

CHAPTER FOUR

MAF SERVICES

Introduction

The Ministry of Agriculture and Fisheries (MAF) administers voted assistance to the agricultural and fishery sectors at a cost of about \$640 million in 1983/84. Of this about \$460 million was direct financial assistance to primary industries in the form of subsidies such as fertiliser subsidies, SMPs, grants, interest concessions etc., and about \$10 million was assistance on building and construction. Some of these items are covered in later chapters, i.e. those on SMPs and fertilisers. This chapter deals with the balance of about \$170 million which is the annual cost of the services MAF itself delivers.

MAF's own services are in the following broad categories:

	<i>Annual Cost (1983/84) \$m</i>
Administration (including policy advice) ..	20
Meat inspection and grading	44
Dairy inspection and grading	9
Fisheries management and inspection ..	7
Animal health services	20
Advisory and information services	20
Research	50
TOTAL	<hr/> 170 <hr/>

At present departmental revenue is about \$20 million per annum. The net cost of MAF's services, \$150 million per annum, therefore represents a significant form of assistance to the sector as a whole.

MAF's Role

In Treasury's view MAF's role (as that of any Ministry) is the twofold one of advising the Government on matters within its sphere of responsibility and of implementing the Government's decisions (including those incorporated in legislation) and policies. MAF's policy advice, regulatory responsibilities and implementation functions lie within the area of agricultural, horticultural and fishery resources. The reference point is, clearly, the national interest and the broad objective that of promoting national welfare. This calls for an economy-wide perspective on matters such as the allocation of resources, as the interests of the economy as a whole will not necessarily be identical with the interests of individual groups.

This national perspective is important in the formulation, not only of MAF's advice on the services which it provides, but also of its advice on all interventions in the land use sector. If the distinction between the national perspective and the perspective of individual sectors and interest groups is blurred then the resulting policy advice will be inconsistent, and will lead towards unevenness in the distribution of assistance. It could lead, for example, to incorrect advice as to which services MAF should provide and which the private sector should provide, and as to which of MAF's services should be paid for by the taxpayer and which by the user. The adoption of this objective national perspective can be difficult in cases where MAF is providing services which are also provided by private sector counterparts.

Who Provides the Service—MAF or the Private Sector?

Only MAF can provide certain services. Obviously it has a special role as the advisor to the Minister of Agriculture and the Minister of Fisheries. In certain quality assurance areas it alone can provide certification acceptable to overseas purchasers. The degree of MAF's involvement in the certification process may, however, be negotiable with overseas purchasers. MAF alone, as an agent of central government, can 'deliver' regulatory services e.g. in dairy inspection, fisheries inspection etc. Apart from these three areas (i.e. servicing Ministers, quality assurance for overseas purchasers requiring a central government involvement, and regulatory tasks) there is little if anything that only MAF can provide.

There may be other services which MAF should provide in part or in full, in the national interest, because of some market failure. This consideration has probably been much stronger in the past when private sector services were undeveloped, and it might have been possible to argue with some justification that MAF had to give a lead e.g. in advisory, research and media activities. However the fact that the market does not produce a particular service does not necessarily indicate market failure. Even if this situation did exist in the past it is highly questionable whether it still applies. For example, there is now a developed private sector consultancy industry and a wide range of private sector media services aimed at the agricultural and fishing sectors. Even if it were established that a market failure existed, it would still have to be considered whether MAF provision of the service is a superior (less costly, more effective) type of intervention than private sector provision assisted by the Government.

Market failure is probably more likely in basic research services than in other areas. It can be argued that the benefits from such research are not easily captured by the individual research unit, and that it is therefore in the nature of a public good which should be funded by the taxpayer. The merits of these arguments are difficult to evaluate. Treasury doubts if they

are widely applicable to public sector research, and considers that much of this activity needs close scrutiny to check whether or not public sector involvement is still required.

Who Should Pay—The Taxpayer or the User?

One reason for the taxpayer to pay the cost of MAF's services is the general one that the services should be seen as part of the assistance to agriculture required to compensate the users for costs caused by structural problems elsewhere in the economy. However a number of problems with subsidised services should be noted.

One problem is that without full cost-recovery there is no inbuilt test of the efficiency with which the service is provided. With full cost recovery, MAF would compete on equal terms with the private sector and the level of consumer demand would usually provide a good indication of its level of efficiency. Where there is no private sector counterpart it is necessary to find substitute means of monitoring efficiency. This depends in large measure on the quality of management supervision and control. The requirement that new services be financed by compensatory savings elsewhere in the Vote requires MAF management to examine these activities carefully.

Subsidising services raises many of the difficulties discussed elsewhere which are associated with intervention by assistance. The fact that users of the service do not have to meet the full costs of these operations tends to distort resource allocations: this is particularly important in meat inspection with an annual cost of about \$44 million. Subsidised services provided by MAF weaken the development of private sector counterparts who must charge full costs in order to survive. Dependence on grants enables some MAF—assisted organisations to be independent of the sector they are designed to serve and to remain remote from market realities.

MAF's meat inspection and dairy quality assurance services have been reviewed and the following paragraphs outline the current situation regarding those reviews. They also indicate where further review work might best be concentrated.

Reviews of MAF Services

a Meat and Fish Inspection

The current cost of the meat and fish inspection services provided by MAF is approximately \$45 million per annum. These services include hygiene surveillance of export premises, on-site animal health inspection for the purpose of ensuring compliance with importing countries' hygiene and quality standards, local produce grading, hygiene surveillance of local con-

sumption processing premises, and technical and advisory services. The overall programme represents a significant amount of assistance to the meat and fish industries.

In the 1978 Budget, charges for these services were cancelled as a means of providing assistance to the meat industry; rapid escalation in the costs of processing and marketing primary produce was seen to be an important factor contributing to declining farm incomes. In June 1983, the Government initiated a review of the meat and fish inspection services. The main objectives of the review were to examine opportunities for transferring the cost of inspection activities to the industry, to identify improvements in meat inspection resource use, and to examine the implications of recovering the service's costs from the industry. The review was completed in November 1983 and released for public comment.

Officials are currently assessing the recommendations of the review team as well as the public submissions that have been received on the review team's report. The main issues to be clarified are, in Treasury's view, the levels of cost recovery proposed by the review team, the method of cost recovery (i.e., direct charges to meat works or industry levies) and whether there is any justification for any continued taxpayer assistance.

b *Dairy Quality Assurance Programme*

MAF's Dairy Quality Assurance Programme costs about \$9 million per annum. Its main objective is to provide assurances to overseas purchasers about the composition and hygiene standard of New Zealand dairy products. These assurances are based on the Dairy Division's:

- inspection of dairy farms and factories;
- advice to dairy farmers and factories;
- analytical and sensory testing of dairy products.

In October 1982, the Government approved a review of the programme. The main objective of the review was to consider the cost savings that could be made by effecting operational efficiencies, by transferring activities to the industry, and by recovering from the industry an appropriate level of the cost of any continued government involvement in providing assurances to overseas purchasers. The review team reported in March 1983: officials' assessment of the review team's report has been delayed while MAF and the State Services Commission resolve some differences with the review team's findings. This report is, however, close to completion and its recommendations involve a combination of expenditure reductions and cost recovery from the industry.

c *Other Services*

Advisory services (\$20 million per annum) and animal health laboratory services (\$9 million per annum) are examples of other areas where it would be appropriate to focus on cost recovery issues. Clearly the private sector is quite capable of providing these services to specific agricultural producers: it seems unnecessary for MAF to continue to supply these services free at their present levels. Implementing full cost recovery would indicate any areas where MAF should change its level of involvement. Similar considerations apply in respect of the Forest Service.