



FEDERATED FARMERS

MEMO

SUBJECT: REQUEST FOR COMMENT ON THE NZFSA DOCUMENT “RETURN ON INVESTMENT BASED PRIORITISATION PROCESS FOR ASSESSING REQUESTS FOR SIGNIFICANT MARKET ACCESS WORK”

MEMO

TELEPHONE 0800 327 646 | **WEBSITE** WWW.FEDFARM.ORG.NZ

TO: Lisa Winthrop, Policy Group, NZFSA

FROM: David Burt
Federated Farmers Meat & Fibre Policy Advisor

Federated Farmers of New Zealand
PO Box 715
Wellington 6140

P 04 494 9182
F 04 473 1081
E dburt@fedfarm.org.nz

SUBJECT: Request for Comment on the NZFSA document “Return On Investment Based prioritisation Process for Assessing Requests for Significant Market Access Work”

DATE: 22 February 2010

Dear Lisa

Thank you for the opportunity to comment on the NZFSA paper “[Return On Investment Based Prioritisation Process for Assessing Requests for Significant Market Access Work.](#)”

Federated Farmers has considered this document and our comments on this matter are provided below. We would welcome the opportunity to discuss our key points with you in more detail. The contact person is:

David Burt
Federated Farmers Meat & Fibre Policy Advisor
Email: dburt@fedfarm.org.nz
DDI: 04 494 9182

1. GENERAL COMMENTS ON THE PROPOSAL

1.1 **The effectiveness of NZFSA market developments investment to date**

Key questions arise, namely, what work has been carried out by NZFSA around the returns on their investment in the new market access area to date?

Is the proposal under consideration an outcome of a review of this area?

It is accepted that decisions need to be made in the face of uncertainty, and that this requires judgement as well as analysis. In the context of the proposal under discussion however, it is important that the uncertainties associated with the applications are included in any derived rankings and also that the weighting of the other factors to be considered by NZFSA around the decision making process are identified.

1.2 **Process transparency**

NZFSA is to be commended for their attempt to develop (page 3) “an objective, transparent and consistent assessment of all market access requests”. The proposed process requires that applicants provide a range of information, key parts of which (e.g. around benefits and costs) might be expected to be deemed commercially sensitive. If such information is not publicly available, how and to whom, will the transparency of the new process be demonstrated?

To not do this would surely be contrary to the intent of the proposal and could potentially give rise to the perception that the process is a ‘smoke and mirrors’ exercise designed to lend a spurious credibility to the scheme.

1.3 **Project uncertainties and the other factors to be considered need to be included**

Future or forward-looking applications, by definition, will have an often significant degree of uncertainty associated with the data developed. It is important that the process outcomes adequately reflect these uncertainties.

Where the process outcome is a ranking system that will determine investment decisions and if funding is not available for all market access applications, then it is important that the ranking values be (statistically) significantly different and the inclusion of uncertainties is critical to this.

Further, the proposal notes (page 3) that “NZFSA will use the prioritisation framework to assist decision making on its biannual market access work programme”, but is silent on what the relative weightings of the prioritisation framework and the other factors that might arise.

1.4 **Private versus public good split and NZFSA funding**

One purpose of the programme is to ensure that NZFSA's market access work is “appropriately supported by the industry sector ... and adequately resourced”¹.

Applicants are asked (Appendix A) for “... evidence of business and/or industry commitment to this export opportunity” and the draft “Initial Assessment Decision Framework” (Appendix B) shows an indicated 15% weighting to “Industry Commitment”.

It is unclear however the extent to which the proposed prioritisation process will assign or distribute benefits between private (individuals/companies) and public good activities. If individual applicants/companies see a commercial opportunity that they wish to take (first mover) advantage of then, in the absence of identifiable public good benefits, there is no reason for either other companies in the sector or the taxpayer to subsidise the costs to NZFSA around this and the applicant(s) concerned should pay the full costs of NZFSA's work around such applications.

¹ <http://www.nzfsa.govt.nz/animalproducts/publications/manualsguides/prioritisation-process/>

Finally, it is noted that NZFSA currently liaises with industry groups around market access priorities and that these activities are likely to continue. How will this activity be integrated with the new process?

1.5 **Regular reviews of the performance of the framework are necessary**

The NZFSA market access programme involves the spending of significant sums of public money based (in large part) on projections of future earnings by applicants. It is therefore important that the new process is regularly reviewed to determine the extent to which accrued earnings have matched the projected figures in the applications and that this analysis is used to improve the decision making process in this area.

1.6 **Independent verification of the ability of the process to achieve the programme goals**

We are unsure whether there has been, or there is to be, any independent verification of the validity of the proposed model and in particular, around the capacity of the financial modelling tools being used (e.g. CBA, Net Benefit) to achieve the desired programme goals?

2. SPECIFIC COMMENTS ON THE DOCUMENT CONTENT

2.1 Programme Responsibilities [Section 3, page 3]

Responsibility for the programme implementation is duplicated, with both the Deputy Director (Assurances) and the Assistant Director (Imports and Export Strategy) having responsibility for the programme implementation. This is not good practice and this responsibility should be vested in one position.

2.2 Assessment [Section 6, pages 5-12]

The proposal provides (page 6) a schematic showing the overall assessment process. This includes the use of an “Expert Panel” at Stage 3 of the process. Does this mean the “Review Panel” function in Section 6.4.1? If not, are non-NZFSA staff involved in the review/decision process? If the latter, given the relatively small number of industry experts available and the potential for such people to be involved in applications – either on behalf of themselves, their employers or as a member of an industry group that liaises with NZFSA – it is important that potential conflicts of interest be managed. How will this be done?

2.2.1 Stage One : Acceptability [Section 6.2, pages 6-7]

- The purpose of Stage One is “to remove applications that do not fit NZFSA’s strategic direction”. Given the vagueness of the NZFSA Strategic Outcome in this area - “Effective government role in facilitating commerce and market access”² - it would be most surprising if every export focused food production operation looking at (a) new market(s) did not meet this criterion.
- That being the case, the fit – or otherwise – of proposals with the NZFSA Market Access Strategy would appear to be a key determinant. Is the “NZFSA Market Access Strategy” document available (or will it be made available) to inform stakeholders?
- NZFSA market access activities cover a

number of sectors (eg dairy, meat, wine etc). Will all such sectors have equal weightings assigned within the NZFSA Market Access Strategy? If not, will the NZFSA Market Access Strategy inform applicants around this?

- As a side point, will industry requests around this prioritisation process be used to inform the development of the future NZFSA Market Access Strategy? If so, will only successful requests be considered or will all such requests be included?
- The information requested of applicants is described in Appendix A: Market Access Work Application Form (pages 13-16). Comments on this are:
 - The intent of the proposal being discussed is on requests around market access work. That being the case, Q8 “What is the market access problem ...’ could usefully be made Q1 and it should also be rephrased as “... problem or opportunity ...”
 - Also at the top of the list could be a question to find out why the applicant is pursuing this option. Is it a primarily a market opportunity, a strategic measure with no immediate repayment envisaged, a defensive/countermeasure action etc?
 - Q9 includes “What are the consequences if this proposal does not proceed ...” While this information would provide a counterfactual scenario it may be better stated as “If this proposal does not succeed, could the outcome you are seeking be achieved by any other means? If so, what would be the additional costs associated with this?”
 - Q10 “What is the evidence of business and/or industry support ...” should be subordinate to identifying all the intended beneficiaries (individuals, companies etc) of the application. Once this information is elicited, then the other questions could be asked.

² “NZFSA Strategy Outcomes”, page 9 in the NZFSA Statement Of Intent 2009 – 2012

- Two key questions omitted from this section are “What efforts have been made to elicit support for the proposal from other companies or from industry/sector groups?” and “What business metrics have been developed that will demonstrate the success or otherwise of the project”
- The fourth question in this section (“What has been done ... intelligence”) could better be rephrased as “What market/business intelligence has been collected”.
- The last two questions under this heading (“How can medium ...” and “Is there evidence ...”) are unnecessary.
- Q11 should be reworded as “What proportion of the costs of this proposal would be paid for by the applicant(s)”.
- The end of the Application form reminds applicants to check that all questions have been answered or marked as not applicable. In what respect(s) would a ‘not applicable’ answer be considered acceptable?

2.2.2 Stage Two: Prioritisation [Section 6.3, pages 7-10]

- The Net Benefit Calculator (Appendix C, pages 18 – 20), asks applicants to provide information about “assumptions and risks” with respect to the criteria used. How will this information inform the application assessment process?
- The availability of financial resources (Section 6.3.6) is critical. The statements, (page 10) that “There is no preference between public funding or industry/private funding” and “The question is if NZFSA does the work, will there be adequate funding?” are disturbing as this position goes to the heart of the public/private good issue commented on above. The extent to which industry/private funding is available is critical to the process and funding by NZFSA should only be forthcoming to the extent that public good benefits accrue.

All other costs should be met by the applicants.

- The use of “resources” as a criterion [Section 6.3.6, page 10] in the decision framework is puzzling. No matter how attractive the proposition, if the required NZFSA resources are not available the application cannot proceed. This factor would therefore be more appropriately used as a (go/no-go) “gate” to separate feasible and unfeasible proposals.
- The model Initial Assessment Decision Framework (Appendix B, page 17) provided is presumably to provide a choice of “Ranking Criteria” (eg “Yes, highly applicable” and “No/Possible/Probable”) for each of the “Decision Question” categories listed. Each set of ranking criteria will presumably also need to be assigned a value (eg from 0.0 - 1.0) that, when multiplied by the appropriate “weighting”, will generate a numerical value. Is this the case?
- Comments on the criteria for the Assessment Decision Framework [Section 6.3, pages 7-10] are:
 - The values assigned to the individual ‘ranking criteria’ are important but values are not provided.
 - For all the Decision Criteria, there are a large number of questions posed to elicit information from applicants. How will all this information be distilled to fit into the various Ranking Criteria options?

2.2.3 Stage Three: The Work Development Programme [Section 6.4, pages 10-12]

- In broad terms, this part of the process appears to introduce the consideration of public good issues into the decision making process.
- There is no information provided about the level of information to be provided to unsuccessful applicants. [What does a “gross error” mean in this context?]