

SUBMISSION ON

Annual Review 2024: Proposed changes to MPI's cost recovery settings

12 March 2024

To: Cost Recovery Directorate, MPI

Name of Submitter: Horticulture New Zealand

Supported by: Twenty-five industry product groups and district growers' associations as listed on page 3

Contact for Service:

Eve Pleydell

Risk Policy Manager

Horticulture New Zealand

PO Box 10-232 WELLINGTON

Ph: 021 745 787

Email: eve.pleydell@hortnz.co.nz

OVERVIEW

Submission structure

p3 Part 1: HortNZ's Role

p4 Part 2: Executive Summary

p5 Part 3: The Submission

1. What is being proposed?
2. The impacts of these fee increases will be greater than MPI is recognising.
3. These fee increases will be passed on to growers.
4. An alternative approach to supporting ACVM towards optimal functionality.

Our submission

Horticulture New Zealand (HortNZ) thanks MPI for the opportunity to submit on the proposed changes to MPI's cost recovery settings and welcomes any opportunity to continue to work with MPI and to discuss our submission.

HortNZ could not gain an advantage in trade competition through this submission.

THIS SUBMISSION IS FULLY SUPPORTED BY AND REFLECTS THE VIEWS OF THE FOLLOWING PRODUCT GROUPS AND DISTRICT GROWER ASSOCIATIONS:

Blackcurrants New Zealand
Boysenberries New Zealand
Central Otago Fruit Growers Association
Citrus New Zealand
Ettrick Fruitgrowers Association
Hawke's Bay Fruitgrowers' Association
New Zealand Apples & Pears
New Zealand Avocado Growers Association
New Zealand Buttercup Squash Council
New Zealand Feijoa Growers Association
New Zealand Kiwiberry Growers Incorporated
New Zealand Kiwifruit Growers Incorporated
New Zealand Passionfruit Growers Association Incorporated
New Zealand Tamarillo Growers Association
Onions New Zealand
Persimmon Industry Council
Potatoes New Zealand Incorporated
Process Vegetables New Zealand
Pukekohe Vegetable Growers Association
Summerfruit New Zealand
Tairāwhiti Growers Association
Teviot Fruitgrowers Association
Tomatoes New Zealand
Vegetables New Zealand Incorporated
Zespri International Limited

The details of our joint submission and the requests we are making are set out in the submission below.

HortNZ's Role

Background to HortNZ

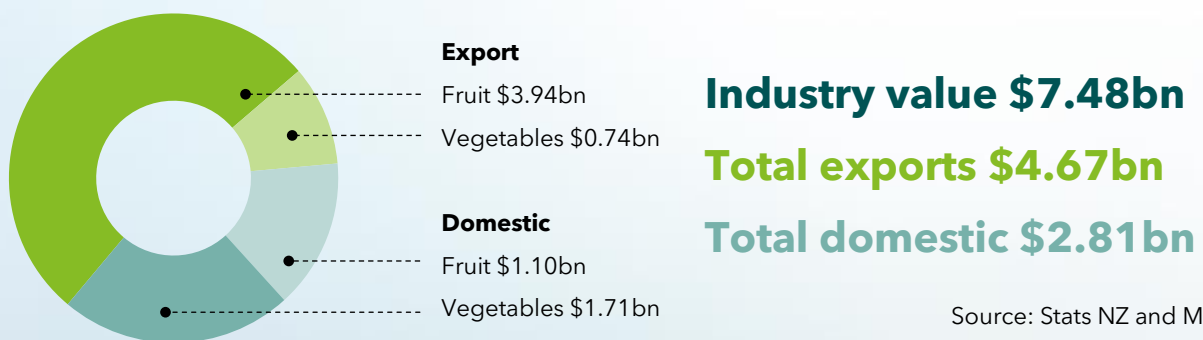
HortNZ represents the interests of approximately 4,200 commercial fruit and vegetable growers in New Zealand who grow around 100 different fruits and vegetables. The horticultural sector provides over 40,000 jobs.

There are approximately 80,000 hectares of land in New Zealand producing fruit and vegetables for domestic consumers and supplying our global trading partners with high quality food.

It is not just the direct economic benefits associated with horticultural production that are important. Horticulture production provides a platform for long term prosperity for communities, supports the growth of knowledge-intensive agri-tech and suppliers along the supply chain; and plays a key role in helping to achieve New Zealand's climate change objectives.

The horticulture sector plays an important role in food security for New Zealanders. Over 80% of vegetables grown are for the domestic market and many varieties of fruits are grown to serve the domestic market.

HortNZ's purpose is to create an enduring environment where growers prosper. This is done through enabling, promoting and advocating for growers in New Zealand.



HortNZ's involvement with crop protection regulation

On behalf of its grower members HortNZ works to help ensure that the regulatory settings and services that affect the availability and affordability of crop protection products in New Zealand are appropriate, workable, and cost-effective.

Executive Summary

NEW ZEALAND'S HORTICULTURE GROWERS DO NOT SUPPORT THE PROPOSAL TO SUBSTANTIALLY INCREASE THE ACVM FEES AND LEVY.

- A decrease in the number of agricultural compounds in the New Zealand market will have material impacts on the commercial viability of horticulture in this country.
- As the horticulture industry continues to develop integrated pest management schemes that are commercially competitive with more traditional approaches of using broad spectrum crop protection products, **GROWERS WILL REQUIRE ACCESS TO MORE TOOLS, NOT LESS.**
- Those manufacturers of crop protection products that do persevere with the registration of new products in this country will inevitably pass these fee increases on to growers who are already operating within incredibly tight margins. This will have impacts on the financial feasibility of growing operations with flow on effects on the wellbeing of the people who grow the nation's food and their communities.
- Rather than continue to raise fees to support an unnecessarily complex registration system, HortNZ strongly urges ACVM to streamline and modernise its processes in line with regulatory best practices being used overseas.
- HortNZ supports the submission made by Animal and Plant Health New Zealand and would like to see ACVM work with industry to improve efficiencies and cut costs.

IN THE CURRENT FINANCIAL CLIMATE, NO ONE HAS EXTRA MONEY TO THROW AT MAINTAINING AN OVERLY COMPLICATED STATUS QUO.

IT IS TIME TO MAKE CHANGES TO THE REGISTRATION PROCESS, NOT CHARGE MORE MONEY TO MAINTAIN AN INEFFICIENT REGULATORY SYSTEM.

Submission

This submission relates to the proposal to substantially increase both the ACVM fees and levy. It does not relate to the other areas of cost recovery reform being proposed.

1. What is being proposed?

As part of its annual review of cost recovery charges, MPI is proposing to increase the hourly charge rate for ACVM staff by 83% and the levy by 128%.

The horticulture sector does not support the scale of these fee increases and does not consider them to be justifiable, particularly in the current financial climate.

MPI is justifying these increases by stating that this only represents 0.2% of estimated wholesale revenue across the [agricultural chemical manufacturing] sector. However, the ramifications of these increases are far wider than that and will have indirect impacts for New Zealand's fruit and vegetable growers. MPI makes a nod to this by stating "there may be a decrease in the number of agricultural compounds in the market", but this statement grossly underplays the material impacts that the loss of crop protection products would have (and is having) on New Zealand.

We have explained these issues in previous submissions, but MPI does not appear to be actively listening and we will firmly explain them again.

2. The impacts of these fee increases will be greater than MPI is recognising

1.1. Manufacturing companies are becoming reluctant to register new products in New Zealand

New Zealand needs crop protection products far more than international manufacturing companies need the New Zealand market.

1.1.1. NEW ZEALAND IS A SMALL COUNTRY GROWING MINOR CROPS

Unfortunately for New Zealand, from a global perspective, our horticulture industries are comprised of small numbers of growers producing "minor" crops. Taken together, this means that New Zealand represents less than 1% of the global market in crop protection products (CPPs). This means **the economic viability of registering CPPs in New Zealand is marginal for manufacturing companies.** To compound this, as the spectrum of activity of each product narrows, the size of the markets for each product will also decrease and the economic returns to the CPP companies will diminish further.

On top of this, the process of applying to register new CPPs in New Zealand is onerous, expensive, and overly complicated. Crop protection companies are becoming increasingly frustrated with the challenges of registering products in New Zealand and products available to overseas competitors are not even in the application queue for registration here. Increasing the fees associated with registering products here will further inhibit the manufacturers willingness to invest in this country.

1.2. The registration of new crop protection products is critically important for horticulture and for New Zealand

1.2.1. ACCESS TO MODERN CROP PROTECTION PRODUCTS IS IMPORTANT TO NEW ZEALAND'S ECONOMY AND FOOD SUPPLY

The July 2019 New Zealand Institute of Economic Research (NZIER) report *The Importance of Crop Protection Products for The New Zealand Economy* highlights the significance of the crop protection industry to New Zealand¹. **Without crop protection products (CPPs), NZIER estimated that New Zealand's economy would lose approximately \$5 billion per year.**

Similarly in Australia, the February 2018 report by Deloitte Access Economics found 73% of the total value of crop production was attributable to CPP use (AUS\$20.6 billion of AUS\$28.2 billion)².

The additional production value from CPPs leads to benefits for consumers. A report on the contribution of crop protection products to the United States economy by Mark Goodwin Consulting Ltd found that conventional crop protection products provide 47.92% savings in overall grocery bills for a family of four³.

1.2.2. NEW ZEALAND'S HORTICULTURE INDUSTRIES REQUIRE NEW TOOLS IN ORDER TO TRANSITION TO AN INTEGRATED PEST MANAGEMENT APPROACH

New Zealand's horticulture sector is proud to be among the most innovative and forward-thinking horticulture sectors in the world. Government-industry initiatives, such as the A Lighter Touch programme, are assisting the sector to reduce its use of CPPs by providing the research and support to move away from routine chemical applications and apply integrated pest management (IPM) approaches in a commercially successful manner.

1.2.2.1. Regulatory challenges are leading to perverse outcomes.

An unintended consequence of imposing unnecessarily high regulatory barriers, including commercially non-viable fees, to the registration of new crop protection products is that New Zealand's growers are being forced to continue using the older chemistry products because that is all that is available to them.

The inability of New Zealand growers to access the softer chemistry CPPs available to growers in other countries has multiple adverse consequences:

- Growers are forced to continue using older chemistry CPPs that are more likely to pose greater risks to human and environmental health.
- Transition to an integrated pest management approach is impeded because the older chemistry insecticides available indiscriminately kill beneficial insects as well as pest species.

¹ <http://agcarm.co.nz/wp-content/uploads/2019/08/NZIER-Report.pdf>

² www.croplife.org.au/wp-content/uploads/2018/04/Deloitte-Access-Economics-Economic-Activity-Attributable-to-Crop-Protection-Products_web.pdf

³ <https://191hmt1pr08amfq62276etw2-wpengine.netdna-ssl.com/wp-content/uploads/2015/08/CLA-Socio-Economic-Report.pdf>

- Export markets are likely to be lost as countries that have already transitioned to newer CPPs decrease, and perhaps even remove, the Maximum Residue Limits for older CPPs in imported produce.
- Relationships with export markets are already being eroded as overseas supermarkets increase the pressure for their suppliers to be using sustainable practices, including the transition to softer chemistry products that are not available in New Zealand.
- In contrast, many of our international competitors will have increasing access to these newer products.

1.2.3. THE AOTEAROA HORTICULTURE ACTION PLAN

The Aotearoa Horticulture Action Plan⁴ (AHAP) was developed in partnership by industry, government, Māori, and research providers. It was released in February 2023. The plan sets out a shared vision for horticulture in 2035 and an action plan that the four partners can follow to collaboratively achieve this.

One of the AHAP's five key outcome areas is for the horticulture industry to grow sustainably over the next decade. Within this, Key Priority 1.3 acknowledges the current struggle that New Zealand growers have accessing the crop protection tools to control pests, diseases, and weeds that are available to growers in other countries.

The vision of the future that has been developed is that government, industry, Māori, and researchers work together to ensure that our growers are enabled to use the right crop protection tools at the right time and in the right way.

If government continues to place further impediments in the paths to registration for crop protection products in this country, then there's a real risk that we will see a sizeable decline in the horticulture sector in coming years, not sustainable growth.

3. These fee increases will be passed on to growers.

Basic market forces dictate that those manufacturing companies that do jump through all the hurdles to register the new crop protection products needed in New Zealand, will obviously pass the costs of registration on to their customers who are the people growing New Zealand's fruit and vegetables.

In 2023, the Global Coalition of Fresh Produce conducted a survey to estimate the increases in costs being faced by growers and the supply chain⁵. This work indicated that **the costs of crop protection in New Zealand increased by 40% over the preceding two years**. This is substantially higher than the average global increase of 31% over the same period.

New Zealand's growers are already under considerable financial pressures as all costs have increased in recent years. For an increasing number it is simply becoming economically unviable to remain in business. The Global Coalition of Fresh Produce Survey reported that **two thirds of the New Zealand growers that completed the survey were selling at a loss**. To illustrate this, a grower of hydroponic lettuces in Wairarapa informed me that while his direct costs to grow a lettuce total 98c, he is routinely offered less than that by retailers.

⁴ [Aotearoa Horticulture Action Plan | Horticulture New Zealand – Ahumāra Kai Aotearoa \(hortnz.co.nz\)](https://hortnz.co.nz)

⁵ 2023 Global Coalition of Fresh Produce survey [Producer-Costs-and-Prices-Report.pdf \(producecoalition.net\)](https://producecoalition.net)

The week I spoke with him he'd been offered 75c a lettuce by one of the supermarket chains. That week the same supermarket was selling lettuces for \$2.95. The net effect of these sorts of economics can be seen looking at the figures that the Tomatoes NZ produced last year. They reported that 25% of small to medium-sized tomato growers had left the industry over a four-year period from 2019 to 2023.

These are the financial realities of growing fruit and vegetables in New Zealand in 2024. Our growers do not need, and many would not survive, further increases to the costs of producing food for our domestic and export markets.

4. An alternative approach to supporting ACVM towards optimal functionality.

Rather than imposing sharp fee increases, HortNZ fully supports the proposals being suggested by APHANZ as to how ACVM could increase the efficiencies of the important work they do.

The size of the deficit detailed in the consultation document strongly suggests that the current approach to assessing applications for registration is not economically sustainable. Simply hiring more staff to try to cover the work is not addressing the underlining issues. It is time to look at the processes being used within the work and find areas where efficiencies can be made. It is time to leverage on registration work being conducted in other countries, wherever possible. New Zealanders cannot afford to continually pay more, a different solution to tackling ACVM's proposed deficit is required.

To this end, HortNZ supports APHANZ's suggestions of:

- Using the rule of 2 for some companion animal medicine assessments.
- Delegating lower risk work (such as manufacturing variations) to industry self-assessable changes.
- Prioritising the work programme to focus on core work that can be funded with the money available and that acknowledges the needs of New Zealanders who grow fruit and vegetables and all those who consume them too.
- Scale back the IT project. The costs of large IT projects are frequently far higher than the original estimates. Now is not the time to embark on ambitious IT projects. Where technological advances are required, please find simple solutions that can be more affordably delivered.
- Increase the transparency of how cost recovered money has been spent by producing some clear KPIs and reporting against them on an annual basis.

Once again, as a collective of horticulture groups and associations we thank you for the opportunity to submit on the proposed changes to MPI's cost recovery settings. We fully recognise the importance and quality of the work that ACVM conducts, and we would like to see efficiencies being made and greater leverage of international registration processes made wherever possible. HortNZ welcomes any opportunity to continue to work with MPI in this area of high importance to horticulture.