

Costs of Compliance for Achieving Biosecurity Clearance

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Foreword

Earlier this year, the Ministry of Agriculture and Forestry (MAF) commissioned PricewaterhouseCoopers to do a high-level assessment of the costs to the New Zealand economy of complying with biosecurity requirements on imported goods. I am pleased to present their final report.

Biosecurity activities are vital in protecting New Zealand's economy, natural environment and society. MAF sets and enforces a range of regulations that industry must comply with to gain biosecurity clearance for imported goods. But these activities come with costs.

Traditionally we have looked at the costs of biosecurity in terms of government spending and in terms of direct fees and charges. Until now, we didn't know:


- how much biosecurity regulatory activities cost the economy as a whole;
- to what extent biosecurity requirements can be incorporated into normal business operations;
- how significant biosecurity compliance costs are for industry stakeholders, relative to other costs (the level of dissatisfaction with biosecurity requirements).

To try to answer these gaps in knowledge, PricewaterhouseCoopers has developed estimates of compliance costs through the eyes of those who, as part of their business activities, must comply with the biosecurity regulations MAF administers.

The project involved holding a series of sector based workshops with industry stakeholders and gathering information on biosecurity related activities and costs. PricewaterhouseCoopers has combined this information with Statistics New Zealand data to develop a New Zealand-wide cost estimate.

As well as providing quantitative numbers on the costs to importers of gaining biosecurity clearance, this report is a rich source of qualitative information about biosecurity activities. It outlines the range of activities associated with gaining biosecurity clearance and indicates the impact biosecurity requirements have on normal business operations.

This report is relatively unique in that it looks at MAF's biosecurity activities from the "outside" looking in. This is an approach that MAF will be taking more widely as we look at how we work and our impact on New Zealand's economy and society.



Paul Stocks
Director, Biosecurity Strategic Unit

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Executive Summary

- Until now, published estimates of the aggregate costs incurred in complying with biosecurity requirements have not existed. This review has developed an approach for systematically identifying, and recording, compliance activities associated with achieving biosecurity clearance and for estimating the additional costs associated with those activities. The intention is that the approach can be further refined, and cost estimates updated, as new information comes to hand.
- For many sectors of the economy, the costs of complying with New Zealand's biosecurity requirements up until the point of clearance are not a major issue. Many importers have incorporated biosecurity requirements into their day-to-day business operations so that the additional costs imposed by biosecurity compliance are low.
- The cost of complying with biosecurity requirements (as defined and limited for the purposes of our analysis) is estimated to be in the order of \$81 million to \$125 million per annum, although the range of possible costs around this estimate is wide. As estimated, this cost represents approximately 0.9-1.4 percent of the total value of "at risk" goods imported into New Zealand and is equivalent to about 13-20 percent of the insurance and freight costs associated with bringing at risk goods to New Zealand. In short, compliance costs are a relatively small part of the overall cost of bringing goods into New Zealand.
- Compliance costs are lowest when obligations are clear and relatively stable over time.
- Compliance costs increase if these attributes are not present and if:
 - requirements are not consistently applied;
 - requirements are enforced in an inflexible (or "letter of the law") manner;
 - international standards equivalent to those in New Zealand are not adequately recognised; and
 - border personnel lack relevant experience and/or do not have the resource to process goods in a timely manner.
- Possible areas for further work, to ensure that compliance costs are at efficient levels, include compliance requirements in relation to nursery stock, used vehicles and seeds. Further work could also be undertaken to enhance the understanding of compliance costs involving

containers (around 40 percent of all good entering New Zealand do so by way of container and there have been recent changes to the biosecurity standards for containers).

BACKGROUND

Few would disagree with the need to protect New Zealand from unwanted pests and diseases that could threaten the country's agricultural and farming sector. New Zealand has comprehensive regulations, and processes to carry out the enforcement of these, to protect its borders.

Like other regulations, it is important to avoid creating a situation where their design and enforcement imposes unnecessary or burdensome costs. But to date, little, or no, information has been collected or published regarding the costs of complying with New Zealand's biosecurity regulations.

APPROACH

Reflecting this gap in knowledge, the Biosecurity Strategic Unit of the Ministry of Agriculture and Forestry (MAF) commissioned PricewaterhouseCoopers (PwC) to undertake a high-level assessment of the costs of complying with biosecurity requirements. It has not been within the scope of this project to provide a detailed examination of costs for every industry, let alone business, importing "risk goods". The project has been scoped to focus on only the most significant areas of compliance, as agreed with MAF. Therefore, the estimates contained in this report should be read with reference to the methodology, which defines and limits the scope of analysis. MAF fees, for example, are excluded from the analysis, because the extent of this cost is already known to MAF.

The estimates contained in this report have been developed on the basis of information gained from industry. The approach has been to develop estimates of compliance costs viewed through the eyes of some of those who, as part of their business activities, must seek to comply with biosecurity requirements. As such, the activities and costs will reflect biosecurity regulation and cost levels as they were in May and June 2005, when data gathering occurred.

A process has been gone through to identify, in conjunction with MAF officials, the range of industries and sectors that are most likely to be directly affected by biosecurity regulations. A series of workshops have then been held to obtain, from industry stakeholders, information to assist with developing estimates of compliance costs. A total of

175 businesses and organisations were invited to send participants to one of a series of sector-based workshops. Information obtained at the firm or industry level has then been combined with data from Statistics New Zealand to develop a New Zealand-wide estimate of compliance costs.

It should be noted that the information obtained from industry has not been verified or audited in any way. Further, the scope of the project, in terms of its timing and resources, means that the range of businesses invited to participate in the workshops has not been intended to be comprehensive or, necessarily, fully representative. For these reasons, the estimates of compliance costs should be viewed as indicative only. It has not been the intention to develop estimates of compliance costs that are statistically accurate.

Notwithstanding the above caveats, the estimates are, however, a first step in assessing the costs of complying with biosecurity regulations in New Zealand. They provide useful insights where none have previously been available. The results also point to some areas where further work can be undertaken.

KEY FINDINGS

The key findings of the review come as a welcome indication that, for the most part, compliance costs (as defined and limited for the purposes of our analysis) are not viewed as being unduly onerous or excessive. In quantitative terms, compliance costs are estimated, in aggregate, to be in the region of \$81 million to \$125 million per annum. To put the significance of this estimate into context, the following points should be noted.

- The compliance costs are equivalent to 0.9-1.4 percent of the total value of risk goods that are imported annually into New Zealand (for the year ended June 2004 the value of risk goods imported amounted to around \$9 billion or just over 25 percent of all imports). Put another way, for every \$1 of product imported into New Zealand, about 0.9-1.4 cents are spent on complying with biosecurity regulations to get the product through biosecurity clearance. The estimated compliance costs exclude MAF fees for inspections, clearances, audits of transitional facilities and various other charges.
- The estimated compliance costs are equivalent to approximately 13 - 20 percent of the insurance and freight costs associated with transporting risk goods to New Zealand.
- The estimated compliance costs are broadly comparable with the amount which MAF spends each year on developing, maintaining and

enforcing biosecurity regulations. The costs of operating Biosecurity New Zealand and the Quarantine Service (both part of MAF) is budgeted to be approximately \$115 million in 2005/06. The costs in these areas are recovered by fees (as noted above) or paid for by the Government and are in addition to the compliance costs estimated as part of this project. In other words, for every dollar of expenditure by MAF in relation to biosecurity, there is approximately another dollar of compliance cost incurred by industry.

The table below summarises the estimates of compliance cost broken down by the main pathways through which biosecurity risks can enter New Zealand. The estimates are based on Statistics New Zealand import data for the year ended 30 June 2004 coupled with information obtained from a range of industry sources about current business compliance practises, including information regarding container clearance from MAF.

Table 1 Estimated Annual Compliance Costs for Principal Biosecurity Pathways

Pathway	Estimated Approximate Costs \$ Million Per Annum
Risk goods	63.1 – 91.0
Containers and risk packaging	8.6 – 20.0
Aircraft and vessels	6.1 – 6.1
Mail and courier packages	0.2
Passengers and their effects	0.9
Other (mainly administration related)	2.6 – 6.5
Total	81.5 – 124.7

Source: PwC.

From a qualitative perspective, a number of comments made during the course of discussions with industry also serve to make the point that, in many cases, biosecurity compliance costs are not a major issue. A number of companies made the point that compliance requirements are an accepted part of doing business. In many instances, biosecurity requirements have been factored into business processes with the result that the marginal costs of compliance are reduced to low, or even nil, levels. There are potentially several reasons as to why biosecurity requirements have, in many instances, been built into business processes. Prominent among them is the focus by firms on the sustainability of their businesses in the longer term. Threats to New Zealand's biosecurity are also risks to the long term sustainability of firms and their access to markets and, accordingly, many firms have incentives to take steps to mitigate biosecurity threats irrespective of the requirements of regulations.

When contacted to participate in the workshops, a number of firms indicated some surprise that the work on compliance costs was being undertaken because they did not see compliance costs as an important issue. For the same reason, quite a number of firms indicated that participating in a compliance cost workshop was not a business priority for them.

There are, however, instances in which compliance costs are an issue. The quantitative analysis indicates that, in some sectors, compliance costs are large in absolute terms. Moreover, in a minority of sectors, concerns have been raised regarding aspects of the regulatory environment and its functioning. In some sectors, notably nursery stock, the level of concern is marked.

DRIVERS OF COMPLIANCE COSTS

Across all relevant sectors of the economy, several common drivers of compliance costs have been identified.

- **The extent of change in compliance requirements.** When compliance requirements are stable from year to year, they get built into business processes. This makes compliance activities just a normal part of doing business and helps to reduce the extra costs involved. When, however, requirements change frequently or significantly, compliance costs increase.
- **The clarity of the compliance requirement.** If importers and offshore suppliers are clear as to what it needs to do in order to comply with biosecurity requirements, the requirements can be built into business processes. If there is uncertainty (e.g. caused by ambiguous requirements or inconsistent application of the requirements by border protection personnel), compliance costs rise. In such circumstances, more time and effort needs to be expended in understanding the requirements and there is much greater likelihood that goods will be stopped at the border because of some form of non-compliance.
- **The overall level of imports also has a direct bearing on compliance costs.** For example, imports of used motor vehicles are, by far, the largest category of imports (of risk goods) amounting to an estimated \$3.5 billion in the year ended June 2004. The estimated compliance costs for this sector are approximately \$37 million to \$54 million per annum (equivalent to about 1 percent of the total value of used vehicles imported to New Zealand).

Perhaps surprisingly, the level of risk posed by a good to New Zealand's biosecurity, is not necessarily a key

driver of compliance cost. For example, importers of fruit and vegetables reported that compliance costs are not particularly influenced by whether the product is fruit fly host or non-fruit fly host, yet the former represents significantly greater biosecurity risk. For these importers, the key driver of compliance cost is whether compliance requirements are established and certain. It is in situations where biosecurity processes have to be developed for new products that compliance costs can be a significant issue.

Similarly, live animals and meat products represent high risks, but compliance costs in both sectors are not a major issue. The underlying reason appears to reflect the points made above. If the compliance requirements are clear and reasonably stable over time, then business works with the requirements to build them into its business processes. Moreover, where risks are known, they tend to be managed in some way in order to protect access to consumer markets irrespective of any biosecurity regulations.

In addition to these points, several other key messages emerged from discussions with industry. These comments, however, did not apply uniformly across all sectors examined as part of this review.

- Several sectors (including seeds and nursery stock) reported a **lack of consistent implementation of biosecurity standards**. This included, in particular, differing practices at different ports of entry, or standards being applied by in different ways by different inspectors or auditors.
- Concerns have been raised in some sectors by the **timeliness and availability of information regarding biosecurity requirements** that is provided to suppliers, customs brokers and importers. This concern was particularly acute in instances where regulatory requirements were changing.
- The **capabilities and experience of MAF personnel** can impact on the efficiency with which goods receive clearance to enter New Zealand. Where there is a lack of experienced MAF personnel and/or high turnover of MAF staff, industry believes that this can cause difficulties in obtaining consistency of instruction and efficient clearance.
- In some cases, there is a **"letter of the law" approach** taken by MAF personnel (usually involving less experienced personnel) to applying biosecurity standards. Experience brings with it the ability to exercise a pragmatic response to genuine biosecurity risks. Understandably, importers become frustrated when the entry of goods is delayed or denied when there is no actual biosecurity risk.

- Insufficient regard is given to the **equivalence between international standards and those applying in New Zealand** in some sectors (seeds and nursery stock for example). The lack of recognition means, for example, that a treatment effected to a commodity in accordance with an international standard is not recognised here and, hence, needs to be repeated in New Zealand. In industry's view, the lack of recognition given to equivalent standards imposes unnecessary compliance costs.
- Where **MAF inspectors are not available within a reasonable period of time** (i.e. within a day) to supervise container unpacking or perform inspections, this can cause frustrating delays for importers. Similar frustrations arise where MAF activities on wharf cause delays. These concerns affected a wide cross section of sectors.
- There is scope for improving the **systems in place to track progress of a consignment** through the customs/MAF clearance process. Knowing where a consignment is in the clearance process helps logistics and planning for importers.

FURTHER WORK

The results of the review provide useful insights as to where compliance costs are most significant and some of the drivers behind compliance costs. This information can, in our view, be used to guide MAF in terms of directing its attention to those sectors where there may be scope for reviewing compliance requirements. As a regulator, MAF needs to ensure that the regulatory regime is as efficient as possible, while at the same time maintaining the effectiveness of, in this case, barriers to unwanted threats to New Zealand's biosecurity.

In particular, there are three areas that would benefit from further review and analysis:

- **Nursery stock.** The level of concern regarding compliance requirements appears to be greatest in this sector. On the face of it, there are a number of issues raised which serve to question whether there are unnecessary regulatory burdens being imposed.
- **Used vehicle imports.** This sector is identified simply because of the large value of imports and, hence, compliance costs. For this product group, even small percentage reductions in compliance costs will have a significant dollar impact.
- **Seeds.** Some of the issues raised in relation to nursery stock (e.g. recognition of equivalent standards) have also been raised in this sector.

