

1. Introduction

Maintaining New Zealand's status of being relatively free of pests and diseases is a critical part of the nation's productivity and ability to gain access to foreign markets for our agriculture-based trade. Under the Biosecurity Act 1993, there is a sophisticated regulatory environment aimed at keeping unwanted pests and diseases out of New Zealand. While few, if any, would doubt that effective biosecurity regulation confers significant benefits, at the same time there is a need to understand the costs associated with the regulatory environment. This report focuses on the costs arising from the need to comply with biosecurity requirements. It has been prepared for the Ministry of Agriculture and Forestry (MAF) which has the responsibility for administering biosecurity legislation.

1.1 OBJECTIVE

The objective for this project is straightforward:

To gather information concerning the costs associated with complying with biosecurity requirements and to develop a high-level estimate of those costs.

Until now, little or no information has been collected or published regarding the aggregate costs of complying with biosecurity requirements. Good regulatory design depends, in part, on understanding the costs that regulation gives rise to. Although beyond the scope of this project, it is intended that the outcomes of the cost estimation work will be used by the Ministry to guide future work aimed at ensuring that New Zealand has an effective, and cost efficient, biosecurity regulatory environment.

1.2 BACKGROUND

This project has been conducted in two phases. The first of these commenced in March 2005 when PricewaterhouseCoopers (PwC) was engaged by Ministry of Agriculture and Forestry to develop a framework to measure the costs to industry of complying with Biosecurity regulations. The diverse nature of biosecurity risks and regulations designed to manage those risks means that a key challenge for this project has been to develop an efficient and, at the same time, reasonably reliable way of estimating compliance costs. To this end, a preliminary framework was developed in Phase 1 and reported to MAF in April 2005.

Following consideration of the preliminary framework, the decision was taken to proceed with the

second phase. The focus of this phase has been on applying the framework in practice to identify the scope of activities that businesses undertake in order to comply with biosecurity requirements and to estimate, at a high level, the costs associated with those activities.

1.3 SCOPE

For various reasons (discussed in section 2 below), the approach to, and outputs from, the work on estimating compliance costs has focused on the main pathways through which unwanted pests and diseases can potentially enter into New Zealand.

These are:

- imported risk goods (of which there are many categories);
- containers and certain types of packaging materials (e.g. straw and wooden pallets);
- ships and aircraft;
- passengers' effects; and
- mail and courier packages.

Within the "imported risk goods" category, there are literally thousands of commodities that pose a potential biosecurity risk to New Zealand. In order to keep the scope of the project manageable, various criteria were agreed with MAF to identify the most significant risk goods from a compliance cost perspective.

The focus for this project has been on estimating compliance costs incurred by industry at a New Zealand-wide level. It has not been within the scope of this project to estimate compliance costs for a representative firm, or provide a detailed examination of costs for every industry, let alone business, importing "risk" goods. In this regard, it is important to appreciate that the estimates of compliance cost are based on a very wide range of differing situations and regulatory requirements. Two firms operating in the same industry might face considerably different biosecurity compliance costs if, for example, there are differences in the specific products imported and/or differences in the amounts imported (e.g. because of economies of scale in relation to some compliance activities).

Accordingly, the results of the cost estimation analysis are not intended to provide estimates of the compliance costs that might be incurred by a particular firm.

The scope of the project has had quantitative as well as qualitative dimensions. Descriptions of compliance activities, even in the absence of an accompanying cost estimate, provide useful information to MAF in two respects. Firstly, once a compliance activity has been identified, it is no longer a hidden reaction to regulatory requirements. By making the compliance activity transparent, it can then be factored into thinking about the design and functioning of biosecurity regulations. Secondly, once identified as an area where there is little, or no, information, the compliance activity can then form the focus for future data gathering and analysis.

The importance of the qualitative dimension to the scope of this project should not be understated. In addition to providing valuable insights regarding compliance activities, qualitative information provided to us through discussions with industry has helped to draw conclusions regarding the overall significance of compliance costs and the extent to which compliance costs are viewed either as an acceptable part of doing business or, in some cases, represent an unreasonably onerous burden.

During the course of discussions with industry, a small number of sectors have raised significant concerns regarding the compliance costs imposed by biosecurity regulations. Although not a specific part of the brief for this project, where concerns highlight areas for possible efficiency improvements, we have included them in this report.

1.4 CONTEXT

The context for this project is little, or no, collected and published information regarding the nature and scope of compliance costs. Accordingly, this project is a first cut at trying to describe and estimate a rough order of magnitude for compliance costs. The objective is to gain a perspective about whether, in total, compliance costs amount to tens of millions, hundreds of millions or, in a worst case, billions of dollars. At the same time, an objective is to understand whether compliance costs tend to be more significant in some sectors, but not others and whether there are particular types of compliance cost that are more significant than others.

While a wide range of compliance costs have been estimated as part of this project, it is important to emphasise that the scope was designed to focus on the main areas of compliance activity (and cost), rather than being exhaustive in terms of coverage. Moreover, none of the cost estimates, and accompanying narrative, is intended to be definitive. More and better information will come to light as further analysis and research is undertaken beyond the scope of this project. The information gathered from this project has been collated in a way that is intended to allow the

Ministry to update the cost estimates as new and better information comes to hand.

1.5 ANNUAL COSTS

The cost figures in this report present a snapshot view of the compliance costs experienced by New Zealand industry groups in one year, based on biosecurity regulation and industry practises in May - June 2005. Where possible, we have endeavoured to use data for the year ended June 2004 as a common reference point. This includes, in particular, data from Statistics New Zealand relating to imports and the majority of data received from MAF relating to inspections and seizures.

1.6 RELIANCE ON THIRD PARTY INFORMATION

As will become evident in following sections of the report, the approach to identifying compliance requirements and estimating associated compliance costs has relied heavily on information provided to us by MAF and a wide range of third parties. The information that we have relied upon has not been audited or verified by us in any way. It follows, therefore, that to the extent that any of the information provided to us proves to be erroneous or misleading in some way, the analysis and conclusions that have depended on that information may be subject to error.

In a limited number of instances, it has been possible to cross reference information from multiple sources as a form of check on the veracity of the cost information. However, ultimately, reliance has had to be placed on information provided to us.

It is important to acknowledge that the costs incurred by industry in complying with biosecurity requirements are, in many instances, commercially sensitive. The information gathered from industry participants has been collected on a non-attributable basis; that is, we have undertaken not to disclose information obtained in a way that would enable the source of that information to be identified (unless of course the provider of information has indicated that attribution is not an issue or the information is in the public domain anyway).

Reflecting the need to observe commercial sensitivities, the estimates of compliance costs are, in some areas, necessarily presented at an aggregate level. The detail behind the calculations in some instances needs to be kept confidential. That said, wherever possible, we have been as explicit as possible as to the basis upon which the compliance cost estimates have been derived.

1.7 STRUCTURE OF THE REPORT

Beyond this introductory chapter, the report is structured into three main parts.

Section 2 of the report describes the approach taken to developing estimates of compliance costs. In particular, it:

- defines compliance costs;
- introduces the main pathways through which biosecurity risks can potentially enter New Zealand;
- describes the approach taken to estimating compliance costs for each of the pathways;
- outlines the approach to obtaining compliance cost information;
- the process by which information gathered at the firm or industry level has been used to develop aggregate (i.e. NZ-wide) estimates of compliance costs; and
- notes some limitations and caveats surrounding the estimates of compliance costs.

The information underpinning estimates of compliance costs is discussed in more detail in each of the sections dealing with risk goods and other pathways. It is important to note that worksheets have been prepared to estimate compliance costs. These worksheets are intended for ongoing use by MAF. As more and better information comes to hand regarding compliance activities and their costs, the intention is that the new information can be incorporated into the worksheets. Section 2 of this report should, therefore, be seen as a guide as to the purpose of the worksheets and how they work.

Sections 3 – 20 of the report cover the five main pathways through which biosecurity threats can enter into New Zealand:

- risk goods;
- containers and packaging materials;
- aircraft and vessels;
- mail and courier packages; and
- passengers and their effects.

Within the “risk goods” pathway, there is a very wide range of imported goods that present possible biosecurity risks. To keep the scope of work manageable, a set of criteria have been agreed with MAF to identify the most important risk goods from a compliance cost perspective. The prioritisation process has resulted in 13 principal categories of risk goods (with each category containing a number of similar commodities).

Each of the sections:

- defines the scope of the commodity (or other pathway);
- summarises aggregate industry data relevant to that risk good (or other pathway);
- presents an overview of the relevant Import Health Standard(s) – the standards define biosecurity compliance requirements;
- describes the various activities undertaken to comply with biosecurity requirements; and
- estimates, to the extent possible taking into account data and other limitations, the costs associated with compliance activities.

The third part of the report comprises sections 21 and 22. These sections summarise the estimates of compliance costs. The estimates are presented in a tabular form that allows costs to be segmented in the following ways:

- by pathway (and by each of the 13 categories of “at risk” goods);
- according to the three main stages in the clearance process; that is, pre-border, at border and post-border (i.e. at transitional facilities/post-quarantine facilities awaiting clearance); and
- by the type of compliance activity (e.g. pre-entry certification, treatment, cleaning, inspection, diagnosis, general administration and so on).

The estimates of compliance costs are supplemented with a commentary regarding the main drivers of compliance costs. Some of the drivers are systemic in the sense of being common across most, if not all, pathways (and risk goods). Other drivers are more sector-specific. The comments regarding the drivers of compliance costs are based on discussions with industry held as part of the information gathering process for this review. As such, they reflect a qualitative insight as to the circumstances in which compliance costs can be an issue for business.

Based on the estimate of compliance costs, and the comments made by industry, three main areas for further work are identified.