

BIOSECURITY OPERATIONAL AGREEMENTS & BIOSECURITY LEVY for fresh vegetables

June 2018

Information for Commercial Fresh Vegetable Growers on: Contents

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At this year's Annual General Meeting on Monday 23 July 2018, Vegetables NZ Inc. will be asking fresh vegetable growers to approve a new Biosecurity Levy for fresh vegetables which will fund Operational Agreement activities under the Government Industry Agreement (GIA) for Biosecurity Readiness and Response.

1. WHAT IS GIA AND HOW DID WE GET HERE?

In 2016 Vegetables NZ Incorporated (VNZI) signed up to the Government Industry Agreement for Biosecurity Readiness and Response Deed (GIA Deed).

The GIA Deed outlines the principles of the partnership between the Ministry for Primary Industries (MPI) and each sector that signs the GIA Deed. Signing up to this agreement has meant that we jointly decide how biosecurity risks to our industry are managed or to respond to exotic pests that will have an impact on fresh vegetable growers. It also aligns us into a 'partnership' with MPI and other horticulture (and agriculture) sectors. That partnership means that we discuss and assess potential biosecurity risks together, commission research and readiness plans that reduce the chances of exotic pests establishing. Vegetables NZ Inc. along with other sector groups, have been involved in negotiations on the GIA Deed from the beginning and is also a member of the Deed Governance Group.

2. IS GIA GOOD FOR OUR INDUSTRY?

On balance, yes. Historically the government, via MAF and now MPI, has taken full responsibility for all biosecurity matters and decisions. VNZI know that the system has not always proven to be as effective as industry demands. GIA allows us to be actively involved in assessing the effectiveness of the system, recommending improvements where required, planning for the risk of incursions and taking a lead role in the event of an incursion.

3. OPERATIONAL AGREEMENTS

Operational agreements are between MPI and one or more primary sectors. The agreement describes how the parties will make joint decisions and share the readiness and response activities and costs for specific exotic pests (or a group of pests). These determine if co-funding takes effect and if so cost sharing would be allocated for biosecurity readiness and response.

The agreements seek to mitigate the risk of incursions by providing better identification of biosecurity risks, improving pre-border and border management, better readiness to respond to the risks, and more successful and cost-effective outcomes from biosecurity responses. The partnerships between MPI and the primary sectors bring capability and capacity to successfully respond to exotic pests.

Operational agreements create a plan to:

- Keep the pest (or pests) out of New Zealand and ensure early detection if the pest does arrive;
- Identify how to respond if the pest/s is/are found;
- Determine in advance how costs will be shared to contain, manage or eradicate the pest, virus or disease
- Set a fiscal cap on spending during a response and for readiness activities for a particular pest or group of pests;
- A VNZI financial cap will prevent over spending and relates to how significant an impact the pest would have on our sector if it established.

4. WHAT WILL OPERATIONAL AGREEMENTS COST THE VEGETABLE INDUSTRY?

Back in 2016 when fresh vegetable growers agreed to become a GIA Deed signatory there was only one operational agreement development, the fruit fly operational agreement (FFOA).

There are now two operational agreements in place and the brown marmorated stink bug (BMSBOA) was developed in 2017, as a signatory to the GIA Deed we have become a signatory to both of those operational agreements. A third operational agreement specifically structured to safeguard all other Vegetables NZ Inc. crops will also be developed

Over the past two years Vegetables NZ Inc. has been in FFOA and BMSBOA negotiations which includes predetermining 'cost shares' for each of the signatories. We have committed \$62,800 in 'voluntary contributions towards the cost of managing the FFOA and BMSBOA readiness programmes which for now are being paid from the VNZI Commodity Levy until such time that a biosecurity levy would be applied.

Estimates for possible 'response' costs, should there be a fruit fly incursion, vary depending on the level of the incursion and are outlined in Table 1.

Table 1: Potential fresh vegetable industry cost share in the event of a fruit fly incursion.

Response Level	Description	Cost for Vegetables NZ Inc.
Level 1	Response Level 1 is triggered when a male fruit fly is detected in one of the fruit fly surveillance traps, or reliable evidence is presented that fruit fly are present in New Zealand. This is the minimum trigger level. The objective of Response Level 1 is to determine if an establishing population is present. It is not an eradication response. Govt pays 70% and industry pays 30%	\$21,800
Level 2	Response Level 2 is when it is believed that a fruit fly population is establishing. The objective of Response Level 2 is to eradicate this population. Govt pays 80% and industry pays 20%	\$145,350
Level 3	The move to Response Level 3 may be initiated when the infestation is found to be more widespread. Such a response will likely be a multiyear program that includes significant extension of the Controlled Area and additional eradication actions Govt pays 90% and industry pays 10%.	\$145,350
Maximum over 5 years	This is the agreed "fiscal cap" or share of the maximum costs the fresh vegetable industry has agreed to pay, over any five year period.	\$198,432

5. WHAT IF WE DON'T SIGN?

The fresh vegetable sector will be required to pay a share of the 'readiness' (research, surveillance) and 'response' (when incursions occur) activities, even if not a signatory to the operational agreement – because MPI plans to 'cost recover' from those sector growers who are not signatories but benefit from the work undertaken by MPI and other signatories. Being a signatory, VNZI negotiate and

predetermine the costs, and how it is carried out, to ensure the maximum benefit to fresh vegetable growers.

VNZI has also started to develop a 'Fresh Vegetable Operational Agreement' which will cover the top exotic pests or priority pests that are of the most concern to our industry. Some of these pests may be in common with other indoor or outdoor crops and we will also be talking to those industry sectors about joint agreements and cost shares.

When there is no operational agreement in place for a specific new pest that arrives in New Zealand, then MPI and industry Deed signatories who are directly impacted by that new pest would enter into a 'rapid OA' process to agree response cost shares and an operational agreement fiscal cap. MPI will respond until the 'rapid OA' is up and running.

6. A PROPOSED BIOSECURITY LEVY ON FRESH VEGETABLES

Along with greater opportunity for representation, influence and shared work on biosecurity readiness under the GIA Deed comes a requirement to directly contribute to the costs of running biosecurity readiness and response operational agreements and other biosecurity activities.

VNZI is currently funding 'minimum commitments' of being a GIA Deed signatory from Commodity Levy funds and reserves. Minimum commitments include taking part in governance, development of operational agreements (e.g. fruit fly and brown marmorated stink bug) and developing VNZI's biosecurity resources and with this funding commitments continue to increase.

The Vegetables NZ Inc. Board is proposing a Biosecurity levy on fresh vegetables, with an initial rate of **0.05% (5 cents per \$100)** and **maximum rate of 0.20% (20 cents per \$100)** of value at the first point of sale for: domestic sales or export sales. The Levy will only fund biosecurity related activities. It will not fund other non-biosecurity fresh vegetable activities. This proposal will be voted on at the Vegetables NZ Inc. AGM on **Monday 23 July 2018**.

The Biosecurity Levy rate will apply to all fresh vegetables grown in New Zealand for sale domestically or for export. There will be only one Levy rate. It will be calculated on the price received at the first point of sale for domestic sales and for export after all offshore costs (including international freight) are deducted.

The proposed maximum Biosecurity Levy rate is based on an estimate of the industry's GIA commitments over a five year period and what is sustainable for VNZI. It is proposed that the rate will stay at the initial rate of 0.05% until such a time as the industry is required to increase its share for biosecurity readiness and response costs, where it may be increased up to the maximum of 0.20%.

The VNZI Board is proposing to use the Biosecurity Levy to fund a reserve of \$500k maximum per year (assuming no responses need to be funded) and with a total levy collection cap over five years of \$2,500,000. The levy fund would be used to pay for response costs if and when they occur, or for readiness activities. If required, the rate of levy could be raised up to the maximum (0.20%) if multiple responses to fresh vegetable pests occur within a few years. The rate could also be moved down or set at zero if the reserve fund cap is reached and the Levy is not required for readiness activities.

The new Biosecurity Levy would be made under the Biosecurity Act and will be separate and additional to the Commodity Levy on fresh vegetables.

Table 2: Proposed initial and maximum rates for a new Biosecurity Levy on fresh vegetables. Calculated on value at the first point of sale on domestic sales or free on board value of exports.

Initial Levy rate.	Maximum Levy rate	Initial income per year*	\$ maximum income per year*
0.05%	0.20%	\$200,000	\$800,000

**Based on an industry value of \$400M*

MPI will cover the cost of a biosecurity response initially, and then calculate and invoice each industry's share using pre-agreed cost share and repayment terms as defined in the operational agreements.

WHO WILL HAVE TO PAY THE LEVY?

All vegetable growers growing vegetables (as defined in Appendix 1 'Definition of Fresh Vegetables') for export and domestic markets. No grower is exempt from the Biosecurity Levy. The VNZI Biosecurity Levy will not apply to vegetables grown for processing. 'Grower' means an individual or entity whose business includes the commercial growing of fresh vegetables in New Zealand for sale in New Zealand or for export and who would be responsible for paying the levy.

A grower who objects on conscientious or religious grounds to paying the Levy in the manner provided for by this order may pay the amount concerned to the Director-General of the Ministry administering the proposed levy. The Director-General will pay the amount to VNZI.

WHEN WILL THE LEVY BE ACTIVATED AND HOW WILL THE RATE BE NOTIFIED?

The Biosecurity Levy will be implemented after VNZI submits a Biosecurity Levy Order application to the Ministry for Primary Industries, who then undertakes a process to have the Biosecurity Levy Order approved by Cabinet and the Minister for Primary Industries. This process is expected to possibly take a year or more.

VNZI will notify growers directly when the Biosecurity Levy is to be activated and what the rate is, through existing communication media including a direct letter to growers, levy collection agents, the NZ Grower magazine, and the Vegetables NZ Inc. website.

Any changes to the Biosecurity Levy rate would also be notified through those channels.

HOW WILL THE LEVY BE SPENT?

The Biosecurity Levy will only fund biosecurity-related activities. Specifically, it will be used for meeting the fresh vegetable industry's agreed share of biosecurity readiness and response costs under an operational agreement. It will not fund other non-biosecurity VNZI activities, or any commercial or trading activity.

VNZI may invest Biosecurity Levy funds for biosecurity research and purposes until they are spent.

The Vegetables New Zealand Inc. Board is proposing that members support and approve the VNZI Board making decisions on behalf of members in respect of negotiating and signing Operational Agreements as may be required under the GIA, and authorising payment of other related biosecurity expenses.

This proposal will be voted on at the Vegetables NZ Inc. AGM on **Monday 23 July 2018**.

WHO WILL COLLECT THE LEVY AND HOW WILL IT BE REPORTED ON?

Growers will pay the Biosecurity Levy in the same way they pay their Commodity Levy, directly or via levy collectors (including wholesalers, pack-houses, auctioneers, brokers, produce distribution centres, retailers and exporters) who buy fresh vegetables from, or sell fresh vegetables on behalf of growers. Collection agents would collect the Levy at the first point of sale and pay it to Vegetables NZ Inc.

However, in the case of direct sales to the public e.g. through gate or roadside sales, internet sales, farmers or flea markets, restaurants or grower-own exports, growers will pay the Levy directly to Vegetables NZ Inc.

Levy collection agents will be entitled to retain a collection fee of up to 4% (plus GST) of the amount collected.

WHEN IS THE LEVY DUE?

Collection Agents: the due date for payment of the Biosecurity Levy by a collection agent is the date on which the collection agent deducts the Levy from the grower. The latest date for payment of the Biosecurity Levy by the collection agent is the 20th day of the month following the deduction of the Biosecurity Levy from the grower.

Direct sales by growers: if fresh vegetables are sold directly to the public by growers, or exported by growers the due date for payment of the Biosecurity Levy is 30 June, for sales during the preceding 12 months. The latest date for payment is 30 September in the same calendar year.

PENALTY FOR LATE PAYMENT

If any Levy money (plus any goods and services tax payable on that money) has not been paid on or before the latest date as described above, VNZI must add a penalty of 10% to the amount owing at the end of the first month that the debt remains outstanding, and a further 2% to the amount owing including any previous penalties at the end of each additional months the amount remains outstanding.

WHAT RECORDS MUST GROWERS KEEP?

Growers and levy collection agents must retain records, for each Biosecurity Levy year, for at least two years after the Biosecurity Levy year to which the records relate, of:

- The name and address of the grower; and
- The amount of Biosecurity Levy paid to VNZI or the Director-General of the Ministry for Primary Industries for growers who are conscientious objectors; and
- The sales that the Biosecurity Levies were deducted from; and
- Growers must retain the name and address of the levy collection agent if applicable; and

- Levy collection agents must retain the details of the growers they have collected Biosecurity Levies from (including grower's name, trading name and postal address).

Growers and levy collection agents must provide these records in writing, if required by Vegetables NZ Inc., as soon as is reasonably practical. VNZI may request, in writing, from a grower or levy collection agent any information that VNZI reasonably requires for the purpose of determining the amount of Biosecurity Levy payable by the grower.

WHAT RECORDS MUST VEGETABLES NZ INC. KEEP?

VNZI shall retain records for at least two years after the Biosecurity Levy year to which the records relate:

- The amount of Biosecurity Levy paid to it; and
- The date on which the money is received; and
- The name of the person or entity who paid the money; and
- The manner in which the Biosecurity Levy funds were spent or invested.

HOW WILL THE LEVY BE REPORTED ON?

VNZI would report on Biosecurity Levy income and expenditure in an annual report and at the Annual General Meeting.

WILL THERE BE A PROCESS FOR DISPUTES?

There will be a robust disputes process described in the Biosecurity Levy aligned to the Arbitration Act 1996. Note that the Minister for Primary Industries has the power to Audit the Levy Order and industry would pay the costs of any audit.

7. WHAT'S NEXT?

We welcome your comments on this proposal. Please give any feedback to John Seymour (contact details below) by 20 July 2018.

A vote on the Biosecurity Levy proposal will be held at the VNZI Annual General Meeting (AGM) on Monday 23 July 2018 in Christchurch. All growers will have the opportunity to submit their vote in person or by proxy. Voting forms will be posted to growers along with the AGM papers.

If the vote at the AGM is successful, then VNZI will prepare an application for a Biosecurity Levy Order for Fresh Vegetables. It is expected the application and Levy Order drafting process could take up to 12 months before coming into effect. VNZI will notify growers directly when the Biosecurity Levy is to be activated, through existing communication media including the NZ Grower magazine, the Vegetables NZ Inc. website and grower meetings.

For further information or to discuss any part of this proposal:

Please contact: John Seymour
Vegetables NZ Inc. General Manager
Email: John.seymour@hortnz.co.nz - Phone: 04 494 9973
PO Box 10232, The Terrace, Wellington 6143

APPENDIX 1 - DEFINITION OF FRESH VEGETABLES

Definition of Fresh Vegetables - The levy will apply to the following vegetables and their hybrids which are grown for sale on the fresh domestic market or for fresh export.

Artichokes (<i>Globe & Jerusalem</i>)	Lettuce
Asian Vegetables	Marrows
Beans (<i>excluding field dried beans</i>)	Melons (<i>including water, green netted, honey dew, bitter, rock, white musk & prince</i>)
Beetroot	Okra
Box Thorn	Parsnips
Broccoflower	Peas (<i>excluding field dried peas</i>)
Broccoli	Puha
Brussels Sprouts	Pumpkins
Burdock	Purslane
Cabbage	Radishes (<i>including Chinese radish & daikon</i>)
Capsicums	Rakkyo
Carrots	Rhubarb
Cauliflower	Salad Leaves
Celeriac	Salsify
Celery	Scallopini
Chilli peppers	Scorzonera
Chokos	Shallots
Courgettes	Silverbeet
Cucumbers	Spinach (<i>including water spinach</i>)
Egg Plant (<i>or aubergine</i>)	Spring Onions
Florence Fennel	Sprouted Beans and Seeds
Garland chrysanthemum	Squash (<i>but excluding export buttercup squash</i>)
Garlic	Swedes
Gherkins	Sweetcorn (<i>including baby corn</i>)
Herbs (<i>including basil, bay, borage, caraway, chervil, chives, coriander, dill, fennel, horseradish, lemon balm, marigold, marjoram, mint, nasturtium, oregano, parsley, rosemary, sage, savory, sorrell, tarragon, thyme</i>)	Taro
	Turnips
	Ulluco
	Watercress
	Witloof (<i>or chicory or endive</i>)
Indian Vegetables	Yakon
Kohlrabi	Yams
Kumara	Zucchini
Leeks	