



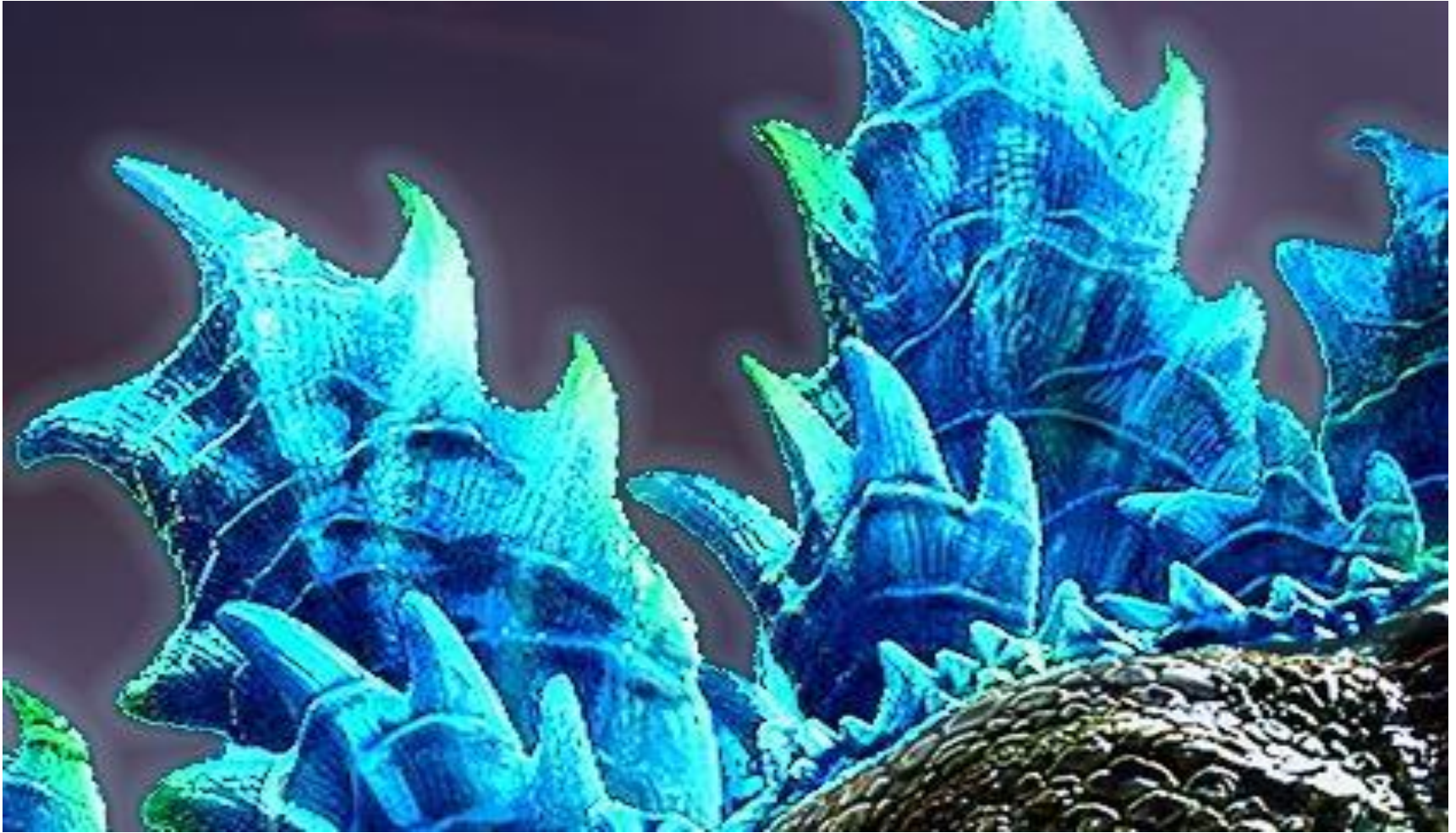
**The new state
of business**

Presentation to IIFET Conference 7 - 11 July 2014

A principles-based cost-recovery framework for biosecurity and wider government investment decisions

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Marine Pest



Marine Pest



The Cost-Recovery Decision Tree



- Deficiencies of current arrangements:
 - ‘Ad hoc’ arrangements;
 - Deficiencies in ‘cost sharing agreements’;
 - Over-reliance on ‘risk analysis’.

The Cost-Recovery Decision Tree

- An objective 'principles based' decision tool:

- Defensible



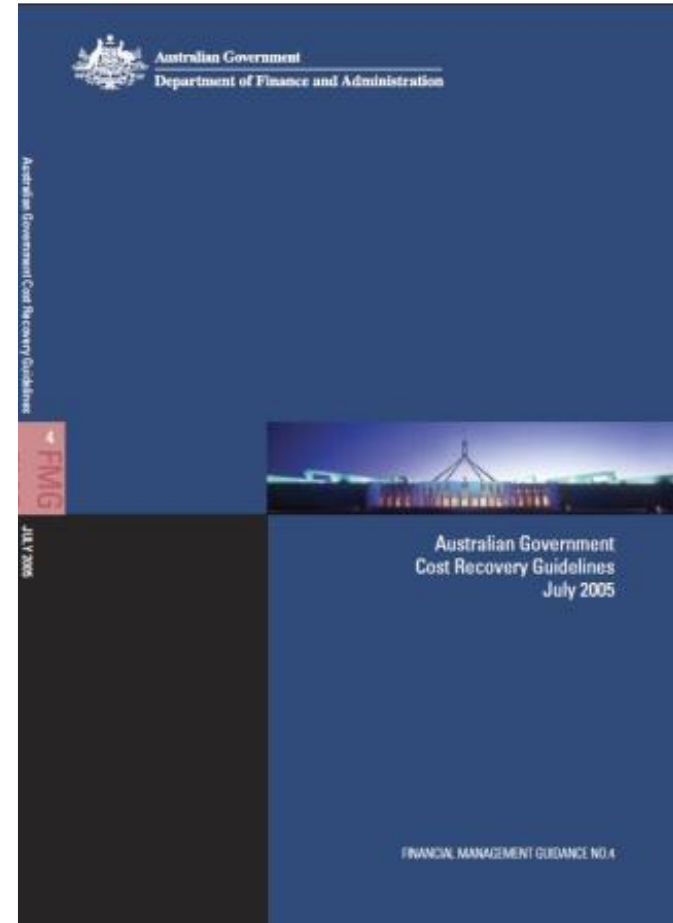
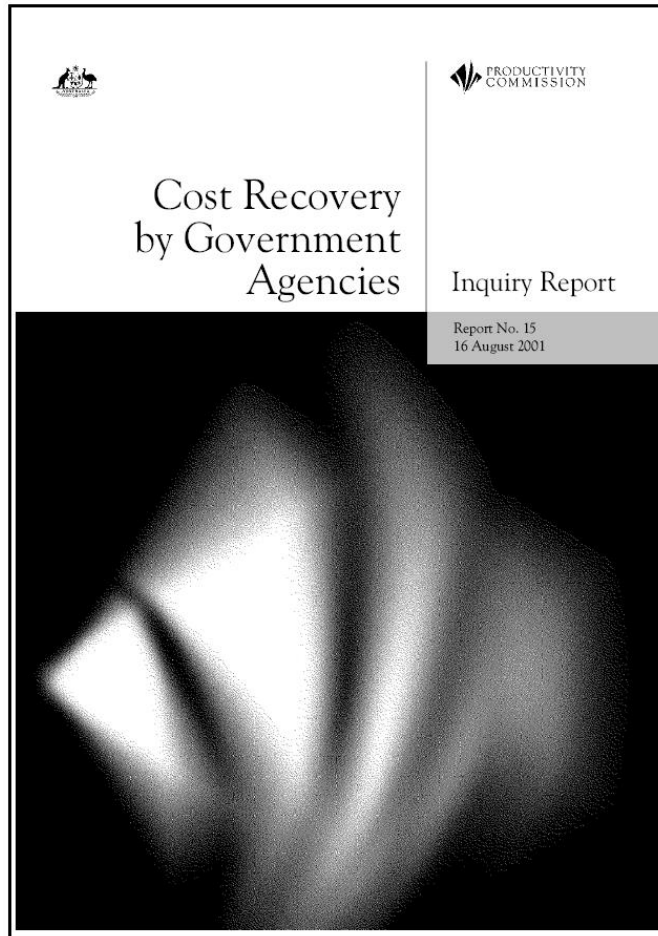
- Repeatable

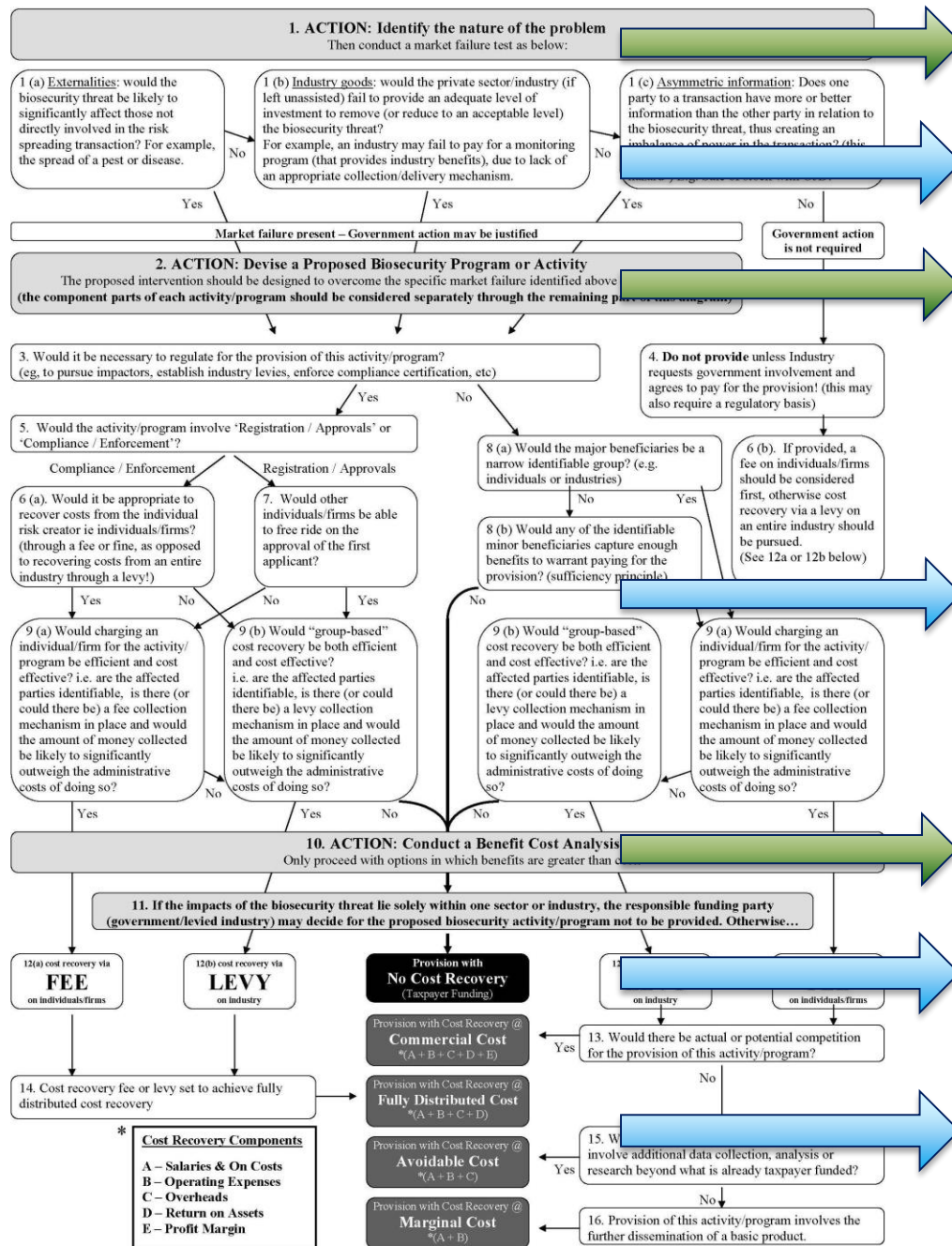


- Transparent



- The framework was based on:





Action 1: Problem Definition

Point 1: Market Failure Test

Action 2: Proposed Activity

Point 2: Who Should Pay?

Action 3: Cost Benefit Analysis

Point 3: Recovery Mechanism

Point 4: Costs Recovered

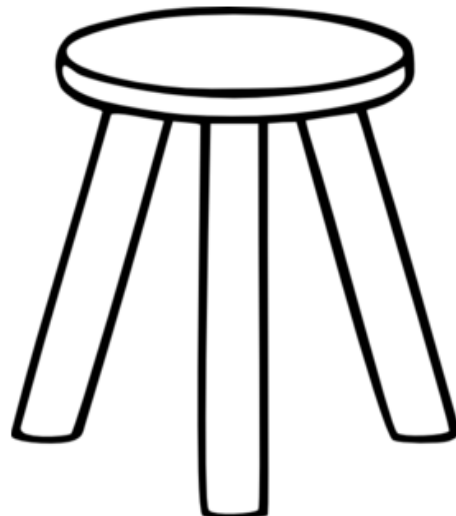
Point 1 - Market Failure Test

- Government intervention – one of two reasons:
 - social welfare; or
 - the presence of market failure
- Market Failure can include:
 - Externalities (Spillovers);
 - Public Goods (including Industry/Club goods); or
 - Asymmetric Information.



- Market Failure: Necessary but not Sufficient

Justification requires



Market Failure

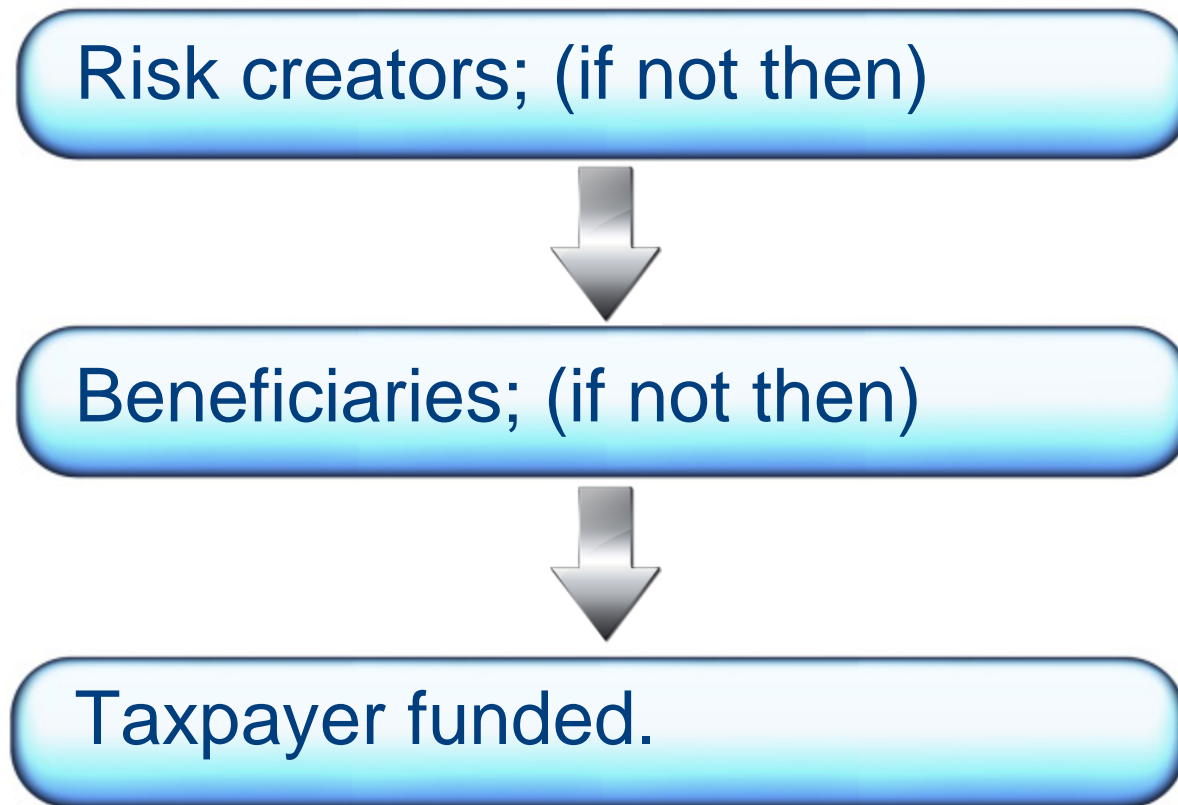
A response action

Economically worthwhile
(benefits > costs)

- Efficiency and Equity require appropriate cost recovery mechanism.

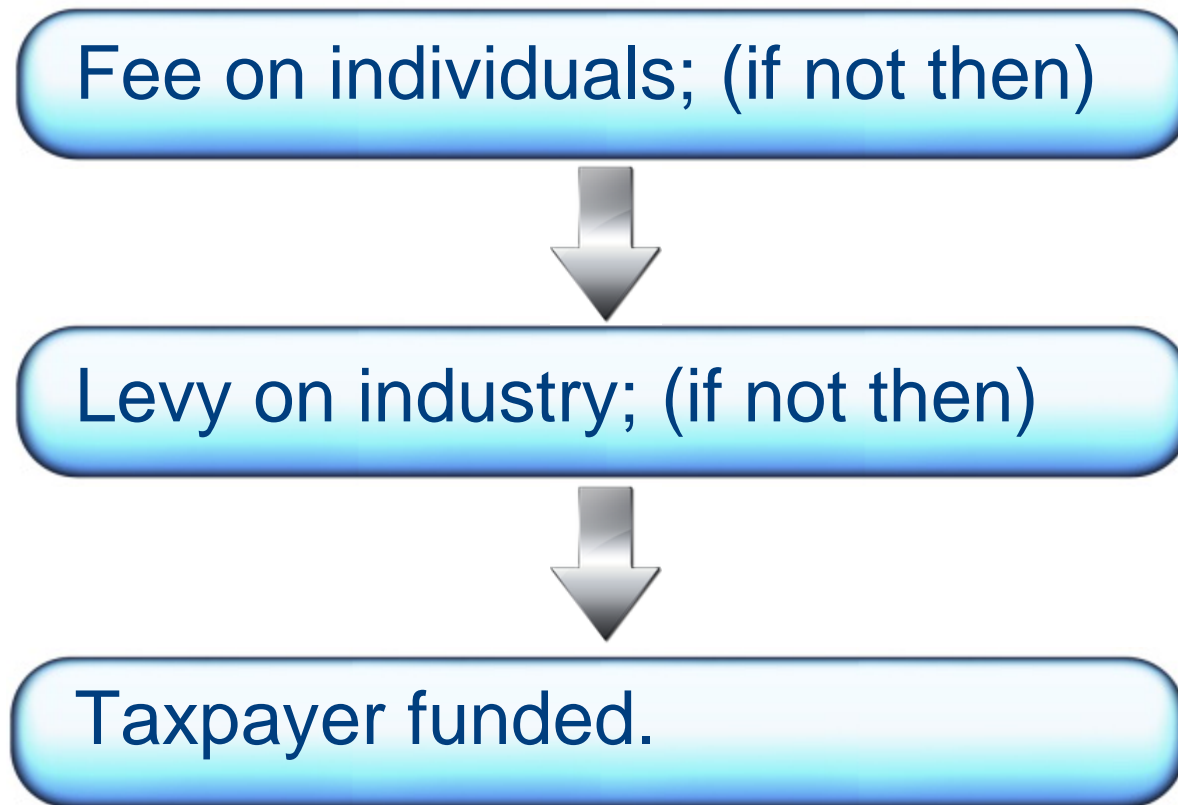
Point 2 - Risk Creators & Beneficiaries

- Efficiency is not a subjective choice!
Involves a hierarchy between:



Point 3 - Cost Recovery Mechanism

- Efficiency is not a subjective choice!
Involves a hierarchy between:



Point 4 - Degree of Cost Recovery

Provision with
No Cost Recovery
(Taxpayer Funding)

Provision with Cost Recovery @
Commercial Cost
 $*(A + B + C + D + E)$

Provision with Cost Recovery @
Fully Distributed Cost
 $*(A + B + C + D)$

Provision with Cost Recovery @
Avoidable Cost
 $*(A + B + C)$

Provision with Cost Recovery @
Marginal Cost
 $*(A + B)$

*Cost Recovery Components

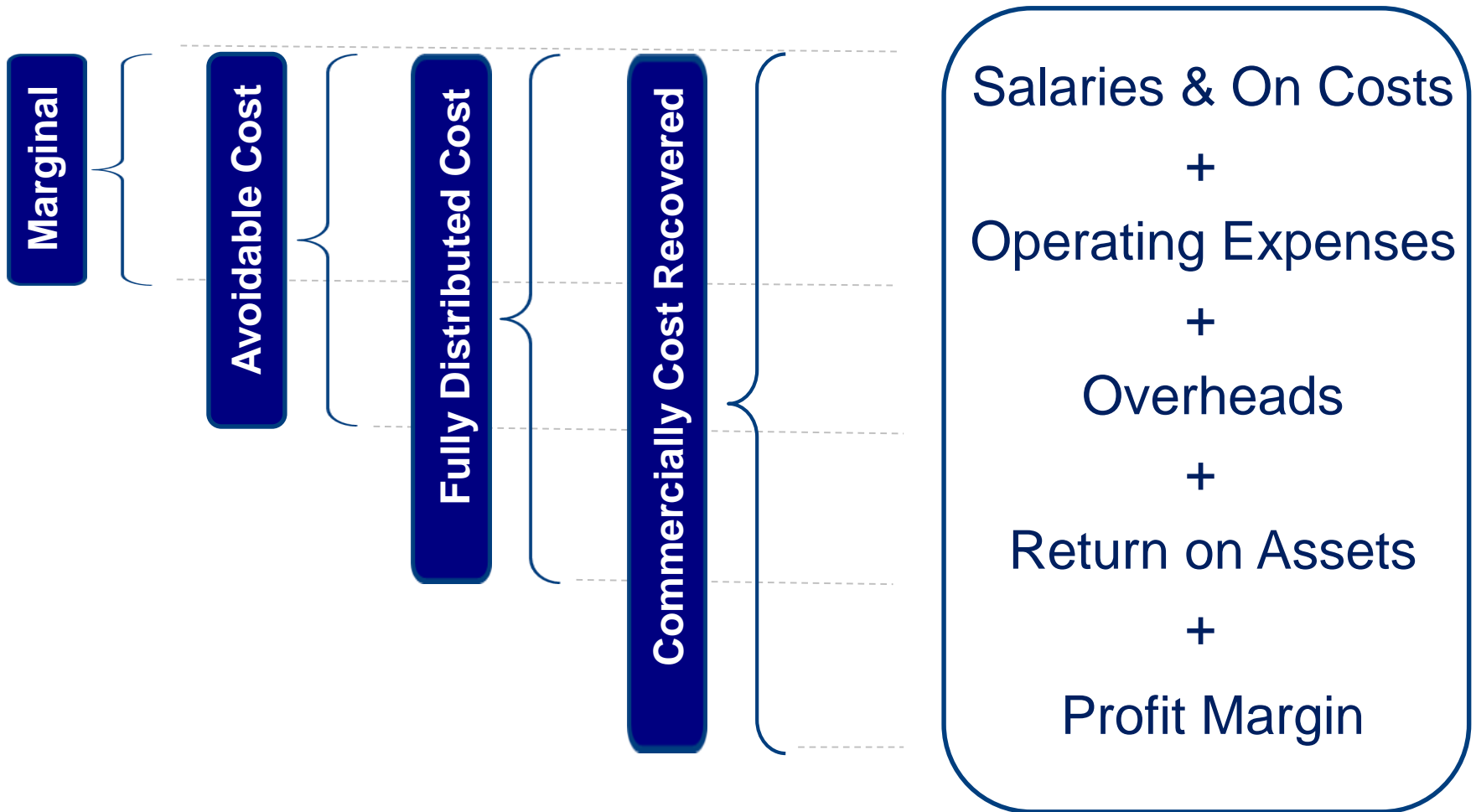
A – Salaries & On Costs

B – Operating Expenses

C – Overheads

D – Return on Assets

E – Profit Margin



Actions

1. Clearly Identify the Nature of the Problem

2. Devise Biosecurity Program or Activity

3. Conduct a Benefit Cost Analysis

Obstacles Encountered



- Problem definition
- Preconceived ideas
- Unfamiliarity with economic concepts
- Heterogeneity of proposed activities/programs

Conclusions



- Cost Recovery:
 - Should be Defensible, Repeatable & Transparent;
 - Is largely Objective;
 - Can be achieved through the application of this Decision Framework.

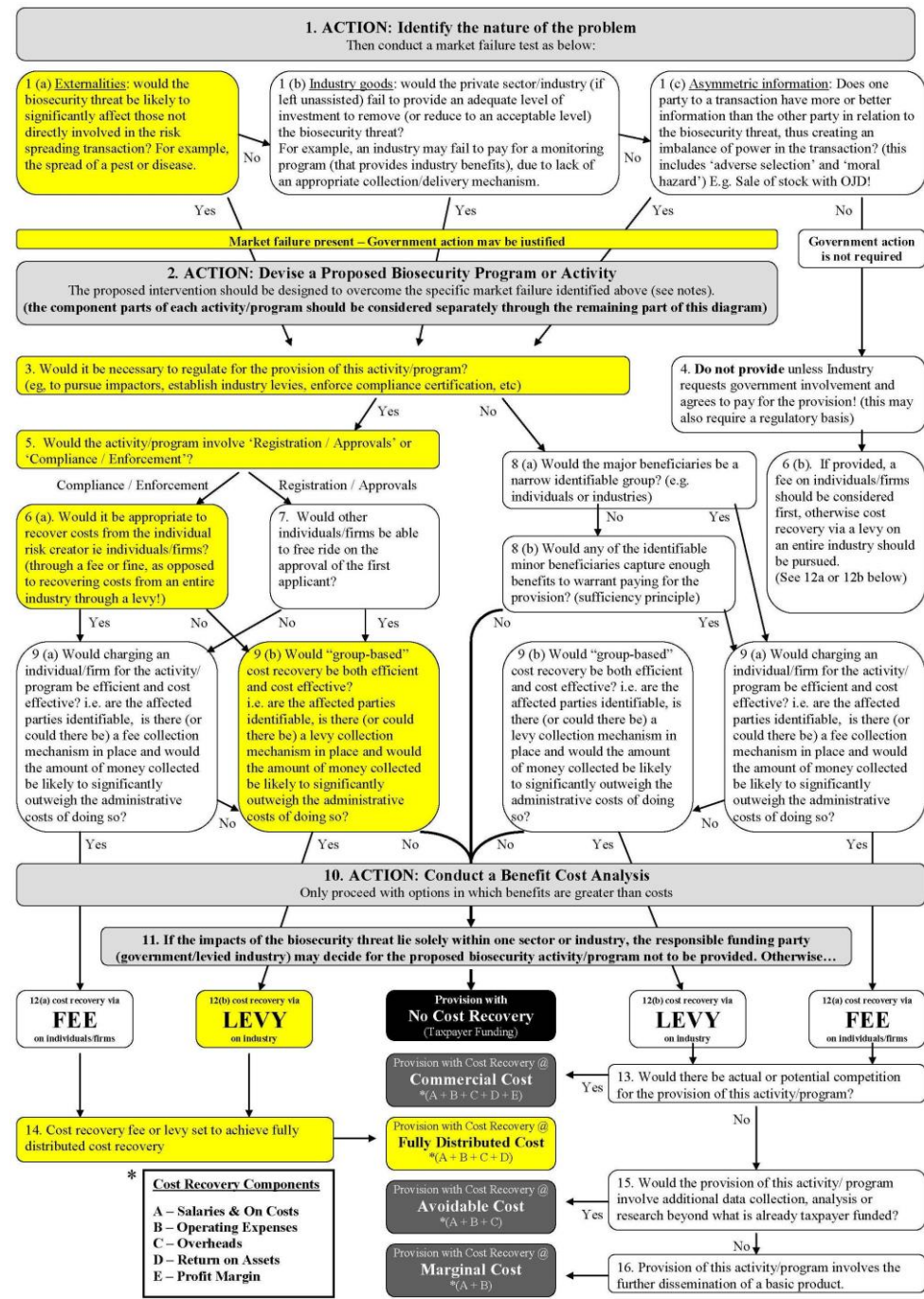


Thanks for Listening!

Any Questions?

Worked Examples

- Inspection by Fisheries Officers to obtain compliance with the various fisheries legislation.



Worked Examples

■ Issuing Area Freedom Certificates administered by the Plant Product Integrity & Standards Unit

