

Submission

By

Business|NZ

to the

Commerce Select Committee

on the

**State-owned Enterprises (AgriQuality Limited and
Asure New Zealand Limited) Bill**

April 2007

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STATE-OWNED ENTERPRISES (AGRIQUALITY LIMITED AND ASURE NEW ZEALAND LIMITED) BILL

SUBMISSION BY BUSINESS NEW ZEALAND¹

1.0 Introduction

- 1.1 Business New Zealand welcomes the opportunity to make a submission on the State-Owned Enterprises (AgriQuality Limited and Asure New Zealand Limited) Bill (“the Bill”).
- 1.2 This Bill will prevent AgriQuality competing with Asure on the provision of export red meat inspection services and it will enable a merger between the two entities.
- 1.3 Business New Zealand is very concerned about this Bill on two principal grounds. First, the process of developing this Bill is flawed and second, the Bill has the potential to restrict competition, raise costs and reduce New Zealand’s international competitiveness.

Recommendations

Business New Zealand **recommends** that:

the Bill not proceed.

Without prejudice to the above recommendation:

Business New Zealand **recommends** that:

if the Bill is to proceed, then at minimum, a thorough independent cost/benefit analysis be undertaken on the Bill; and

A Regulatory Impact Statement (RIS) and a Business Compliance Cost Statement (BCCS) be prepared.

¹ Background information on Business New Zealand is attached as Appendix 1.

2.0 Process Flaws

- 2.1 There has been little or no consultation with affected parties on this Bill. The timeframe from the introduction of the Bill into the House to its proposed report back date from the Commerce Select Committee is little over a month, while the timeframe for making submissions has been very short indeed. This has precluded any meaningful consultation with our members on what will be an important issue particularly for some of our Affiliated Industry Group (AIG) members.
- 2.2 The Bill also lacks the standard Regulatory Impact Statement (RIS) and the Business Compliance Costs Statement (BCCS) that are generally required for Government Bills. Business New Zealand believes, as a general principle, that all Bills should be required to go through rigorous processes before being sent to a Select Committee. The number of private members Bills which succeed through the Select Committee process without any requirements for RIS or BCCS is a major concern to the business community as ultimately it is business and consumers who will bear the costs associated with bad or poorly thought through legislation and regulations. This is very disappointing as the Bill will have regulatory and compliance cost implications. Moreover, this Bill is a Government Bill not a private members' Bill.
- 2.3 Rushed legislation, without proper input from those likely to be most affected almost invariably means bad legislation. Business New Zealand questions whether in this case, the rush is to override such fundamentally important steps as an RIS and a BCCS, not to mention a proper cost/benefit analysis on the rationale or otherwise for the Bill.

3.0 Economic Concerns with the Bill

- 3.1 Business New Zealand considers that the absence of competition between AgriQuality and Asure will likely over time increase costs for the meat industry, costs which will ultimately be passed on to farmers through lower returns given the highly competitive international market for red meat. In sum, what the Bill provides for has the potential to make red meat exporters less competitive on international markets.
- 3.2 Business New Zealand understands that while meat inspection has traditionally been the preserve of central government, the global food safety regulatory environment has evolved substantially in recent decades, and this has seen the transfer of much of the responsibility for ensuring food safety shifting from government itself (through blanket regulatory prescription), to industry operating within guidelines set by government.

- 3.3 Business New Zealand understands that the Animal Products Act 1999 removed the previous government monopoly position with regard to meat inspection services. As was the case with previously dismantled government monopolies, the government service delivery arm was established as a State-owned enterprise (SOE) Asure New Zealand Limited. Almost since its inception, Asure has embraced the expectation that competition in the delivery of meat inspection services was inevitable.
- 3.4 This Bill also has wider implications for the Government's State Owned Enterprise Model. Explicitly prohibiting these entities from competing with each other, thereby overriding the Commerce Act, is a serious matter and needs very careful consideration in the context of the Model. Such a move also appears to override the Minister of Economic Development's explicit encouragement to SOEs to expand into areas outside, but related to, their "core" activities. SOE's often vigorously compete amongst themselves and with private sector participants in markets e.g. Meridian, Mighty River and Genesis compete at both the generation and retail end of the electricity market.
- 3.5 Business New Zealand recommends that the Committee seriously consider whether there is a need for a state monopoly of meat inspection services. For example, it should consider whether accredited and supervised private providers could provide these services.
- 3.6 If the Committee believes that there should be a state monopoly (for example, to satisfy export markets) then the entity should probably not be an SOE but a Crown entity. In that event, in the absence of any competitive discipline there will be a need for real stakeholder involvement to ensure that such an entity acts efficiently and effectively.

Business New Zealand **recommends** that:

the Bill not proceed.

Without prejudice to the above recommendation:

Business New Zealand **recommends** that:

if the Bill is to proceed, then at minimum, a thorough independent cost/benefit analysis be undertaken on the Bill; and

A Regulatory Impact Statement (RIS) and a Business Compliance Cost Statement (BCCS) be prepared.

APPENDIX 1

BACKGROUND INFORMATION ON BUSINESS NEW ZEALAND

Encompassing four regional business organisations (Employers' & Manufacturers' Association (Northern), Employers' & Manufacturers' Association (Central), Canterbury Employers' Chamber of Commerce, and the Otago-Southland Employers' Association), Business New Zealand is New Zealand's largest business advocacy body. Together with its 65 member Affiliated Industries Group (AIG), which comprises most of New Zealand's national industry associations, Business New Zealand is able to tap into the views of over 76,000 employers and businesses, ranging from the smallest to the largest and reflecting the make-up of the New Zealand economy.

In addition to advocacy on behalf of enterprise, Business New Zealand contributes to Governmental and tripartite working parties and international bodies including the ILO, the International Organisation of Employers and the Business and Industry Advisory Council to the OECD.

Business New Zealand's key goal is the implementation of policies that would see New Zealand retain a first world national income and regain a place in the top ten of the OECD (a high comparative OECD growth ranking is the most robust indicator of a country's ability to deliver quality health, education, superannuation and other social services). An increase in GDP of at least 4% per capita per year is required to achieve this goal in the medium term.

The health of the economy also determines the ability of a nation to deliver on the social and environmental outcomes desired by all. First class social services and a clean and healthy environment are possible only in prosperous, first world economies.