



Cost Benefit Analysis in Food Regulation

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"An economist is someone who sees something that works in practice and wonders if it would work in theory." – Ronald Regan



Introduction

- What is cost benefit analysis?
- Why do we have to do it as part of food regulation?
- Why we should want to do it?
- What are its major features?
- What are its limitations?
- How does it relate to the other scientific work of FSANZ?



What is Cost-Benefit Analysis?

Cost-benefit analysis (CBA) is a method of organising information to aid decisions about the allocation of resources.

- Expressed in a common metric
- Concerned about whole community
- Allows comparison of costs and benefits over time through discounting



The features of CBA are:

- cost and benefits are expressed in a common metric;
- it has a wide frame of reference;
- allows comparison of costs and benefits over time;



- attempts to value externalities and non-market goods;
- can be used to justify use of resources for a new project or as part of an evaluation process; and
- does not attempt to diminish the role of the decision maker.

Why we have to do CBA?

- Council of Australian Governments (COAG) Best Practice Regulation guidelines – Regulatory Impact Analysis;
- FSANZ Act; and
- expectations of stakeholders.

Our Work

- Office of Best Practice Regulation (OBPR)
 - Federal agency for regulatory compliance
- Regulatory Analysis Unit (RAU)
 - FSANZ's economic section
 - point of contact with OBPR

Our Work

- RIS must include:
 - problem;
 - objective;
 - options;
 - impacts;
 - consultation;
 - recommendation; and
 - implementation & review.

Our Work

- Preliminary Assessment Report (PAR);
- Consultation RIS; and
- Decision Making RIS.

Our Work

- Addressing Information Gaps
 - **Internal research**
 - published reports, studies and papers
 - **Consultation**
 - industry and industry groups
 - State government enforcement agencies
 - **Stakeholders**
 - questionnaires and interviews
 - **Consultants**
 - commission research and analysis

Our Work

- continuous consultation with OBPR;
- work extremely closely with scientists; and
- meet with key stakeholders.

Our Work

- Regulatory Impact Statements must have:
 - sound analysis;
 - allow informed decision making; and
 - be transparent.

Why should we want to do CBA?

- should make decisions right more often;
- forces us to challenge conventional wisdom and establish the link between cause and effect; and
- assists decision making by making it more open, rigorous and less likely to be captured by sectional interests.

Real World Outcomes

In addition to the ‘desk top science’ answers we need to understand the relationship between the regulation and the main actors:

- the regulatory capacity of various businesses need to be considered;
- we also need to understand who will be implementing and enforcing; and
- how are consumers likely to respond.

Problems

- significant burdens exist in collecting and interpreting available evidence;
- methodological problems exist in measuring certain costs and benefits;
- can be highly contested; and
- CBA was originally designed for infrastructure project.

Challenges

Regulating the right people; the right amount in the right way is getting increasingly difficult:

- the ‘low hanging fruit’ has already been taken
- the production and distribution of food is getting more complicated

Moving Forward

However, clear benefits do exist in assisting decision making and we are progressively solving the above problems.

Tools and Methods

- better understanding of intangibles and difficult to measure costs and benefits;
- health economics;
- behavioural economics; and
- reconsideration of the valuation techniques that underpin our analysis.

Relationships and Partnerships

- Consumer and Social Science Unit, FSANZ;
- other Australian Government agencies;
- Quads – US, New Zealand, Canada + UK;
- academics; and
- other groups.

Other initiatives

- health economics & cost-benefit training
- methodological guidelines
- Economics and Social Science Forum – 16 November 2011

How our work relates to Science

- our scientists provided information on the number of illnesses, severity of illness and effectiveness of interventions;
- some philosophical tensions exist; and
- our work can be considered an extension of risk management.

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