

SUBMISSION ON **Proposed Changes to** **MPI's Level 3B Post-Entry** **Quarantine Service**

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To: **Biosecurity New Zealand, Ministry for Primary Industries**

Name of Submitter: **Horticulture New Zealand**

Supported by:

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OVERVIEW

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Our submission

Horticulture New Zealand (HortNZ) thanks Biosecurity New Zealand for the opportunity to provide feedback on the proposed changes to Level 3B post-entry quarantine services and welcomes any opportunity to continue to engage and work with Biosecurity New Zealand on this matter.

HortNZ's feedback is provided on behalf of the horticulture growers of New Zealand. For this reason, HortNZ is only supplying feedback about the proposed changes to the prices and prioritisation process for L3B PEQ facilities as these may have direct and indirect impacts on the horticulture sector. HortNZ is not submitting feedback about the proposed price increases for diagnostic tests as it is expected that MPI would set diagnostic prices at a fair and reasonable level that covers the true costs of those tests without making undue profit.

The details of HortNZ's feedback about the changes to PEQ services and the requests we have for alterations to the proposed changes are set out in our 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 is 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.



Executive Summary

1. Biosecurity New Zealand within the Ministry for Primary Industries (MPI) is the only provider of Level 3B post-entry quarantine facilities (L3B PEQ) in the country. The limited availability of L3B PEQ facilities and several-year-long waiting lists have been impeding the development and diversification of some horticulture industries. To this end, Horticulture New Zealand (HortNZ) welcomes the opening of the new facilities at Mount Albert.
2. It is recognised that MPI has been undercharging for PEQ services for many years and increases in fees are inevitable. However, the proposed 300% increase in fees for the general bookings level of service will impact New Zealand's horticulture industries. Despite this, the potential impacts on the wider horticulture sectors have not been assessed as part of the process of setting the new fees.
3. The horticulture industries are highly concerned that the scale of the fees being proposed poses risks to New Zealand's ability to compete on the global stage. Australia, as an example, offers PEQ services to its horticulture sectors that are up to 15 times cheaper than the fees being proposed by MPI.
4. Undermining the horticulture industries and their ability to innovate and grow could inadvertently result in risks to New Zealand's prosperity and food security and make it harder to reduce emissions and meet international climate change obligations.
5. The impacts of these changes to PEQ services will be disproportionality greater for smaller horticulture industries. Co-sharing greenhouses may not be adequate to bring the fees down to an affordable level for smaller sectors and this is highly likely to impede horticulture diversification, adaptability, and growth.
6. HortNZ makes some requests and offers several suggestions that may help limit the adverse impacts of raising the fees for PEQ.
 - a. We request that a full strategic and operational impact assessment is conducted that looks at the potential economic and social impacts of a large and rapid increase in PEQ fees.
 - b. We suggest that an alternative fee structure based on a price per metre² is made available for small consignments.
 - c. We suggest that a contestable fund is developed to support smaller industries that cannot afford to import the new varieties of plants they require.
 - d. We request a that the increase in PEQ fees is introduced in a phased manner to provide the horticulture industries time to adapt.
 - e. We request that a specified pilot period for the changed services is instigated and that this pilot period includes a comprehensive review of the changes and the impacts of those changes on all stakeholders, not just the importing companies.

Submission

1. General comments

1.1. New Zealand benefits from a strong horticulture industry

1. HortNZ is concerned that the impacts of substantial increases in L3B PEQ fees on the horticulture growing industries have not been assessed.
2. HortNZ requests that before finalising the structure and prices of L3B PEQ fees a wider discussion is held that includes multiple parts of MPI, other government departments and industries.

1.1.1. INCREASING PRODUCTIVITY SUPPORTS NEW ZEALAND'S PROSPERITY

3. HortNZ is highly concerned that the scale of the proposed increases in L3B PEQ fees will decelerate access to new plant varieties; hamper the ability of our horticulture sectors to compete against global competitors; and prevent the development of smaller horticulture sectors.

The 2020 *Fit for a Better World* strategic roadmap for New Zealand's food and fibre sectors identifies the horticulture sector as a key player if the objective to add \$44 billion in export earnings to New Zealand's economy by 2030 is to be realised. On page 10 of this strategy, it says:

"The horticulture sector has many high-growth performers, including kiwifruit, apples, and wine - and there are others that could develop to sustainably provide similar levels of return. To enable this, we would accelerate access to new high-value plant varieties and cultivars and support the commercialisation of new products. \$45.3 million has been invested through Budget 2020 to ensure resilience and management of biosecurity, market and environmental risks, as well as improvements to biosecurity facilities for importing new plant materials. Work will continue on regulatory settings to better manage risk."

Having improved biosecurity facilities for the importation of new plant materials is welcomed, but if the cost of using these facilities is too high the benefits will not be fully realised.

1.1.2. SUPPORTING HORTICULTURE SUPPORTS NATIONAL FOOD SECURITY

4. HortNZ is concerned that the proposed PEQ fees may diminish the resilience of New Zealand's horticulture industries and put the nation's food security at risk.

New plant varieties are critical to New Zealand horticulture. They enable sustainable growth of horticulture by increasing the production of new varieties of fruit and

vegetables to that will be resilient to a changing climate. To adapt, New Zealand's horticulture industry will need to develop varieties of fruit and vegetables that will thrive in the changing climatic conditions and be more resistant to pests and diseases.

If New Zealand does not support its horticulture industries to adapt, then the national food security of the country would be at risk, resulting in dependence on imported food.

1.1.3. DIVERSIFYING FARMING SYSTEMS REDUCES EMISSIONS

5. HortNZ is concerned that unaffordable fees for L3B PEQ facilities would reduce the horticulture industries abilities to assist New Zealand to meet its 2050 emissions targets.

Diversification of horticulture presents an opportunity to reduce emissions while increasing food production and was identified as a critical outcome by the Climate Change Commission.

'Ināia tonu nei: a low emissions future for Aotearoa' includes the assumption that 2,000 ha of land will be converted to horticulture per year from 2025. The Commission notes that this could increase further if "barriers - such as water availability, labour, supply chains and path to market - are addressed" (Climate Change Commission 2021).

HortNZ suggests that an inability to be able to access new plant varieties due to high importation costs would be an additional barrier to horticultural diversification in New Zealand, which would make it harder for New Zealand to meet its international climate change obligations.

2. Comments on the proposed PEQ changes

2.1. Increasing access to L3B PEQ facilities

6. HortNZ welcomes the opening of 12 new L3B PEQ facilities at Mount Albert in April 2024.

For years, the demand for Level 3B PEQ has been consistently higher than the capacity provided by the 15 greenhouses available at MPI's Tamaki site. This has been resulting in two- to four-year waiting lists for people wishing to import new plant germplasm, which has been impeding the development and diversification of some horticulture sectors.

2.2. Proposed increases to PEQ fees

2.2.1. SUBSTANTIAL FEE INCREASES WILL NEGATIVELY IMPACT GROWERS

7. HortNZ requests that MPI proactively assesses the impacts of substantial PEQ fee increases on the wider horticulture sector before setting the fees.
8. HortNZ requests that MPI considers a phased approach to increasing PEQ fees.
9. HortNZ supports a public: private cost share for L3B PEQ fees.
10. HortNZ requests that the wider benefits to New Zealand from enabling plant importations is fully considered during the price setting process.

2.2.1.1. ASSESS THE IMPACTS ON GROWERS

HortNZ notes that there has been a long-term discrepancy between the costs of running a L3B PEQ greenhouse (estimated to be ~\$12,500 per month) and the prices MPI have been charging (currently capped at \$1,855 per month). Therefore, price increases are inevitable.

However, an increase of over 300% for general bookings is substantial and this will almost certainly have implications across the horticulture sector. Unfortunately, the impacts on growers do not appear to have been considered in the fee feasibility analyses that have been conducted. Deloitte have assessed the impacts of the increased PEQ fees at the level of the importation industry, but their report states that the impacts on the wider horticulture industry were out of scope. It is highly likely that the importers will pass the fee increases on to their customers and HortNZ is concerned that the impact of this has not been considered.

2.2.1.2. CONSIDER A PHASED APPROACH TO INCREASING PEQ FEES

Growers are facing consistently rising costs in all areas, including power, fuel, labour, and a multitude of legislative requirements. On top of this many have been severely impacted by adverse weather events. Margins are low, in some cases non-existent, and growers are leaving the industry. If this trend continues it will have adverse impacts on rural economies and communities and undermine New Zealand's own food security.

For those industries that more regularly import plant germplasm, such as the pip fruit and stone fruit industries, it may not be possible to instantaneously adjust to a substantial and sudden rise in the costs associated with those importations. A phased approach comprising a series of incremental increases over several years would support horticulture industries to adapt to these fee increases.

2.2.1.3. ENSURE THE FULL SPECTRUM OF PUBLIC GOOD IS REFLECTED IN THE COST SHARE

HortNZ recognises that at \$6,500/month the proposed fee for general bookings represents a 50:50 public: private cost share. A cost share arrangement is welcomed as it is representative of the public good that arises from enabling the horticulture industry to access new plant varieties, as outlined in Section 1 of this submission. The appropriate proportions of the cost-share should reflect all combined economic and social benefits New Zealand gains from supporting innovation within its horticulture sectors.

2.2.2. DISPROPORTIONATE IMPACTS ON SMALLER HORTICULTURE INDUSTRIES

11. HortNZ supports the incorporation of flexibility allowing importers to share a L3B PEQ greenhouse to decrease the cost burden on smaller importers.
12. HortNZ requests that MPI considers charging per square meter rather than per greenhouse for small consignments.
13. HortNZ recommends that a contestable fund be established to support smaller industries wishing to import new plant varieties.

2.2.2.1. CO-SHARING L3B PEQ GREENHOUSES MAY NOT REDUCE THE COSTS ENOUGH

HortNZ is concerned that, even under a co-sharing arrangement, smaller horticultural industries will not be able to afford the large monthly fees for L3B PEQ that are being

proposed. With no other L3B PEQ providers available in New Zealand, this could prevent smaller sectors from developing. In extreme cases, it may render them commercially nonviable in a dynamic global market.

In addition to the general unaffordability, it is not clear how compatible, or otherwise, consignments of different plants would be. This could be a problem if a small industry was trying to bring in plant varieties that were not compatible with the other consignments being processed at that time.

For these reasons, HortNZ urges MPI to ensure that there are alternative options for smaller industries. Without this, the Fit for a Better World vision of smaller horticulture sectors developing to be the high-growth performers of the future cannot be realised.

2.2.2.2. AN ALTERNATIVE FEE STRUCTURE FOR SMALL CONSIGNMENTS

HortNZ notes that the fees the Australian government charge for plant PEQ are more flexible and supportive of smaller importers than the fees being proposed by MPI.

In July 2023, the Department of Agriculture, Fisheries and Forestry (DAFF) also updated their fees for biosecurity and imported food regulatory activity. The combined importation and husbandry fees for plant PEQ increased from AUS\$130/m² to AUS\$351/m².

An illustrative example used in DAFF's Departmental Charging Guidelines outlines the 2023 cost of importing **1m² of strawberries requiring 12 months of PEQ**. The total PEQ cost for this consignment would be **AUS\$4,556** or approximately NZ\$4,930.

In contrast, MPI's proposed fees for 12 months of PEQ could cost that same small-scale strawberry importer **NZ\$78,000**. It is highly unlikely that this cost could be brought down to ~NZ\$5,000 even under a greenhouse co-sharing arrangement. Therefore, the proposed fees could effectively prevent New Zealand strawberry growers from being economically competitive against their Australian counterparts. It is extremely unlikely that it would only be the strawberry industry that would be impacted in this way.

HortNZ strongly requests that MPI reconsiders its fee structure to enable smaller consignments to be an economically viable option.

2.2.2.3. ESTABLISH A CONTESTABLE FUND FOR SMALLER SECTORS

High PEQ fees could effectively prevent smaller start-up horticulture industries from emerging and stifle the development of already established sectors. To realise the benefits of a diverse horticulture sector, HortNZ requests that the New Zealand government considers establishing a funding scheme that awards funds to cover PEQ fees on the merit of applications from horticulture sectors wishing to innovate.

A similar scheme exists to assist small and emerging plant sectors to grow or maintain exports to new or established markets. The New and Emerging Sector Assistance package is managed by the Plants Market Access Council. Up to \$30,000 is available to assist with progressing market access for sectors that have exported less than \$10 million / year over the preceding five years and are unable to fund the work required.

HortNZ requests that MPI considers a similar scheme to assist small industries to be able to afford to import the new plant material they require to establish and innovate.

2.3. Run the new fee scheme for a pilot period

14. HortNZ requests that changes in pricing structure and prioritisation processes are rolled out for a pilot period that concludes in a full review of the costs and benefits of the changes.

As the impacts of these substantial increases in PEQ charges are not yet clear for the wider horticulture sector, HortNZ also requests that MPI embarks on a specified pilot period before finalising the fees and prioritisation processes. This pilot period would include time to conduct a full review involving all stakeholders, including the wider horticulture industry.

The Fit for a Better World strategy pledges that government will listen to businesses and communities. A pilot period and thorough review would be well aligned with that pledge.