

# How do growers want to fund future biosecurity activities?



Biosecurity is our industry's number one risk. KVH was initially established to lead the response to Psa, but it has now become the industry's biosecurity agency and Psa is only a part of its activities. The role of the organisation now, and into the future, is to do everything possible to stop another Psa-type event occurring.

Biosecurity activities have significantly increased as we have better understood what potential risks the industry faces – such as Brown Marmorated Stink Bug (BMSB) and fruit flies - and as we undertake increasing efforts to mitigate these risks.

This paper provides background for growers, so they can provide important feedback as to what approach KVH should take to fund its biosecurity activities, especially in the event of a major response where under GIA (the biosecurity partnership with government) KVH shares not only decision-making around what needs to happen to protect the industry, but also shares a proportion of the costs.

Funding mechanisms for KVH were originally established on the basis of it being a Psa organisation, not a biosecurity organisation. There was initially joint funding from industry and government to immediately respond to Psa (which has all been utilised) and a Psa Plan levy was then introduced in 2013. When KVH entered the GIA partnership a year later, a separate biosecurity levy was enacted to fund GIA commitments.

KVH is required to have a Psa levy in place for the Minister for Biosecurity to be confident that we can fund the costs associated with the Psa National Pest Management Plan (NPMP). KVH must also have a separate biosecurity levy in place to fund wider biosecurity obligations under GIA (non-Psa related).

It is important to be very clear that the two levies are completely separate of each other and are used for different purposes. KVH cannot use levy funds from one levy order (e.g. biosecurity), and apply them to activities related to the other levy order (e.g. Psa).

The Psa Plan levy was initially 2 cents per tray for gold, and 1 cent for green, but decreased to 1 cent per tray for both gold and green in 2016, and will decrease further to 6/10ths of a cent per tray in 2018. This decrease is related to KVH doing less Psa operational work now than was initially required by growers, and in addition Zespri are now funding the full costs associated with Psa research.

Since 2014 the biosecurity levy for GIA readiness and response has been set at 6/10ths of a cent per tray, but at this year's AGM our members agreed to it being increased in 2018 to its maximum possible rate of 1 cent per tray. If a major incursion occurs and the industry - in partnership with government - funds eradication efforts, there is currently no ability to increase the biosecurity levy to pay our share of the associated GIA costs. This is an unacceptable position to be in as we are legally obliged to pay these costs, and this paper is about establishing a mechanism to do so.

KVH also needs to develop a prudent level of biosecurity incursion response reserves (the Board agrees this should be 50% of KVH liability) in order to immediately fund response costs of an incursion. As the biosecurity levy from 2018 is already set at the maximum level possible to fund the necessary operational activities, KVH is not able to generate any reserves or pay eradication costs.

The KVH Board has been reviewing the situation and after considering alternative options -including insurance, using the pools, or a loan from the Ministry for Primary Industries (MPI) - proposes that the levy ceiling be increased to a maximum of 5 cents per tray, from its current maximum ceiling of 1 cent.

As we currently have in place with the existing levy, there would still be the two types of levy activation.

**Firstly, only growers can proactively set the KVH annual budget and levy rate for operational activities and obligations under GIA.**

Each year KVH is required to present a proposed budget and corresponding proposed levy (to fund the budget) to our AGM, and seeks our members support for these. There will be no change to this approach, and we are not asking growers to agree to any increase to our 1.6 cent per tray levy rates with this proposal. Each year our grower members decide what level of funding KVH will receive for it to undertake its annual operations.

**The second activation point would only occur in the event of a biosecurity incursion where costs are beyond the ability of any KVH reserves to fund. The increased Levy could be anywhere up to the maximum 5 cent levy cap to fund the shortfall.**

In this scenario, KVH would borrow money from Zespri to be able to pay the eradication costs up front, and the KVH Board (following discussions and seeking advice from NZKGI and IAC) could then activate an increase in the biosecurity levy, up to the maximum level of 5 cents per tray, in order to pay back the costs of the response. Once the eradication costs are paid back, or within a maximum of three years, the levy will (and legally must) revert to its previous level as set at the AGM.

KVH is seeking member and industry feedback on this proposal, and based on feedback the KVH Board will then decide before the end of this year whether to approach the Minister for Biosecurity seeking an increase in the ceiling of the levy. No vote is required for this (unlike a commodity levy), but the Minister needs to be satisfied that we have adequately consulted and taken into consideration all feedback.

Some of the key issues behind this proposal that we will expand on when we meet with growers are:

- KVH's partnership with government under GIA has two core components, joint preparation and decision making, along with cost sharing. There are 16 GIA signatories, and by end of the year it is likely that all the significant horticulture and animal sectors will have joined.
- Non-GIA signatory beneficiaries are going to still be required to pay, but without any decision rights.
- We have leveraged significant government funding in this partnership, from a minimum of 50/50 for kiwifruit specific responses (like Psa), to a 90/10 split for high cost multi industry responses such as fruit fly and BMSB where government funds 90% of the costs, and the collective industries (e.g. Pipfruit, Avocados, Citrus, Kiwifruit etc.) share the other 10%.
- Industry cost shares are based on value and impact, and kiwifruit is nearly 50% the value of the horticultural sector and growing rapidly, therefore funding levels are increasing compared to other sectors that are not experiencing the same levels of growth.
- While increasing tray numbers as the industry grows will result in greater KVH revenue, the additional levy revenue will be offset by the industry's increased contribution under GIA due to its increased value.
- Under GIA cost share arrangements, if industry limit their funding then MPI can do the same. This is something KVH believes growers won't want to see happen if this means a major industry pest won't be eradicated. There is a need to have the certainty of funding in peace time for when the emergency occurs.
- KVH's current total eradication liability commitment under GIA if fruit fly, BMSB, Brazilian Wilt, etc all happen at once is currently \$3.6 million. KVH's position is we should be able to fund at least 50% of this up front, with the ability to pay for the rest within an acceptable period.
- No expenditure will be committed by KVH beyond the ability of the biosecurity levy to fund, and if a situation arose that required greater funding this would result in growers/industry being fully consulted.
- The KVH Board has explored other approaches (insurance/pools/loan from MPI) but the costs are no cheaper for growers, and the insurance and MPI loan option would be more expensive.