



Funding biosecurity incursions

KVH

November 2017



Biosecurity is important and serious

Biosecurity is our industry's number one risk.

KVH was formed because as an industry we agreed that biosecurity is so important it needs a dedicated and accountable body.

Our biosecurity activities have significantly increased as we've come to better understand potential risks and their pathways - e.g. BMSB, fruit flies, Brazilian Wilt, more visitors and more cargo etc.

Preventing biosecurity risks and protecting our industry's growth have meant increasing activity and costs.



Industry has to pay its share

- KVH joined the GIA (Government Industry Agreements) biosecurity partnership with MPI in 2014. This is the model Government is committed to, which involves joint decision-making and cost sharing.
- We have a seat at the table when it comes to decision-making and setting biosecurity priorities that are in the best interests of growers.
- Any industry that doesn't sign up has no say, but still has to pay.
- KVH, and all primary industries, have leveraged significant government funding in this partnership.
- KVH still has Psa responsibilities and is required by Government to have separate funding for Psa.
- We are reducing Psa activities over time and increasing biosecurity, with corresponding levy change implications.

Evolution of PSA/biosecurity funding over time



	2011 – 12	2013	2014	2015	2016	2017	2018
PSA	15 cents per tray (from loyalty payments)	2 cents gold 1 cent green	2 cents gold 1 cent green	2 cents gold 1 cent green	2 cent gold 1 cents green	1 cent gold 1 cent green	6/10ths of a cent for both green and gold
Biosecurity	Zero	500k from funding agreement between Crown and Industry for PSA used for biosecurity.	6/10ths of a cent for both green and gold. KVH Board able to increase to 1 cent for responses	6/10ths of a cent for both green and gold. KVH Board able to increase to 1 cent for responses	6/10ths of a cent for both green and gold. KVH Board able to increase to 1 cent for responses	6/10ths of a cent for both green and gold. KVH Board able to increase to 1 cent for responses	1 cent for both green and gold. No ability to increase to fund responses as already set at maximum level



Why we have a biosecurity levy

- A biosecurity levy since 2014 has funded kiwifruit biosecurity obligations for readiness and response activities under GIA, along with KVH's operating biosecurity costs.
- To be more effective and better prepared for future outbreaks, we have entered into specific GIA biosecurity partnerships with MPI and other industries called operational agreements (OA's).
- These OA's create financial obligations from July 2018.
- The biosecurity levy in 2018 will be set at the maximum rate of 1 cent per tray.
- It is prudent to agree now how to fund future incursions. In response situations we need to be able to take immediate action, not spend time determining how we can fund an arrangement.



Funding biosecurity risks

- Under GIA we have leveraged significantly off our investment in Government funding (\$1/\$1 for kiwifruit specific like Psa, to up to \$9/\$1 for fruit fly and BMSB major eradication costs).
- Each operational agreement has a fiscal cap, so we have limited financial exposure. But this also limits response activities.
- There may be times when we want to continue to attempt an eradication programme, even when we have reached our fiscal cap.
- As our industry value increases faster than other sectors so does our financial obligation, which is based on industry value.
- We need a more dynamic and sustainable incursion funding contingency mechanism in place.

Scenario costs for incursions



Year	Incursion	Total costs	MPI	KVH
1996	White spotted tussock moth	\$12.5 M	\$12.5 M	-
1999	Painted apple moth	\$65 M	\$65 M	-
2000	Varroa	\$15 M	\$15 M	-
2004	Didymo	\$8 M	\$8 M	-
2010	Psa (pre GIA response)	\$50 M	\$25 M	\$25 M
2014	Fruit fly Whangarei	\$1.5 M	\$1.05 M	“\$200K”
2015	Fruit fly Grey Lynn (single breeding population)	\$15 M	\$13M	“\$1 M”
2019	Brown Marmorated Stink Bug	\$17 M	\$15.4 M	\$500K
2020	Fruit fly (two multiple breeding populations)	\$30 M	\$27 M	\$1.5 M
2022	Brazilian Wilt (vine and rootstock removal on orchards)	\$20 M	\$10 M	\$10 M

Green indicates what we would have funded if cost sharing had started

Red scenarios indicate what KVH could be needing to fund into the future

Financial liabilities under OA's for fruit fly, stink bug, and kiwifruit specific pathogens and pests



		2027 Forecast				
		Current \$1b	Forecast No Change \$1.6b	Forecast Low 4% annual growth \$2.5b	Forecast Mid 8% annual growth \$3.5b	Forecast High 11% annual growth \$5b
Kiwifruit industry Fixed Annual Costs	GIA Operational Agreements Annual Readiness External costs	\$311k	\$387k	\$515k	\$550k	\$578k
Response fiscal caps Fruit fly OA BMSB OA Kiwifruit Sector OA	3 year period	\$3,265k	\$3,793k	\$4,755k	\$5,029k	\$5,237k
Target reserves (50%) of response fiscal cap	3 year period	\$1,633k	\$1,897k	\$2,378k	\$2,515k	\$2,619k



Other options considered:

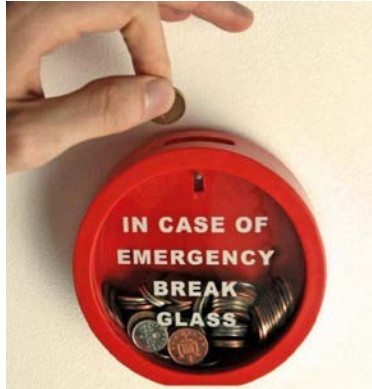
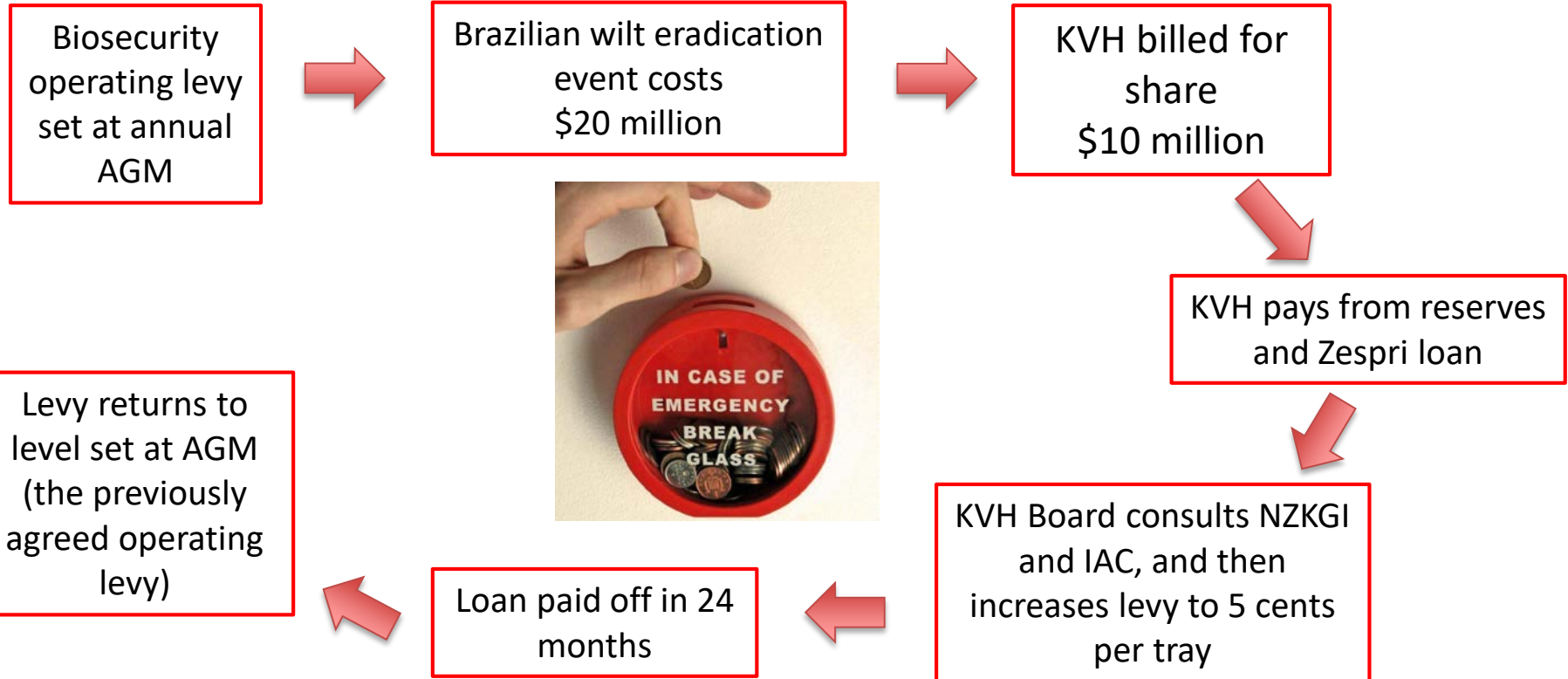
- Other options considered included grower pools via the supply agreement, an insurance policy, or a loan from MPI.
- The best other option is the pools, but this is not ideal due to the uncertainty of the funding that would be needed, and when.
- The KVH Board needs to have the certainty that funding will be available if they are to commit industry to eradication expenditure.
- The levy and the pools option are the same cost, others more costly.
- The KVH Board believe the levy proposal is the best approach. It means we are prepared, and more efficient in allowing KVH to deliver its mandate of protecting the industry from biosecurity risks.



What is and isn't changing

- The biosecurity levy is currently 0.6 of a cent per tray and members have already agreed to it increasing to 1 cent per tray in 2018.
- There is no increase proposed to the amount growers pay KVH.
- But, 1 cent is the maximum rate of the current levy order and it will not be enough to fund the eradication costs of a serious incursion.
- The KVH Board proposal is to increase the ceiling of the levy to 5 cents a tray, so that the Board (in consultation with industry) can activate the levy when in response mode to fund an incursion.
- Any increase would be temporary and only able to be used to fund eradication costs, and only up to a maximum level of 5 cents per tray for up to 3 years.

Example of the future with a levy ceiling at 5 cents per tray





If growers support the change - what will happen?

- KVH will approach the Minister for Biosecurity in December to amend the levy order.
- If it is changed, the KVH Board (in consultation with industry) will be able to activate a temporary increase to fund response costs.
- At the 2018 AGM, KVH will also propose a change in the mix of its two levies, the current 1.6 cents in biosecurity/Psa combined total remaining exactly the same as now, but with the biosecurity component going to 1.3 cents and Psa reducing to 0.3 of a cent per tray.
- The policy on reserves will be implemented, retaining up to 50% of fiscal cap liability into the future.
- This KVH Board recommendation will ensure that rapid responses can be enacted, and funded, if needed.



We need to have this discussion now

- A biosecurity incursion can happen at any time. We must have certainty in peace time and be well prepared to respond.
- GIA cost sharing starts 1 July 2018.
- It will take 3-6 months for Government to make any changes to the regulations and we need a solution in place before cost sharing starts.
- We are consulting with growers on this approach and need to have your feedback, and suggestions.



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