

SUBMISSION ON

Cost recovery annual review 2023: Proposed changes to fees, charges and levies

24 April 2023

To: Ministry for Primary Industries (MPI)

Name of Submitter: Horticulture New Zealand

Contact for Service:

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OVERVIEW

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Our submission

Horticulture New Zealand (HortNZ) thanks the Ministry for Primary Industries (MPI) for the opportunity to submit on the Cost recovery annual review 2023: Proposed changes to fees, charges, and levies. HortNZ's submission is focused only on the proposed increase to the Agricultural Compounds and Veterinary Medicines (ACVM) levy. We welcome any opportunity to continue to work with MPI and to discuss our submission.

The details of HortNZ's submission and decisions we are seeking are set out in our submission below.

HortNZ's submission is supported by the following organisations:

- Animal & Plant Health New Zealand
- Balle Bros Group
- Hawke's Bay Fruitgrowers' Association
- Katikati Fruitgrowers Association
- New Zealand Apples & Pears Incorporated
- New Zealand Asparagus Council
- NML Produce Limited
- Ryan Farms Limited
- Summerfruit New Zealand
- Tomatoes New Zealand

HortNZ's Role

Background to HortNZ

HortNZ represents the interests of approximately 5,500 commercial fruit and vegetable growers in New Zealand who grow around 100 different fruit, and vegetables. The horticultural sector provides over 40,000 jobs.

There is approximately, 80,000 hectares of land in New Zealand producing fruit and vegetables for domestic consumers and supplying our global trading partners with high quality food.

It is not just the direct economic benefits associated with horticultural production that are important. Horticulture production provides a platform for long term prosperity for communities, supports the growth of knowledge-intensive agri-tech and suppliers along the supply chain; and plays a key role in helping to achieve New Zealand's climate change objectives.

The horticulture sector plays an important role in food security for New Zealanders. Over 80% of vegetables grown are for the domestic market and many varieties of fruits are grown to serve the domestic market.

HortNZ's purpose is to create an enduring environment where growers prosper. This is done through enabling, promoting and advocating for growers in New Zealand.



Submission

Introduction - agricultural compounds and horticulture

To produce high quality, nutritious and safe food for human consumption in New Zealand, our growers and industry are reliant on having access to agricultural compounds (e.g., crop protection substances) that benefit horticulture.

Fee increases have the potential to deter product registration, in turn limiting our industry's ability to access the new agricultural compounds (which have a more favourable environmental impact profile) that our growers rely on to sustain their production and businesses.

We consider the existing user-pays funding model is unaffordable for growers who face escalating costs without the ability to pass these costs onto consumers. The underfunding of tools required to support horticultural production reinforces status quo land use in New Zealand and is a barrier to the land use diversification required to achieve environmental outcomes such as reduced emissions and enhanced freshwater.

We acknowledge the inflationary and environmental pressures that government departments are facing in the wake of the COVID-19 pandemic and cyclone Gabrielle. However, unlike the government, horticulture does not have the capacity to meet the continuous increased financial demands while feeding New Zealand and the world, complying with increasingly complex regulation, tackling the ongoing challenges of extensive labour shortages across the sector, and transferring to a low-carbon emissions industry.

We strongly emphasise that increased costs are occurring across multiple areas for our sector. As a result, for domestic crops that support everyday New Zealanders, either prices will increase or, the variety and quality of produce available to New Zealanders will decline.

We carefully consider all proposed fee increases to our sector and advocate for keeping costs low where possible to support growers. While we are generally unsupportive of increases to costs, we understand the need for fee increases where the rationale is clear and justified and the benefits to horticulture are tangible and long-term (e.g., improved service or faster processing times).

Background

The Agricultural Compounds and Veterinary Medicines (ACVM) Act requires registrants to pay an annual fee (levy) of \$540 (excluding GST) per trade name product registered (MPI, 2019).

Since 2015, the ACVM levy has remained unchanged at \$540 and is used by MPI to pay for a range of services such as the development of ACVM standards and guidance, processing

applications for trade name products and monitoring, reviewing, and auditing activities relating to the importation, manufacture, sale, and use of agricultural compounds (MPI, 2023).

As the levy has remained unchanged since 2015 and ACVM expenditure has outpaced revenue, MPI has reported an increasing annual financial deficit in ACVM (MPI, 2023).

To resolve this issue, MPI are proposing to increase the ACVM levy paid annually by \$636, from \$540 to \$1,176 for the 2023/24 financial year before further levy increases to \$1,530 in 2024/25 and \$1,921 in 2025/26 (MPI, 2023). The proposed increases are for future cost recovery purposes to ensure the existing operating deficit is curtailed (MPI, 2023).

We provide our views of MPI's proposed fee increases to the ACVM levy below.

1. HortNZ agrees with the identified problem

HortNZ agree that underfunding is a problem, as industry requires a regulator that is financially stable and able to undertake necessary services such as the provision of regulatory advice and processing of trade name product registrations under the ACVM Act. ACVM operating at a financial loss potentially jeopardises the future provision of these services which may result in adverse flow-on effects for industry and the market for agricultural compounds, which are critical for horticultural production.

2. HortNZ comments on the proposed approach to setting fees

The ACVM levy hasn't been increased since 2015 and we acknowledge the length of time that has passed where the levy has remained unadjusted for many factors e.g., inflation and increased staff costs.

MPI states that during cost recovery consultations, businesses and industry representative groups suggested graduated increases to charges; not simply a single increase or decrease to the levy (MPI, 2023). HortNZ agrees with this principle.

If there is to be a levy increase, a graduated increase following an annual review of the deficit position is a prudent option.

3. Industry concerns and expectations

Section 5.2.5 of the Annual Report on page 18 states that "various industry representatives indicated that cost recovery for trade name product registrations and applications generally works well. The Review noted that, while companies will always raise cost issues, among those industry representatives interviewed, MPI's trade name product application and registration service fees and levies were not raised as a significant concern" (MPI, 2023). Furthermore, some stakeholders indicated a willingness to bear an increase in costs recovered if it helped to improve the efficiency of the registration process e.g., monitoring and tracking applications via an online system or, an improved operating model (MPI, 2022).

The proposed graduated increases from \$540 to \$1,921 (2025/26) represents a 256 percent increase from 2022/23 to 2025/26, which seems excessive. Significant levy

increases are undesirable for industry as they may act as a barrier for registration of new products.

The ACVM system must be affordable to facilitate the registration of trade name products into the New Zealand market. Small, reasonable increases that measurably increase performance can likely be absorbed. Significant increases with no corresponding improvement in delivery cannot.

We suggest that MPI could instead shift focus to curtailing any unnecessary expenditure in other areas or a reprioritisation of funding towards ACVM rather than passing additional registration costs onto industry.

Industry expects that any increases in the ACVM levy would result in better service provision. Furthermore, industry would also expect MPI to be more financially capable of delivering system improvements, streamlining services, or reducing unnecessary administrative and regulatory barriers to make the system more fit-for-purpose.

HortNZ believe that registering new, beneficial agricultural compounds for food production has a public good component, and therefore a portion of the costs should be borne by government, rather than 100% cost recovered through levies.

4. Conclusion

New Zealand's growers and horticultural industry produce high-quality fruit and vegetables that nourish New Zealand, the Pacific, and the world. Agricultural compounds are a critical tool to assist in the production of crops. We believe that fees must not be a barrier to accessing new agricultural compounds for crop protection and developing a more resilient horticultural sector for the future.

5. References

The Ministry for Primary Industries (MPI). 2019. Estimated fees for ACVM regulatory assessment of veterinary medicines (July 2019).

<https://www.mpi.govt.nz/dmsdocument/11977-Estimated-fees-for-ACVM-regulatory-assessment-of-veterinary-medicines>

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MPI. 2022. Inspector General Regulatory Systems - Kaitirotiro Matua Punaha Waeture.

<https://www.mpi.govt.nz/dmsdocument/52636-Agricultural-Compounds-Veterinary-Medicines-Act-1997-A-Regulatory-System-Review>

Accessed: 6 April 2023.

MPI. 2023. Annual Review: Proposed 2023 changes to MPI's cost recovery.

<https://www.mpi.govt.nz/dmsdocument/56104-Annual-review-Proposed-2023-changes-to-MPIs-cost-recovery-Discussion-document>

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