and product and operational safety guidelines for a specific industry, use by one enterprise does not detract from its use by another but it is possible to exclude parties at a low cost. These activities are therefore industry goods. It is quite feasible to charge the industry for such activities. Enterprises need to register their risk management programmes to supply products and the cost of developing and maintaining safety standards could legitimately be included as part of the costs of the registration, or through levies.

In the case of generic food standards, it can be argued that all New Zealand consumers benefit and that therefore the taxpayer should pay. However, the prime focus in designing a funding regime should be on who imposes or creates the costs, rather than on who benefits. Charging those who impose the costs can have the advantage of encouraging those who impose the cost to moderate their behaviour and to monitor the costs incurred in supplying the activity. On the other hand there are arguments that generic standards are so general in nature and the beneficiaries are so widespread that they will have little ability to influence their supply or monitor costs.

It should also be noted that the consumers of a particular food or beverage are not the same as taxpayers. Different sectors have different standards with differing costs for designing, implementing and monitoring them. Further, consumers' patterns of expenditure on the different products differ widely so it is not clear that having the taxpayer pay is efficient or equitable.

Some tension has arisen in recent years between the government's guidelines for setting user-charges in the public sector and calls to assist and provide protection for small and medium size entities from the full cost of supplying the government service to those enterprises. As a result, either larger business or the general taxpayer has had to cross-subsidise smaller businesses. Such subsidisation is inconsistent with the government's guidelines and is likely to be a relatively blunt and inefficient form of assistance to the business sector.

As with Market Access, there are some components of the costs incurred in New Zealand Systems and Standards that are more properly regarded as public goods. These components are technical input to policy, multilateral standards activities, including trans Tasman activities. It would be appropriate for most of these two components of the costs of 'New Zealand Systems and Standards' to be publicly funded.

Approval, Accreditation and Registrations

Approval, Accreditation and Registrations is a private good as the service is generally provided and the costs can be attributed, on an enterprise-by-enterprise basis. That is, consumption is 'rival' because extra costs are involved in supplying the service to each enterprise. It is also quite practical to charge for Approval, Accreditation and Registrations services on an individual enterprise basis.

Technical input to policy

Technical input to policy component activities should be regarded as a public good. food safety policy advice, like other public policy advice, should take a national (rather than a sectoral) interest perspective and consider often competing claims. To maintain independence of advice, NZFSA's policy advice activities (like other policy advice activities) should be regarded as public goods and be taxpayer funded.

Multilateral standards

Multilateral standards activities cover a range of activities. NZFSA's contributions to multilateral negotiations and international fora (eg, Codex, the OECD, APEC, Biosafety and WTO) cover a general range of agricultural and food industry interests which benefit the agriculture and food sectors and could therefore be regarded as industry goods. However, they also contribute to meeting New Zealand's national interest obligations as a signatory to underlying treaties and agreements and to New Zealand's standing in the international arena and could therefore be regarded as public goods. It would also be difficult to apportion the costs of such activities to an individual enterprise or sector group unless the activity was very focussed and tightly constrained to a particular sector. On the other hand, the costs of multilateral standards activities that relate to specific agricultural/food products could be apportioned to the specific product and could (and should perhaps) be funded by that industry or sectoral group. For example, contributions to commodity specific Codex Committees could be expected to fall within this category. Overall, it is probably efficient for most of these activities to be Crown-funded.

Summary of Assessment Proposed Crown/Industry Contributions

Service Area	Crown	Industry
Market Access		✓
Export Systems and Standards		✓
New Zealand Systems and Standards		✓
Approvals, Accreditations and Registrations	✓	
Technical Input to Policy	✓	
Multilateral Standards	✓	
Input into Trade Agreement	✓	
Implementation	✓	✓

8 Who in industry is it best to charge?

Having determined that industry should pay for certain services this section examines whom in industry it is best to charge for services provided. For economic efficiency reasons guidelines suggest charges should be imposed as close as possible to those persons who have the ability to moderate their behaviour and influence their demand for services, ie, those who use the services. However, for practical reasons and for charging efficiency, placing charges at different points of the supply chain may be a feasible option.

8.1 Who should pay?

New Zealand standards

Although the final beneficiaries of providing food standards are consumers, in practice it would be difficult to identify everyone who benefits from food regulation activities, and/or impractical to charge them for those benefits, particularly overseas consumers, unless the New Zealand taxpayer funds on behalf of all consumers.

It is likely to be more efficient to charge processors and other operators because

- consumer beneficiaries are widespread, with consequent high costs of collection;
- processors (and other operators) are likely to be in a better position to monitor the costs and activities of the service providers than consumers in general; and
- there may be better incentives for industry to moderate its demand for the publicly-provided services, and to minimise the activities that give rise to the cost or risk associated with the activity (provided that the costs imposed reflect, and vary with, the degree of risk).

To the extent that animal product processors pass the cost of regulation onto final New Zealand consumers, charging producers is also equitable, as, the final beneficiaries are being charged.

It is proposed that the cost of New Zealand standard setting be recovered from processors (domestic and export¹) of animal products.

Market Access and Export Standards and Systems

Exporters of animal products gain benefits from market access and official assurance activities undertaken by NZFSA. However, most of the standards set and therefore assurances given are more applicable to the processors of export product.

It is proposed that the majority of market access and export standards and systems costs be recovered from processors of export product.

It is acknowledged that export processors have limited or no opportunity to pass on the cost of regulation to export customers.

8.2 Alternative options to recover costs from secondary processors (including stores, processing of by-products, rendering, animal feeds, dual operator butchers and hides and skins)

Option one

In terms of economic efficiency, charges should rest with each of the sectors listed and be recovered from these sectors accordingly. Secondary processors are likely to be in a better position to monitor the costs and activities of the service providers than consumers in general. There may also be better incentives for industry to moderate its demand for the publicly-provided services, and to minimise the activities that give rise to the cost or risk associated with the activity.

Costs would be recovered in the same fashion as above, ie, across all processors for New Zealand standards, and export processors for export standards and market access.

Option two

An alternative option is to recover the costs allocated to secondary processors from primary processors. The advantages of this option are:

¹ To the extent that the New Zealand Standards form the basis for all exported products, the cost of setting those standards are equally recoverable from export processors.

- there is difficulty in identifying the amount of programme effort attributable to secondary processors on an ongoing basis - highly variable programme
- the scope and scale of secondary processors makes it difficult to identify a fair and equitable basis for charges - product values vary enormously
- difficulty in identifying sustainable mechanisms to base charging for secondary sectors on (currently a uniform fixed annual charge is the most feasible)
- an ability of some secondary processors to avoid costs by moving to other legislation ie, charges will influence behaviour and may include avoidance of regulation
- almost all primary processors are also secondary processors.

Secondary processing costs that could be recovered from primary processors could include animal feed, hides and skins, rendering and secondary processing of by-products.

Currently, except for *standalone* stores, rendering, secondary processors, and pet food processors (who pay fixed annual charges); the costs of secondary processing are paid by levy and annual levy revenue received from primary processors.

It is acknowledged that all secondary processors (except rendering) source animal products from primary processors, but not all primary processors send product on to secondary processing. Therefore bundling costs represents a degree of cross-subsidisation from primary processors to secondary processors. There may also be equity considerations when determining the amount of cost to be allocated to each primary processing sector.

9 Charging Mechanisms

This section outlines the policy for determining the basis for charging, including mechanisms and methods for calculating fees and charges.

9.1 Charging regime should not be overly complex

Total costs to be recovered by regulation are around \$9 million. Providing a cost recovery system where small units of service are individually calculated for each client would be costly to set up and administer in comparison with the estimated costs to be recovered. In some cases the costs of obtaining the necessary information and keeping track of various components may outweigh the direct cost of providing the service.

9.2 Basis of charging for services

It is proposed that for functions and services that can be divided into homogeneous units and where there is little variation in the cost of providing the unit of service, they will be charged at an average cost (direct and indirect) per unit of output. Fixed fees and annual charges are proposed. This will assist in minimising transaction costs and providing certainty over fees and charges.

Where there is a large variation in the cost of individual outputs, for example, in the time taken to perform the service, average costing through fixed fees is not an appropriate charging option. In these circumstances it is proposed that hourly rates be used. Where hourly rates are used, disbursements covering items such as (but not exclusively) travel, accommodation, and communication will be charged at cost.

For certain industry goods a charge based on size or throughput ie, levies or differential charges are considered.

9.3 Proposed charging mechanisms

The proposed basis for charging for services provided under the Animal Products Act:

- attaches fees and charges to specific units of service provided

- uses mainly fixed fees and annual charges, as these are simpler to apply and therefore have a lower administrative cost
- sets fixed fees and charges based on the average full and reasonable costs of providing the services
- sets annual charges on the basis of the costs of performing these functions allocated amongst the persons that will be paying the charge
- sets time-based charges on the basis of fixed and variable costs (eg, salaries and operating costs)
- sets other charges (disbursements) on the basis of actual and reasonable costs incurred in providing the service, and
- provide for levies to recover costs where a differential charging system is desirable.

10 Proposed Fees and Charges – Private Goods (Approvals, Accreditations and Registrations)

This section proposes fees and charges for Approvals, Accreditations and Registrations type services. These are private goods and therefore costs should be recovered from the users of these services at a rate which reflects the actual cost of providing the service. Disbursements and other administrative costs will also be recovered at cost.

At present the fees charged for 'Approval, Accreditation and Registrations' services are quite complex and vary depending on the section of the Act the service is provided under. NZFSA's hourly charges vary significantly across the different sectors and legislation that NZFSA operates under. There may be a case for simplifying the tariff structure and establishing a single uniform fee for a given service across the different sectors. This would simplify the tariff structure and reduce administration costs.

Total Expenditure on Approvals, Accreditation and Registration type services is expected to be around \$948,000. Current revenue rates (fees and charges) are projected to recover around \$356,000 leaving a shortfall of \$590,000. Currently this shortfall is being funded through programme cost revenue, but it is more desirable to fund it through user charges. It is proposed therefore to increase the current fee rates and simplify cost structures.

Proposals

Fixed fees and annual charges are proposed where an accurate estimate of time taken to perform functions can be made. The fixed charge is made up of time taken and the hourly rate, (see annex 1) plus known incidental costs. This will assist in minimising transaction costs and providing certainty over fees and charges.

Where there is a large variation in the cost of individual outputs, for example, in the time taken to perform the service, average costing through fixed fees is not an appropriate method therefore hourly rates, plus disbursement costs are provided for.

10.1 Proposed Approval Fees and Charges (GST Exclusive)

Category	Current Application Fee	Current Renewal Fee	Proposed Application Fee	Proposed Renewal Fee
Export Approved Premises	\$100.00	\$100 (renewed every 2 years)	Fixed fee of \$183.00 per application plus \$122.00/hr thereafter	Fixed fee of \$122.00 per renewal plus \$122.00/hr thereafter
Export Approved Premises - Animal Fibre and Wool	\$100.00			
Export Approved Premises - Bee Product	n/a			
Export Approved Premises - Game Trophies	-			
Export Approved Premises - Hides & Skins	\$100.00			
Export Approved Premises - Marine Shells	-			
Export Approved Premises - Scientific Material	\$100.00			
Exporter	\$130.00	\$150.00		
Game Estate	\$100.00	\$100.00		
HomeKill - Dual Operator Butcher	\$100.00	Fee waiver		
HomeKill - Service Provider	\$100.00	\$56.25		
Organic Exporter	\$120.00	\$120.00		
Risk Management Programme - under New Operator - Dairy	\$100.00	-		
Risk Management Programme - under New Operator - excluding Dairy	\$100.00	-		
Transport Operators	\$150.00	\$150.00		

	Current Application Fee	Current Renewal Fee	Proposed Application Fee	Proposed Renewal
Animal Material Depot	\$105.00	\$100.00		
Bivalve Molluscan Shellfish - Animal Products Officers	-	-		
Bivalve Molluscan Shellfish - Depot Operator	-	-		
Bivalve Molluscan Shellfish - Harvest Operator	-	-		
Bivalve Molluscan Shellfish - Sorting Shed Operator	-	-		
Bivalve Molluscan Shellfish - Transport Operator	-	-		
Certified Hunters (Wild/Game Estate)	\$100.00	\$100.00		
Certified Suppliers (Petfood)	-	-		
Limited Processing Vessel	\$130.00			
MAF Devices (brands/seals)	-	-		
Recognised Agency - excluding Dairy	-	-		
Recognised Persons - LAS	\$110.00	-		
Recognised Persons - Verifiers, Evaluators	\$110.00	\$80.00		
Risk Management Programme - 3 Year Review	-	-		Fixed fee of \$244.00 per renewal plus \$122.00/hr thereafter
Risk Management Programme - Amendments - excluding Dairy	\$100.00	\$80/hour (asst fee)	Fixed fee of \$488.00 per application plus	
Risk Management Programme - excluding Dairy	\$100.00	\$80/hour (asst fee)	\$122.00/hr thereafter	

10.2 Hourly rate charges

Where costs are incurred for assessment work or for services carried out at the request of an operator of a risk management programme, other processor or person or from the act or omission of operator of a risk management programme, other processor or person a charge will be incurred at the appropriate hourly rate (see appendix 1) plus the costs of any actual and reasonable expenses incurred.

11 Proposed Fees and Charges – Industry

Goods

This section proposes the methodologies for recovering industry good costs. Specific options on a sectoral basis are proposed in accompanying annexes.

11.1 Generic Methodology

The nature of industry goods means that they cannot be charged to users in line with use because use by one person does not detract from the use by any other. One issue, therefore, is how to allocate costs fairly and efficiently amongst all users. For primary processors there are three main options for achieving this:

1. Allocate costs evenly amongst all participants. This is current practice for recovering industry (programme costs) from the seafood, shellfish and some secondary processing and stores. It is a low cost mechanism but has equity issues in that small and medium sized businesses are paying the same rates as large business. If the costs are significant they could be a barrier to entry or force small operators out of business.
2. Costs could be allocated to business in line with benefit gained from the use of the services as measured by the size (ie, product throughput) of the business. This is current practice for recovering industry (programme costs) from the meat and game sectors. This option would be more equitable for small and medium sized business, and would impose higher costs on larger businesses. It is a less cost effective mechanism than a uniform charge as there would be higher cost involved in setting up and operating the charging regime and verifying throughput records. This cost could be minimised through setting a threshold where operators below a certain size would pay a fixed fee instead of a levy.
3. Differential annual fees could be set based on the size of a business (large, medium or small). This is current practice for recovering industry (programmes costs) from the dairy and wine industries. This option would be equitable for small and medium sized business, but would impose higher costs on larger businesses. It is a more efficient mechanism than levies but could influence the behaviour of companies at the margin between each of the charging levels.

Secondary processors

The scope and scale of secondary processors makes it difficult to identify a fair and equitable basis for charges - product types, values and throughputs vary enormously making it difficult to identify mechanisms to base charging on. One option is to recover costs from secondary processors by applying a uniform charge and allocating costs evenly amongst all participants. It is a cost effective mechanism but has equity issues for the reasons identified above for primary processors. Alternatively – secondary processors can be charged on size (small, medium, large) but there is difficulty in determining a dominator of size (eg, \$ value volume, product type). Overall, the most efficient solution is the one that achieves the highest net benefit.

An alternative option is to recover secondary processing costs as a surcharge on to primary processing costs. This would be a cost effective recovery mechanism as the mechanism would already be in place to charge primary processors. However, this may raise equity issues in determining how much each primary sector would pay, and in the issue of cross-subsidy between businesses.

11.2 Export/Domestic Split

It is proposed that New Zealand standards cost be allocated across all processors whether they are processing for the domestic or export markets. This is because New Zealand standards set the minimum requirement for both export and domestic markets.

Export costs should only fall on those who are involved in processing for export. The mechanisms available are a surcharge for exporters on top of the New Zealand standards charge. Although, it would be equitable to apply such a surcharge in line with product actually exported it may not be feasible, practicable or cost efficient to identify which product will actually be exported at the point of primary processing. A more feasible option may be to apply the export rate to all product processed in a plant that exports. This is not as equitable as charging export product only but would be administratively more efficient to operate.

An alternative option is to recover market access and export standard setting costs through the E-cert (Electronic Certification) regime. A rate could be set in line with tonnages exported and applied to primary or secondary processors (whoever is the last port of call prior to export). Such a system would be administratively efficient and equitable as the charges levied would be in line with the benefits received. However, it is not technically

feasible to set up such a system in the short term and an alternative system would be needed for industries not using E-cert or for those that don't require certification.

It is noted that for industry-initiated provision of industry goods such as those provided by industry representative organisations, the industry's preferred method is for recovering those costs is a charge based on size, ie, through levies or similar systems.

12 Regulatory Impacts and Business Compliance Costs

The proposals will have some significant regulatory impacts on the sector. It is anticipated that the main impacts are:

- fees and charges will increase (double) for approval, accreditation and registration type functions, this will impact on all persons operating under the Animal Products Act
- persons operating in the poultry, eggs, bee and honey sector will be subject to programme rated charges that they previously did not have to pay. If charges are based on business size or throughput. This will have a significant impact on the three large operators in the poultry sector.
- a move away from a uniform fixed annual charge in the seafood and shell fish sectors will result in significant cost increases for large operators. Two large operators will meet between them 54% of the costs, while five medium operators will meet between them around 20% of the costs.
- domestic only meat, seafood and shellfish operators will have reduction in annual programme costs.

Business Compliance Costs

Government requires business compliance costs to be explicitly considered in the development of any regulatory proposals.

Compliance costs are the administrative and paper work costs to business in meeting government requirements. They include the costs associated with identifying and understanding regulatory requirements. Compliance costs are not the direct costs of the provision of a good or service.

The costs of complying with cost recovery requirements would be minor and relate to administrative responsibilities such as paying invoices and supply of data.

13 Consultation to be undertaken and guidance on issues that might be considered by stakeholders making a submission

13.1 Guidance for submitters

NZFSA seeks submissions from all interested parties on any aspect of the proposed fees and charges presented in this document. Clear concise comments on the principles and approaches proposed will greatly assist in ensuring that the significance of your comments is understood.

The following points may be of assistance in preparing comments:

- wherever possible, comments should be specific to a particular section of the document
- comments on other matters should be clearly stated and indicated
- comments should be to the point and, where possible, reasons and data to support comments are requested
- the use of examples to illustrate particular points is encouraged, and
- as a number of copies may be made of your comments, please use good quality type, or make sure that your comments are clearly hand written in black or blue ink.

13.2 Requirements for and information on submissions

.Submitters are asked to include the following information in submissions:

- the title of the discussion document
- name and title of submitter
- organisation's name (if applicable)

- submitter's address and contact details (phone, fax, e-mail if available), and
- the number(s) of the section(s) commented on beside each comment.

Submissions may be the subject of requests for information under the Official Information Act 1993 (OIA). The OIA specifies that information is to be made available unless there are grounds for withholding it, such grounds are set out in the OIA. Submitters may wish to indicate grounds for withholding specific information contained in their submission, such as that the information is commercially sensitive or they wish personal information (for example, name and contact details) to be withheld. Any decision to withhold information requested under the OIA is reviewable by the Ombudsman.

Closing date for submissions

The closing date for submissions is 15 December 2006. Please submit your response by 5.00pm on 15 December 2006 to:

Submissions - Animal Products Cost Recovery

Policy Group

New Zealand Food Safety Authority

PO Box 2835

WELLINGTON

Alternatively, responses can be faxed to (04) 463 2583 or e-mailed to Policy@nzfsa.govt.nz

Process following closing date for submissions

The next steps in the review process will be to analyse submissions and develop a summary of submissions. It is intended that a copy of the summary of submissions will be provided to each submitter. If necessary further consultation will occur in early 2007 on the final proposals for fee, charges and levy rates.

Appendix 1: Fee Calculation Workings

Hourly Rate Calculation: Approvals, Accreditations, Registrations

Chargeable Hours:	
Personnel	1,884,633
Operational	398,784
Contractors	101,000
Indirect Costs	1,590,360
Other Management Units	3,590,360
FTEs:	27.8
Chargeable Hours:	142,978 Chargeable Hours/Annum
Working year	1,566 (at 75%)
Statutory Holidays	78
Annual leave	126
Sick leave	60
Courses and conferences	30
Technical training	60
Annual Billable Hours	1,212
=	\$122/ hour

Hourly Rate Calculation: Technical Advice - New Zealand Standards, Market Access and Export Standards

Chargeable Hours:	
Personnel	6,430,409
Operational	2,819,115
Contractors	763,641
Indirect Costs	4,875,201
FTEs:	82.4
Chargeable Hours:	378,855 Chargeable Hours/Annum
Working year	1,435 (at 69%)
Statutory Holidays	71
Annual leave	115
Sick leave	55
Courses and conferences	27
Technical training	55
Annual Billable Hours	1,111
	= \$164/ hour

Appendix 2: Annual Operating Budget- Industry Goods

Output	Animal Product Related Industries								
	Meat	Game	Wetfish	Shellfish	Wild game	Poultry	Ostrich & Emus	Bees & Honey	Eggs
Market Access									
Direct Costs	366,169	58,208	45,909	51,111	18,085	44,774	2,337	1,887	1,887
Indirect Costs	147,827	23,499	18,534	20,634	7,301	18,076	943	762	762
Total Costs	513,996	81,707	64,443	71,745	25,387	62,850	3,280	2,649	2,649
Export Standards and Systems									
Direct Costs	342,858	77,040	5,988	4,718	4,718	24,422	5,841	3,145	3,145
Indirect Costs	138,416	31,102	2,417	1,905	1,905	9,860	2,358	1,270	1,270
Specific costs	1,444,030	166,939					38,581		
Generic Standard	361,831	19,979	86,706	11,093		653	0	1,060	147
Total Costs	2,287,135	295,060	95,111	17,716	6,623	34,395	46,780	5,475	4,562
NZ Standards									
Direct Costs	234,606	24,772	108,196	162,111	10,929	64,844	5,464	26,958	10,929
Indirect Costs	116,189	12,268	53,584	80,286	5,413	32,114	2,706	13,351	5,413
Specific costs	845,650	0	20,000	55,000		84,500			
Tech Input into policy	29,585	3,124	13,644	20,443	1,378	8,177	0	0	0
Generic Standard	208,353	12,770	42,976	6,006	0	36,438	3	1,139	5,585
Total	1,434,383	52,934	238,400	323,847	17,720	226,074	8,174	41,448	21,927

Output	Animal Product Industries					
	Animal Fees	Secondary processing	Dual Operator Butchers	Rendering	Hides and Skins	Stores
Market Access						
Direct Costs	18,085	20,979	0	34,598	2,337	18,085
Indirect Costs	7,301	8,469		13,968	943	7,301
Total Costs	25,387	29,449	0	48,566	3,280	25,387
Export Standards and Systems						
Direct Costs	22,017	1,824		1,573		0
Indirect Costs	8,889	736		635		0
Specific costs						
Generic Standard	4,437	0			62,888	
Total Costs	35,343	2,561	0	2,208	62,888	0
NZ Standards						
Direct Costs	53,916	162,111	21,493	10,929		21,493
Indirect Costs	26,702	80,286	10,645	5,413		10,645
Specific costs	23,550					
Tech Input into policy	6,799	20,443	2,710	1,378		2,710
Generic Standard	12,579	84,885			0	0
Total	123,545	347,545	34,849	17,720	0	34,849

Appendix 3: Annual Operating Budget Industry Goods with Secondary Processing, Animal Feed and Hides & Skins Costs Levied on Primary Processors

Output	Animal Product Industries				
	Meat	Game	Wetfish	Shellfish	Poultry
Market Access					
Direct Costs	366,169	58,208	45,909	51,111	18,085
Indirect Costs	147,827	23,499	18,534	20,634	18,076
Secondary Processor roll-back	50,007	1,226	4,854	640	1,388
Total Costs	564,003	82,933	69,297	72,385	64,238
Export Standards and Systems					
Direct Costs	342,858	77,040	5,988	4,718	24,422
Indirect Costs	138,416	31,102	2,417	1,905	9,860
Specific costs	1,44,030	166,939			
Generic Standard	361,831	19,979	86,706	11,093	653
Secondary Processor roll-back	100,087	107	422	56	121
Total Costs	2,387,222	295,166	95,533	17,771	35,055
NZ Standards					
Direct Costs	234,606	24,772	108,196	162,111	64,844
Indirect Costs	116,189	12,268	53,584	80,286	32,114
Specific costs	845,650	0	20,000	55,000	84,500
Tech Input into policy	29,585	3,124	13,644	20,443	8,177
Generic Standard	208,353	12,770	42,976	6,006	36,438
Secondary Processor roll-back	375,536	14,473	57,312	7,557	16,392
Total	1,809,919	67,408	295,712	331,404	242,466

1. Total industry good costs of animal feeds and hides and skins and wool have been added to meat processing costs.
2. Costs of secondary processing have been allocated across the meat, game, seafood, shellfish and poultry processors using the same driver as for the allocation of generic standard costs (see section 6.2 Basis of the Costs Estimates).

Attachments

The following attachments deal with industry good costs and proposed charging mechanisms on a sector by sector basis.

All figures are GST exclusive.

Where possible costs have been apportioned (and recovery methods proposed) which separate out export processors from domestic only processors.

The proposals are based on the budgets presented in appendix 2. These are based on indicative budgets for 2007/08 and may change when budgets are finalised in early 2007. However, they will serve to highlight the impact or particular charging regimes that are subject to discussion in the attachments. Actual fees, charges and levies rates will be consulted on in early 2007 along with the preferred charging mechanisms.

The meat, game, wet fish, shellfish and poultry attachments relate to costs for primary processors. Those primary processors that engage in other processing, storing or rendering are also liable to pay the respective fees for those activities. Currently for primary processors such charges are incorporated into the levies and charges payable.

The cost recovery methods are based on the best information NZFSA has readily available. Submitters are invited to submit alternative mechanisms.

Attachment 1: Meat Sector

Introduction

This section details the recovery costs of Industry Goods for Market Access, Export Standards and New Zealand Standards services for those persons who are involved in primary processing lambs, cattle, horses, sheep, goats, pigs.

Costs to be recovered from sector

Service	Cost	Payable from
New Zealand Standards and Systems	\$1,434,383	All domestic and export processors
Market Access	\$513,996	Export processors
Export Standards	\$2,287,135	Export processors

Current situation

Levies are placed on primary processors. The levy rates are set taking into account forecast kill numbers received from the Meat and Wool Economics Service and MAF. The total kill numbers are translated into 'lamb equivalent numbers' using a conversion rate agreed with the industry.

The fee payable depends on the volume of throughput of the recipient of NZFSA's service. Current levy rates are:

Lambs	\$0.10
Sheep	\$0.11
Pigs	\$0.25
Cattle	\$0.69

Horses	\$0.69
Goats	\$0.10
Bobby Calves	\$0.10

Cost Recovery options are:

1. Levies

	All Processors	Export Processors	Total for Export Processors
Lambs	\$0.03	\$0.06	\$0.09
Sheep	\$0.03	\$0.07	\$0.11
Pigs	\$0.08	\$0.16	\$0.24
Cattle	\$0.21	\$0.45	\$0.66
Horses	\$0.21	\$0.45	\$0.66
Goats	\$0.03	\$0.07	\$0.10
Bobby Calves	\$0.03	\$0.06	\$0.09

2. Fixed annual charge per processor

All processors (73)	\$19,649 p.a.
Export processors (66)	\$42,441 p.a.
TOTAL	\$62,0690 p.a.

A further option could be to differentiate fixed charges on large, medium and small business scale/size. Under this option the distribution of costs is similar to that of a levy based system, ie, larger processors would pay the largest proportion of the cost.

Option to include secondary processing, animal feed and hides and skins in meat primary processors costs

If the costs of secondary processing, animal feed processing and hides and skins processors are added to cost to be recovered from primary processors the respective rates would be:

3. Levies

	All Processors	Export Processors	Total for Export Processors
Lambs	\$0.04	\$0.07	\$0.11
Sheep	\$0.04	\$0.08	\$0.12
Pigs	\$0.10	\$0.17	\$0.27
Cattle	\$0.27	\$0.47	\$0.74
Horses	\$0.27	\$0.47	\$0.74
Goats	\$0.04	\$0.07	\$0.11
Bobby Calves	\$0.04	\$0.07	\$0.11

4. Fixed annual charge per processor

All processors (73)	\$24,793 p.a.
Export processors (66)	\$44,715 p.a.
TOTAL	\$69,508 p.a.

Fixed fees could be differentiated on a large, medium, small business size/scale.

Attachment 2: Game Sector

Introduction

This section details the recovery costs of industry goods for primary processors of game.

Costs to be recovered from sector

The costs of services provided to the sector are

Service	Cost	Payable from
New Zealand Standards and Systems	\$52,934	All domestic and export primary processors
Market Access	\$81,707	Export primary processors
Export Standards	\$295,060	Export primary processors

Current situation

Primary processors of game are charged a levy of \$0.83 per head processed.

Cost Recovery options

1. Levies

All processors	\$0.10 per head
Export processors	\$0.94 per head
Total for Export Processors	\$1.05 per head

2. Fixed annual charge per processor

All processors (13) \$28,982 p.a.

Fixed fees could be differentiated on a large, medium, small business size.

Option to include secondary processing in game primary processors costs

If secondary processing costs are added to primary processing costs the rates would be:

3. Levies

All processors \$0.14 per head

Export processors \$0.97 per head

Total for Export Processors \$1.10 per head

4. Fixed annual charge per processor

All processors (13) \$29,085 p.a.

Attachment 3: Wet Fish Sector

Introduction

This section details the recovery costs of Industry Goods for primary processors of wetfish.

Costs to be recovered from sector

The costs of services provided to the sector are¹

Service	Cost	Payable from
New Zealand Standards and Systems	\$238,400	All domestic and export primary processors
Market Access	\$64,443	Export primary processors
Export Standards	\$95,111	Export primary processors

Current situation

Primary processors of fish other than bivalve molluscan shellfish are charged \$2,266 p.a. per processor. The respective charges for the two types of fish processors are set proportionate to NZFSA's estimated programme expenditure for the respective plants. Fishing vessels are charged a levy of \$384 per month (with a fee waiver at \$217 per month).

¹ Please note those proposals are in addition to NZFSA Verification Agency annual charges.

Cost Recovery options

1. Fixed annual charge per processor

All processors (73)	\$1,987 p.a.
Export processors (73)	\$1,450 p.a.
TOTAL	\$3,437 p.a.
Per vessel	\$286 per month

2. Levy Based (tonnes processed)

All processors (525,000 tonnes)	\$0.45 per tonne
Export processors (472,500 tonnes)	\$0.34 per tonne
Total for Export Processors	\$0.79 per tonne

The impact of applying a levy or differentiating fixed charges on a large, medium, small business size/scale would result in the two large processing companies paying around 54% of the total costs, five medium sized companies paying 20% (4% each) and small companies the balance between them.

Option to include secondary processing in primary processors costs

If secondary processing costs are added to primary processing the rates would be:

3. Fixed annual charge (including secondary processing costs)

All processors (73)	\$2,465 p.a.
Export processors (73)	\$1,499 p.a.
TOTAL	\$3,964 p.a.
Per vessel	\$330_per month

4. Levy Based (including secondary processing costs) (tonnes processed)

All processors (525,000 tonnes)	\$0.56 per tonne
Export processors (472,500 tonnes)	\$0.34 per tonne
Total for Export Processors	\$0.90 per tonne

Attachment 4: Shellfish Sector

Introduction

This section details the recovery costs of Industry Goods for primary processors of shellfish.

Costs to be recovered from sector

The costs of services provided to the sector are¹

Service	Cost	Payable from
New Zealand Standards and Systems	\$323,847	All domestic and export processors
Market Access	\$71,745	Export processors
Export Standards	\$17,716	Export processors

Current situation

Processors of bivalve molluscan shellfish are currently charged \$6,146 p.a.

Cost Recovery options

1. Current system - fixed annual charge

All processors (50)	\$6,350 p.a.
Export processors (50)	\$1,783 p.a.
TOTAL	\$8,104 p.a.

¹ Please note those proposals are in addition to NZFSA Verification Agency annual charges

2. Levy based (tonnes processed)

All processors (95,400 tonnes)	\$3.39 per tonne
Export processors (85,860 tonnes)	\$1.04 per tonne
Total for Export Processors	\$4.43 per tonne

Option to include secondary processing in shellfish primary processors costs

If secondary processing costs are added to primary processing the rates would be:

3. Fixed annual charge

All processors (50)	\$6,497 p.a.
Export processors (50)	\$1,783 p.a.
TOTAL	\$8,265 p.a.

4. Levy based (tonnes processed)

All processors (95,400 tonnes)	\$3.47 per tonne
Export processors (85,860 tonnes)	\$1.04 per tonne
Total for Export Processors	\$4.51 per tonne

Attachment 5: Poultry Sector

Introduction

This section details the recovery costs of industry goods for primary processors of poultry.

Costs to be recovered from sector

The costs of services provided to the sector are

Service	Cost	Payable from
New Zealand Standards and Systems	\$226,074	All domestic and export processors
Market Access	\$62,850	Export processors
Export Standards	\$34,395	Export processors

Current situation

Processors of poultry, through the Poultry Industry Association, currently contribute a total of \$85,000 to a residue monitoring programme.

Cost Recovery options

1. Fixed annual charge

All processors (12)	\$18,840 p.a.
Export processors (3)	\$32,595 p.a.
TOTAL	\$51,434 p.a.

Fixed fees could be differentiated on a large, medium, small business size.

2. Levy based (birds processed)

All processors (56 million birds)	\$0.004 per bird
Export processors (1.12 million birds)	\$.087 per bird

A levy based system of differential charging on business size would result in a large processor paying around 60% of the total cost, medium processors between 10 – 20% each and small processors (9) sharing around 5% of the total costs.

Option to include secondary processing of poultry primary processors costs

If secondary processing costs are added to primary processing the rates would be:

3. Fixed annual charge

All processors (12)	\$20,202 p.a.
Export processors (50)	\$33,096 p.a.
TOTAL	\$53,298 p.a.

4. Levy based (birds processed)

All processors (56 million birds)	\$0.0043 per bird
Export processors (1.12 million birds)	\$0.87 per bird

Attachment 6: Ostrich and Emu Sector

Introduction

This section details the recovery costs of industry goods for processors of ostrich and emu.

Costs to be recovered from sector

The costs of services provided to the sector are:

Service	Cost	Payable from
New Zealand Standards and Systems	\$48,234	All domestic and export processors
Market Access	\$3,280	Export processors
Export Standards	\$8,199	Export processors

Current situation

Processors of ostrich and emu currently pay to \$5 per bird processed.

Cost Recovery option

Levy based (birds processed)

All processors (8,000 birds)	\$5.84 per bird
Export processors (7500 birds)	\$1.53 per bird

Attachment 7: Bee and Honey

Introduction

This section details the recovery costs of industry goods for bee and honey producers.

Costs to be recovered from sector

The costs of services provided to the sector are

Service	Cost	Payable from
New Zealand Standards and Systems	\$41,448	All domestic and export primary processors
Market Access	\$2,649	Export primary processors
Export Standards	\$5,475	Export primary processors

Current situation

No fees are applied to honey processors for industry goods

Cost Recovery options

1. Option - fixed annual charge

All processors (220)	\$188 p.a.
Export processors (220)	\$37 p.a.
TOTAL	\$225 p.a.

2. Alternative Option – Differential Charge/Levies

A levy based system may provide a more equitable distribution of costs, however, the cost of setting up and administering a levy system may negate the benefits gained. Consideration could be given to differential charges based on size of business (small, medium, large). Currently NZFSA does not have enough accurate information available to base such a charge on and therefore indicate what the respective charges would be.

Attachment 8: Egg Sector Cost Recovery

Introduction

This section details the recovery costs of industry goods from egg processors.

Costs to be recovered from sector

The costs of services provided to the sector are:

Service	Cost	Payable from
New Zealand Standards and Systems	\$21,927	All domestic and export processors
Market Access	\$2,649	Export processors
Export Standards	\$4,562	Export processors

Current situation

No fees are applied to egg processors for industry goods

Cost Recovery options

1. Levy based (eggs processed)

All processors (760 million eggs)	\$0.029 per thousand eggs
Export processors (22.8 million eggs)	\$0.316 per thousand eggs

2. Fixed annual charge

All processors (105 processors) \$209 p.a.

Export processors (3) \$2,403 p.a. per processor

Consideration could be given to differential charges based on size of business (small, medium, large). Currently NZFSA does not have enough accurate information available to base such a charge on.

Attachment 9: Animal Feeds Cost Recovery

Introduction

This section details the recovery costs of industry goods for animal feed processors.

Costs to be recovered from sector

The costs of services provided to the sector are:

Service	Cost	Payable from
New Zealand Standards and Systems	\$123,545	All domestic and export processors
Market Access	\$25,387	Export processors
Export Standards	\$35,343	Export processors

Current situation

Current fees are set as a fixed annual charge with distinction being made between operations for domestic consumption (\$337 p.a.) and operations where the product is partly or fully exported (\$562 p.a.).

Cost Recovery proposal

1. Fixed annual charge

All processors ¹ (426)	\$290 p.a.
Export processors (175)	\$347 p.a.
TOTAL	\$637 p.a.

3. Differential charge/levies

A levy based system may provide a more equitable distribution of costs, however, the cost of setting up and administering a levy system may negate the benefits gained. Consideration could be given to differential charge based on size of business (small, medium, large). Currently NZFSA does not have enough accurate information available to base such a charge on.

4. Recovery from primary processors

This option involves apportioning secondary processing costs across primary meat processors

5. Impact of the NZFSA review of Animal Feeds

The changes proposed in the review of animal feeds, if agreed, will change the nature of the regulation of animal feeds and therefore the likely fee structures. The above proposals are based on the current regulatory regime.

¹ Includes primary processors for animal consumption

Attachment 10: Secondary Processors

Introduction

This section details the recovery costs of industry goods for secondary processors of all animal products (excluding dairy).

Costs to be recovered from sector

The costs of services provided to the sector are:

Service	Cost	Payable from
New Zealand Standards and Systems	\$347,726	All domestic and export processors
Market Access	\$29,449	Export processors
Export Standards	\$2,561	Export processors

Current situation

Currently game pack-houses pay an annual fee of \$394 p.a. and other pack-houses pay \$619 p.a. (reflecting the differing costs of supply). Now that pack-houses are permitted to operate in more than one sector, rates need to be adjusted to reflect the diversity of some operators

Cost Recovery option

1. Fixed annual charge

All processors (412)	\$844 p.a.
Export processors (412)	\$78 p.a.
TOTAL	\$922 p.a.

3. Differential charge/levies

A levy based system may provide a more equitable distribution of costs. Consideration could be given to differential charges based on size of business (small, medium, large). Currently NZFSA does not have enough accurate information available to base such a charge or levy on.

4. Recovery from primary processors

This option involves apportioning secondary processing costs across primary processors in proportion to the size of each respective industry (meat, game, fish, shell fish and poultry).

Attachment 11: Dual Operator Butchers

Introduction

This section details the recovery costs of industry goods for Dual Operator Butchers.

The costs of services provided to the sector are:

Service	Cost	Payable from
New Zealand Standards and Systems	\$34,849	All domestic

Current situation

No industry good costs are currently recovered from dual operator butchers.

Cost Recovery proposal

Fixed annual charge

1. Fixed annual charge

All processors (177)

\$197 p.a.

Attachment 12: Rendering

Introduction

This section details the recovery costs of industry goods for renderers.

Costs to be recovered from sector

The costs of services provided to the sector are:

Service	Cost	Payable from
New Zealand Standards and Systems	\$17,720	All domestic and export processors
Market Access	\$2,208	Export processors
Export Standards	\$48,566	Export processors

Current situation

No industry good costs are currently recovered from renderers.

Cost Recovery option

Fixed annual charge

All renderers ¹ (67)	\$264 p.a.
Export renderers	\$758 p.a.
TOTAL	\$1,557 p.a.

¹ Includes primary processors who render

5. Differential charge/levies

A levy based system may provide a more equitable distribution of costs, however, the cost of setting up and administering a levy system may negate the benefits gained. Consideration could be given to differential charges based on size of business (small, medium, large). Currently NZFSA does not have enough accurate information available to base such a charge on and therefore indicate what the respective charges might be.

Attachment 13: Hide Skins

Introduction

This section details the recovery costs of industry goods from hide and skin operators.

Costs to be recovered from sector

The costs of services provided to the sector are:

Service	Cost	Payable from
New Zealand Standards and Systems	0	
Market Access	\$3,280	Export processors
Export Standards	\$62,888	Export processors

Current situation

No industry good costs are currently recovered from hide and skin.

Cost Recovery options

1. Fixed annual charge

Fixed annual charge (131) \$505 per operator.

2. Differential Charge/Levies

A levy based system may provide a more equitable distribution of costs, however, the cost of setting up and administering a levy system may negate the benefits gained. Consideration could be given to differential charges based on size of business (small, medium, large).

Currently NZFSA does not have enough accurate information available to base such a charge on and therefore indicate what the respective charges would be.

Attachment 14: Stores

Introduction

This section details the recovery costs of industry goods from store operators.

Costs to be recovered from sector

The costs of services provided to the sector are¹:

Service	Cost	Payable from
New Zealand Standards and Systems	\$34,849	All store operators
Market Access	\$25,387	All store operators
Export Standards		

Current situation

Currently operators of stores pay an annual fee of \$178.

Cost Recovery options

Fixed annual charge \$163 per operator (369)².

¹ Please note those proposals are in addition to NZFSA Verification Agency annual charges

² Includes processors with cold storage