



Submission to the Ministry for Primary Industries

**Proposed Changes to Cost Recovery in MPIs Food System
Discussion Paper No: 2022/01**

14th February 2022

Seafood New Zealand Limited welcomes the opportunity to submit on the Proposed Cost Recovery in MPIs Food System.

Seafood New Zealand is a professional organisation delivering industry good services for the wider benefit of the seafood industry. The Seafood Standards Council, an official committee of the Seafood New Zealand board plays a leading role in developing and presenting the seafood industry's response on legislative and regulatory proposals affecting the industry in the animal products and food safety space.

We wish to comment on the following matters:

Fish Export Levy

The discussion document summarises how the various industries have tracked over the last six years, and comments that all industries covered in this section have seen increased value in recent times noting that for fish, the increase in value has arisen despite supply decreasing and, because of this decrease in supply, the increase in value has been much smaller than for other industries.

First, given that the MPI levy is set on volume, value should not be considered as having an impact in respect of future levies. We also question why MPI have considered the previous six years, when the levies in question have only been in place since 1 July 2018, where the fish export levies were then increased from \$0.50 to \$1.12 per tonne to also recover a deficit. However, when setting the levies for 2018/2019 onwards, MPI assumed a nil volume growth for fish processing at that time.

On reviewing the volumes of fish (excluding shellfish species included in the separate Bivalve Molluscan Shellfish levy) both landed and exported from 2018 to 2021, there has not been a significant reduction in volume. The assumptions made when setting the levy in 2018 by MPI were correct, in essence the volume landed and exported over the last four years has remained stable, without significant increase or reduction.

Yet a deficit has still accumulated, and according to the discussion document the causes of the deficit are export volumes being lower than forecast the last time the levy was set and further volume decreases are expected in future. Again, we reiterate, MPI did not factor in volume growth into their levy calculations (as described in MPI Discussion Document 2018/08) in 2018, and the average export volume (of species included in the fish levy) has not decreased significantly over the last four years.

In addition, we do not agree that export volumes of those species included in the fish levy will reduce, but rather they will remain relatively stable and at similar volumes to the previous four years, with a possible small increase as we return to the pre-COVID export levels of 2019.

The discussion document notes that performance reporting is an ongoing development for MPI and that some sectors have annual reporting that focuses on transparency around financial data, however this financial reporting does not include the fish sector.

This comes with disappointment given that financial transparency was a concern we raised during the 2018 cost recovery consultation, and again the 2022 discussion document lacks financial specifics relating to the use of the fish levy against the Ministry's service provision. To find we are back in a deficit position without any warning is somewhat frustrating.

We urge MPI to develop more frequent (annual) reporting of financial data relating to both the fish and the bivalve molluscan shellfish levies so that we have visibility of levy performance and avoid unwanted surprises of deficits.

That said the industry has no complaints regarding the provision of services in terms of standard setting, market access, and compliance and systems audit activities and receives regular reporting on performance.

While it is noted that both volume and value of exports have remained relatively stable, industry has been subject to a significant increase in cost, primarily due to the global COVID-19 pandemic. Increased freight and storage, problematic and disrupted supply chains, the additional cost of maintaining COVID-19 workplace protocols and operating with reduced labour are just some examples that have had a significant impact on profitability. Increasing export fish levies at this time will only add to the continual rising cost burden our industry is facing.

The discussion document infers that the proposed increased levy will have negligible impact on the price per tonne and that this increase can be passed on to the customer. New Zealand seafood is approximately 1-2% of the world seafood trade. The market dictates the price not New Zealand businesses, and any increase in levy will need to be absorbed by the company.

New Zealand exports around 100 species of seafood, with a significant variation in both volume and value. Often those that are exported in low volume are of high value (e.g Rock Lobster) and conversely, high volume species are generally of much lower value (e.g Barracouta), and with a levy solely based on volume, those high volume/low value species therefore absorb more of the cost.

We are opposed to the proposed one-off increase in levy of 38% (option 1a) to fully recover the accumulated deficit and future costs, the assumption of which is based on a projected decrease in volume, noting that we see export volumes as relatively stable over the next 3 years, certainly not significantly reduced.

While no increase in levy is palatable in the current environment, if the deficit is required to be recovered, a graduated, small increase, is preferred, such as that proposed in option 2c.

Circuit Verification

The proposed hourly rate increase for circuit verifiers to \$230.50 (31%) is a significant increase. As for the proposed increase in fish export levy, these cost increases are not able to be recovered

through pricing in the international market, and therefore must be absorbed, and comes at the worst possible time for industry.

The discussion document acknowledges that verification is a contestable service, and there are other verification providers. However, due to specific market access requirements for the seafood sector, those opportunities are not available.

On reviewing the current market rates other commercial companies providing comparable services charge, including those providing verification to the dairy processing sector and other food businesses in New Zealand, the current market rate is between \$150 to \$220 per hour.

It should also be noted that these commercial companies incorporate over-head costs within their hourly rates and are in business to make a profit, unlike MPI. We believe the rate set by MPI for circuit verification services should be lower than the comparable commercial service providers and certainly no higher.

We also believe there should be a specific review of the various costs associated with the verification 'programme', and further consideration of reduction of costs and creation of efficiencies, to address the deficit.

It is also of concern that again a deficit has been allowed to build and the first notification to industry is a proposed 31% increase in charges. We continue to urge MPI to consider better and more regular reporting of financial data to industry and more regularly review to ensure that any deficits (or surpluses) don't continue to build over-time.

In conclusion, we appreciate that cost recovery is a very important issue and we would welcome the opportunity to work further with the Ministry to ensure we have an effective and transparent cost recovery system.

Yours sincerely



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