

Questions about funding future biosecurity activities



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During the KVH consultation and presentations to growers about future funding of biosecurity response activities, there will be many important questions asked by growers.

To make sure this information is made available to all growers and industry, and able to be easily accessed and shared, KVH has recorded all questions and has answered them under the following clickable headings:

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Biosecurity response activities

Why are you presenting the likelihood of multiple incursions? Is KVH scaremongering and planning for the unlikely worst-case scenario?

Biosecurity is one of the kiwifruit industry's biggest risks. KVH has identified over 90 biosecurity risks offshore that could affect our industry, some of which would have catastrophic impacts. For example, BMSB is causing over 30% fruit loss in Gold3 on some Italian orchards.

While we are doing everything we can to keep these risks out of New Zealand, with ongoing increases in travel and trade in reality we also need to ensure the industry is well prepared, can quickly respond, and is able to fund the kiwifruit industry's share of a major eradication should one occur. This will mean we are able to minimise the impacts on our growers' livelihoods, and to the related communities.

Why do you estimate a fruit fly incursion could cost \$30 million to eradicate? It seems to be so much more than what previous fruit fly incursions cost.

A small isolated single breeding population in Grey Lynn cost \$15 million to eradicate where only 14 flies were trapped, and the above scenario is based on two multiple breeding populations being identified.

Under GIA the costs for this scenario would be shared by the Government and industry at the rate of 90% Government, 10% industry. This means the KVH portion of such a fruit fly incursion can reasonably be estimated as our contribution by the value of our industry size is 50% of the industry funding. So, Government pay \$27 million or 90%, and industry collectively pay \$3 million, of which kiwifruits share is \$1.5 million.

Why would Brazilian Wilt be so expensive to eradicate?

KVH has estimated that a *Ceratocystis fimbriata*, or Brazilian Wilt incursion could easily cost up to \$20m, based on vines having to be fully removed from orchards (including rootstock) and orchards not able to replant for some time. In Southern Brazil where it is present in kiwifruit orchards, up to 50% of the vines in the orchards have died, and it continues to spread as there are no aggressive control measures in place.

As Brazilian Wilt is a kiwifruit specific threat, the cost of an incursion is only shared between MPI and KVH, at a rate of 50/50. This is the same cost share arrangement as for initial Psa funding.

Government Industry Agreement (GIA)

Why did KVH sign us up to GIA in the first place?

There is always the risk of unwanted pests and diseases making their way to New Zealand and affecting kiwifruit. The GIA commits industry and government to work together in partnership to improve readiness for future biosecurity events, and jointly respond to future outbreaks. By working together, we can be better prepared at stopping or immediately finding new arrivals, and as such reduce the damage from incursions, and have more certainty that we can eradicate.

KVH has leveraged significant government funding in this partnership, from a minimum of \$1/\$1 for kiwifruit specific responses (like Psa), to a \$9/\$1 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 etc) share the other 10%.

By signing up to GIA we have a seat at the decision-making table in setting biosecurity priorities. Non-GIA signatory beneficiaries are going to still be required to pay, but they won't have any decision-making rights.

If you are a signatory to GIA and don't agree with the direction of a response, do you still have to pay cost shares?

Yes, once a response starts you are committed to that response, but there are fiscal caps in place within operational agreements to limit any industries financial exposure. When the fiscal cap is reached an industry signatory may withdraw, but likewise the government may also withdraw.

It may be possible that some industries wish to continue to work with MPI to eradicate a pest once fiscal caps have been reached, and if this was the case those industries need to be able to fund their contributions (to still access the \$9/\$1 leverage of government funding for major responses).

Could non-signatories to GIA walk away from a response and not have to pay anything?

There are currently 16 GIA signatories, and by end of the year it is likely that all the significant horticulture and animal sectors will have joined. MPI has been developing the policy and regulatory framework needed so that non-GIA signatory beneficiaries will be paying their share, but they won't have any decision-making rights.

KVH will not begin funding GIA responses until non-signatory beneficiaries also are required to pay their share of the costs.

Is the KVH Board entering into commitments where there could be liability issues because we can't pay? If we can't pay does GIA fall over?

The KVH Board has been prudent in only entering into commitments that can be funded. Cost sharing doesn't start under GIA until 1 July 2018, and the proposal being presented to growers is to ensure we have a funding mechanism in place that will be able to fund likely future response costs.

However, there could always be a situation even with an increase in the levy ceiling as proposed, where we could still have insufficient funding (like with Psa when the industry contributed \$25 million up front to access a matching \$25 million from government). In this situation, KVH would seek industry direction through NZKGI and IAC etc as to what approach should be taken, and how the costs can be funded.

Why doesn't the Government pay more? Isn't this their responsibility, especially if they say it's a priority?

The government has put in place the policy and legislation framework that supports GIA, and it believes it is making a fair contribution to the costs of biosecurity, and that industry needs to be contributing also to the GIA partnership.

Isn't this just allowing MPI to back out of its obligations and responsibilities for biosecurity?

KVH has a biosecurity partnership with MPI, and jointly we are preparing for, and deciding what needs to happen (and when) to protect the kiwifruit industry from major biosecurity threats.

This partnership (GIA) became MPI policy and law in 2014, and is still the current governments policy for biosecurity.

Kiwifruit industry biosecurity responsibilities

Who is accountable for biosecurity in the kiwifruit industry?

KVH is accountable for ensuring the kiwifruit industry is fully prepared and able to immediately respond should a biosecurity risk be identified.

KVH works closely with all groups in the industry, along with other product groups and HortNZ to achieve the best outcomes for kiwifruit growers, however we believe everyone in the industry needs to be doing their part and we should all be taking responsibility.

Why do we need three groups in the kiwifruit industry doing biosecurity (KVH/Zespri/NZKGI)?

KVH is the only group in the kiwifruit industry with biosecurity leadership responsibilities, and on behalf of the industry signed the GIA partnership with government.

To achieve its responsibilities, KVH works closely with all groups in the industry, including NZKGI, Zespri, post-harvest operators etc.

Is KVH getting too big?

KVH has reduced in expenditure and size since being established in 2011. Each year we take to our members at our AGM a proposed budget for the activities we are proposing, and any changes to the levies to fund the budget, which members then vote on.

KVH exists as an organisation to support growers for Psa and biosecurity and we only undertake what growers are wanting us to do.

Levy mechanism

Why aren't gold growers paying more than green growers since they will receive greater economic benefits from stopping biosecurity risks?

The biosecurity risks are similar across the industry no matter what variety, and as such each variety will benefit equally from biosecurity activities and the levy. If there was a biosecurity risk that affected only one variety, we would review the funding approach that would be used in that case, but this scenario is extremely unlikely.

The economic returns/OGR for different varieties is not a primary consideration of how the levy is structured, as this will change over time, and between seasons, growers and regions. Some green growers will be having OGR returns not dissimilar to some gold growers, and to establish a funding mechanism that recognises this and that is efficient to collect would be very difficult and costly.

The current mechanism of the levy is based on FOB trays exported and we invoice Zespri to collect, which is a very cost-effective collection option for us.

The legal basis for the levy is under the biosecurity act, which requires the Minister for Biosecurity to be satisfied that:

- the persons to be levied are represented by an industry organisation that is a party to the agreement; and
- the persons to be levied are likely to receive benefits from the readiness or response activities to be funded from the levy; and
- the costs to the persons of paying the levy are not disproportionate to the benefits (from the readiness or response activities) that they are likely to receive.

Are new green fields productions being levied as well?

The levy is only collected on trays FOB, and orchards that are not producing that don't have any revenue from production, are not levied.

How can we be confident KVH won't just increase its budget and levy charges into the future?

KVH presents its proposed budget and related levy charge to our AGM every year, where grower members vote and decide whether to accept it, or not. In addition, KVH Directors are elected by our members, so if growers became unhappy with the direction that KVH is taking, they ultimately hold the power to make the change.

Would KVH notify or consult NZKGI and IAC of your intent to activate the levy increase during a response?

The responsibility to activate an increase to the levy to pay for the industry's agreed cost share sits with the KVH Board, as is the case under the existing levy. However, the Board would consult and discuss the matter and take advice from the industry before implementing any change.

Where did the 5c come from? How did you reach that figure?

We modelled various scenarios and believe 5 cents is the most appropriate considering the nature of the risks we are protecting the industry against, and also taking into consideration the projected increase in growth of the industry, and associated increase in overall industry value and cost shares under GIA (as our industry value grows, so does our relative contribution to cost sharing compared to other industry's that don't grow as fast).

Even a levy ceiling at 5 cents may not be sufficient to cover a major response, as under the levy regulation it can only be activated in the way we are proposing for a maximum of three years, and as such would have the potential if these were three full years to fund approximately \$15 million in response costs.

With Psa the industry contributed \$25 million, more than the higher levy ceiling could fund, and as such we are suggesting that if a biosecurity event the magnitude of Psa happens again, the industry would need to (at that time) agree whether we would respond, and if so how it would be funded – this would be an industry decision and not a sole KVH Board decision.

Why don't Zespri shareholders also contribute to biosecurity?

Approximately 80% of Zespri shareholders are actively involved in kiwifruit production and as such would be paying the levy based on trays exported. The other 20% are past orchard owners and the industry is going through a process under KISP to address this situation.

KVH must be getting Zespri's 5/10-year forecast. Doesn't that show that we wouldn't have to pay anything more as our volumes would be so much higher and revenue higher?

Industry cost shares under GIA are based on value and impact, and kiwifruit is nearly 50% the value of the horticultural sector and growing rapidly, therefore funding levels for kiwifruit 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.

Why isn't Zespri paying for this. Would Zespri Corporate donate any funds to the industry if there was an incursion?

With the formation of KVH, we agreed as an industry that biosecurity is a fundamental pillar for success and needs the focus and commitment of an industry-wide body to leave Zespri to focus on its core function of marketing and selling our kiwifruit.

KVH would, if Zespri agree, borrow money from them to be able to pay the eradication costs up front, and the KVH Board (following discussions with NZKGI and IAC) could then activate an increase in the biosecurity levy, up to the maximum level of 5 cents per tray, to pay back the costs of the response.

KVH reserves

What are KVH reserves for? Why can't KVH build up enough reserves and use them to fund incursions?

Any KVH reserves that are available would be used to fund response activities in an incursion. Activating an increase in the levy would only occur in the event of a biosecurity incursion where costs are beyond the ability of any KVH reserves to fund.

As the biosecurity levy from 2018 is already set at the maximum level possible to fund necessary operational activities, KVH is not able to generate reserves at the level needed to pay immediate eradication costs. KVH is following what it believes to be a prudent reserve approach, proposing to retain 50% reserves of the operational agreement funding liabilities. With the associated fiscal caps, this would equate to a reserve in the order of \$1.6 million.

Growers have given KVH strong differing opinions on reserves, with some growers not wanting KVH to build up significant reserves, and accessing additional funds when they are needed, rather than having 100% reserve capability.

What reserves does KVH have currently?

KVH only has reserves from the Psa levy which are in the order of \$1 million. Psa levies can only be used for Psa-related activities. If borrowed for biosecurity incursions, they must be paid back.

The Psa levy has been reduced, with the objective of completely removing the Psa reserve to zero, and we hope that over time we will be able to develop reserves for biosecurity for which we have none currently.

Alternative options

Why don't you take the money needed in a response out of the loyalty payment? Or the Pool?

While the Pools could be used, the funding amount that would be needed, and when, cannot be known for certain, making it more difficult to set up a pool funding arrangement in advance. The KVH Board must have certainty of funding before it can commit to response expenditure under GIA, and the Government also requires us to have the certainty of an appropriate funding mechanism in place.

There would be no savings to growers from using the pools to fund, as opposed to the levy.

The KVH Board has looked at all options available, and believes the levy option is the most efficient, transparent for growers, and responsive for the need to fund incursions. The other approaches (either taking an insurance policy or loan from the Ministry for Primary Industries) would be more expensive.

Instead of asking for an increase in the ceiling of the levy, surely if there was an incursion and it is an emergency you would get a loan and pay it back later? This would buy KVH some time.

KVH has already discussed with Zespri the approach where a Zespri loan would be used to pay the eradication costs up front, and the KVH Board (following consultation with the industry) would then activate an increase in the biosecurity levy, up to the maximum level of 5 cents per tray, 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.

Why is the MPI funding option at 9%? Surely, we could have negotiated a cheaper MPI loan option through GIA?

MPI, under GIA, have offered industry partners a loan to fund response costs of an incursion for up to 10 years with a 9% capital charge. This is a charge Treasury place on all money loaned in the government system and is non-negotiable, making it significantly more expensive than other options considered (and is still only a loan).

Why can't you get sign-off for funding once the eradication occurs?

There is a fiduciary duty for KVH Directors not to commit KVH to financial obligations that we don't have income for. We therefore need to consider and agree the options before cost sharing under GIA starts in July 2018, and have these in place.

There is also a need to have quick decisions in response situations, and we need to be focused on the response, and able to take immediate action, not having to take time and effort to determine how we can fund an arrangement.

The consultation process

What is the process for providing feedback, and what happens next? What is the timeline for this entire process?

Initial discussions on the proposal began at the KVH AGM held Thursday 24 August, and then at the two subsequent NZKGI forum meetings. Following this, growers were emailed an introductory letter and background leaflet about the proposal on Tuesday 31 October. This information was in advance of the presentations to growers at the November grower roadshows around all our growing regions, where KVH went into more detail, answered questions, and collated feedback.

The proposal will be presented to IAC on Friday 8 December.

Based on all the feedback we receive, 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 as proposed. 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.

How will KVH measure the level of support from growers for the proposed levy change?

KVH is producing a summary record of all the meetings and feedback we have received related to the levy proposal. During the roadshows we encouraged feedback at, and after the meetings (by phone or email), which has been recorded.

At levy meetings KVH is asking whether growers support or oppose the proposal, and their reasoning.

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