

The Effectiveness of the Commodity Levies Act for Long Term Research

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2003

**For Primary Industry Council/Kellogg
Rural Leadership Programme**

1. Executive Summary

Concern has been expressed within primary industries that the Commodity Levies Act 1990 does not cater for long term research due to the restrictions on ‘commercial activities’ in particular, and the six year term of the levy orders.

I describe long term research as breeding, market development, processing and value adding research activities showing a five to fifteen year return period with potential commercial and intellectual property outcomes.

The objectives of this report were to evaluate how current levy orders are being used in relation to the issues the industry concerned is facing, whether the highlighted perceived restrictions of the Act are of major concern, and what other mechanisms are being utilised to invest in long term research as I describe it.

All current levy orders were researched and a series of questions were asked of the representative body of the industry concerned. The report is an evaluation of the responses from current levy holders. Not all levy holders responded to the questions asked of them, so the conclusions in this report are based on a sample of approximately fifty percent of current levy holders.

In general, all industries were matching levy spend to the issues facing the industry quite well and the organisations making the most significant contribution to long term research are in the higher range of levy as a percentage of farmgate value. However, with the varied nature of all the levy orders it is difficult to make a real comparison between them.

Where an industry had no other clear mechanism of making contributions to long term research a Commodity Levy Order could provide an effective tool.

The legislation’s restriction on “any commercial or trading activity” appears to be a mechanism of preventing private business being disadvantaged by an organisation being subsidised by a statutory levy. Although this has not been officially tested by any holder of a Levy Order, many organisations are making contributions to research with potential commercial outcomes particularly in promotion and market access & development areas.

The six year term of Levy Orders may reduce the effectiveness of the Commodity Levies Act 1990 for long term research. This however should not be seen as a fault of the legislation, but of the industry concerned in convincing levy payers of the benefits of longer term research.

The following recommendations have been made following the study.

- a. Increased Government contribution to long term research should be encouraged given difficulty gaining producer investment support.
- b. Primary industries holding statutory rights may be better provided for in regard to long term research under these arrangements.

- c. Levy Order holders wishing to expand investment into activities with potential commercial outcomes should test the Ministerial approval process and should be met with support from the Minister providing those activities have no potential to unduly compete with private organisations.
- d. Levy Order holders considering investment in long term research should commit considerable resources to proving the value of that research to levy payers.
- e. Where long term research contribution is being satisfied by the private sector there is unlikely to be a need for levy funded contribution.
- f. Primary industries should frequently consult outside their perceived scope to establish if the long term needs of their industry are being met.
- g. Research undertaken co-operatively with other Levy Order holding organisations will give real value to levy payers, particularly in short term research.
- h. Small levy order holders should consider any options of renewing their Levy Orders in co-operation with other similar structures.

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3. Introduction

The Commodity Levies Act was implemented in 1990. Under the Act the Governor General imposes by Order in Council, on the recommendation of a minister, a commodity levy payable to a body corporate representing the industry concerned. The Minister must be satisfied that sufficient consultation has taken place through a referendum, more than half of voters support the levy, more than half of the voting production is represented by that support, and the advantages appear to outweigh any disadvantages of imposing the levy.

Greer, Manhire & Zwart, (1999, p.7) proposed that the rationale behind the Act is that without the compulsory nature of Act's Levy Orders the collective investments were unlikely to be made because "free-riding" could occur causing a decline in any voluntary contribution made.

"The market failure argument on which Levy Orders are justified, and which is also the rationale for similar policies throughout Europe, North America and Australia, is that the results of the investment in activities such as research and generic promotion are very difficult for investors to internalise. That it prevents "free-riders" (at least among growers) was seen as the most important of the good features of the commodity levy by industry organisations and growers alike". (Greer, Manhire & Zwart, 1999, p.7)

The Act specifies a number of requirements of individual levy orders including persons responsible for paying the levy, maximum rates of levy, levy payment terms, setting and notification of levy rates and the general purposes for which the levy may be spent. Levy orders expire after six years, forcing industry organisations to seek a mandate for the continuation of the Levy Order after five years enabling this time line to be met.

It is the spending of the levy and the implication of the six year term that is the subject of this evaluation.

The Commodity Levies Act 1990 allows individual levy orders to specify a number of purposes for which the levy can be spent. These include research, product development, market development and research, industry or product promotion, protection of the health of the commodity concerned, development of quality assurance programmes, education and training, and the day to day administration of the representative organisations activities.

One restriction on the use of the levy within all levy orders is that "no industry organisation shall spend any amount of levy for any commercial or trading activity". According to Dan Bolger, Director, Sector Performance Policy, MAF (personal conversation, 3 Oct 2003) the Ministry of Agriculture and Forestry have no official definition of 'commercial or trading activity' other than the wording above from the Act.

Greer, Manhire and Zwart (1999, p.9) highlighted “the legislation does provide the opportunity for industry organisations to use levy funds for purposes precluded by the Act with written approval from the Minister.”

Under section 10 (4) of the Act, the Minister can only give this approval if satisfied that the spending will benefit most of those paying the levy, that a voluntary levy for the purpose would allow non payers to capture some benefit, and that levy payers responsible for paying more than half the annual levy support the spending.

Greer, Manhire and Zwart (1999, p.9) added that this approval had never been sought from any industry forming a levy order. Also noted was “the issue of whether levies should be permitted only to fund activities to which market failure arguments may be applied, or whether industry itself should be permitted to determine the uses of levy funds is of considerable interest.”

Concern has been expressed within primary industries that the Commodity Levies Act 1990 does not cater for long term research due to the restrictions on ‘commercial activities’ in particular, and the six year term of the levy orders.

I describe long term research as breeding, market development, processing and value adding research activities showing a five to fifteen year return period with potential commercial and intellectual property outcomes.

The belief is that restrictions on ‘commercial activity’ within the Act discourage investment in long term research as I describe it, through concerns that intellectual property outcomes may not be able to be exploited. Also believed, the six year term of the Levy Orders requires a substantial return to levy payers to be made within that period to provide positive support for any subsequent Levy Order.

The objectives of this report are to evaluate how current levy orders are being used in relation to the issues the industry concerned is facing, whether the highlighted perceived restrictions of the Act are of major concern, and what other mechanisms are being utilised to invest in long term research as I describe it. This should allow some conclusions to be made as to the effectiveness of the Commodity Levy Act 1990 for long term research.

To outline the scope of this evaluation, all current levy orders were researched and a series of questions were asked of the representative body of the industry concerned. The first questions related to the issues currently facing the industry and the proportion of income spent on various issues. The purpose of these questions was to establish what current levy order holders were spending levies on in relation to the issues their industry might be facing and to try and standardise the levy spend for comparison.

Levy holders were asked directly their perception of any restrictions the Commodity Levies Act may pose. Questions were also asked of other contributions levy payers may make to research, co-operative research that may take place, wider industry investment in research, and changes in Government investment in research. The purpose of these questions was to establish whether other mechanisms were more effectively providing for investment in long term research.

The report is an evaluation of the responses from current levy holders. Not all levy holders responded to the questions asked of them, so the conclusions in this report are based on a sample of approximately fifty percent of current levy holders. The report also refers to some background information from other sources.

The report will firstly evaluate the individual commodity levy orders and the industry's response to the questions outlined above. It will then provide some combined analysis of the responses to enable conclusions to be drawn. Following the conclusions, some recommendations will be made to primary industries that are concerned that the Commodity Levies Act 1990 is not meeting their long term research needs.

4. The Commodity Levy Orders

As discussed in the introduction, this section of the report will evaluate the individual levy orders held under the over-riding legislation of the Commodity Levies Act 1990. Within the individual evaluations the suffixes .1 to .5 relate to a summary of the actual legislation for each commodity. For those levy orders that specify a levy that is based on some factor other than a percentage of 'farm-gate' value, an estimate of percentage of farm-gate value has been given for reasons of comparison. This has been estimated in consultation with the representative organisation.

The suffixes .6 to .12 relate to the response from the representative organisation to the various questions, and are referenced accordingly at the completion of each levy order section. The current levy spend section in the various orders provides some estimate of levy spend using standard headings. Due to varied systems of coding levy spend the standard figures provided are in some cases only estimates for reason of comparison. Where possible, both these figures and industry figures are provided.

4.1 Commodity Levies (Arable Crops) Order 2000

4.1.1 Organisation

Foundation for Arable Research Incorporated

4.1.2 Commodities Levied

Combinable arable crops

4.1.3 Maximum and Current Levy Rate (% farmgate value)

Multiple rates	maximum 1.5%	current	Maize	0.4%
			All other crops	0.6%
			Source N Pyke FAR	

4.1.4 Purposes for which levy money may be spent

- a. Arable crop research and development
- b. Education, including the provision of information about technology relating to arable crops
- c. Day-to-day administration, promotion and marketing of the foundation's activities.

4.1.5 Restrictions on purposes

Must not spend any levy money on commercial or trading activities.

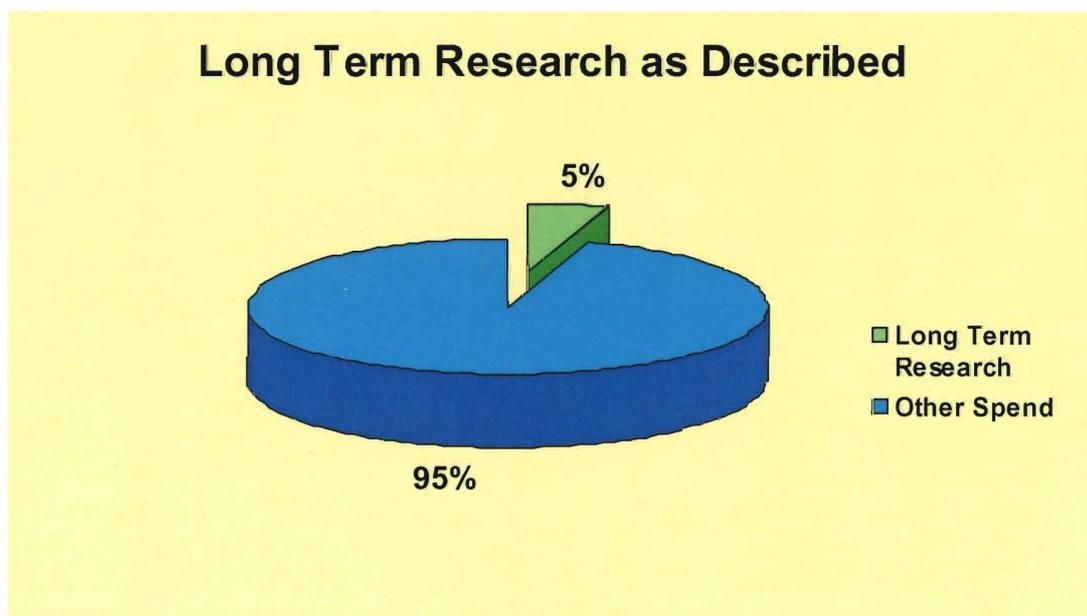
4.1.6 Issues facing the industry

Production – yield and quality

Environment – Nitrogen leaching, water availability

4.1.7 Current levy spend

a. Production and evaluation research and extension	62%
b. Environmental and compliance issues	20%
c. Industry promotion and market access	
d. Long term research as described	5%
e. Education and scholarships	3%
f. Administration	10%



4.1.8 Other grower contributions to research

No other levy is collected on arable production currently, but flour millers and bakers have levies on their production.

4.1.9 Co-operative research

Try and co-operatively fund research within and with other sectors such as Vegfed

4.1.10 Changes in Government research funding since introduction CLA (1990)

Long term research investments by Government are further and further from the productive sectors – some is in the environmental area and some in the blue skies research area.

4.1.11 Industry investment in long term research

Total industry investment including seed companies and end users is significant.

4.1.12 Commodity Levy Act restrictions

The only constraint is the need to convince levy payers they get a return on their investment and maybe research capability (staff).

4.1.13 Conclusions

The Arable Crops Order is providing primarily production and environmental research for the Arable industry. This closely reflects the perceived issues facing the industry.

The industry is very reliant on long term research contributions from industry including seed companies and produce end users. Given support from the industry, there is probably no reason this levy order could not expand its contribution to longer term research. The farmgate values of the levies are low in comparison to some industries, probably reflecting the concentration on production and environmental research.

Reference Nick Pyke – Foundation for Arable Research Inc, (email comm., 17 Aug 2003)

4.2 Commodity Levies (Asparagus) Order 2000

4.2.1 Organisation

New Zealand Asparagus Council Incorporated

4.2.2 Commodities Levied

Asparagus

4.2.3 Maximum and Current Levy Rate (% farmgate value)

Area levy	maximum \$80/ha	current	\$60/ha (approx 1% farmgate)
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Source K Ward NZAC

4.2.4 Purposes for which levy money may be spent

- a. Product research and development
- b. Market research and development
- c. Promotion of asparagus
- d. Quality assurance
- e. Education
- f. Day-to-day administration of the council

4.2.5 Restrictions on purposes

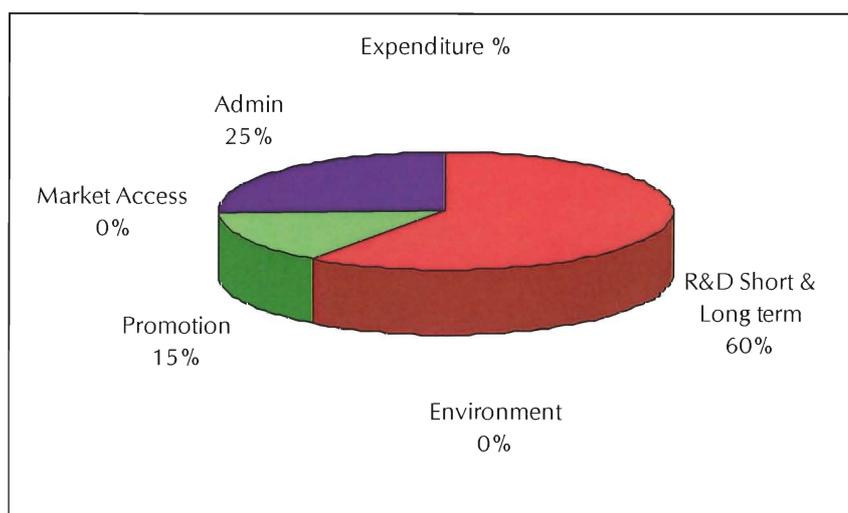
No restrictions stated, but implied in Commodity Levies Act 1990.

4.2.6 Issues facing the industry

- a. Economic returns from exports due to strengthening NZ dollar and falling value of Japanese market
- b. Stagnation of returns from New Zealand processing industry which are the same now as they were ten years ago, when many input costs have increased.
- c. Pressure on local consumer market from wide variety of foods available – clamour for market share
- d. Environmental threats:
- e. Rust from Australia is expected to effect NZ crop this season or next (wind-borne disease) will mean increased fungicide input
- f. Spray drift
- g. Severe weather patterns e.g. wind, cold
- h. Cost and availability of energy; water; agrichemicals
- i. Labour cost and availability
- j. Airfreight cost and availability

4.2.7 Current levy spend

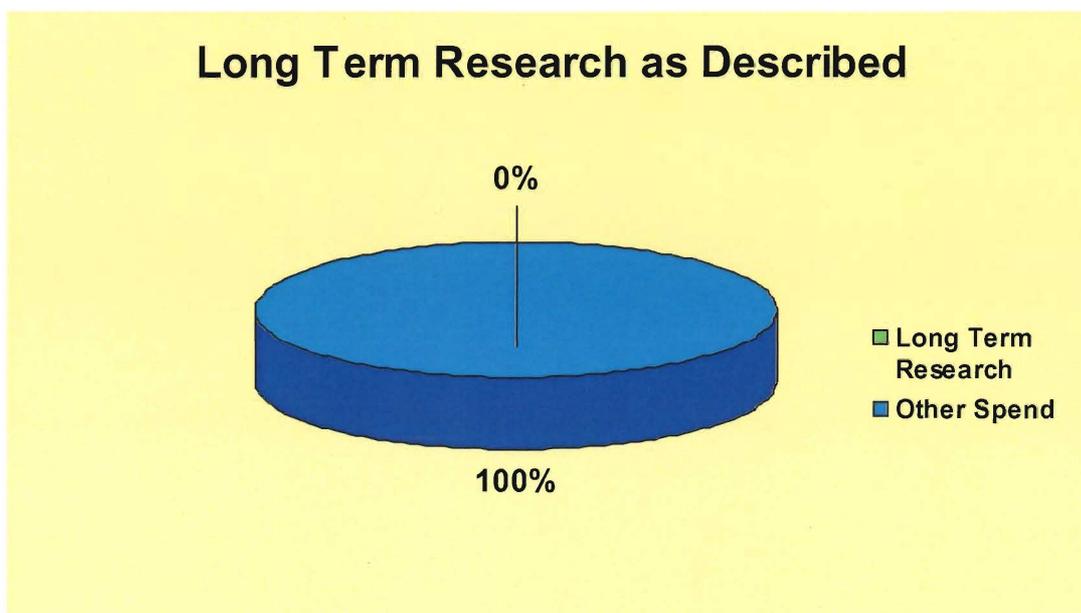
a. Production and evaluation research and extension	60%
b. Environmental and compliance issues	
c. Industry promotion and market access	15%
d. Long term research as described	
e. Education and scholarships	
f. Administration	25%



Source NZAGC

NB: R&D covers environment and to an extent market access, as well as grower education

Long Term Research as Described



4.2.8 Other grower contributions to research

Growers do make private contributions to long-term research – e.g. cultivar evaluation, and they also pay a Vegfed first-point-of-sale levy of 0.15% some of which is used for research administered by Vegfed Council.

4.2.9 Co-operative research

Other than work undertaken by Vegfed, co-operatively funded research with other sectors is rarely undertaken by the sector.

4.2.10 Changes in Government research funding since introduction CLA (1990)

The most obvious change in government funding was the recent Nil contribution by Foundation for Research Science and Technology in the ‘sustainability round’ for breeding work for horticulture, including forestry.

4.2.11 Industry investment in long term research

Aspara Pacific (a private company) along with Crop & Food Research (CRI) and the NZ Asparagus Council have made a long term commitment to research through asparagus breeding programmes but the future of this research is in question due to the cessation of FrST funding.

4.2.12 Commodity Levy Act restrictions

The Act does restrict the industry’s ability to carry out long-term research as it allows six yearly reviews.

4.2.13 Conclusions

The New Zealand Asparagus Council Incorporated carries out primarily production and environmental research. A number of the issues facing the industry are generic compliance and market issues which are in part assisted by growers contributions to the Vegfed organisation through the Commodity Levy (Vegetable) Order 2001. Little contribution to long term research is made through this levy order, growers using private contributions and private companies within the industry to make gains in this area.

The contribution, as a percentage of farmgate value, is relatively high given growers also contribute through the Vegetable Order.

Reference K Ward – NZ Asparagus Council Inc (email comm., 18/8/2003)

4.3 Commodity Levies (Eggs) Order 1999

4.3.1 Organisation

Egg Producers Federation of New Zealand (Incorporated)

4.3.2 Commodities Levied

Chicks sold to producers of eggs by hatcheries

4.3.3 Maximum and Current Levy Rate (% farmgate value)

Single rate 50c/chick maximum 35c/chick current (approx 1% farmgate)
Source Liam Fletcher EPFNZ

4.3.4 Purposes for which levy money may be spent

- a. Generic promotion and advertising in relation to eggs, including marketing and public relations
- b. Research and development relating to egg production
- c. Protection and improvement of the health of chickens
- d. Provision of education and information in relation to eggs to producers and consumers
- e. Collation of industry statistics
- f. Development of codes of practice and industry standards
- g. Day-to-day administration of EPFNZ

4.3.5 Restrictions on purposes

None highlighted, but implied in Commodity Levies Act 1990.

4.3.6 Issues facing the industry

1. Code of Welfare for Layer Hens

Under the Animal Welfare Act (1999) all primary agricultural industries must have a Code of Welfare that sets out the manner in which animals will be treated. The Layer Hen Code of Welfare is now currently being reviewed by the National Animal Welfare Advisory Committee (NAWAC). A code of Welfare was conjointly written by Industry and NAWAC. This code was then released for general submissions. These submissions are currently being analysed by NAWAC and a revised Layer Hen Code of Welfare is hoped to be in place by the end of 2003.

2. Risk Management Programmes

Under the Animal Products Act (1999) all primary processors have to have a Risk Management Programme (RMP) in place by July 1st, 2004. Therefore all egg farmers will have to have RMPs by this date. The purpose of the Animal Products Act (1999) is to control the risk to human health, control the risk to animal health and to control the risk from misleading or false labelling. The RMP is the detailed document that does this. RMP's are difficult documents to produce and the development of one is a time consuming process. Industry wholly supports the introduction of RMP's.

3. Resource Management Act

Issues that arise from the Resource Management Act continue to be a key issue for the industry.

4. Disease Eradication

A major undertaking for the industry is to be declared IBD (Infectious Bursal Disease) free. A testing programme is in place and once we have satisfied MAF that all the criteria for country and flock freedom for the disease have met, MAF will apply to the OIE for IBD freedom status on our behalf.

5. Biosecurity

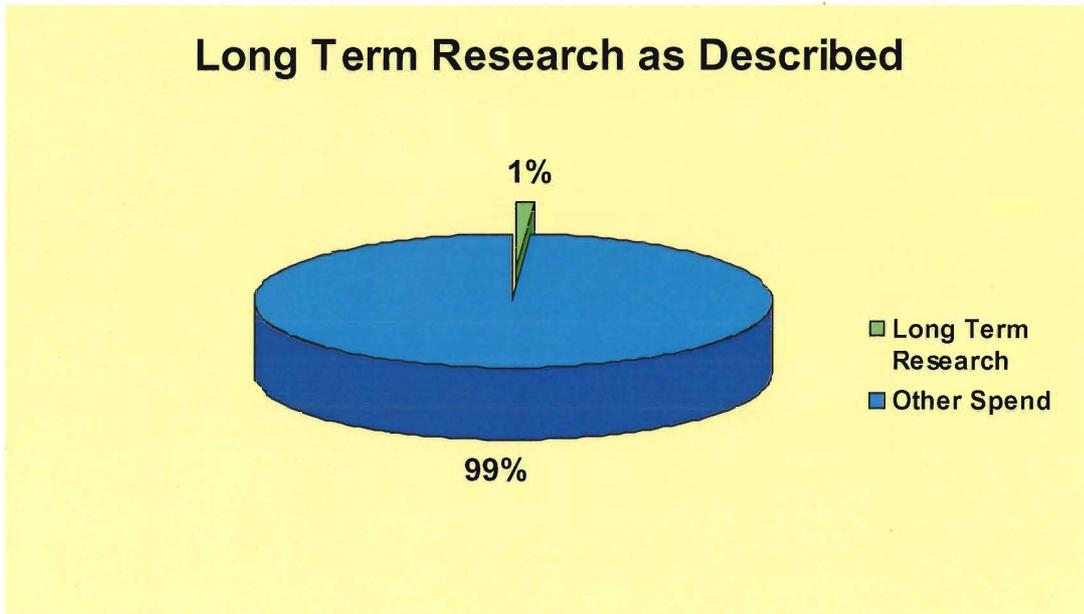
New Zealand's poultry flock has a unique and superior animal health status compared to that found in any other commercial poultry producing country in the world. New Zealand is free from the three major avian diseases; Newcastle Disease, Avian Influenza and Infectious Bursal Disease. Therefore Government quarantine regulations are imposed to protect the superior health status of the national poultry flock and native birds. Consequently, there are no imports of poultry meat or table eggs. This unrivalled environment of low disease is one reason New Zealand has achieved an internationally coveted performance in livestock production parameters such as growth and feed conversion rates, and egg production.

A major role for the EPF is to oppose any relaxation of Government policy which would allow any poultry products into New Zealand which may contain major exotic poultry diseases not presently found in our country. The entrance of these unwanted organisms could have a catastrophic effect on the commercial poultry flocks and potentially the native fauna in New Zealand.

4.3.7 Current levy spend

- a. Production and evaluation research and extension
- b. Environmental and compliance issues
- c. Industry promotion and market access
- d. Long term research as described
- e. Education and scholarships
- f. Administration

29%
60% — ? long term ??
1%
10%



4.3.8 Other grower contributions to research

Levy payers are not subject to any other research levy but may make private contributions to long term research as described.

4.3.9 Co-operative research

The Centre for Monogastric Research is part of Massey University's Institute of Food Nutrition and Human Health. Dr V. Ravi Ravindran works as the Poultry Research Officer, referred to as the Poultry Scientist, for the Centre for Monogastric Research. Dr Ravindran's role as the Poultry Scientist is to undertake research with particular relevance to the poultry industry and the related feed industry.

Specifically, the role is to:

- (i) Assist the strategic research direction and prepare Research and Development submissions for the Centre for Monogastric Research.
- (ii) Attract, conduct and/or oversee research projects on behalf of the Centre for Monogastric Research.
- (iii) Assist with the development and implementation of liaison groups to facilitate communication between the Centre for Monogastric Research and industry.

The EPF, in conjunction with other organisations and private companies, helps fund the poultry scientist and the research he carries out.

4.3.10 Changes in Government research funding since introduction CLA (1990)

No changes noted

4.3.11 Industry investment in long term research

Currently the EPF is not involved with any long term research (as you have described it). Approximately 60% of the levy is used by Eggs Incorporated for promotion and marketing of the commodity. The remaining funds are mainly used by the EPF for technical analysis and policy development.

4.3.12 Commodity Levy Act restrictions

No restrictions for this type of levy spend

4.3.13 Conclusions

The Egg Producers Federation of New Zealand (Incorporated) spend the majority of levy funds on generic promotion and market access, the remainder on technical and policy issues. This matches the highlighted issues facing the industry.

Long term research as described is more likely carried out by individual producers. ?
This levy order represents a significant investment for growers as a percentage of farmgate value. This probably reflects the obvious issues the industry faces which are best invested in collectively.

Reference Liam Fletcher - Egg Producers Federation of NZ (email comm., 14/8/2003)

4.4 Commodity Levies (Milksolids) Order 2003

4.4.1 Organisation

Dairy InSight Incorporated

4.4.2 Commodities Levied

All milksolids produced by Dairy Farmers in New Zealand

4.4.3 Maximum and Current Levy Rate (% farmgate value)

Single rate	maximum 4.3c/kg milksolids	current 3.4c/kg milksolids (approx 0.9% farmgate value) Source Dairy InSight
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4.4.4 Purposes for which levy money may be spent

- a. Farm-focused research and information transfer
- b. Information collection and co-ordination of industry standards
- c. Industry promotion and development
- d. Quality assurance
- e. Education
- f. Environmental research and research into animal health and welfare
- g. Day-to-day administration of Dairy InSight

4.4.5 Restrictions on purposes

Must not spend any levy money on commercial or trading activities.

4.4.6 Issues facing the industry

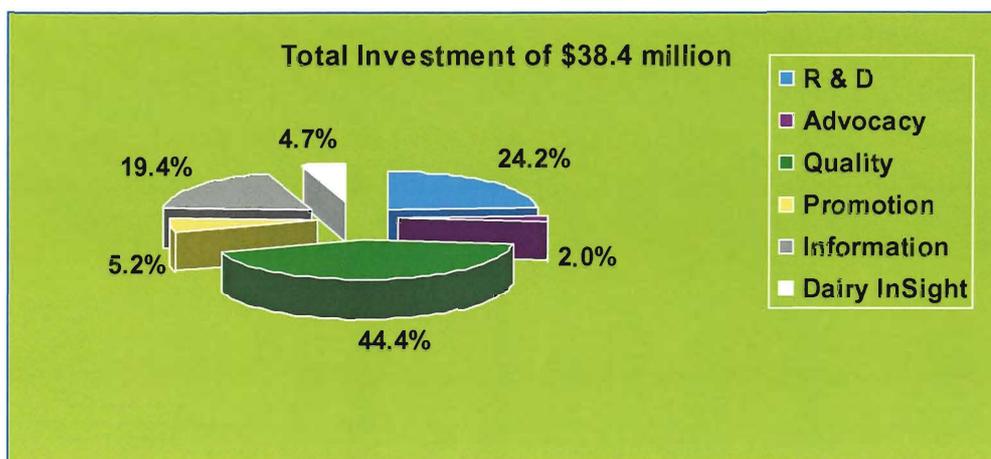
One of the key issues that are facing farmers at the moment is the image of the industry. Farmers are aware of the public image dairy farming has and they are keen to have their industry promoted. The image comes back to the perceptions the public has on dairy farming and the environmental, animal welfare and employment issues.

The Green House Gas issue is a major one as it will cost farmers potential more and more each year. These two issues and others may effect the ability farmers have to farm in the future. Because of the above issues regional councils and government are keen to restrict farming practices without having researched the impact or results of doing so.

Biosecurity controls to prevent exotic disease incursions and endemic animal diseases are major issues. For example the AHB Tb NPMS funding for indirect costs (vector control costs) has increased significantly and the industry sectors have spent the last 18 months coming to agreement on a funding basis that is fair and equitable. The final agreement reflects all the principles that were proposed as funding bases which ranged from an Export revenue basis at \$19million for the dairy industry to an Animal number basis at \$10million; the final agreement currently with the Minister of Agriculture for sign off was for an incremental increase as per the table:

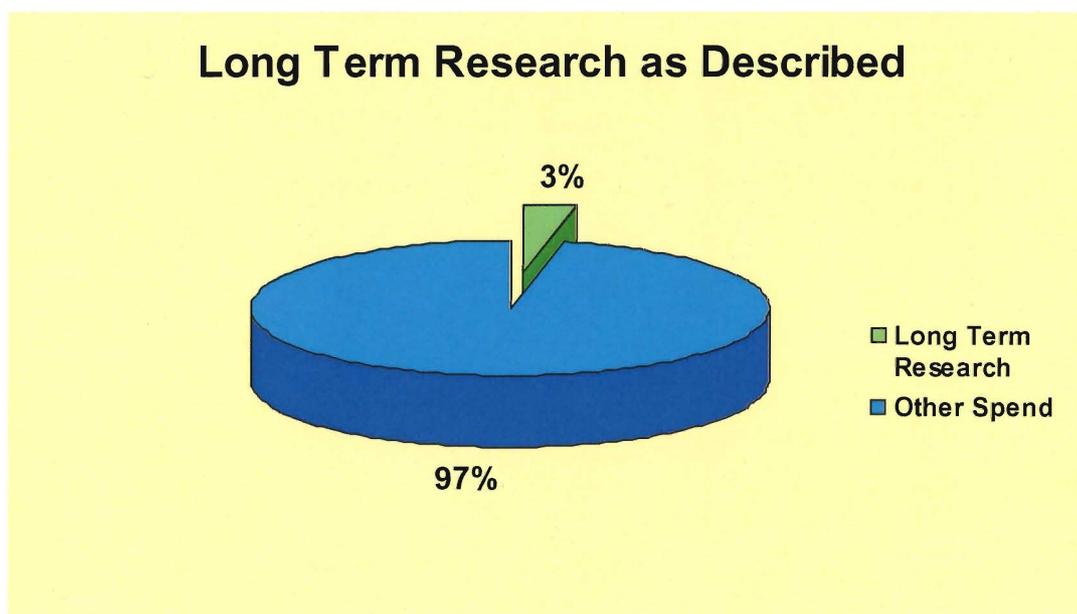
	2003-04	2004-05	2005-06	2006-07	2007-08
Dairy	12.5	14.0	15.6	15.6	15.6
Beef	11.6	10.2	8.8	8.8	8.8
Deer	1.5	1.4	1.2	1.2	1.2
TOTAL	25.6	25.6	25.6	25.6	25.6

4.4.7 Current levy spend



Source Dairy InSight

a. Production and evaluation research and extension	47.6%
b. Environmental and compliance issues	38.1%
c. Industry promotion and market access	4.7%
d. Long term research as described	3.3%
e. Education and scholarships	0.5 %
f. Administration	5.8 %



4.4.8 Other grower contributions to research

The only other research that is funded directly and only by dairy farmers is through the dairy companies product research. This is funded by the companies as part of their operational costs. Government funding from taxes in the form of FRST and Sustainable Farming Funds contributes to long term research.

The GHG levy being proposed would be another such levy if it is accepted.

4.4.9 Co-operative research

Yes we do fund activities across sectors. Two examples are the Green House Gas Consortium and the HR Human Capability Group. Both of these involve a number of Agriculture and Horticulture industries. It is considered good value for money when resources are pooled and a combined effort is made on an issue. TB and animal health funding is another example of this.

4.4.10 Changes in Government research funding since introduction CLA (1990)

As we have only just starting using the CLA as of June 2003 it is difficult to comment as to what changes have occurred in the last 13 years.

In general the government has asked that sector groups take more responsibility for their research needs. Sectors that are unwilling to do this generally find it difficult to attract government funding. The CLA is a clear indication to government that a sector is taking responsibility for the “industry good” type research. Over the last 10 years the government has significantly reduced its support of sector specific/industry good research and has shifted its focus to research that supports added value and niche products.

4.4.11 Industry investment in long term research

For this season 2003/04 funding season all investments are for a period of one year to allow evaluation and prioritising of these investments. Dairy InSight has inherited the industry-good activities that the Dairy Board has conducted in the past. After this season Dairy InSight will be in a position to fund for more than one year. Farmers are happy to invest in long term research provided they able to see and be update on the progress towards the end outcome. 24.2 % of Dairy InSight levy is invested directly into research and many of these projects have been conducted for a number of years (it depends on the definition of long term).

4.4.12 Commodity Levy Act restrictions

The CLA does not restrict in any way the ability for the dairy industry to carry out long term research. Farmers direct where the investment is spent, both directly through consultation and through the Board of directors. The CLA will let you invest in almost anything so long as it is what the farmers want their levy spent on.

Farmers have to support the renewal of levy order every five years so that this becomes a proviso in committing funding for longer periods. However this does not restrict the ability to fund long term research.

4.4.13 Conclusions

From the first of the former large producer board controlled industries to venture in to a Commodity Levy Order, Dairy InSight is charged with investing in to research what will be the largest amount of levy funds from any primary industry. From clearly highlighted issues facing the industry, the organisation has consciously targeted short

to medium term research to provide levy payers with results from this relatively new type of investment for them.

Long term research is being carried out through the individual dairy company structures, one of the few agricultural industries with this level of cohesion that allows this investment to be made. These structures have allowed the industry to progress to its current state in part due to this ability to retain shareholder (=farmer) funds and invest in long term research and development.

Dairy InSight believe the Commodity Levy Act 1990 provides no restriction to making investment in long term research, providing levy payers can be satisfied of sufficient return. Given the scale of the industry and further contributions made outside this levy order, the farmgate value of this levy should provide ample funds for the type of research undertaken.

Reference Irene Nolan, Rebecca Austin, Damian Diack – Dairy InSight (email comm., 3/9/2003)

4.5 Commodity Levies (Non-Proprietary and Uncertified Herbage Seeds) Order 2003

4.5.1 Organisation

Herbage Seed Growers' Subsection of Federated Farmers of New Zealand Incorporated

4.5.2 Commodities Levied

Certified basic or first generation seed of any of the AgResearch Limited non-proprietary cultivars Turoa, Pawera, Huia, Pitau, Tama, Moata, Manawa, Nui, and Ruanui. Also any uncertified ryegrass, red clover and white clover seed.

4.5.3 Maximum and Current Levy Rate (% farmgate value)

Multiple rates	maximum 5%	current	Nui & Huia	1.3%
			All other cultivars	1.5%

Source K Geddes FFNZ

4.5.4 Purposes for which levy money may be spent

- a. Maintenance of leviable seed
- b. Administrative costs associated with the maintenance of leviable seed

4.5.5 Restrictions on purposes

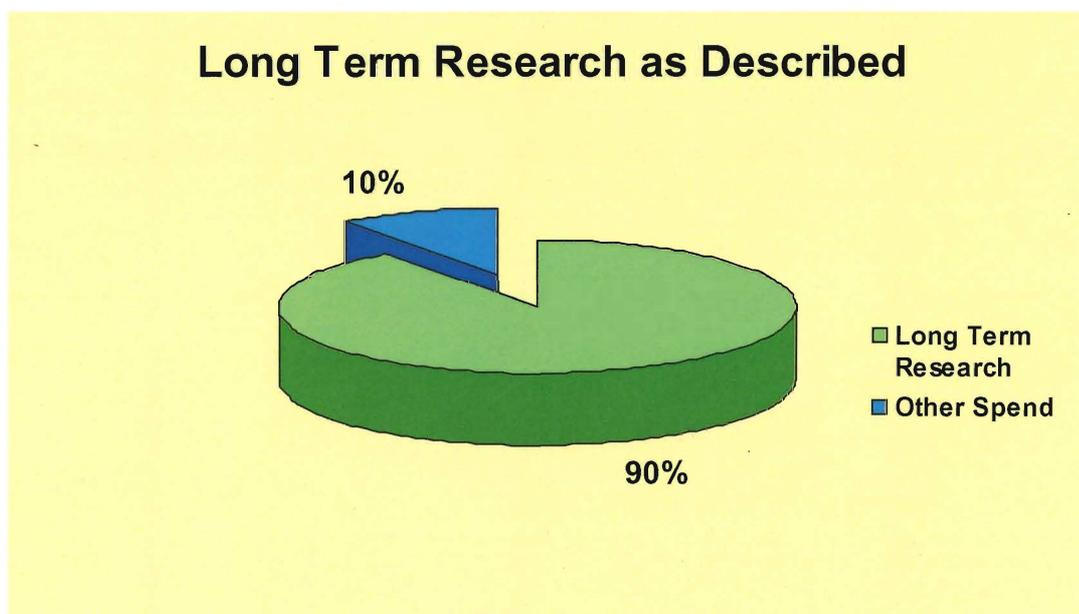
Must not spend any levy money on commercial or trading activities.

4.5.6 Issues facing the industry

Availability of seed cultivars to grow without the commercial ties inherent with Plant Variety Rights legislation. The non-proprietary cultivars provide the only opportunity for some growers to continue to grow forage seed but the basic seed source needs to be maintained through a reputable breeding organisation.

4.5.7 Current levy spend

- a. Production and evaluation research and extension
- b. Environmental and compliance issues
- c. Industry promotion and market access
- d. Long term research as described 90%
- e. Education and scholarships
- f. Administration 10%



4.5.8 Other grower contributions to research

Herbage seed growers make a contribution to shorter term research through the Arable crops levy order.

4.5.9 Co-operative research

Not appropriate to co-operate with this form of research other than share the burden with AgResearch Limited.

4.5.10 Changes in Government research funding since introduction CLA (1990)

This activity has always been funded by growers and the commercialism of the proprietary seed industry has prevented Government involvement.

4.5.11 Industry investment in long term research

Proprietary seed companies and AgResearch Limited make significant contributions to this type of research. A multiplicity of forage and amenity seed cultivars have been developed through breeding programmes within New Zealand and commercialised through the control of the Plant Variety Rights legislation.

4.5.12 Commodity Levy Act restrictions

The Act provides no restrictions for this investment on behalf of the non-proprietary and uncertified seed growers.

4.5.13 Conclusions

This levy order very specifically targets the issues faced by the levy payers. Due to the nature of the investment I believe this can be classed as long term research as I have described it. The fact that cultivars are being maintained for the long term future of the herbage seed growing industry emphasises this, but obviously this activity falls short of being a commercial or trading activity.

Reference K Geddes – Federated Farmers of NZ Inc (email comm., 26/8/2003)

4.6 Commodity Levies (Orchard Fruit) Order 2001

4.6.1 Organisation

New Zealand Fruitgrowers Federation

4.6.2 Commodities Levied

Apples, avacados, babacos, casanas, cherimoyas, citrus (grapefruit, lemons, limes, mandarins, oranges, tangelos), European pears, feijoas, guavas, kiwifruit, loquats, nashi asian pears, passionfruit, persimmons, quinces, sapotes, summerfruit, tamarillos

This does not include fruit that is graded out of a fresh export or fresh domestic line and sent for processing.

4.6.3 Maximum and Current Levy Rate (% farmgate value)

All above	0.10% maximum	0.07% current
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4.6.4 Purposes for which levy money may be spent

- a. research and development
- b. market development and promotion
- c. development of quality assurance programmes
- d. education and information
- e. representing views of growers
- f. day-to-day administration of NZ Fruitgrowers Federation

4.6.5 Restrictions on purposes

Must not spend levy money on commercial or trading activities

4.6.6 Issues facing the industry

Labour – skills and availability

Research direction

Compliance costs

Biosecurity

Market access – trade rules, anti terrorism rules, phyto sanitary barriers

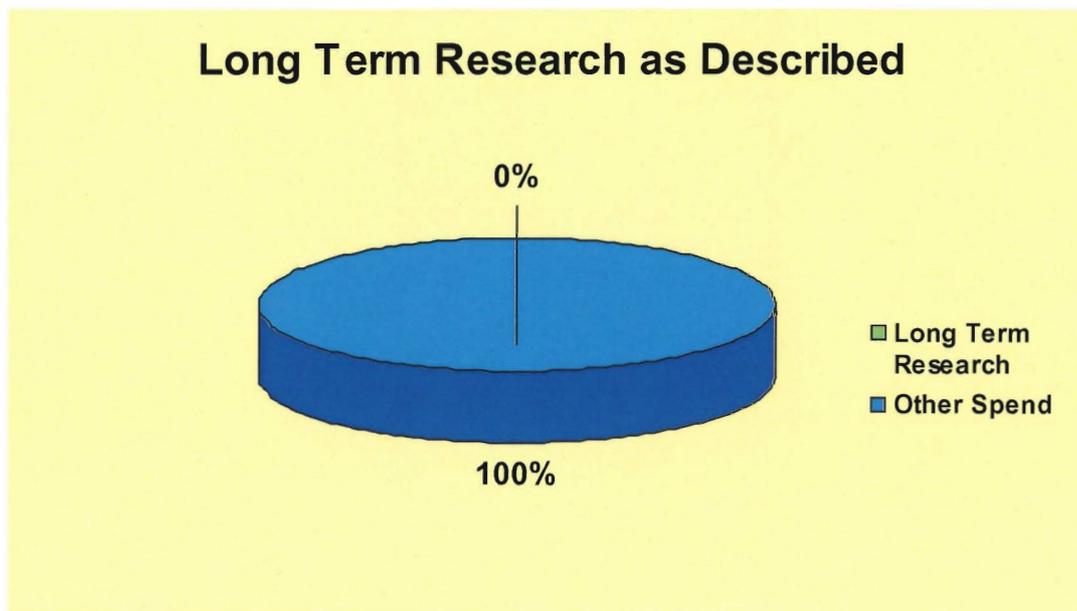
Quality assurance – multiple systems, specific customer requirements

Food safety – public perception vs reality

Resource management – water use, agrichemical use, noise

4.6.7 Current levy spend

a. Production and evaluation research and extension	
b. Environmental and compliance issues-lobbying	70%
c. Industry promotion and market access	
d. Long term research as described	
e. Education and scholarships	10%
f. Administration	20%



4.6.8 Other grower contributions to research

Most product sectors fund research through other levy orders.

Citrus growers have a voluntary levy.

Kiwifruit growers, through the statutory powers of Zespri, have a unique opportunity to fund longer term research, particularly market development and breeding.

4.6.9 Co-operative research

No co-operative research is carried out due to the generic nature of the NZ Fruitgrowers Federations expenditure.

4.6.10 Changes in Government research funding since introduction CLA (1990)

Less funds available for issues important to growers

4.6.11 Industry investment in long term research

See individual sector group orders

4.6.12 Commodity Levy Act restrictions

No restrictions for this type of levy spend

4.6.13 Conclusions

The New Zealand Fruitgrowers Federation is using this levy order to co-ordinate expenditure on generic industry issues and research is being implemented through the individual sector group levy orders, or other arrangements. This matches the industry concerns highlighted. No restrictions are observed for this type of levy spend. The low levy as a percentage of farmgate value reflects the generic nature of the activities and the fact that individual sectors are subject to other levies.

Reference Peter Silcock - NZ Fruitgrowers Federation (email comm., 11/8/2003)

4.7 Commodity Levies (Passionfruit) Order 2002

4.7.1 Organisation

New Zealand Passionfruit Growers Association Incorporated

4.7.2 Commodities Levied

Passionfruit

4.7.3 Maximum and Current Levy Rate (% farmgate value)

Single rate maximum 2% current 1.25%

Source K Sandom NZPGAI

4.7.4 Purposes for which levy money may be spent

- a. Product development and promotion
- b. Scientific research

- c. Pest and disease control
- d. Grower education
- e. Research into grower-related issues and quality management
- f. Communication between growers and industry-related bodies
- g. Day-to-day administration of NZPGA

4.7.5 Restrictions on purposes

Must not spend any levy money on commercial or trading activities.

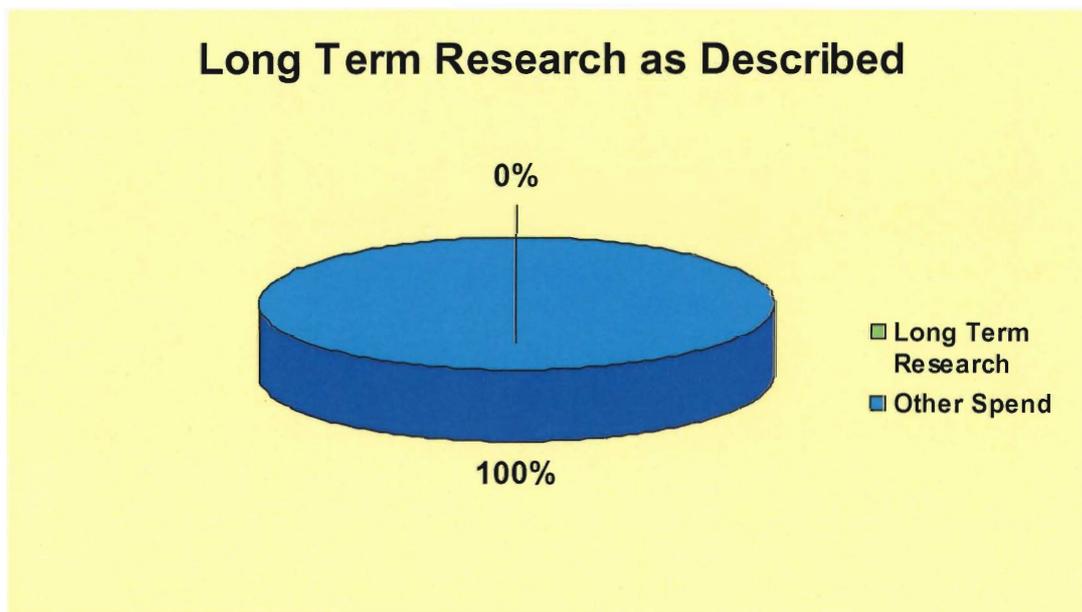
4.7.6 Issues facing the industry

We are very fragmented, each grower doing his own thing
 Biggest issues probably preventing fungi (brown spot etc), cleaning residual sprays from fruit, maintain control over quality, all export fruit to USA, unable to supply quantity required.

4.7.7 Current levy spend

- a. Production and evaluation research and extension
- b. Environmental and compliance issues
- c. Industry promotion and market access 70%
- d. Long term research as described
- e. Education and scholarships
- f. Administration 30%

NB: R&D covers environment and to an extent market access, as well as grower education



4.7.8 Other grower contributions to research

Not subject to any other levies. Any research is carried out privately and not necessarily advised to association.

4.7.9 Co-operative research

Do not undertake co-operative research at present. Possible in future with Tamarillos and Feijoas (we are all part of Exotic's group).
This would need to be initiated and organised by someone.

4.7.10 Changes in Government research funding since introduction CLA (1990)

None. Too small. Not aware of any funding or changes

4.7.11 Industry investment in long term research

None

4.7.12 Commodity Levy Act restrictions

Not restrictive as no organised research carried out.

4.7.13 Conclusions

The Commodity Levy (Passionfruit) Order 2002 draws funds from a relatively small industry.

The New Zealand Passionfruit Growers Association Incorporated uses these funds primarily for promotion and market access although there are areas that research funds could benefit.

The industry as a whole commits little to long term research, and this levy order has no scope to fund this type of research due to the small size of its levy payer base. The contribution as a percentage of farmgate value is high, reflecting the small industry base.

Reference K Sandom – NZ Passionfruit Growers Assn. (email comm., 18/8/2003)

4.8 Commodity Levies (Pipfruit) Order 2000

4.8.1 Organisation

Pipfruit Growers New Zealand Incorporated

4.8.2 Commodities Levied

Apples and Pears

4.8.3 Maximum and Current Levy Rate (% farmgate value)

Single rate 1.5c/kg maximum 1c/kg current (approx 1% farmgate value)
Source P Browne PGNZI

4.8.4 Purposes for which levy money may be spent

- a. Product research and development
- b. Production research and development
- c. Market research and development
- d. Education and training
- e. Provision and application of technology
- f. Promotion of pipfruit
- g. Quality assurance programmes
- h. Representing the views of growers
- i. Day-to-day administration of PGNZI

4.8.5 Restrictions on purposes

Must not spend levy money on commercial or trading activities

4.8.6 Issues facing the industry

New Market access
Development of existing market access protocols
Production and post-harvest innovation
Food safety assurance
Phyosanitary assurance

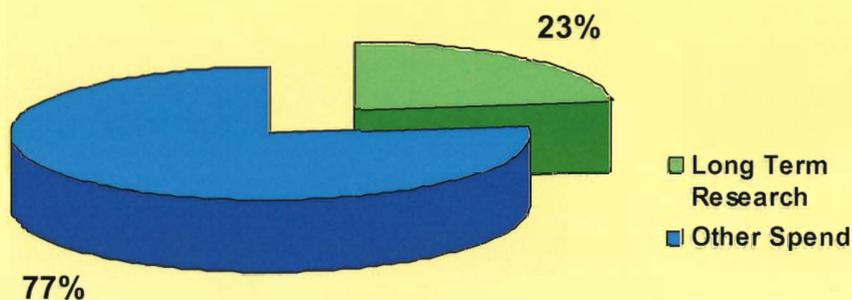
4.8.7 Current levy spend

a. Production and evaluation research and extension	42%
b. Environmental and compliance issues	7%
c. Industry promotion and market access	7%
d. Long term research as described	23%
e. Education and scholarships	1%
f. Administration	20%

Production and environmental issues are intertwined, and Market access is certainly not linked with promotion. Promotion is not of the industry as a whole but aimed at lifting overall consumption. Our overall expenditure budget breakdown (including capital investment) is made up as follows

Included in the capital is an investment through a JV for apple and pear breeding which represents 23% of our total expenditure and meets your definition of Long-Term Research.

Long Term Research as Described



4.8.8 Other grower contributions to research

Private investment in research is also undertaken

4.8.9 Co-operative research

Co-operative research is undertaken with other organisations

4.8.10 Changes in Government research funding since introduction CLA (1990)

No direct correlation observed

4.8.11 Industry investment in long term research

4.8.12 Commodity Levy Act restrictions

Not at this point but this has not yet been robustly tested. There are certainly issues which need to be considered in regard to the application of funds obtained for "industry good" when the commercialisation of IP has the potential to restrict use. In fact effective management of IP almost certainly will require some limitations of use.

4.8.13 Conclusions

The highlighted issues facing the pipfruit industry related to market access, innovation and assurance. These are being addressed by the levy spend although it would appear that production based research is receiving the majority of the investment. Pipfruit Growers New Zealand Incorporated have been making a significant investment in long term research as described, and have highlighted potential issues when research outcomes are commercialised. This would suggest that the issue of investing levy money in long term research while achieving a return for growers within the levy order period is not a major concern, at least up to this level of 23%.

However the concern over the lack of ability to commercialise intellectual property developed has yet to be tested.

At approximately 1% of farmgate value, this levy represents a significant investment for growers. This allows the industry to invest in a wide range of research activities including the long term research described.

Reference P Browne - Pipfruit Growers NZ Inc (email comm., 14/8/2003)

4.9 Commodity Levies (Summerfruit) Order 2002

4.9.1 Organisation

Summerfruit New Zealand Incorporated

4.9.2 Commodities Levied

- a. Apricots, nectarines, peaches, plums & hybrids
- b. Cherries & hybrids

4.9.3 Maximum and Current Levy Rate (% farmgate value)

Two rates relating to above commodities

- a. 1.75% maximum 1.5% current
- b. 1% maximum 0.75% current

4.9.4 Purposes for which levy money may be spent

- a. Research, including market research
- b. Product development
- c. Market development
- d. Protection or improvement of plant health
- e. Development and implementation of quality assurance programmes
- f. Education, information, or training
- g. Generic educational promotions
- h. Day-to-day administration of Summerfruit New Zealand

4.9.5 Restrictions on purposes

Must not spend levy money on commercial or trading activities

4.9.6 Issues facing the industry

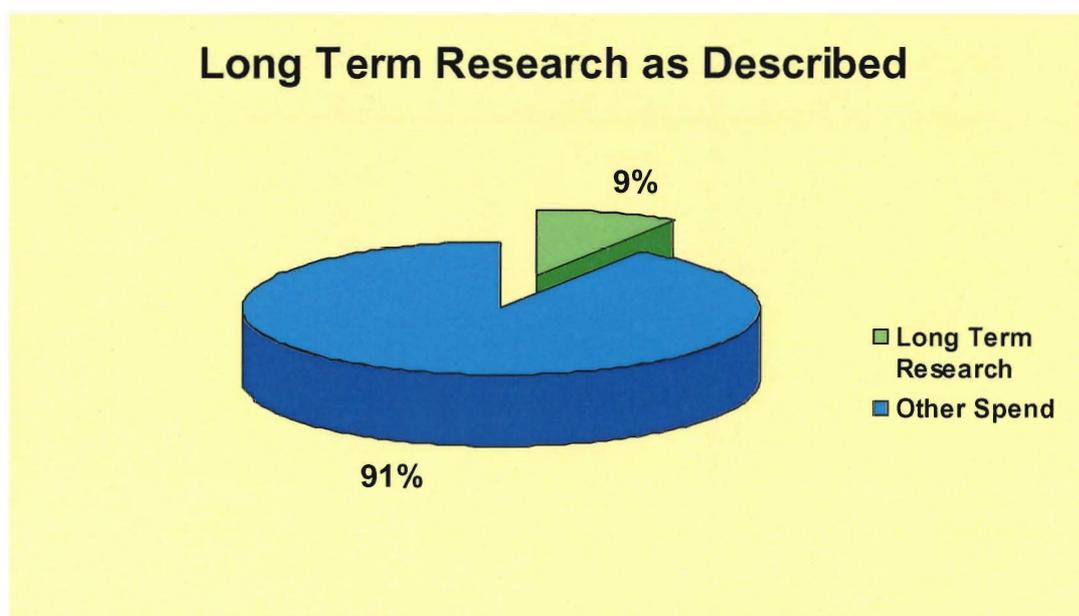
- a. Agrichemicals – their withdrawal, registration, replacement, increased sensitivity of MRL testing, and finding alternatives. This effects both our export and domestic markets
- b. Biosecurity – the risk of an incursion of several pests/viruses are of major concern

- c. Compliance issues and the increasing difficulties meeting the demands of our markets for food safety, best practise etc.
- d. Expansion of Chile as a competitor in our market window.
- e. Brown rot control – resolving this issue

4.9.7 Current levy spend

a. Production and evaluation research and extension	41%
b. Environmental and compliance issues	6%
c. Industry promotion and market access	12%
d. Long term research as described	9%
e. Education and scholarships	1%
f. Administration	31%

Source SNZ 2003 Budget



4.9.8 Other grower contributions to research

No other funding is collected from growers for any research. Very limited private research is conducted by the industry outside that funded by the levy.

4.9.9 Co-operative research

Yes wherever possible. Many summerfruit growers also have pipfruit and we see little value in growers having to manage different systems on their properties for the two crops. Therefore we regularly consult with Pipfruit NZ to see where we can work together on research projects that crosses both crops. We have also conducted joint research with one or two other industries. This tends to be generic research such as understorey management or waste reduction programme.

4.9.10 Changes in Government research funding since introduction CLA (1990)

The arrival of the Commodity Levy Act coincided with the restructuring of the Fruitgrowers Federation. At that time all the product groups were set up as stand alone entities which managed their own affairs. Summerfruit research up until that time was managed via the Federation. These developments also took place alongside the arrival of “user pays”. Therefore it’s hard to equate the changes in govt funding with the arrival of the CLA.

Government funding of research has definitely changed in recent years however I’m not sure that this is specifically linked to the levy. FoRST now expect co-funding by industries and this would be virtually impossible without the levy. And yes FoRST are very aware of the fact that most of the major industries hold a levy therefore they don’t accept the argument that industries can’t afford to contribute to research funding. However they do seem to over estimate just how much levy is collected and what percentage of that is available for research.

It is worth noting the type of research that is carried out by those industries that do not have levies. These industries usually struggle to fund key projects and often have a very piecemeal approach to research. Whereas for SNZ the levy enables us to fund a research programme on a continuing basis. For instance most pieces of research in the SummerGreen programme are for 2-3 years, however we have an ongoing commitment to SummerGreen which may run on for a further 10 years. We could not have set up SummerGreen without the assurance of that continuing income.

By the way, government passing costs onto industry is not solely limited to research. Industries now routinely fund a whole range of activities (e.g. market access negotiations) that were once funded by government. Again this would be impossible without the levy. The levy enables an industry to manage a complete package of services for members.

4.9.11 Industry investment in long term research

SNZ does not currently invest in any joint ventures. We do however have a three year breeding contract (apricots, peaches and nectarines) with HortResearch. This is currently \$75,000 per annum. The contract was recently rolled over for another three years and is likely to continue to be renewed.

4.9.12 Commodity Levy Act restrictions

Yes it does limit the ability to conduct research for a period longer than six years. However at this stage we are not working beyond 2-3 years for most projects. We are currently in the process of a 10 year strategic planning exercise for R&D so this may change. SNZ is definitely looking at investigating projects that may produce economic returns rather than investing totally into solutions to today’s problems. These type of projects are likely to require long term funding.

4.9.13 Conclusions

Summerfruit New Zealand Incorporated primarily fund production research and market access development. Although a short term contribution is being made to a breeding programme from the levy funds, SNZ see other sources of funds being required to expand this investment. This is likely to be an issue in the future. A large number of the issues facing the industry are generic compliance issues, although funding allocation to this area is relatively low.

The relatively high levy as a percentage of farmgate value, particularly on the Apricots, Nectarines, Peaches and Plums, reflects the varied nature of the research investment including a contribution to breeding.

Reference Marie Dawkins - Summerfruit NZ Inc (email comm., 14/8/2003)

4.10 Commodity Levies (Tamarillos) Order 1997

4.10.1 Organisation

New Zealand Tamarillo Growers Association Incorporated

4.10.2 Commodities Levied

Tamarillos

4.10.3 Maximum and Current Levy Rate (% farmgate value)

Single rate maximum 4% current 3%

Source Ian Newton NZTGAI

4.10.4 Purposes for which levy money may be spent

- a. Market development and promotion
- b. Scientific research
- c. Pest and disease control
- d. Research into grower-related issues
- e. Quality management
- f. Grower education
- g. Day-to-day administration of NZTGA

4.10.5 Restrictions on purposes

Must not spend any levy money on commercial or trading activities, or their administration.

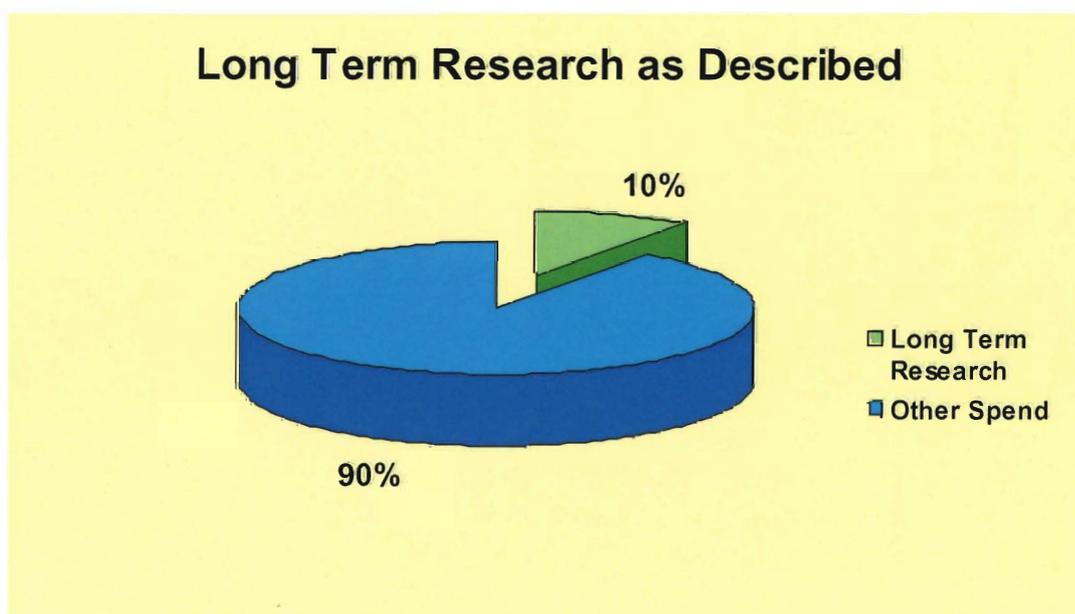
4.10.6 Issues facing the industry

Tamarillo production is quite low at 10 tonne per hectare. Current research is evaluating new, more productive varieties and examining issues such as fungal infections of flowers and fruit leading to fruit drop and scarring. Environmental limitations are part of the territory for frost sensitive crops such as tams. Encroaching lifestylers in the BoP and greater Auckland are posing a threat to growers in these established growing areas.

The export markets are cyclical as in any other agricultural product. The exchange rate and freight costs combined with lacklustre demand due to the slow economy in the USA ,our main market has effected returns in the past two seasons after several years of good returns. Funding the introduction of new generation pesticides for a crop that uses only small quantities nationally is a challenge. There are significant pest pressures which take very careful management. That is likely to create environmental issues in the future.

4.10.7 Current levy spend

a. Production and evaluation research and extension	20%
b. Environmental and compliance issues	
c. Industry promotion and market access	30%
d. Long term research as described	10%
e. Education and scholarships	5%
f. Administration	20%



4.10.8 Other grower contributions to research

None

4.10.9 Co-operative research

Do engage in co-operative research with other sectors.

4.10.10 Changes in Government research funding since introduction CLA (1990)

Very difficult to source any government research funding especially long term.

4.10.11 Industry investment in long term research

Very little

4.10.12 Commodity Levy Act restrictions

It really gives us a more secure income stream as it is for six years where as before we were facing reducing levy take under a voluntary system.

4.10.13 Conclusions

The Commodity Levy (Tamarillos) Order 1997 levies growers at a high level for production research and market access issues. A significant contribution is also made to long term research.

The New Zealand Tamarillo Growers Association Incorporated is the only significant contributor to research in the industry.

Reference – Ian Newton NZ Tamarillo Growers Assn. Inc (email comm., 21/8/2003)

4.11 Commodity Levies (Vegetables) Order 2001

4.11.1 Organisation

New Zealand Vegetable and Potato Growers Federation Incorporated (VegFed)

4.11.2 Commodities Levied

Asparagus, export squash, fresh tomatoes, process tomatoes, potatoes, fresh vegetables, process vegetables

4.11.3 Maximum and Current Levy Rates (% farmgate value)

Asparagus	0.15% maximum	0.15% current
Export Squash	0.15% maximum	0.15% current
Fresh Tomatoes	1.0% maximum	0.675% current
Process Tomatoes	0.15% maximum	0.15% current
Potatoes	0.75% maximum	0.75% current
Fresh Vegetables – domestic	0.45% maximum	0.45% current

	- export	0.45% maximum	0.325% current
Process Vegetables		0.5625% maximum	0.5625% current

4.11.4 Purposes for which levy money may be spent

- research and development
- development of quality assurance
- market development and promotion – except process vegetables
- education and information
- grower representation
- day-to-day administration of Vegfed

4.11.5 Restrictions on purposes

Must not spend levy money on commercial or trading activities

4.11.6 Issues facing the industry

Labour – skills and availability

Research direction

Compliance costs

Biosecurity

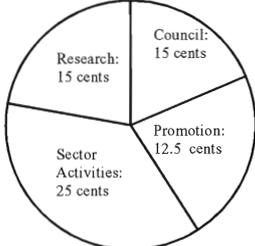
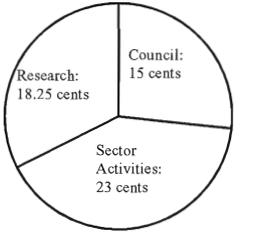
Market access – trade rules, anti terrorism rules, phyto sanitary barriers

Quality assurance – multiple systems, specific customer requirements

Food safety – public perception vs reality

Resource management – water use, agrichemical use, noise

4.11.7 Current levy spend

<i>Potato Sector</i>	<i>Fresh Tomato Sector</i>	<i>Fresh Vegetable Sector</i>	<i>Process Sector</i>
			
Total: 75 cents	Total: 67.5 cents	Total: 45 cents	Total: 56.25 cents

Source VegFed

Potato Sector

- | | |
|---|-----|
| a. Production and evaluation research and extension | 27% |
| b. Environmental and compliance issues | 19% |
| c. Industry promotion and market access | 27% |
| d. Long term research as described | |
| e. Education and scholarships | |
| f. Administration | 27% |

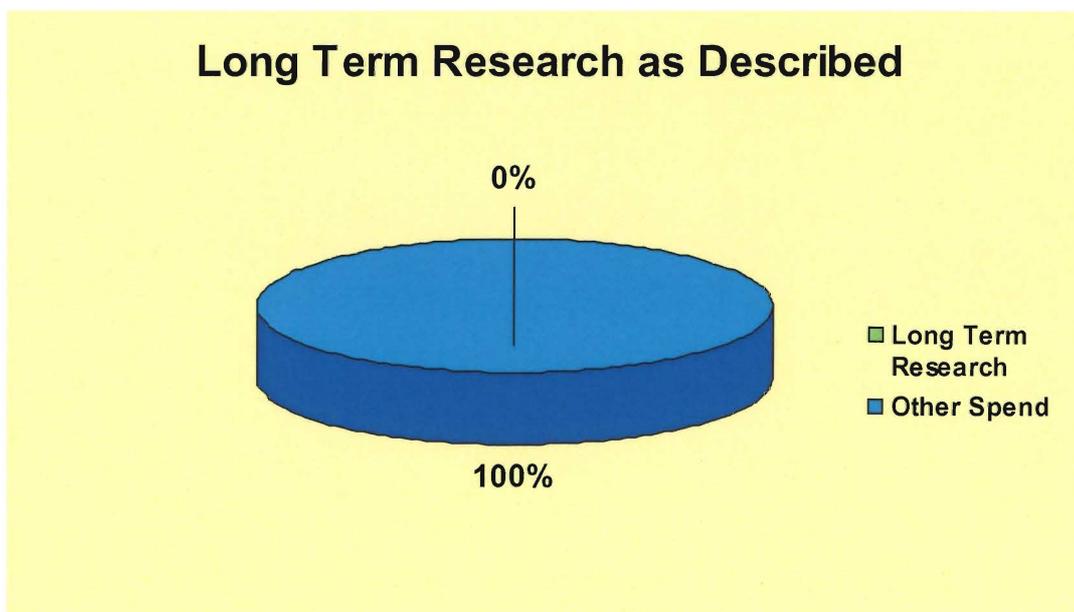
Individual sectors are categorised following.

Fresh tomato sector	
a. Production and evaluation research and extension	15%
b. Environmental and compliance issues	15%
c. Industry promotion and market access	45%
d. Long term research as described	
e. Education and scholarships	
f. Administration	25%

Fresh Vegetable Sector	
a. Production and evaluation research and extension	17%
b. Environmental and compliance issues	33%
c. Industry promotion and market access	28%
d. Long term research as described	
e. Education and scholarships	
f. Administration	22%
(no promotion from export crops)	

Process Sector	
a. Production and evaluation research and extension	32%
b. Environmental and compliance issues	27%
c. Industry promotion and market access	
d. Long term research as described	
e. Education and scholarships	
f. Administration	41%

Asparagus, Export Squash and Process Tomatoes	
a. Production and evaluation research and extension	
b. Environmental and compliance issues	100%
c. Industry promotion and market access	
d. Long term research as described	
e. Education and scholarships	
f. Administration	



4.11.8 Other grower contributions to research

Squash growers contribute to the Horticultural Export Authority for export promotion.
Onion growers pay extra voluntary levy of 50c/tonne to Onion Exporters Council .
Asparagus growers subject to Commodity Levy Asparagus Order
Some growers contribute privately.

4.11.9 Co-operative research

Vegfed carries out research in conjunction with other organisations such as
Foundation for Arable Research and Australian Vegetable Growers

4.11.10 Changes in Government research funding since introduction CLA (1990)

Less funds available for issues important to growers

4.11.11 Industry investment in long term research

VegFed research is a combination of medium and long term

4.11.12 Commodity Levy Act restrictions

None

4.11.13 Conclusions

Vegfed is undertaking a wide range of activities from this relatively complicated levy order. Primary investment is in generic compliance and lobbying issues, which seems to meet the industry concerns highlighted. Production research is managed through autonomous sector groups. Some sector groups carry out domestic promotion. All sectors except onion rely on varietal technology from overseas reducing the need for this form of long term research and it would appear that other forms of long term research are carried out in the private sector. Therefore the commodity levy order offers no restrictions on the federations activities. The nature of these activities also matches the relatively low levy as a percentage of farmgate value for most sub groups of this levy order.

Reference Peter Silcock Vegfed (email comm., 11/8/2003)

4.12 Commodity Levies (Wheat Grain) Order 2003

4.12.1 Organisation

United Wheatgrowers (NZ) Ltd

4.12.2 Commodities Levied

All wheat grain grown in New Zealand for sale or processing.

4.12.3 Maximum and Current Levy Rate (% farmgate value)

Single rate	maximum \$3.50/tonne	current \$2.95/tonne (approx 1.05% farmgate value) Source J Wright UWG
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4.12.4 Purposes for which levy money may be spent

- a. Purchase of disaster relief insurance for growers that has attributes of flat rate cover, no excess, and no minimum loss.
- b. Administration costs of that insurance.

4.12.5 Restrictions on purposes

No restrictions highlighted. The Commodity Levies Amendment 1995 provides a specific exemption for United Wheatgrowers (NZ) Ltd to spend levy monies on this apparent commercial activity, subject to the usual support criteria.

4.12.6 Issues facing the industry

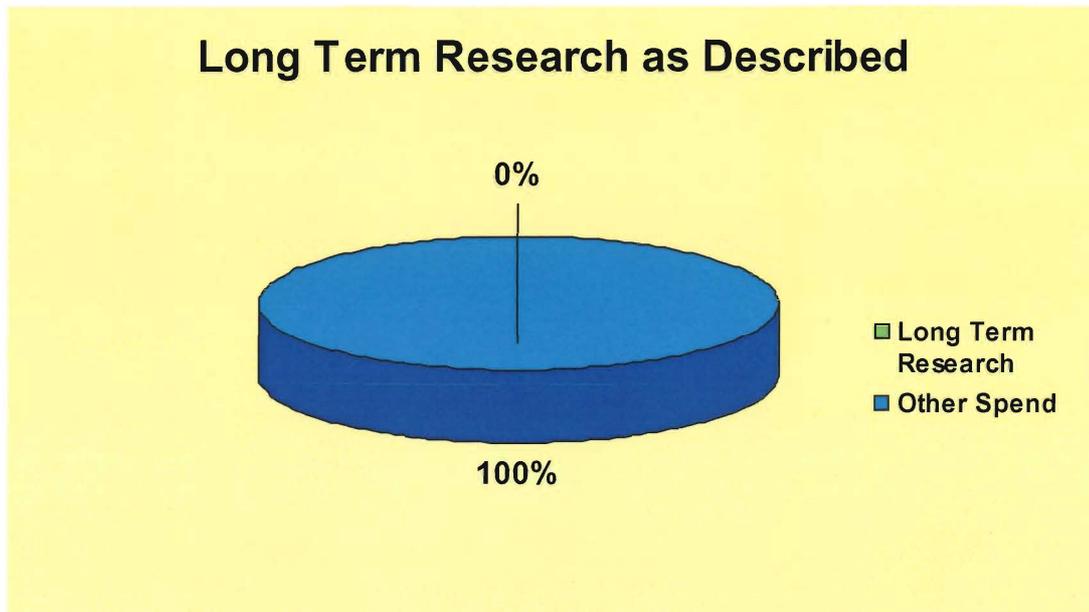
Under the statutory control of the Wheat Board an insurance scheme was provided for the wheat growers of New Zealand. Following deregulation in 1987 United Wheatgrowers (NZ) Ltd assumed this role with a specific Act of Parliament, eventually coming under the umbrella of the Commodity Levies Act. Without the ability to obtain premiums from all wheat growers in New Zealand a commercially viable insurance scheme may not be available.

4.12.7 Current levy spend

- a. Production and evaluation research and extension
- b. Environmental and compliance issues
- c. Industry promotion and market access
- d. Long term research as described
- e. Education and scholarships
- f. Administration 3%

Activities do not fall within above categories.

Long Term Research as Described



4.12.8 Other grower contributions to research

Wheat growers contribute to shorter term research through the Arable Crops Order and United Wheatgrowers (NZ) Ltd make contributions on behalf of the industry into longer term research such as breeding programmes and development of Quality Assurance Programmes.

United Wheatgrowers (NZ) Ltd also has the ability to levy growers through the Wheat Industry Research Levy Act for research, an act which the Flour Milling and Baking industries use to levy and invest significant funds. This levy has not been drawn from wheat growers since the establishment of the Foundation for Arable Research.

4.12.9 Co-operative research

For the purposes of this levy order it is not appropriate to co-operatively invest.

4.12.10 Changes in Government research funding since introduction CLA (1990)

The nature of this investment has prevented any Government contribution.

4.12.11 Industry investment in long term research

For insurance of wheat crops, commercial insurance companies do provide 'top-up' cover. Indications are that without this scheme, the cost of insurance to the growers who wish to retain insurance would be at least twice the current levied premium.

4.12.12 Commodity Levy Act restrictions

The Commodity Levies Amendment 1995 has provided that there are no restrictions to this activity.

4.12.13 Conclusions

This levy order is unique and very specifically targets the issues faced by the levy payers. What is quite clearly a commercial activity has been allowed through the amendment of the overriding act in 1995. As highlighted by Greer, Manhire and Zwart (1999, p.9) “the legislation does provide the opportunity for industry organisations to use levy funds for purposes precluded by the Act with the written approval of the Minister.”

Dan Bolger, MAF Policy (personal conversation, 3/10/2003) suggested this provision would allow commercial activities providing they were not used to subsidise businesses competing with other businesses. He stated this Order has gone further than that by the inclusion in the Commodity Levies 1995 amendment, which is likely due to the inability for this activity to meet all the requirements of this Ministerial approval. Namely section 10 (4) (b), “if some members of the industry spend money for the purpose, other members who have not done so will derive unearned benefits from the expenditure”. In this case growers who choose not to pay premiums are unlikely to gain insurance cover.

Reference John Wright, United Wheatgrowers (NZ) Ltd (Author)

4.13 Other Levy Orders

As mentioned, the above questions were asked of all current levy holders, not all responding.

A response was gained from MJ Loza, CEO, Deer Industry NZ, (email 7/8/2003). The Farmed Deer Order 2001 is currently zero rated. This was due to recent restructuring within the industry which allowed activities to be funded through Game Industry Board legislation levies. Deer Industry NZ share administration with the Deer Farmers Association which holds the Commodity Levy Order. I thought it significant that this combined organisation chose to use this legislation rather than the Commodity Levy order to collect producer levies while their restructuring process develops.

Recent referenda in the wool and meat industries seems likely to see these industries have Levy Orders approved by the Minister later this year, according to results of the referenda published in an article in Straight Furrow (Greg Sweetnam, 10/9/2003). As these Levy Orders are not yet approved I did not see it as appropriate that these organisations were approached.

Referenda voting information (Meat/Wool Farmers Choice 2003 voting information packs, July 2003) outlined anticipated uses of the proposed levies and also the proposed use of capital reserves that Meat New Zealand holds. I see this as significant to this evaluation, in that some of the suggested uses of reserves are for long term research, particularly biotechnology. No use of Levy Order funds is proposed for this area of research.

5. Conclusions

As stated in the introduction, the objectives of this report were to evaluate how current levy orders are being used in relation to the issues the industry concerned is facing, whether the highlighted perceived restrictions of the Act are of major concern, and what other mechanisms are being utilised to invest in long term research as I describe it.

This should allow some conclusions to be made as to the effectiveness of the Commodity Levy Act 1990 for long term research.

Recall that I describe long term research as breeding, market development, processing and value adding research activities showing a five to fifteen year return period with potential commercial and intellectual property outcomes.

5.1 Current Levy Spend

The introduction noted the scope of the evaluation, all current levy orders being researched and a series of questions asked of the representative body of the industry concerned.

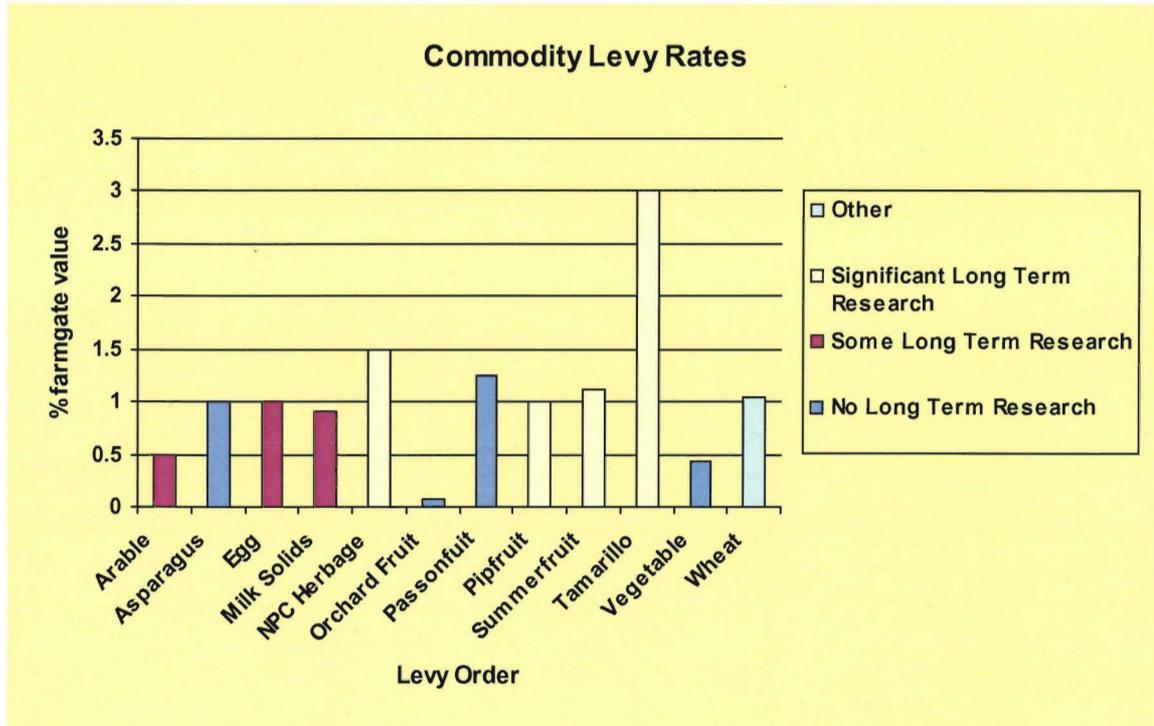
The first questions related to the issues currently facing the industry and the proportion of income spent on various issues. The purpose of these questions was to establish what current levy order holders were spending levies on in relation to the issues their industry might be facing, and to try and standardise the levy spend for comparison.

In general, all industries were matching levy spend to the issues facing the industry quite well. This would be expected given that the organisations administering the levies were asked the questions relating to the issues facing the industry. It would be interesting to ask a cross section of producers within each industry what their perception of the major issues facing their industry was, and see if this differed from that of the issues presented in this evaluation. In theory at least, consultation with the industry should highlight the important issues.

Probably the only issues not highlighted would be those perceived to be outside the scope of the given organisation. For example, my personal belief that the Arable industry needs to invest in long term value adding research would not be conveyed by the Foundation for Arable Research because it would be perceived to be well outside its current scope.

Industries that contribute to more than one levy allowed the sector grouping to concentrate on specific needs while generic activities could be undertaken by the umbrella organisation. This appeared to work well, although smaller industry sectors would need to be careful that the administration component of the levy order existence did not over burden levy payers.

In an attempt to standardise the levy spend for comparison the following chart has been developed. The bars for the individual levy orders have been coloured to categorise the levy spend allowing comparison of significance of contribution to long term research and levy as a percentage of farmgate value. Where multiple levy rates apply, a non-weighted average has been taken.



In general, the organisations making the most significant contribution to long term research are in the higher range of levy as a percentage of farmgate value. However with the varied nature of all the levy orders, and the effect of averaging multiple rates without information relating to total volumes of levies, it is difficult to make a real comparison between them.

5.2 Perceived Restrictions of the Commodity Levies Act 1990

The introduction highlighted that concern has been expressed within primary industries that the Commodity Levies Act 1990 does not cater for long term research due to the restrictions on 'commercial activities' in particular, and the six year term of the levy orders. The introduction also noted the scope of the evaluation, Levy holders being asked directly their perception of any restrictions the Commodity Levies Act may pose.

Most industries evaluated saw no restrictions in the Commodity Levies Act 1990, and felt that it satisfied the needs of their industry well. These industries were not investing a significant proportion of their levy funds in long term research as I have described it, and therefore provide only an outside view of the potential issues. The Dairy industry was adamant that provided farmers supported the research activities, they could spend levy funds on "almost anything".

The Pipfruit industry, who are making a significant contribution to long term research, felt that commercialising potential intellectual property (IP) could be difficult when management of that IP would require limitations of its use. Although they have not reached that stage yet, they felt the legislation may provide some restrictions. In my opinion, a carefully targeted royalty on those participating in the commercialisation of potential IP would satisfy this industry by returning an income stream to the whole industry. Without the levy funded long term research the industry is unlikely to progress in this direction and this should satisfy any concerns within the legislation.

The Summerfruit industry signalled that other sources of funds would be required to invest in long term research, specifically because of the six year Levy Order term. The Asparagus and Arable industries also saw this as a restriction. The need to convince levy payers of the value of long term research through the referendum process is probably seen as too difficult given the difficulties faced by most industries in gaining a positive turnout and result without this complication.

Interestingly, most industries carrying out promotional and market development & access activities did not see these activities as long term research as I described it to them. In my opinion, these activities provide a long period of return and certainly have the intention of providing commercial gain, therefore falling well within the long term research description. The fact that this was the case probably reinforces that these Levy Order holders saw no constraints in the legislation from either the six year term or the “commercial activity” restriction.

I would have to conclude that the Commodity Levies Act 1990 probably does not provide the perceived restriction on long term research activities as I described in the introduction.

Industries are probably already undertaking activities that will benefit levy payers well outside the six year term of the Levy Order they hold.

The legislation appears to provide for the commercialisation of long term research through the Ministerial approval process although this has not been tested.

The current interpretation of “commercial or trading activity” seems to only restrict organisations from using the levy paying base to subsidise a business allowing it to compete unfairly with other private businesses. In my opinion, this is a very sensible interpretation of the legislation and would provide that organisations could enter commercial activities that only the levy funded system could provide, thus overcoming any issues of “market failure” preventing valuable industry development or value adding processes.

The biggest issue that industries may have is in the ability to convince levy payers that there is benefit in long term research. The very nature of this research as I have described it prevents the ability to budget on a definite return on the investment. For this reason levy payers would need to support that the outcomes desired would be of real benefit to the industry, and that there is a reasonable chance of those outcomes being achieved.

If levy payers can be convinced of this, the six year term of the levy order should provide no restriction on investment in long term research.

5.3 Other Mechanisms of Funding Long Term Research

The introduction also noted in the scope of the evaluation that questions were also asked of other contributions levy payers may make to research, co-operative research that may take place, wider industry investment in research, and changes in Government investment in research. The purpose of these questions was to establish whether other mechanisms were more effectively providing for investment in long term research.

In most industries the levy contribution was the only contribution that producers made to research in general. As mentioned, some industries contributed to more than one levy covering generic issues and more specifically targeted research but not necessarily long term research. These producers needed to rely either on the research carried out using the Levy Order to make any contribution to long term research or some other privately funded industry investment.

The most significant other producer contributions were being made less transparently, mostly through industry structures that have, or have developed from, some statutory co-operation.

The Dairy industry is the classic example where significant dairy company contributions are being made to long term research as I describe it on behalf of producer shareholders (Product/Brand development etc).

Another example would be the industries contributing to the Horticultural Export Authority.

Significantly, other industries retaining statutory powers have not needed to enter the Commodity Levies pathway due to this fact. The Kiwifruit industry is probably the best example, showing a real commitment to long term research and successfully meeting the needs of its producers.

Obviously new industries can not seek statutory control in today's political climate, but I believe the continued coordinated approach that deregulated industries are taking will be positive for investment in long term research.

Co-operative research is being undertaken by a significant proportion of the industries responding to the questions. Generally more generic issues are being tackled by this cooperation which is logical. For those industries not cooperatively investing in research there may be an opportunity to consider this to get better value from levy payer funds.

Industry investment in long term research from the private sector varied greatly among the respondents. Larger industries saw contributions where there was enough critical mass for private investors to gain a return on their investment. The arable

industry is a good example of this, where private Plant Breeding organisations are producing varietal technology for the industry. This removes any need for producers to be significantly contributing to this activity, but also builds reliance on these private companies for the future of the industry and gives those companies a lot of control. This may tend to distance producers from contributing to long term research of any form, which may not be positive.

Other industries needed to rely on their own contribution or material imported from overseas.

Changes in Government investment in research did not appear to be related to the inception of the Commodity Levies Act 1990. Most industries highlighted issues relating to Government investment in research but few saw any correlation.

The issues highlighted mostly referred to Government's investment moving further from the 'farm gate' as an indication that this type of research should be carried out by industry.

In my opinion this situation is palatable providing Government is prepared to increasingly contribute to long term research areas that are more difficult to gain industry investment support.

5.4 Effectiveness of the Commodity Levies Act 1990 for Long Term Research

The overriding objective of this evaluation was to use the above conclusions to make some statement as to the effectiveness of the Commodity Levy Act 1990 for long term research.

Where an industry had no other clear mechanism of making contributions to long term research a Commodity Levy Order could provide an effective tool.

The legislation's restriction on "any commercial or trading activity" appears to be a mechanism of preventing private business being disadvantaged by an organisation being subsidised by a statutory levy. Although this has not been officially tested by any holder of a Levy Order, many organisations are making contributions to research with potential commercial outcomes particularly in promotion and market access & development areas.

The six year term of Levy Orders may reduce the effectiveness of the Commodity Levies Act 1990 for long term research. This however should not be seen as a fault of the legislation, but of the industry concerned in not convincing levy payers of the benefits of longer term research.

6. Recommendations

- a. Increased Government contribution to long term research should be encouraged given difficulty gaining producer investment support.**
- b. Primary industries holding statutory rights may be better provided for in regard to long term research under these arrangements.**
- c. Levy Order holders wishing to expand investment into activities with potential commercial outcomes should test the Ministerial approval process and should be met with support from the Minister providing those activities have no potential to unduly compete with private organisations.**
- d. Levy Order holders considering investment in long term research should commit considerable resources to proving the value of that research to levy payers.**
- e. Where long term research contribution is being satisfied by the private sector there is unlikely to be a need for levy funded contribution.**
- f. Primary industries should frequently consult outside their perceived scope to establish if the long term needs of their industry are being met.**
- g. Research undertaken co-operatively with other Levy Order holding organisations will give real value to levy payers, particularly in short term research.**
- h. Small levy order holders should consider any options of renewing their Levy Orders in co-operation with other similar structures.**

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