



Department of  
Primary Industries

# Meat Industry (Meat Industry Levy) Regulation 2016

Regulatory Impact Statement

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*Meat Industry (Meat Industry Levy) Regulation 2016 Regulatory Impact Statement*

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**More information**

NSW Food Authority in consultation with DPI Strategy & Policy and DPI Economic Analysis, Newington

[www.dpi.nsw.gov.au](http://www.dpi.nsw.gov.au).

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Department of Industry Legal Branch

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Disclaimer: The information contained in this publication is based on knowledge and understanding at the time of writing (May 2016). However, because of advances in knowledge, users are reminded of the need to ensure that information upon which they rely is up to date and to check currency of the information with the appropriate officer of the Department of Primary Industries or the user's independent adviser.

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## Executive Summary

The *Meat Industry Act 1978* (the Act) and the *Meat Industry (Meat Industry Levy) Regulation 2006* (the 2006 Regulation) operate together to legislate an annual Meat Industry Levy (MIL).

The 2006 Regulation is being reviewed as it is due for repeal on 1 September 2016 pursuant to the provisions of the *Subordinate Legislation Act 1989*. Under this process, a regulation may lapse, or be remade with or without amendments. It is proposed to remake the 2006 Regulation without amendments.

The meat industry makes an enormous contribution to the NSW and Australian economies. In 2014 the gross value of Australian farm-gate production was \$11.5 billion for cattle and calves (\$2.3 billion for NSW), \$3.3 billion for sheep and lamb (\$753 million for NSW), and \$1.1 billion for pigs (\$193 million for NSW)<sup>1</sup>. Australia was also the third largest beef exporter in the world in 2014, exporting 18% of the world's traded beef, and the largest exporter of sheep meat, exporting 36% of the world's sheep meat<sup>2</sup>. In contrast, the average MIL contribution by each animal health ratepayer in 2015 was \$11.78.

The Act provides the legislative framework for a MIL to be paid annually to the Food Authority by every occupier of NSW land who is liable to pay an animal health rate in respect of that year. The Act applies a MIL rate of \$5 + 0.9 cents per stock unit of the notional carrying capacity (NCC) of the land, up to a maximum of \$100. The NCC is the number of stock units that could be maintained on that land in an average season under usual management practices. The 2006 Regulation reduces the MIL rate to \$5 + 0.6 cents for each stock unit of the NCC of the land from the higher rate prescribed in the Act, up to an increased maximum fee of \$130. The MIL has remained at the same rate since 2006.

MIL funds contribute to maintaining and enhancing food safety in the NSW meat industry and building on the strong reputation of Australia's domestic and export meat markets for supplying safe food. The MIL therefore directly benefits NSW meat producers.

The Independent Pricing and Regulatory Tribunal (IPART) stated in its 2013 draft report for a *Review of a funding framework for Local Land Services*<sup>3</sup> that the MIL is targeted and efficient, seeking to cost recover part of the Food Authority's costs from the industry that impacts/benefits from its activities.

The costs and benefits of allowing the 2006 Regulation to lapse have been assessed and compared with a number of options. Making the *Meat Industry (Meat Industry Levy) Regulation 2016* (the proposed Regulation) without amendments is the preferred option and considered the most effective means of achieving the objects of the Act. The NSW Meat Industry Consultative Council was consulted at their meeting on 13 April 2016 and supported this option as providing the greatest net benefit to stakeholders and the community.

The preferred option maintains the existing MIL collection mechanism and provides ongoing appropriate and targeted funding for food safety activities that directly benefit NSW meat producers by minimising the risk of foodborne illness in the NSW meat industry. This increases consumer confidence in the NSW meat supply chain and increases opportunities for NSW product to access domestic and export meat markets. This in turn supports further development of the NSW economy and contributes to healthy and productive communities.

<sup>1</sup> ABS 7501.0 Value of Principal Agricultural Commodities produced, Preliminary.

<sup>2</sup> ABARES Agricultural Commodity Statistics 2015.

<sup>3</sup> Independent Pricing and Regulatory Tribunal 2013, *Review of a funding framework for Local Land Services*, draft report.

## Exhibition of Regulatory Impact Statement and Process for Submissions

Public exhibition of the proposed Regulation and Regulatory Impact Statement (RIS) provides interested stakeholders, including industry and members of the wider community, with an opportunity for direct input into the regulatory development process.

In accordance with government guidelines, the proposed Regulation and RIS will be available for comment for a period of twenty eight days, from 23 May 2016 to 20 June 2016.

Notice of the public exhibition period will appear in the *NSW Government Gazette*, The Sydney Morning Herald, The Daily Telegraph, and The Land. Key stakeholders (see section 6.0) will be directly advised that the proposed Regulation and RIS is available for comment.

The proposed Regulation and RIS are accessible at:

<http://www.foodauthority.nsw.gov.au/ip/legislation> or  
<http://www.dpi.nsw.gov.au/aboutus/about/legislation-acts/review>

Further technical information or additional copies of the proposed Regulation and RIS are available by phoning 1300 552 406.

### How to make a submission

Interested parties are invited to submit written comments on the proposed Regulation and/or the RIS to the Food Authority in any of the following ways:

#### Post

RIS Submissions  
NSW Food Authority  
PO Box 6682  
Silverwater NSW 1811

#### Facsimile

RIS Submissions  
(02) 9741 4888

#### Email

[ris.submissions@foodauthority.nsw.gov.au](mailto:ris.submissions@foodauthority.nsw.gov.au)

**The closing date for submissions is 20 June 2016 at 5.00pm.**

### What happens to submissions?

The NSW Food Authority, on behalf of NSW DPI, will review all submissions received by the closing date and consider any issues raised. The proposed Regulation may be amended following consideration of any issues or comments made in submissions.

### Use of submissions and confidentiality

The Minister for Primary Industries will be advised of all submissions and actions arising from them. A copy of all submissions will be provided to the Legislation Review Committee of the NSW Parliament with the final version of the Regulation. A report on the outcomes of consultation detailing the issues raised in submissions, and the government's response, will be placed on DPI's website.

DPI generally places submissions, or summaries of them, on its website. Please advise us if you do not want your submission published, or if you want part or all of it to be kept confidential, for example your name and/or personal contact details. DPI will respect your request, unless required by law to disclose information, for example under the provisions of the *Government Information (Public Access) Act 2009*.

## 1. Introduction

Under the *Subordinate Legislation Act 1989* (SL Act), most Regulations must be reviewed every five years. Failure to review a regulation in this time will result in the regulation lapsing unless the time period is extended.

The review of the 2006 Regulation has been postponed on a number of occasions and is now due for staged repeal on 1 September 2016.

When a regulation is reviewed, the responsible agency must consider the regulation's social and economic impacts, and whether it is necessary. The purpose of this review is to ensure that the proposed Regulation provides a net benefit to the community and that any regulatory burden on industry is justified.

A RIS is prepared as part of the review of most regulations under the staged repeal program. The RIS is required to address the seven better regulation principles which are accessible at: [http://www.dpc.nsw.gov.au/programs\\_and\\_services/better\\_regulation](http://www.dpc.nsw.gov.au/programs_and_services/better_regulation)

This RIS sets out the analysis of the impact of the proposed Regulation. The preparation of the RIS involved identifying and assessing the relevant costs and benefits of the proposed Regulation.

## 2. Outline of the Regulatory Proposal

### 2.1 Title of Proposed Statutory Rule and Authority

The proposed Regulation is the *Meat Industry (Meat Industry Levy) Regulation 2016* made under the *Meat Industry Act 1978*.

### 2.2 Responsible Minister

The Act is administered by the Minister for Primary Industries.

### 2.3 Legislative Background

The Act provides the legislative framework for a Meat Industry Levy (MIL) to be paid annually to the Food Authority by every occupier of NSW land who is liable to pay an animal health rate in respect of that year.

The animal health rate is charged on land that is considered rateable under the *Local Land Services Act 2013* by each Local Land Services (LLS) region. Rateable land is exempt from the animal health rate if the number of actual stock on that land in the preceding year was less than 50 stock units.

Section 59A of the Act sets out the MIL sum payable by the ratepayer. Under the Act, the MIL rate is the sum of \$5 + 0.9 cents for each stock unit as determined by the Notional Carrying Capacity (NCC) of the land, or \$100, whichever is the lesser amount. The NCC is the number of stock units that could be maintained on that land in an average season under management practises that are usual for the district. A 40kg wether sheep represents one stock unit, and a 400kg steer represents ten stock units. Stock includes cattle (i.e. bull, cow, ox, heifer, steer, calf or buffalo), horses, sheep, goats, camels, alpacas, llamas, pigs, deer, ostriches, and emu.

The 2006 Regulation decreases the MIL rate to \$5 + 0.6 cents for each stock unit or \$130, whichever is the lesser amount, and provides the legislative machinery for the collection of the MIL by streamlining the application of the Act and exempting a number of administrative requirements where a levy collection agency agreement is in effect (see section 2.6 for more

information). Local Land Services act as the levy collection agency under such an agreement and charges the Food Authority a commission of 7.6% (plus 10% GST) to calculate and collect the MIL on their behalf.

## 2.4 Need for Government Action

Foodborne illness is responsible for an estimated 31,920 hospitalisations and 86 deaths in Australia per year<sup>4</sup>, and the total cost of foodborne illness in Australia was estimated at \$1.25 billion per year in 2006<sup>5</sup>. Assuming the overall cost of foodborne illness in Australia has remained stable since 2006, and accounting for inflation, this figure would have risen to approximately \$1.56 billion by 2015. NSW and its public health system bear roughly a third of these costs.

Foodborne illness is a serious problem in Australia and causes around:

- 4.1 million cases of foodborne gastroenteritis (e.g. norovirus, pathogenic *Escherichia coli*, *Campylobacter* spp., non-typhoidal *Salmonella* spp.);
- 5,140 cases of foodborne non-gastroenteritis (e.g. listeriosis); and
- 35,840 cases of long-term health effects from foodborne illness (e.g. reactive arthritis) per year<sup>5</sup>.

The Food Authority is responsible for ensuring that food produced and sold in NSW is safe for consumers to eat. This is achieved by applying a risk-based through chain approach to food safety in the NSW food supply chain, commonly known as 'paddock to plate'. Key commodities regulated are the dairy, meat (including poultry), seafood, shellfish, plant products, and egg industries.

This approach shares the responsibility of food safety between all participants in the food supply chain. Meat processing businesses must comply with the *Food Regulation 2015* which includes detailed food safety management requirements (e.g. food safety programs subject to routine audits) and paying an annual licence fee.

Within the NSW meat industry, producers (farmers) contribute by paying the annual MIL. The MIL funds a broad range of Food Authority activities that collectively work together to minimise the risk of foodborne illness and directly benefit NSW meat producers. For example:

- Compliance and enforcement, and sampling programs around safe and suitable food provisions and prevention of misleading conduct provisions in the *Food Act 2003* such as:
  - o meat substitution testing (e.g. horsemeat speciation);
  - o enforcing the branding of meat from ovine species (e.g. lamb branding, hogget branding). In December 2012 Tolsat Pty Ltd was successfully prosecuted for large scale lamb substitution;
  - o enforcing the branding of meat from non-ovine meat species (e.g. beef, pork);
  - o enforcing the labelling of meat products (e.g. Country of Origin Labelling);
  - o illegal chemical use (e.g. in 2015 the Authority issued 58 fines to 22 businesses for various breaches relating to the use of sulphur dioxide);
  - o residue detections (e.g. coumatetalyl and warfarin residues detected in various pig commodities in 2015);
  - o carcass swabbing;
  - o campylobacter testing of beef, pig and sheep meat, and ready-to-eat meats;
  - o illegal slaughter (e.g. during the 2013-14 financial year 1712 kg of raw non red meat was seized from an unlicensed abattoir);

<sup>4</sup> Kirk, M, Glass, K, Ford, L, Brown, K & Hall, G 2014, *Foodborne illness in Australia: annual incidence circa 2010*, Australian Government Department of Health.

<sup>5</sup> Abelson, P, Potter Forbes, M & Hall, G 2006, *The annual cost of foodborne illness in Australia*, Australian Government Department of Health and Ageing.

- o unlicensed operations (e.g. during the 2014-15 financial year 131 pork legs and 5 large tubs of pork legs were among various meat items seized from an unlicensed meat processing premises);
- o Operation Mary: targeted compliance program aimed at reviewing the accuracy of information provided on paper based 'mob' statements for National Livestock Identification System (NLIS) sheep and goat movements (this project involves reviewing the Property Identification Codes declared on the NLIS statements to information provided on National Vendor Declaration's (NVD) that accompany the movement of animals to saleyards and abattoirs); and
- o a compliance review of on-farm food safety measures through NVD's collected by meat processors as part of compliance with the NSW meat food safety scheme.
- Participating in state and national committees, working groups and workshops such as the:
  - o Food Standards Australia New Zealand (FSANZ) Standards Development Committee for the Primary Production and Processing Standard for meat and meat products;
  - o Australian Meat Regulators Group;
  - o Food Export Regulators Steering Committee;
  - o National Food Safety Incident Response Group;
  - o National Imported Foods Labelling Compliance Working Group;
  - o Australian Meat Industry Council;
  - o co-ordination of the NSW Meat Industry Consultative Council (MICC); and
  - o SAFEMEAT – an industry government partnership.
- Reviewing and providing submissions to FSANZ proposals and applications to amend the Australia New Zealand Food Standards Code, including Country of Origin Labelling requirements for unpackaged meat, the Primary Production and Processing Standard for Meat and Meat Products and Maximum Residue Limit amendments (e.g. Coumatetralyl and Warfarin in pig commodities);
- Reviewing and providing submissions to the Commonwealth Government on Country of Origin Labelling reforms to Australian Consumer Law;
- Collaborating with industry (e.g. National Meat Industry Training Advisory Council [MINTRAC], Meat and Livestock Australia) and other government agencies, on projects such as the Retail Meat Strategy (aimed at improving compliance in butchers), developing and implementing animal welfare training packages for the meat industry and hosting industry workshops to allow for face-to-face training, and developing other industry guidance;
- Providing industry and consumer resources such as:
  - o a toll-free telephone consumer and industry helpline;
  - o dedicated information and guidance for the NSW meat industry on the Food Authority's website;
  - o a quarterly industry-focussed newsletter (called 'Foodwise');
  - o factsheets (e.g. meat vans – for transporters of meat carcasses and meat products);
  - o guidance material (e.g. meat food safety scheme risk assessment; abattoir plans for the construction of red meat, large poultry, small poultry and mobile poultry abattoirs); and
  - o free food safety program templates (e.g. retail meat; game meat harvester).
- Providing technical advice to industry and consumers, and investigating meat related food complaints; and
- Supporting the Commonwealth Department of Agriculture & Water Resources in overseas government reviews of the meat industry to facilitate broader export market access and showcase the NSW meat industry regulatory framework to overseas government representatives.

The 2006 Regulation MIL rate provides an appropriate financial contribution for the Food Authority to continue these activities. Food safety risks for this sector are more significant at the



processor and retail stages of the supply chain and ratepayers also contribute to other state and national programs relevant to the livestock industry (e.g. the pest insect destruction fund; administration of the National Livestock Identification System; the National Residue Survey testing program; and research and development programs undertaken by Meat and Livestock Australia, Rural Industries Research and Development Corporation, Animal Health Australia and LiveCorp). However, there is no duplication between these programs and the food safety activities funded by the MIL.

The MIL is supported by the NSW Independent Pricing and Regulatory Tribunal (IPART), who stated in its 2013 draft report for a *Review of a funding framework for Local Land Services*<sup>6</sup> that the MIL is targeted and efficient, seeking to cost recover part of the Food Authority's costs from the industry that impacts/benefits from its activities.

The MIL directly benefits NSW meat producers by funding food safety activities that minimise the risk of foodborne illness in the NSW meat industry. This increases consumer confidence in the NSW meat supply chain and increases opportunities for NSW product to access domestic and export meat markets. This in turn supports further development of the NSW economy and contributes to healthy and productive communities.

## 2.5 Objective of Government Action

The objective of government action is to sustain the Meat Industry Levy's financial contribution towards the meat food safety activities undertaken in NSW.

## 2.6 The 2006 Regulation

The 2006 Regulation provides a regulatory framework for achieving the objects of the Act.

**Clauses 1 – 3** deal with preliminary matters such as the name of the Regulation, commencement and definitions.

**Clause 4** fixes the rates and amounts on the basis of which a levy is to be calculated for land subject to a levy.

**Clause 5** provides the date in each year that occupiers of land must be given written notice of their MIL amount.

**Clause 6** prescribes Form 1 as the written notice to be provided for changes to occupancy or ownership of land, and provides exemptions from compliance with this clause.

**Clause 7** prescribes Form 2 as the application for a certificate of levies due and payable and provides an exemption from compliance with this clause

**Clause 8** prescribes Form 3 as the certificate of levies due and payable and provides an exemption from compliance with this clause.

**Clause 9** provides that objections to the validity of the MIL may be made in the District Court.

**Clause 10** sets the fixed rate of interest payable on overdue levies.

**Clause 11** prescribes the different types of levy books, the information that needs to be kept in levy books, and responsibility for maintaining levy books.

**Clause 12** deals with savings provisions.

**Schedule 1** prescribes Form 1, Form 2 and Form 3.

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<sup>6</sup>Independent Pricing and Regulatory Tribunal 2013, *Review of a funding framework for Local Land Services*, draft report.

## 2.7 The Proposed Regulation

The proposed Regulation will remake the 2006 Regulation without changes.

## 2.8 Machinery clauses

The proposed Regulation will remake a number of provisions that are of a machinery nature. Generally speaking, machinery clauses are those which could broadly be described as relating to 'process' rather than substantive policy matters.

Machinery clauses in the proposed Regulation include:

- Clause 1 - The name of the Regulation
- Clause 2 - The commencement date of the Regulation
- Clause 3 – Definitions of certain terms used throughout the Regulation
- Clause 12 – Savings and transitional provisions.

Matters of a machinery nature do not require a RIS. This RIS therefore does not consider these provisions in detail, but comment on the above provisions may nevertheless be included in submissions and will be considered.

## 3. Options

Four options were initially considered to fulfil the objectives of the Act. Option 1 allows the 2006 Regulation to lapse in line with the staged repeal process. Two alternative options were compared to Option 1 (the base case):

- Option 2: remake the 2006 Regulation with a zero stock unit rate, and;
- Option 3: remake the 2006 Regulation without change.

Option 4, to permit industry self-regulation, is not considered further in the RIS as the MIL is created by the Act, and the staged repeal process does not extend to the repeal of primary legislation.

### 3.1 Option 1: allow the 2006 Regulation to lapse (the base case)

The base case is to allow the 2006 Regulation to lapse on 1 September 2016. This means that the Act would apply and more money would be collected from the MIL. The stock unit rate payable would revert to 0.9 cents (instead of 0.6 cents as provided for under the 2006 regulation) and the maximum levy payment would reduce to \$100 (instead of \$130). The \$5 fee would still apply to all eligible landowners. This option would increase the average MIL payment from \$11.78 to \$15.17 per year.

Without the Regulation there would be no certainty that LLS would continue to collect the levy on behalf of the Food Authority. This would increase administration costs for the Food Authority (e.g. issuing notices and receipts and creation of a database to manage landowner details).

This option reduces regulatory certainty, increases costs for the Food Authority and increases MIL payments for industry.

### 3.2 Option 2: remake the 2006 Regulation with a zero stock unit rate

The first alternative option to the base case is to remake the 2006 Regulation with a zero stock unit rate, down from 0.6 cents per stock unit. The MIL for all ratepayers would be \$5.

Revenue loss from the reduced MIL under this option would mean that many of the food safety activities currently funded by the MIL would cease, adversely impacting market confidence and the strong reputation of the NSW meat industry.

### 3.3 Option 3: remake the 2006 Regulation without amendments (the status quo)

The second alternative option to the base case remakes the 2006 Regulation without amendments, and maintains the *status quo*. This option keeps the varied stock unit rate at 0.6 cents and the maximum levy payment at \$130. There is no change to the \$5 fee imposed by the Act. In 2015 the average MIL payment was \$11.78.

This option maintains the existing levy collection agency agreement mechanism which minimises administrative burden on MIL ratepayers and the Food Authority. It provides the Food Authority with continued revenue for food safety activities that directly benefit NSW meat producers.

## 4. Cost Benefit Analysis

### 4.1 Methodology

A cost benefit analysis has been carried out on all viable options to determine relevant Net Present Values (NPV) as a means of identifying the preferred option.

A five-year analysis period has been used to account for the five year regulation lifespan. As the value of a dollar today is worth more than a dollar tomorrow, costs and benefits occurring over different time periods need to be discounted to give a NPV. A 7% discount rate was used in this analysis so these costs are relevant to today's dollars and consistent with the NSW Treasury Guidelines.

The methodology used is based on the procedure set out in Schedules 1 and 2 of the SL Act as well as the following guidelines:

- New South Wales Treasury, *NSW Government Guidelines for Economic Appraisal* (July 2007);
- Better Regulation Office, *Guide to Better Regulation* (November 2009); and
- Better Regulation Office, *Measuring the Cost of Regulation* (June 2008).

This RIS considers the costs and benefits of Options 2 and 3 compared to Option 1 (staged repeal). Details and analysis of costs and benefits are included in section 4.2.

A number of qualitative terms are used in place of specific dollar values when considering costs and benefits, where specific costs cannot be estimated due to the variable impact of certain events (e.g. the impact of foodborne illness on market confidence). These terms are mapped to the following monetary ranges:

<b>Term used</b>	<b>Dollar range</b>
Very small	\$100-4,999
Small	\$5,000-49,999
Large	\$50,000-999,999
Very large	\$1,000,000-9,999,999
Extremely large	\$10,000,000-100,000,000

Given these dollar ranges are broad and determined by best-available qualitative evidence, it was not considered appropriate to subject them to the 7% discount rate over the five years of analysis. Rather, the dollar ranges are included as one-off impacts in each option assessment, and are treated uniformly for both costs and benefits.

These dollar ranges also serve as sensitivity testing for the costs and benefits of each option. Sensitivity testing using 4% and 10% discount rates, as advised by the NSW Treasury Guidelines for Economic Appraisal (2007), was not applied in this cost-benefit analysis. It was assessed that such sensitivity testing would have very little measurable impact on the net present value estimates for each option, and that the dollar ranges are a more appropriate form of sensitivity testing for this analysis.

## 4.2 Identification of Costs and Benefits of Each Option

### 4.2.1 Costs and Benefits of Option 1: allow the 2006 Regulation to lapse (the base case)

The base case (option 1) is assigned a default value of zero. If the NPV of options 2 and 3 is greater than zero, it represents an improvement on the base case. In this scenario the option with the highest NPV would be the preferred option. Conversely, if the NPV of options 2 and 3 is less than zero, it indicates a less desirable outcome than the base case. In this scenario the base case would be the preferred option.

### 4.2.2 Costs and Benefits of Option 2: remake the 2006 Regulation with a zero stock unit rate

Under this option, the stock unit rate for the notional carrying capacity would decrease to zero, and the levy for all ratepayers would be \$5.

#### **Option 2 – Costs**

##### **Costs for businesses**

##### **Reduced participation in meat food safety activities**

Using 2015 figures, the government would receive \$471,015 from the MIL under this option. Compared to the base case, this is a decrease of \$957,762 per year or an equivalent NPV for the five year analysis period of \$3,927,013.

As a result of this loss of revenue, the Food Authority would need to reduce its participation in meat food safety activities currently funded by the MIL.

These programs are outlined in section 2.4 of the RIS and include providing industry with resources to help them comply with food safety, animal welfare and labelling standards.

##### **Reduced market confidence**

The Food Authority would need to reduce its services funded by the MIL in response to the loss of revenue under this option. These services contribute to food safety confidence and certainty within the NSW meat industry, facilitating market stability, business growth and innovation, and access to domestic and international markets.

Fewer food safety activities (e.g. compliance and enforcement operations) would result in more conservative business decisions, reduced market confidence, increased food safety recall costs (which are estimated to currently cost Australia \$14 million a year<sup>7</sup>), and higher financial liability costs due to increased risk of foodborne illness outbreaks.

Food safety incidents can have significant impacts on the markets they affect. This is highlighted by the South Australian Garibaldi foodborne illness outbreak in 1995. More than 20 people, mainly children, became ill (including one fatality) after eating salami that was contaminated with *E.coli*. Consumer confidence in smallgoods was severely affected by the Garibaldi outbreak. Seventeen of the 42 South Australian smallgoods manufacturers either

<sup>7</sup> Abelson, P, Potter Forbes, M & Hall, G 2006, *The annual cost of foodborne illness in Australia*, Australian Government Department of Health and Ageing.

closed their business or were placed under administration. An owner of one such company, Wintulichs Pty. Ltd., estimated that his personal loss as a result of the Garibaldi outbreak was approximately \$4 million. This does not include the Garibaldi Company who went out of business after 24 years in operation with a loss of 120 jobs. The Australian smallgoods industry was also severely affected. Seven and a half years after the Garibaldi outbreak, sales of smallgoods products were 25% below what was achieved in 1994, with an accumulated loss in these 7.5 years of approximately \$400 million - \$535 million<sup>8</sup>.

Other examples include the impact of Food and Mouth Disease outbreaks and the 2011 dioxin contamination of stockfeed in Germany. The Australian Bureau of Agricultural and Resource Economics (ABARES) estimated the cost of a small scale three month outbreak of Foot and Mouth Disease at \$7.1 billion, and a large scale outbreak (12 months) at \$16 billion. The 2001 UK outbreak is estimated to have cost the UK economy \$10 billion and the 2012 South Korea outbreak resulted in the destruction of 25% of the national cow and swine herd<sup>9</sup>. In January 2011, over 4,700 farms in Germany were closed when dioxin levels in excess of legal limits were detected in pigs, eggs and poultry. The contamination was traced to biofuels accidentally mixed into stock feed, resulting in the destruction of over 100,000 eggs and 9,000 chickens. The contamination captured products labelled as safe under a national information standard, and consequently undermined consumer trust in government and industry labelling assurances<sup>10</sup>.

The meat industry makes an enormous contribution to the NSW and Australian economies. For example:

- Australia produced 2.7 million tonnes of beef and veal (carcase weight) in 2014 (600,000 tonnes in NSW), 759,400 tonnes of sheep meat (186,800 tonnes in NSW), and 371,200 tonnes of pig meat (61,500 tonnes in NSW)<sup>11</sup>;
- the gross value of Australian farm-gate production in 2014 was \$11.5 billion for cattle and calves (\$2.3 billion for NSW), \$3.3 billion for sheep and lamb (\$753 million for NSW), and \$1.1 billion for pigs (\$193 million for NSW)<sup>12</sup>;
- the value of Australian exports in 2014 was \$9 billion for beef, \$2.6 billion for sheep meat and \$103 million for pork, and \$1.2 billion for live cattle exports<sup>13</sup>;
- the value of NSW exports in 2014 was \$1.7 billion for beef, \$499 million for sheep meat and \$15.6 million for pork, and \$12.8 million for live cattle exports<sup>13</sup>;
- Australia exported 1.9 million tonnes of beef and consumed 726,000 tonnes of beef in 2014<sup>14</sup>;
- Australia was the third largest beef exporter in the world in 2014, exporting 18% of the world's traded beef, and the largest exporter of sheep meat, exporting 36% of the world's sheep meat<sup>14</sup>;
- Around 122,000 people were employed in the Australian red meat industry in 2011, including on-farm production, processing and retail<sup>15</sup>.

Consequently, any impact on domestic and international markets is significant. A food safety incident identified by one of our principal importers of beef from NSW could result in banning imports from NSW, which in the principal markets in 2014-15 were \$628m to the USA, \$306m to Japan and \$218m to the Republic of Korea<sup>14</sup>.

<sup>8</sup> <http://www.foodstandards.gov.au/code/proposals/documents/P251%20UCFM%20FAR.pdf>, viewed 1 April 2016.

<sup>9</sup> Department of Primary Industries 2012, *Foot and Mouth Disease factsheet*.

<sup>10</sup> KPMG 2015, *Estimating the impacts of food regulation in NSW*, unpublished.

<sup>11</sup> ABS 7218.0.55.001 *Livestock and Meat*, Australia, December 2015.

<sup>12</sup> ABS 7501.0 *Value of Principal Agricultural Commodities produced*, Preliminary.

<sup>13</sup> ABS commissioned data.

<sup>14</sup> ABARES *Agricultural Commodity Statistics* 2015.

<sup>15</sup> ABS *Population Census*, 2011.

ABARES estimated that the temporary suspension of live exports from Australia to Indonesia cost 300 jobs and stranded 375,000 head of cattle between 24 June and 1 July 2011. A class action underway against the Commonwealth Government will determine the total economic cost of the ban. The Australian Agricultural Company has estimated its own losses from the ban are approximately \$50 million<sup>16</sup>.

Another example of the impact of a food safety incident on the export market is provided by the closure of the United States border to Canadian beef and cattle in 2003 when one Angus cow was found to have bovine spongiform encephalopathy (BSE) in northern Alberta, Canada. Export losses from this incident amounted to \$5.3 billion by the end of 2004<sup>17</sup>, and the control and compensation costs were over \$1 billion. The ban was lifted in July 2014.

These costs cannot be quantified but are anticipated to be extremely large.

## **Costs for government**

### **Loss of revenue for the Food Authority and Local Land Services**

In 2015 there were 94,203 animal health ratepayers and the total NCC was 106,417,967 stock units. Using these figures, the gross amount collected from the MIL under option 1 (the base case) would be \$1,428,777 with an average MIL payment for each ratepayer of \$15.17.

The gross amount collected from the MIL under option 2, which applies a flat MIL rate of \$5 for all ratepayers, would be \$471,015. Compared to the base case, this would be a loss of revenue for government of \$957,762 per year or an equivalent NPV for the five year analysis period of \$3,927,013.

The Food Authority would have to cover this shortfall by cutting existing services or increasing costs for licensed meat businesses. Any cost increase to licensees requires extensive industry consultation and an amendment to *Food Regulation 2015*, both of which are outside the scope of this staged repeal process.

## **Costs for consumers**

### **Increased incidence of foodborne illness**

Under this option the Food Authority would need to reduce the services provided for by the MIL, including participation in the sampling programs and compliance and enforcement operations outlined in section 2.4 of the RIS. These services minimise the risk of foodborne illness in NSW by supporting a proactive and preventative 'paddock to plate' approach to food safety management in the NSW meat industry.

Food contaminated with harmful bacteria and viruses is a serious problem. Each year, Australia wide it causes around 4.1 million cases of gastroenteritis, 5,140 non-gastrointestinal illnesses (e.g. listeriosis) and 35,840 episodes of long-term health effects (e.g. reactive arthritis). In 2006, the total cost of foodborne illness in Australia was estimated at \$1.25 billion per year, of which \$375 million would be incurred by NSW and its public health system<sup>5</sup>.

These costs cannot be quantified but are anticipated to be large.

## **Costs for the community and the environment**

There are no expected costs for the community and the environment from remaking the 2006 regulation with a zero stock unit rate.

<sup>16</sup> The Australian Business Review 2013, 'Australian Agricultural Company blames live export ban for \$46m loss': <http://www.theaustralian.com.au/business/profit-loss/australian-agricultural-company-blames-live-export-ban-for-465m-loss/story-fn91vch7-1226650062450>, viewed 16 February 2016.

<sup>17</sup> <http://globalnews.ca/news/1830438/timeline-canadas-2003-mad-cow-disease-crisis/>, viewed 23 February 2016.



**Option 2 – Benefits****Benefits for businesses****Reduced MIL payment**

Using 2015 figures outlined above, ratepayers would pay a flat MIL rate of \$5. Compared to the base case, this would mean a total saving of \$957,762 per year for ratepayers or an equivalent NPV for the five year analysis period of \$3,927,013.

**Benefits for government****Reduced administration costs**

Local Land Services would benefit from a simpler MIL calculation if it remained the collection agent.

However, the need to review annual stock returns to determine eligibility to pay the animal health rate (less than 50 stock units is exempt) would not be removed under this option so there would very little to no actual benefit to government under this option.

These costs cannot be quantified but are anticipated to be very small.

**Benefits for consumers**

There are no expected benefits for consumers from remaking the 2006 regulation with a zero stock unit rate.

**Benefits for the community and the environment**

There are no expected benefits for the community and the environment from remaking the 2006 regulation with a zero stock unit rate.

**Table 1: Summary of the costs and benefits of Option 2: Remake the 2006 Regulation with a zero stock unit rate**

<b>Costs</b>	<b>Present values* (\$)</b>
<b><i>Costs for businesses</i></b>	
Reduced participation in meat food safety activities	3,927,013 over 5 years
Reduced market confidence	Extremely large: 10,000,000 to 100,000,000
<b><i>Costs for government</i></b>	
Loss of revenue for the Food Authority and Local Land Services	3,927,013 over 5 years
<b><i>Costs for consumers</i></b>	None identified
Increased incidence in foodborne illness	Large: 50,000 to 999,999
<b><i>Costs for the community and the environment</i></b>	None identified
<b>Total costs</b>	<b>17.9 to 108.85 million</b>
<b>Benefits</b>	
<b><i>Benefits for businesses</i></b>	
Reduced MIL payment	3,927,013 over 5 years
<b><i>Benefits for government</i></b>	None identified
Reduced administration costs	Very small: 100 to 4,999
<b><i>Benefits for consumers</i></b>	None identified
<b><i>Benefits for the community and the environment</i></b>	None identified
<b>Total benefits</b>	<b>3.93 million</b>
<b>Net benefit (NPV)</b>	<b>-13.98 to -104.92 million</b>

\*The costs and benefits expressed as dollar ranges are treated as one-off impacts for the period of analysis, and not subject to the 7% discount rate.

### 4.2.3 Costs and Benefits of Option 3: remake the 2006 Regulation without amendments (the status quo)

Remaking the 2006 Regulation without making any amendments maintains the status quo and as such will not incur new costs or benefits for business, government, consumers, or the community and the environment.

This is not to say the status quo does not provide net benefit to government, business, consumers, and the community and the environment compared to the base case.

#### **Option 3 - Costs**

##### **Costs for businesses**

###### **Increased maximum MIL payment**

The average stock holding in NSW is 1,695 sheep and 215 cattle<sup>18</sup>. It is assumed that less than 1% of ratepayers would currently pay the maximum MIL amount of \$130.

If 1% of ratepayers pay the maximum MIL amount, then 940 ratepayers would pay an additional \$30. This is a total cost of \$28,300 per year or an equivalent NPV for the five year analysis period of \$116,000.

##### **Costs for government**

###### **No costs associated with remaking the 2006 Regulation**

The staged repeal process is a mandatory requirement of the SL Act, therefore costs to remake the 2006 Regulation are not considered in this cost benefit analysis.

###### **Loss of revenue for the Food Authority and Local Land Services**

In 2015 there were 94,203 animal health ratepayers and the total NCC was 106,417,967 stock units. Using these figures, the gross amount collected from the MIL under option 1 (the base case) would be \$1,428,777 with an average MIL payment for each ratepayer of \$15.17.

In 2015 (with the regulation) the gross amount collected from the MIL was \$1,084,645 and the average MIL payment for each ratepayer was \$11.78. Local Land Services received \$90,693 in commission fees to collect the MIL on behalf of the Food Authority. Compared to the base case, this is a loss of revenue for the Food Authority of \$343,932 per year or an equivalent NPV for the five year analysis period of \$1,410,189.

##### **Costs for consumers**

There are no expected costs for consumers for remaking the 2006 Regulation without amendments.

##### **Costs for the community and the environment**

There are no expected costs for the community and environment for remaking the 2006 Regulation without amendments.

#### **Option 3 - Benefits**

##### **Benefits for businesses**

###### **Reduced MIL payment**

Compared to the base case, and using 2015 figures, this option would mean a total saving of \$343,932 per year for ratepayers or an equivalent NPV for the five year analysis period of \$1,410,189.

##### **Benefits for government**

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<sup>18</sup> ABS 7121.0 *Agricultural Commodities, Australia, 2013-14*, Canberra September 2015.



### Increased regulatory certainty

This option provides certainty to industry and government about several key matters concerning administration of the Act. These matters are outlined in detail in section 2.6 of the RIS and include: calculating the MIL; providing notice to the ratepayer of the MIL amount; notifying any changes in occupancy or ownership of land; certificates for the amount of MIL payable; appeals process; interest rate charged on overdue MIL payments; and the information that needs to be kept in levy books.

These costs of reduced regulatory certainty for government on the above matters cannot be quantified but are anticipated to be large.

### Reduced administration costs for the Food Authority

Remaking the 2006 Regulation without amendments preserves the levy collection agency agreement with LLS. The Food Authority would benefit from maintaining this agreement by avoiding initial and ongoing costs associated with this administration function.

The Food Authority would not need to modify their existing database to include MIL ratepayers. Modifications to the Food Authority's systems and ongoing costs for mechanisms to import and update ratepayers' details; expand payment processing; send reminder notices; and charge interest for unpaid notices would exceed the \$90,700 commission charged by LLS in 2015 to collect the levy on behalf of the Food Authority.

These costs cannot be quantified but are anticipated to be very large.

### Benefits for consumers

There are no expected benefits for consumers from remaking the 2006 Regulation without amendments.

### Benefits for the community and the environment

There are no expected benefits for the community and the environment from remaking the 2006 Regulation without amendments.

**Table 2: Summary of the costs and benefits of Option 3: Remake the 2006 Regulation with no amendments (the status quo)**

<b>Costs</b>	<b>Present values (\$)</b>
<b><i>Costs for businesses</i></b>	
Increased maximum MIL payment	116,036 over 5 years
<b><i>Costs for government</i></b>	
No costs associated with remaking the 2006 Regulation	Not considered
Loss of revenue for the Food Authority and LLS	1.410 million over 5 years
<b><i>Costs for consumers</i></b>	None identified
<b><i>Costs for the community and the environment</i></b>	None identified
<b>Total costs</b>	<b>1.53 million</b>
<b>Benefits</b>	
<b><i>Benefits for businesses</i></b>	
Reduced MIL payment	1.410 million over 5 years
<b><i>Benefits for government</i></b>	
Increased regulatory certainty	Large: 50,000 to 999,999
Reduced administration costs	Very large: 1,000,000 to 9,999,999
<b><i>Benefits for consumers</i></b>	None identified
<b><i>Benefits for the community and the environment</i></b>	None identified
<b>Total benefits</b>	<b>2.46 to 12.41 million</b>
<b>Net benefit (NPV)</b>	<b>0.93 to 10.88 million</b>

## 5. Preferred Option

Table 3 below contains a summary of the cost benefit analysis (CBA) findings for each of the options.

**Table 3: Summary of the findings of the CBA options**

Options	Net Present Value (\$)
<b>Option 1: allow the 2006 Regulation to lapse (the base case)</b>	Zero
<b>Option 2: remake the 2006 Regulation with a zero stock unit rate</b>	Less than 0 (Extremely large net cost)
<b>Option 3: remake the 2006 Regulation without amendments (the status quo)</b>	Greater than 0 (Very large to extremely large net benefit)

Option 3 is the preferred option. This option retains existing benefits of the 2006 Regulation and of the three options provides the greatest net benefit, ranging from \$0.93 to \$10.88 million over five years. Option 3 is considered the most appropriate option for achieving the objects of the Act.

The Independent Pricing and Regulatory Tribunal (IPART) stated in its *Review of a funding framework for Local Land Services*<sup>19</sup> draft report that the MIL is targeted and efficient, seeking to cost recover part of the Food Authority's costs from the industry that impacts/benefits from its activities.

The NPV for option 1 is by default zero but will increase industry costs compared to the 2006 Regulation.

The NPV for option 2 is negative; foodborne illness risks and costs imposed on the NSW meat industry would increase. Consequently, there is a broadly quantifiable net cost ranging from \$13.98 to \$104.92 million over five years associated with option 2. Damage to the reputation of the NSW food industry and the impact of limiting access to domestic and international export markets is likely under this option.

## 6. Consultation

### 6.1 Consultation during the development of the proposed Regulation

#### NSW Meat Industry Consultative Council

MICC were consulted at their meeting on 13 April 2016 and they expressed support for continuing the MIL at the current rate.

### 6.2 Consultation on the proposed Regulation

A range of stakeholders will be directly advised of the consultation process and where they can obtain copies of the proposed Regulation and RIS.

<sup>19</sup> Independent Pricing and Regulatory Tribunal 2013, *Review of a funding framework for Local Land Services*, draft report.

These stakeholders are:

- NSW Meat Industry Consultative Council, including representation from:
  - Australian Meat Industry Council
  - NSW Farmers' Association
  - Australian Chicken Meat Federation
  - Australian Pork Limited
  - NSW Department of Primary Industries
  
- Local Land Services NSW

In addition, industry and the community are invited to make submissions on the proposed Regulation and RIS.

## 7. Evaluation and Review

The proposed Regulation, once made, will be the subject of periodic review under the requirements of the *Subordinate Legislation Act 1989*, which provides for most regulations to be subject to repeal every five years.