

[In Confidence]

Office of the Minister of Agriculture
Office of the Minister for Food Safety
Chair, Cabinet Economic Development Committee

Proposed updates to improve cost recovery in the food system

Proposal

1. I seek agreement to improve cost recovery arrangements in the food system by amending the relevant regulations.

Executive Summary

2. The food system is critical for protecting and supporting the health of New Zealanders and New Zealand's food, wine and related exports. Approximately 60 percent of MPI's costs to regulate the food system are recovered from businesses using the system (approximately \$70 million per annum).
3. Cost recovered services in the food system include developing domestic standards, providing clearances of imports, verifying that businesses across the supply chain are following their food safety measures, and providing official assurances that New Zealand's exporters meet overseas market requirements.
4. The businesses that pay these charges are diverse, located in all parts of New Zealand and range from some of our largest corporate entities to part-time owner-operators, small and regional food growers and retailers, transporters, and processors and exporters of animal products and material.
5. To improve cost recovery arrangements in the food system Cabinet agreed that the Ministry for Primary Industries (MPI) consult on [CAB-18-MIN-0258 refers]:
 - seven proposals for fee updates to ensure cost recovery continues to reflect the costs of providing the services including; for the food system base hourly rate, registration of agricultural compounds and veterinary medicines as trade name products, verification and export assurance charges;
 - three proposals for changes to simplify current cost recovery arrangements, improve transparency and ensure equitable distribution of costs including; clarification of the levy provisions and a shorter process for future amendments to levy rates; and
 - one proposal for several minor and technical changes to current cost recovery arrangements in the Animal Products (Fees, Charges, and Levies) Regulations 2007 and Animal Products (Dairy Industry Fees, Charges, and Levies) Regulations 2015.

6. Twenty two submissions were received from industry organisations, businesses and individuals. Feedback was generally supportive of the proposals provided service levels were maintained. The detailed changes, including impacts on MPI and fee payers, are outlined in Table 1 and Appendix 1.
7. Having carefully considered all feedback, I propose to implement all the proposals as consulted, subject to one change:
 - *Change Proposal 6: Update unit charges for export of live animals and animal germplasm under the Animal Products Act 1999* to update only the live animal and equine, cat and dog germplasm unit charges and not the ruminant germplasm unit charges as potential cross-subsidisation issues need to be resolved. I intend to bring this back to Cabinet as part of a package of proposals targeting 1 July 2020 implementation.
8. Overall, the proposals are expected to result in virtually no change to MPI's third party revenue with approximately \$1.7 million of fee reductions being offset by \$1.7 million in increased revenue.
9. The changes will have a modest impact on small and regional businesses. Two proposals will have the greatest cost impact:
 - Many will receive a benefit from the \$20 reduction in the base hourly rate across 127 fees for cost recovered services in the food system from \$155 to \$135 per hour (Proposal 1).
 - Some regional businesses will be negatively affected by the circuit verification¹ rate increase from \$165 to \$176 per hour (6.7 percent increase). The rate for this service has not been adjusted since 2015. The \$11 per hour proposed increase is made up of \$7 (4.3 percent) to recover the historic deficit and \$4 (2.4 percent) to recover higher service delivery costs. The increase to recover higher service delivery costs is less than inflation for the same period (5.2 percent) (Proposal 7).
10. In December 2018, I also agreed to targeted consultation on an additional proposal to extend powers to waive, exempt, or refund charges under the Food Act 2014. One submission was received on the proposal, which was in support. I recommend implementing this proposal as consulted.

¹ Verifications are intended to confirm that premises are operating their internal systems (and in some cases, aspects of their external supply chains) consistently with legal requirements and risk management plans. In particular, they confirm compliance with domestic and export food standards. MPI circuit verifiers travel between a wide range of businesses processing food and related products, rather than being permanently located on-site on client premises.

Background

The Food System

11. The food system is critical for protecting and supporting the health of New Zealanders and New Zealand's \$36.3 billion food, wine and related exports. Around 80 percent of food products produced in New Zealand are exported. Consumers and trading partners expect these products are safe to consume.
12. Approximately \$70 million per annum or more than 60 percent of MPI's costs to regulate the food system are recovered from businesses using the system, across four Acts²:
 - Agricultural Compounds and Veterinary Medicines (ACVM) Act 1997
 - Animal Products Act 1999 (APA)
 - Food Act 2014
 - Wine Act 2003.
13. Cost recovered services in the food system include developing domestic standards, providing clearances of imports, verifying that businesses across the whole supply chain are following their food safety measures, and providing official assurances that New Zealand's exporters meet overseas market requirements.
14. The businesses that pay fees and charges are diverse, located in all parts of New Zealand and range from some of our largest corporate entities to part-time owner-operators, small and regional food growers and retailers, transporters, and processors and exporters of animal products and material.
15. All four Acts require that cost recovery is aligned with the principles of equity, efficiency, justifiability and transparency. This cost recovery package focuses on improving the equity and transparency of charges in the food system by ensuring that the right people pay the right price for the right services.
16. Where appropriate and practical, costs are recovered from the parties who directly benefit from the services or create the risks that are being managed. This means that cost recovered services do not need to be funded through general taxation, releasing Crown revenue for other priorities.

Consultation on proposals targeting 1 July 2019 implementation

17. In November 2018, Cabinet authorised the release of the consultation document *Proposals to improve cost recovery in MPI's Food System* that included eleven proposals for regulatory amendments [CAB-18-MIN-0258].

² The Animal Welfare Act 1999 is not part of the food system but uses the same base hourly rates. Therefore the consultation document also included proposals to update cost recovery arrangements under the Animal Welfare Act.

18. Consultation was open from 14 November 2018 to 16 January 2019. MPI published the consultation document on its website and sent emails to approximately 28,000 fee payers advising of the consultation. Nine meetings with industry organisations were held.
19. Twenty two submissions were received from twelve industry organisations, nine businesses and one individual.

Feedback from submitters

20. There was general support for fee reductions and changes that support consistency across services and incentivise efficient service delivery. Feedback on fee increases was evenly balanced with equal numbers supporting and opposing.
21. Two submitters disagreed with the proposal to combine the two components of the circuit verification rate as they considered this provided them transparency. MPI considers the fee and levy performance reports³ being provided to industry from 2019 will significantly improve transparency beyond what is provided in the current regulations.
22. Some submitters cautioned not to let cost reductions impact on current levels of service delivery urging that the same or better service levels must be maintained.
23. There was also general support for the approach to cost recovery with some submitters acknowledging an improved and positive working relationship between MPI and industry on cost recovery, largely through interaction with the Industry Reference Group.
24. The detailed changes, including impacts on fee payers and MPI, are outlined in Appendix One and summarised in Table 1.

³ In February 2019 MPI began progressively releasing the performance reports by sector. The first reports are for the Red Meat and Dairy industries.

Table 1: Proposals to update cost recovery in the food system

Proposal	Service	Fee Payers	Change from 1 July 2019	Impact on MPI (annually)	Impact on fee payers
Proposals changing how much MPI recovers					
Proposal 1: Update base hourly rates across the food system	Services include types of approval (including registrations, recognitions and listings). These services generally involve assessment and approval to operate in a regulated market.	Fees are paid by a wide range of businesses, <u>from large corporates to small and regional</u> food growers and retailers, transporters, and processors of animal products and animal material.	Update 127 fees across the food system, based on reduced base hourly rate (\$155 to \$135 per hour). Of the 127 fees, replace 51 variable charges with fixed fees.	-\$1.4 million (-19%).	\$20 per hour <u>decrease; minor to large reduction</u> depending on assessment time. 
Proposal 2: Update trade name product (TNP) registration fees under the Agricultural Compounds and Veterinary Medicines Act 1987	Approval and product registration for trade name products (agricultural compounds and veterinary medicines). Higher risk products must be registered as trade name products to ensure risks are managed through imposing conditions on registration.	Companies using these services create, manufacture and/or import agricultural compounds and veterinary medicines. Companies are usually NZ subsidiaries of, or agents for, <u>multinationals</u> but there are <u>some NZ companies</u> .	Fixed fee of \$540 for pre-screening changing to a minimum charge of \$67.50 for the first 30 minutes plus an assessment charge of \$135 per hour after the first 30 minutes. \$540 fixed fee for registering TNPs changing to \$405.	-\$0.3 million (-18%).	Variable; generally <u>minor reduction</u> (2,600 applications processed pa). 
Proposal 3: Cost recovery for approvals of manufacturers or suppliers of Official Devices under the Animal Products Act 1999	Approval of manufacturers or suppliers of official devices. Official devices provide assurance as to the origin of an animal product for export (eg, brand) and security of the product (eg, seals on containers).	Producers of official devices used for the export of animal material (<u>medium to large companies</u>).	A new charge of \$135 per application plus \$135 per hour after the first 60 minutes.	Less than +\$1,000.	\$135; per hour of assessment. <u>New Charge</u> . 
Proposal 4: Update Official Assurance (animal materials and non-live animals) fees under the Animal Products Act 1999	Official assurance that exports of animal products and animal material meet overseas market requirements.	Exporters of animal products and animal material (<u>small export businesses to large corporate entities</u>).	Fixed fee of \$32 increasing to \$33.75 plus \$135 per hour after the first 15 minutes.	+\$0.2 million (+5%).	\$1.75 per assurance; <u>Minor increase</u> (127,000 issued pa). 
Proposal 5: Align charges for Animal Welfare Export Certificate (AWEC) under the Animal Welfare Act 1999 and Official Assurances for live animals or germplasm under the Animal Products Act 1999	Certification that animals being exported are in good health and the conditions of passage meet New Zealand's standards for export. Official assurances that exports of live animals (including germplasm and ovum) meet overseas market requirements.	Exporters of live animals and animal germplasm (mainly <u>pet owners moving overseas</u> and <u>large exporters of livestock</u>).	Official Assurance: Fixed fee of \$32 increasing to \$46.58 plus \$186.30 per hour after the first 15 minutes. AWEC: Fixed fee of \$21.33 increasing to \$46.58 plus \$186.30 per hour after the first 15 minutes.	Official Assurance: +\$70,000.	\$15 and \$26; <u>Small increase</u> . (2,900 Official Assurances issued pa; 1,200 AWECs issued pa). 

Proposal	Service	Fee Payers	Change from 1 July 2019	Impact on MPI (annually)	Impact on fee payers
Proposal 6: Update unit charges for export of live animals and animal germplasm under the Animal Products Act 1999	A charge per animal exported to fund market access maintenance and export standards and systems.	Exporters of live animals and animal germplasm (mainly <u>pet owners moving overseas</u> and <u>large exporters of livestock</u>).	A range of rate changes for export of live animals and animal germplasm.	+\$0.3 million (+43%).	<u>Variable</u> ranging from <u>small reductions to moderate increases</u> .  
Proposal 7: Update circuit verification charges under the Animal Products Act 1999	Verification that a business on one of MPI's "circuits" is operating consistently with legal requirements and risk management programmes.	Small to large processors of meat, dairy, seafood and other animal products for domestic and export markets (excluding abattoirs).	\$165 increasing to \$176 per hour.	+\$1.1 million (+11%).	Variable <u>increases</u> depending on size and type of business. 
Proposals to improve transparency and make charges more equitable					
Proposal 8: Simplify the process for amending levy rates under the Agricultural Compounds and Veterinary Medicines Act 1987 and the Wine Act 2003	Both the wine and ACVM levies fund standards development and maintenance of the regulatory regime. The wine levy also funds overseas market access work.	Exporters of New Zealand wine. Those with registered trade name products (agricultural compounds and veterinary medicines).	Amend regulations to specify a formula to calculate levy rates and a process for the Director-General of MPI to change the rate (with prior consultation) up to a regulated maximum.	Faster process requiring less people resource.	N/A 
Proposal 9: Clarify the provisions governing the levy under the Agricultural Compounds and Veterinary Medicines Act 1987	The levy funds standards development and maintenance of the regulatory regime.	Those with registered trade name products (agricultural compounds and veterinary medicines).	Amend regulations to confirm the levy is payable for each trade name product registration and ensure it more accurately reflects the services funded by the levy.	N/A	N/A 
Proposal 10: Modify dairy levies and thresholds for small processors and exporters under the Animal Products Act 1999	The APA dairy levy funds standards setting and developing guidance material, residue testing, market access and export standards (the latter two for exporters only).	Dairy processors and exporters ranging from <u>small and medium processors (e.g. cheese makers)</u> .	Small processors: \$400 per year (was \$465 per year). Medium processors: category disestablished and new thresholds applied to remaining categories. Small exporters: \$200 per year (was \$310 per year).	-\$20,000 (-14% from small processors to -57%).	Small <u>decrease</u> for most small processors and exporters (~200 processors). 
Proposal 11: Animal Products Act 1999 minor and technical					
Expand the levy categories to include standalone dairy storage premises	Standards (and associated services) that apply to storage premises of animal products.	Operators of standalone animal product storage premises (<u>small to large businesses</u>).	Amend regulations to include operators of standalone dairy storage premises in levy.	\$5,000	New Charge: \$207.30 per annum (~24 premises affected). 

Proposal	Service	Fee Payers	Change from 1 July 2019	Impact on MPI (annually)	Impact on fee payers
Expand the levy categories to include all export approved premises	Develop and maintain export standards that apply to premises that process animal products/material that are not for human or animal consumption.	Processors of exported hides and skins are currently subject to the \$136 annual levy (<u>small to large exporters</u>).	Amend regulations so levy covers all processors of exported animal products that are not for human or animal consumption (includes animal fibres, feathers, marine shells, and game trophies).	+\$13,600	<u>100 additional Export Approved Premises <u>subject to the \$136 per annum levy</u></u> 
Align charge for market access services under regulations	Provision of services related to market access.	Businesses that request assistance with market access.	Amend regulations to clarify existing ability to charge individuals for market access services.	Negligible.	Negligible. 
Change the fee for infant formula export declarations	Providing an assurance that the infant formula is of export standard for countries that do not require official assurances.	Infant formula processors that produce formula for export (<u>small to large exporters</u>).	Fixed charge of \$33.75 per declaration, plus \$135 after the first 15 minutes (was a fixed charge of \$23 per declaration).	+\$5,000	\$10 – 200; <u>increase</u> per annum for small exporters \$500 - \$1,500; <u>increase</u> per annum for large exporters. 
Update reporting requirements for businesses subject to volume-based levies under the APA	MPI uses reported volumes from these businesses to determine annual levies.	Businesses who process animals and animal products	Amend regulations to ensure that MPI can require businesses in all commodity categories report volumes processed.	N/A	N/A 
Additional proposal					
Extending power to waive, exempt, or refund charges under the Food Act 2014	The regulations allow MPI and territorial authorities to waive, exempt, or refund fees where it would be unreasonable to require payment. These regulations expire on 30 June 2019.	Fees are paid by a wide range of food businesses, from large corporates to small and regional food producers and retailers.	Amend regulations to allow MPI and territorial authorities to continue to be able to waive, exempt, or refund Food Act cost recovery charges beyond 30 June 2019.	N/A	N/A 

25. Implementing all the proposals requires amendments to the following regulations:
- Agricultural Compounds and Veterinary Medicines (Fees, Charges, and Levies) Regulations 2015
 - Animal Products (Dairy Industry Fees, Charges, and Levies) Regulations 2015
 - Animal Products (Fees, Charges, and Levies) Regulations 2007
 - Animal Welfare (Cost Recovery) Regulations 2015
 - Food (Fees and Charges) Regulations 2015
 - Wine Regulations 2006.

The proposed changes are low risk and expected to have minimal financial impact on MPI or industry

26. I consider the package of proposals to be low risk with minimal financial impact on most businesses. Two proposals will have the greatest cost impact.
27. Approximately 28,000 businesses will be affected by the proposed changes. For the majority of these, including small and regional businesses, there will be a positive impact from the reduced hourly rate for services across the food system. The proposed increase to the circuit verification rate will impact approximately 1,400 business with half paying less than \$100 per annum more.

Reduction in the base hourly rate in the food system

28. I propose a \$20 reduction in the base hourly rate used for cost recovered services in the food system (from \$155 per hour to \$135 per hour). This relates to 127 rates across the food system and includes replacing 51 variable charges with fixed fees. These fees are paid by a wide range of businesses, from large corporates to small and regional food growers and retailers, transporters, and processors of animal products and material. The fees are generally transactional fees for service.
29. The services being cost recovered under this proposal are unchanged. The base hourly rate of \$155 was last updated in 2015. This proposal will result in an estimated \$1.4 million per annum reduction in third party revenue.
30. Businesses who use these services will receive a benefit from lower fees (e.g. for a service taking 1.5 hours, the fee would reduce from \$232.50 to \$202.50).
31. The reduction in the base hourly rate is required because of greater than anticipated volumes of approvals and careful management of costs for providing these services. Reducing the base hourly rate by \$20 to \$135 will ensure fee payers are not paying more than necessary.

32. Where possible, I have invested in improving the services necessary for a well-functioning system before considering whether to return any surplus revenue. However, for some services further investment would not be justified. As cost recovery funding must be used for the purpose(s) for which it is collected, these funds cannot be used for other services. Adjusting the hourly rate will reflect the actual costs of providing these services.

Increase in the hourly rate for circuit verification services

33. The circuit verification memorandum account has been operating at a loss for a number of years. In developing this proposal I was mindful of the impact on business costs, particularly small and regional business. I directed MPI to undertake work to ensure that service delivery is as efficient as possible prior to consulting on a new rate.
34. I propose an \$11 per hour increase for this service from \$165 to \$176 per hour (6.7 percent increase). The rate for this service has not been adjusted since 2015. The proposed increase is mainly to recover the historic deficit (\$7 or 4.3 percent) with the remainder (\$4 or 2.4 percent) to recover higher service delivery costs. Excluding recovery of the historic deficit, this increase is below inflation for the same period (5.3 percent).
35. Together with ongoing system improvements and efficiency gains this will result in an estimated \$1.1 million per annum increase in third party revenue and address the historic deficit that has accumulated.

Remaining proposals

36. The remaining proposals, outlined in Table 1 and Appendix One, are expected to have small to no impact. These include:
 - a mix of fee reductions and increases to ensure cost recovery continues to reflect the costs of providing these services
 - proposals to simplify current cost recovery arrangements, improve transparency and ensure equitable distribution of costs
 - a small package of minor and technical changes to current cost recovery arrangements.

Overall financial impact

37. Overall, the proposals are expected to result in virtually no change to MPI's third party revenue with reductions being offset by increases.
38. Two proposals will have the greatest cost impact:
 - a \$20 reduction in the base hourly rate for fees across the food system (from \$155 per hour to \$135 per hour) will reduce approval costs for business by \$1.4 million per annum
 - an \$11 increase in the circuit verification rates (from \$165 per hour to \$176 per hour) alongside ongoing system improvements and efficiency gains will result in increased third party revenue of \$1.1 million per annum.

39. The remaining proposals make up the \$0.3 million difference. A detailed breakdown of the impact on business and third party revenue is attached as Appendix One.

Additional proposal to extend the time period for existing Food Act powers

40. In December 2018 I agreed to targeted consultation on an additional proposal to extend the powers to waive, exempt, or refund charges under the Food Act 2014.
41. Regulations can be made authorising MPI and territorial authorities to waive, exempt or refund the fees they charge. The regulations authorising this will expire on 30 June 2019. Being able to waive, exempt or refund fees is important for ensuring that charges are fair and that MPI and territorial authorities do not over-recover. For example, MPI partially waives fees for registering food control plans when these are submitted in bulk using an identical industry developed template.
42. MPI informed Local Government New Zealand (representing territorial authorities) and wrote to industry organisations representing businesses likely to be affected by the proposal to seek their views. One submission was received on the proposal, which was in support.

Progressing the proposals

43. Having carefully considered all feedback, I propose implementing all proposals as consulted from 1 July 2019, subject to one change:

Change to Proposal 6: Update unit charges for export of live animals and animal germplasm under the Animal Products Act 1999

44. I have decided to proceed with the proposal for live animal and equine, cat and dog germplasm unit charges only. I propose unit charges for ruminant germplasm⁴ remain unchanged.
45. The original proposal was to increase unit charges on exports of live animals and germplasm. These charges fund the cost of live animal and germplasm market access. An increase is necessary to cover increasing costs since the fees were updated in 2015.

⁴ Ruminant Germplasm is cattle, goat, sheep, deer and pig semen, and cattle, goat, deer, and sheep embryo and ovum.

46. Three submissions were received on the proposal, two of which argued that unit charges for bovine semen cross-subsidise other types of ruminant germplasm. These are currently charged at the same rate but the significantly higher volumes of bovine semen lead to much lower unit costs which is likely to result in some cross-subsidisation of other ruminant germplasm. This could be inequitable and the proposed increases would exacerbate this. The area is complex and determining appropriate rates for individual types of ruminant germplasm will require additional work including further consultation with the sector.
47. I therefore propose that unit charge increases on live animal and equine, cat and dog germplasm exports be progressed to cover existing costs in these areas. I also propose to leave the unit charges for ruminant germplasm unchanged while the issues outlined above are worked through. I have directed MPI to carry out this additional work and I will bring a revised proposal to Cabinet as part of a package of proposals targeting 1 July 2020 implementation.
48. Changes to cost recovery arrangements in the food system must be set before the financial year in which they apply.⁵ I propose regulations be gazetted no later than 31 May 2019 to ensure changes are in force by 1 July 2019.

Consultation

49. The following departments were consulted on this paper and the attached Cost Recovery Impact Statement: New Zealand Treasury, the Department of the Prime Minister and Cabinet (Policy Advisory Group), Ministry of Business, Innovation and Employment, and Te Puni Kōkiri.
50. The State Services Commission has been informed.

Financial Implications

51. Overall, the proposals are expected to result in virtually no change to MPI's third party revenue.
52. The fees and levies are set at levels to ensure memorandum account balances trend towards zero over a three-year period.
53. This package does not require an appropriation adjustment.

Legislative Implications

54. These proposals will amend the following regulations:

⁵ The Agricultural Compounds and Veterinary Medicines Act 1997, Animal Products Act 1999, Food Act 2014 and Wine Act 2003 all require that any fee, charge or levy that applies in a financial year must be set before the financial year in which it applies, unless:

- the fee, charge, or levy is reduced or removed (or restated without substantive alteration) or,
- appropriate consultation has been carried out with those affected by the change and the Minister is satisfied that those persons agree with the change or,
- we are correcting an error.

The Animal Welfare Act 1999 is silent on when charges must be set.

- Agricultural Compounds and Veterinary Medicines (Fees, Charges, and Levies) Regulations 2015
- Animal Products (Dairy Industry Fees, Charges, and Levies) Regulations 2015
- Animal Products (Fees, Charges, and Levies) Regulations 2007
- Animal Welfare (Cost Recovery) Regulations 2015
- Food (Fees and Charges) Regulations 2015
- Wine Regulations 2006.

Impact Analysis

55. The MPI Regulatory Impact Analysis Panel has reviewed the Stage 2 Cost Recovery Impact Statement (CRIS2): “Proposals to Improve Cost Recovery in MPI’s Food System” produced by MPI in February 2019. The review panel considers that the information and analysis summarised in the CRIS2 meets the quality assurance criteria.
56. The Regulatory Quality Team at the Treasury has determined that impact analysis is not required for the following proposals in this paper because they will have only minor impacts on businesses, individuals, or not-for-profit entities:
- amending Schedule 2 to align the regulated description of levy funded services with the services needed to support a well-functioning ACVM system (Proposal 9)
 - amending Schedule 2 to clarify that the levy applies to the “registrant, in respect of each trade name product they hold” (Proposal 9)
 - allow reporting against actual volumes for the “fish and bivalve molluscan shellfish” category (Proposal 11-5)
 - amend Regulation 10A to specifically provide for the “Other species (other than fish)” (Proposal 11-5)
 - remove the expiry date from the Regulations, to allow MPI and territorial authorities to continue to be able to exercise the discretion to exempt, waive, or refund fees (Proposal to extend the time period for waivers under the Food Act).

Human rights, Gender, Implications and Disability Perspective

57. There are no human rights, gender or disability implications resulting from the proposals set out in this paper.

Publicity

58. I will direct MPI to contact key industry representatives and other stakeholders to advise them of final Cabinet decisions.

Proactive Release

59. Following Cabinets consideration I intend to release this paper in full.

Recommendations

The Minister of Agriculture and Food Safety recommends that the Committee:

- 1 **Note** that, following agreement from Cabinet in November 2018 [CAB-18-MIN-0258], the Ministry for Primary Industries publically consulted from 14 November 2018 to 16 January 2019 on 11 cost recovery proposals in the food system.
- 2 **Note** that the 22 submissions received (from 28,000 emails sent) broadly supported the majority of the proposals with no major issues raised.
- 3 **Note** that the Minister of Agriculture and Food Safety has considered consultation feedback and proposes the following:
 - a. change *Proposal 6: Update unit charges for export of live animals and animal germplasm under the Animal Products Act 1999* to update only the live animal unit charges and not the ruminant germplasm unit charges.
- 4 **Agree** to implement the following proposals (which are fully detailed in the Cost Recovery Impact Statement and Appendix One):
 - a. amend the base hourly rate for 127 fees in the food system from \$155 per hour to \$135 per hour; and replace 51 variable charges with fixed fees, in the:
 - i. Agricultural Compounds and Veterinary Medicines (Fees, Charges, and Levies) Regulations 2015
 - ii. Animal Products (Dairy Industry Fees, Charges, and Levies) Regulations 2015
 - iii. Animal Products (Fees, Charges, and Levies) Regulations 2007
 - iv. Animal Welfare (Cost Recovery) Regulations 2015
 - v. Food (Fees and Charges) Regulations 2015
 - vi. Wine Regulations 2006.
 - b. amend trade name product registration fees under the Agricultural Compounds and Veterinary Medicines (Fees, Charges, and Levies) Regulations 2015 from \$540 for both pre-screening and registering trade name products to a minimum pre-screening charge of \$67.50 for the first 30 minutes plus an assessment charge of \$135 per hour after the first 30 minutes, and \$405 for registering trade name products.
 - c. introduce cost recovery for approvals of manufacturers or suppliers of official devices under the Animal Products (Fees, Charges, and Levies) Regulations 2007 as \$135 per application plus \$135 per hour after the first 60 minutes.
 - d. amend official assurance (animal products and animal materials) fees under the Animal Products (Fees, Charges, and Levies) Regulations 2007 and Animal Products (Dairy Industry Fees, Charges, and Levies) Regulations 2015 from \$32 plus \$155 per hour after the first 15 minutes to \$33.75 plus \$135 per hour after the first 15 minutes.

- e. amend charges for Animal Welfare Export Certificates under the Animal Welfare (Cost Recovery) Regulations 2015 from \$21.33 plus \$186.30 per hour after the first 15 minutes to \$46.58 plus \$186.30 per hour after the first 15 minutes.
- f. amend charges for official assurances under the Animal Products (Fees, Charges, and Levies) Regulations 2007 from \$32 plus \$186.30 per hour after the first 15 minutes to \$46.58 plus \$186.30 per hour after the first 15 minutes.
- g. amend unit charges for export of live animal and equine, cat and dog germplasm in the Animal Products (Fees, Charges, and Levies) Regulations 2007 as set out in Appendix 2.
- h. amend circuit verification charges in the Animal Products (Fees, Charges, and Levies) Regulations 2007 and Animal Products (Dairy Industry Fees, Charges, and Levies) Regulations 2015 from \$165 per hour to \$176 per hour.
- i. amend the levies under the Agricultural Compounds and Veterinary Medicines (Fees, Charges, and Levies) Regulations 2015 and Wine Regulations 2006 to specify a formula to calculate the levy rates and a process for the Director-General of MPI to change the levy rate by Gazette notice up to a regulated maximum.
- j. amend the Agricultural Compounds and Veterinary Medicines (Fees, Charges, and Levies) Regulations 2015 to confirm the levy is payable for each trade name product registration and to ensure it more accurately reflects the services funded by the levy.
- k. amend the dairy levy and thresholds for small processors and exporters under the Animal Products (Dairy Industry Fees, Charges, and Levies) Regulations 2015 so that:
 - i. the small processor category applies below 151,000kg milksolids collected annually (previously 16,500kg) and the levy reduces from \$465 per year to \$400 per year
 - ii. the medium processor category is removed.
 - iii. the small exporter category applies from 466,000kg milksolids collected (previously 636,000kg) and the levy reduces from \$310 per year to \$200 per year
- l. minor updates under the Animal Products (Fees, Charges, and Levies) Regulations 2007 and the Animal Products (Dairy Industry Fees, Charges, and Levies) Regulations 2015:
 - i. expand the dairy levy categories to include standalone coolstores or other dairy storage premises
 - ii. expand the non-dairy levy categories to include all export approved premises that process animal products not for human or animal consumption in addition to those that process hides and skins
 - iii. introduce a charge of \$135 per hour to the non-dairy regulations for services related to market access in line with the provision in the dairy regulations

- iv. amend the fee for infant formula export declarations from a formula calculated each year to a fixed fee of \$33 per declaration, plus \$135 for any time over 15 minutes per declaration.
 - v. change reporting requirements for certain businesses:
 - 1. large fish and shellfish processors to report actual tonnage processed in the previous month or year, in individual commodity categories listed (previously estimated and reconciled against actual volumes)
 - 2. processors of lambs, bobby calves, goats, sheep, pigs, cattle, horses, deer and other animal species to report actual numbers of animals processed in the previous month or year, in individual commodity categories listed (previously categorised as 'other species (other than fish)')
 - 3. processors of ostriches, emus, poultry and other bird species to report actual numbers of birds processed in the previous month or year, in individual commodity categories listed (previously categorised as 'other species (other than fish)').
- 5 **Agree** to extend the power to waive, exempt, or refund charges under the Food (Fees and Charges) Regulations 2015, unchanged from consultation.
- 6 **Invite** the Minister of Agriculture and Food Safety to issue drafting instructions to the Parliamentary Counsel Office to give effect to recommendations 3 and 4.
- 7 **Authorise** the Minister of Agriculture and Food Safety to make decisions on any further minor or technical issues required to implement the revisions as set out in recommendations 3 and 4.
- 8 **Note** that for the proposed changes to cost recovery arrangements in the food system to be in force by 1 July 2019, the agreed regulations and levy orders must be gazetted no later than 31 May 2019.

Authorised for lodgement

Hon Damien O'Connor
Minister of Agriculture
Minister for Food Safety

Appendix One: Proposed revisions to cost recovery regulations and impacts

All rates are exclusive of GST.

Proposal	Rationale	Current rates	From 1 July 2019	Impact on MPI (annually)	Impact on fee payers
Proposal 1: Update base hourly rates across the food system in the: <ul style="list-style-type: none"> • Agricultural Compounds and Veterinary Medicines (Fees, Charges, and Levies) Regulations 2015 • Animal Products (Dairy Industry Fees, Charges, and Levies) Regulations 2015 • Animal Products (Fees, Charges, and Levies) Regulations 2007 • Animal Welfare (Cost Recovery) Regulations 2015 • Food (Fees and Charges) Regulations 2015 • Wine Regulations 2006. 	Amend 127 rates to avoid future over-recovery and provide greater certainty through the use of flexible fees	\$155 per hour.	\$135 per hour Replace 51 variable charges with fixed fees.	-\$1.4 million (-19%).	-\$20 per hour; minor to large reduction depending on assessment time.
Proposal 2: Update trade name product (TNP) registration fees in the Agricultural Compounds and Veterinary Medicines (Fees, Charges, and Levies) Regulations 2015.	The existing fixed charges (\$540) do not reflect current practice where waivers are used for two stages of the process.	\$540 for pre-screening (waived for minor amendments and renewals) \$540 for registering TNPs (partially waived for minor variations and registration renewals).	Minimum charge for pre-screening of \$67.50 for the first 30 minutes plus an assessment charge of \$135 per hour after the first 30 minutes \$405 for registering TNPs.	-\$0.3 million (-18%).	Variable; generally minor reduction (2,600 applications processed pa).
Proposal 3: Cost recovery for approvals of manufacturers or suppliers of Official Devices in the Animal Products (Fees, Charges, and Levies) Regulations 2007.	Amend regulations to clarify approval of an Official Device also covers applications to be an approved manufacturer or supplier.	Nil. Not currently charged.	\$135 per application plus \$135 per hour after the first 60 minutes.	Less than +\$1,000.	\$135 per hour of assessment.

Proposal	Rationale	Current rates	From 1 July 2019	Impact on MPI (annually)	Impact on fee payers
Proposal 4: Update Official Assurance (animal materials and non-live animals) fees in the Animal Products (Fees, Charges, and Levies) Regulations 2007 and Animal Products (Dairy Industry Fees, Charges, and Levies) Regulations 2015.	Align the fee with the base hourly rate used in the food system proposed as \$135.	\$32 plus \$155 per hour after the first 15 minutes.	\$33.75 plus \$135 per hour after the first 15 minutes.	+\$0.2 million (+5%).	\$1.75; Minor increase (127,000 issued pa).
Proposal 5: Align charges for Animal Welfare Export Certificates in the Animal Welfare (Cost Recovery) Regulations 2015, and Official Assurances for live animals or germplasm in the Animal Products (Fees, Charges, and Levies) Regulations 2007.	Update fees to ensure they match the correct base hourly rate of \$186.30.	Official Assurance: \$32 plus \$186.30 per hour after the first 15 minutes. AWEC: \$21.33 plus \$186.30 per hour after the first 15 minutes.	\$46.58 plus \$186.30 per hour after the first 15 minutes for both fees.	Official Assurance: +\$70,000.	\$15 and \$26; Small increase. (2,900 Official Assurances issued pa; 1,200 AWECs issued pa).
Proposal 6: Update unit charges for export of live animals and animal germplasm in the Animal Products (Fees, Charges, and Levies) Regulations 2007.	Update rates to reflect the costs of providing the services to support the export of live animals and animal germplasm.	A range of rates exist for live animal exports and germplasm.	A range of rate changes for live animal and equine, cat and dog germplasm exports (excluding ruminant germplasm).	+\$0.3 million (+43%).	Variable ranging from small reductions to moderate increases.
Proposal 7: Update circuit verification charges in the Animal Products (Fees, Charges, and Levies) Regulations 2007 and Animal Products (Dairy Industry Fees, Charges, and Levies) Regulations 2015.	Amend rates to avoid future under-recovery.	\$165 per hour.	\$176 per hour.	+\$1.1 million (+11%).	Variable depending on size and type of business.
Proposal 8: Simplify the process for amending levy rates in the Agricultural Compounds and Veterinary Medicines (Fees, Charges, and Levies) Regulations 2015 and Wine Regulations 2006.	Amend the regulations to specify a formula to calculate the levy rate and a process for the Director-General of MPI to change the levy rate by Gazette notice up to a regulated maximum.	No rate change proposed.	N/A	Faster process requiring less people resource.	N/A

Proposal	Rationale	Current rates	From 1 July 2019	Impact on MPI (annually)	Impact on fee payers
Proposal 9: Clarify the provisions governing the levy in the Agricultural Compounds and Veterinary Medicines (Fees, Charges, and Levies) Regulations 2015.	Clarify that the levy is payable for each Trade Name Product registration and more accurately reflect the services that funded by the levy.	No rate change proposed.	N/A	N/A	N/A
Proposal 10: Modify dairy levies for small processors and exporters in the Animal Products (Dairy Industry Fees, Charges, and Levies) Regulations 2015.	Amend the amounts and thresholds for small processors and exporters levies, and remove the medium processor levy to simplify and more fairly distribute costs.	Small processors: \$465 per year Medium processors: \$930 per year Small exporters: \$310 per year.	Small processors: \$400 per year Medium processors: category disestablished; will pay a minimum of \$400. Small exporters: \$200 per year.	-\$20,000 (-14% from small processors to -57%).	Small decrease for most small processors and exporters (~200 processors).
Proposal 11: APA minor and technical amendments in the Animal Products (Fees, Charges, and Levies) Regulations 2007 and Animal Products (Dairy Industry Fees, Charges, and Levies) Regulations 2015.	Expand the levy categories to include standalone dairy storage premises.	N/A	Extend the levy to at least approximately 4 standalone dairy cool and dry stores.	\$5,000	\$207.30 per annum (24 premises).
	Expand the levy categories to include all export approved premises.	Processors of animal products not for human consumption (hides and skins) subject to the \$136 levy.	All animal products not for human or animal consumption.	+\$13,600	100 additional Export Approved Premises subject to the \$136 per annum levy.
	Align charge for market access services under regulations.	N/A	Charge \$135/hour for market access services.	Negligible.	Negligible.
	Change the fee for infant formula export declarations.	Infant formula export declarations - fixed charge of \$23 per declaration.	Infant formula export declarations - fixed charge of \$33.75 per declaration, plus \$135 after the first 15 minutes.	+\$5,000	\$10 – 200 per annum for small exporters \$500 - \$1,500 per annum for large exporters.
	Update reporting requirements.	N/A	N/A	N/A	N/A
Additional Proposal: Extending powers to waive, exempt, or refund charges in the Food (Fees and Charges) Regulations 2015.	Powers will expire on 30 June 2019.	N/A	N/A	N/A	N/A

Appendix Two: Unit charges in respect of export of live animals and animal germplasm

Unit charges payable for each relevant unit to be exported	Current charge (\$)	Proposed charge (\$)
Cats and dogs (including semen) (per animal or semen consignment)	104.94	114.44
Equine (horse) animals (per animal)	29.63	41.22
Equine (horse) semen (per straw)	1.02	3.09
Livestock (only bovine, caprine, cervine, ovine, and porcine) (per animal)	3.85, with a maximum charge of \$19,260 per consignment	10.83, with a maximum charge of \$54,150 per consignment
Day-old chicks and hatching eggs (only poultry and ducklings) (per chick or egg)	0.01, with a maximum charge of \$300 per consignment	0.02, with a maximum charge of \$600 per consignment
Either per kg of honey bees (including a queen bee if applicable) or per queen bee (including a small number of attendant bees).	0.04/0.31	0.32
Bumble bees	0.31	0.32
Lamoids (per animal)	50.78	257.50
Birds (excluding budgies, lovebirds, cockatiels, finches and rosellas) (per bird)	38.00, with a maximum charge of \$1,140 per consignment	17.89, with a maximum charge of \$5,36.70 per consignment
Budgies, lovebirds, cockatiels, finches, and rosellas (per bird)	0.27	0.27
Zoo animals (per animal)	104.94	572.63
Other animals and animal germplasm not specified (per consignment)	104.94	114.44