

Title: Regulation 882/2004 (EC) on official controls performed to ensure the verification of compliance with feed and food law, animal health and animal welfare rules - fees IA No: 1272 Lead department or agency: Defra Other departments or agencies:	Impact Assessment (IA)		
	Date: 27/2/2012		
	Stage: Consultation		
	Source of intervention: EU		
	Type of measure: Secondary legislation		
Contact for enquiries: Adrian Cooper/ Jim Estall 0207 238 2041;			

Summary: Intervention and Options	RPC Opinion: RPC Opinion Status
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Cost of Preferred (or more likely) Option			
Total Net Present Value	Business Net Present Value	Net cost to business per year (EANCB on 2009 prices)	In scope of One-In, Measure qualifies as One-Out?
£0m	£4.2m	£0.44m	No
			NA

What is the problem under consideration? Why is government intervention necessary?
EU legislation on the control of live animals imported from countries outside EU requires the cost incurred by the public sector in carrying out import veterinary health checks to be recovered from the importer. These statutory examinations guard against the introduction of animal diseases that could seriously damage our livestock and ecosystems. Current fees in GB do not reflect the true cost to Government of providing the inspection service and do not comply with EU legislation which lays down a minimum fee for veterinary checks on live animals imported from third countries. Government intervention in setting the fees is necessary to comply with the current EU law which in turn will relieve the burden on public finances.

What are the policy objectives and the intended effects?
Veterinary checks on live animals imported from outside the EU are necessary to prevent the introduction of diseases harmful to animal and public health.
The objective of this policy is to relieve the burden on the taxpayer of providing this statutory service and, to ensure compliance with EU legislation.
The intended effect is to transfer the cost of providing this service from the taxpayer to the users of the service, without compromising the Government's objectives in preventing the introduction and spread of animal diseases into the UK and the rest of the EU, and to remove the risk of infraction proceedings.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)
0. Do nothing (no change to current policy of partial cost recovery)
1. Introduction of fee increases to achieve FCR all in one go in year 1 from October 2012
2. Phased introduction of fee to achieve FCR by year 2 of implementation (2013/14), charging the EU minimum fee in year 1 (2012/13). This is our preferred option as it allows us to meet EU rules on setting costs and provides businesses with a period of adjustment to absorb the higher FCR costs.
3. Introduction of FCR, where below the EU minimum, and EU minimum where FCR is higher. Our preferred option is option 2.

Will the policy be reviewed? It will be reviewed. **If applicable, set review date:** 08/2014

Does implementation go beyond minimum EU requirements?			No		
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.	Micro Yes	< 20 Yes	Small Yes	Medium Yes	Large Yes
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)			Traded: N/A	Non-traded: N/A	

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible SELECT SIGNATORY: _____ Date: _____

Summary: Analysis & Evidence

Policy Option 1

Description: Introduction of Full Cost Recovery for the import inspections services for all live animals at BIPS from third countries plus out of hours call our fee with implementation in October 2013

FULL ECONOMIC ASSESSMENT

Price Base Year 2012	PV Base Year 2012	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low:	High:	Best Estimate: 0

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	Optional	Optional	Optional
High	Optional	Optional	Optional
Best Estimate		0.67	5.70

Description and scale of key monetised costs by 'main affected groups'

There is a cost incurred by business as they will now have to pay higher fees for veterinary health checks of live imported animals from third countries. This cost on average equals £670K per annum. For further details see table 2 (page 10)

Other key non-monetised costs by 'main affected groups'

Some of the imported animals will also need a licence under the Convention on International Trade in Endangered Species (CITES). There is currently a charge for these licences which is less than full cost recovery (FCR) and a proposal is being brought forward to move to FCR for these licences.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	Optional	Optional	Optional
High	Optional	Optional	Optional
Best Estimate		0.67	5.70

Description and scale of key monetised benefits by 'main affected groups'

The taxpayer benefits on average by £670K per annum as business now has to pay the full cost of conducting the veterinary health checks of imported live animals from third countries.

Other key non-monetised benefits by 'main affected groups'

None

Key assumptions/sensitivities/risks

Discount rate (%) 3.5

Assumption: Service cost calculations for 2011/12 assumes the number of import consignments will remain at or close to 2009/10 values. Risk: The main risks are that (a) niche market sectors where profitability is marginal may become unprofitable although costs are likely to be transferred to the customers and (b) some of the trade in live animals moves to cheaper regimes operating in the EU but the high associated transport costs are likely to mitigate these risks (see paragraph 29).

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			In scope of OIOO?	Measure qualifies as
Costs: 0.66	Benefits:	Net: 0.66	No	NA

Summary: Analysis & Evidence

Policy Option 2

Description: EU minimum fees in October 2012 for all applications Formal consultation to be taken forward separately on proposal to increase to full cost recovery in 2013

FULL ECONOMIC ASSESSMENT

Price Base Year 2012	PV Base Year 2012	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low:	High:	Best Estimate: 0

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	1		
High			
Best Estimate		0.49	4.20

Description and scale of key monetised costs by 'main affected groups'

There is a cost incurred by business as they will now have to pay higher fees for veterinary health checks of live imported animals from third countries. This costs on average equals £490K per annum which is less than option 1 as a lower increase in the charge is proposed. For further details see table 2 (page 10)

Other key non-monetised costs by 'main affected groups'

Some of the imported animals will also need a licence under the Convention on International Trade in Endangered Species (CITES). There is currently a charge for these licences which is less than full cost recovery (FCR) and a proposal is being brought forward to move to FCR for these licences.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low			
High			
Best Estimate		0.49	4.20

Description and scale of key monetised benefits by 'main affected groups'

The taxpayer benefits on average £490K per annum as business now has to pay a greater fee to Government for conducting the veterinary health checks of imported live animals from third countries.

Other key non-monetised benefits by 'main affected groups'

None

Key assumptions/sensitivities/risks	Discount rate (%)	3.5
Assumption: Service cost calculations for 2011/12 assumes the number of import consignments will remain at or close to 2009/10 values. Risk: That main risks are that (a) niche market sectors where profitability is marginal may become unprofitable although costs are likely to be transferred to the customers and (b) some of the trade in live animals moves to cheaper regimes operating in the EU but transfer costs are likely to mitigate these risk (see paragraph 29).		

BUSINESS ASSESSMENT (Option 2)

Direct impact on business (Equivalent Annual) £m:	In scope of OIOO?	Measure qualifies as
Costs: 0.49	No	NA
Benefits: 0		
Net: 0.49		

Summary: Analysis & Evidence

Policy Option 3

Description: phased introduction of Full Cost Recovery where this is below the EU minimum and EU minimum where FEC is above by October 2013 for import inspection services plus and additional call out fee for out of hours charges

FULL ECONOMIC ASSESSMENT

Price Base Year 2012	PV Base Year 2012	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low:	High:	Best Estimate: 0

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low			
High			
Best Estimate		0.47	3.97

Description and scale of key monetised costs by 'main affected groups'

There is a cost incurred by business as they will now have to pay higher fees for veterinary health checks of imported live animals from third countries. This cost equals £470K per annum although the total cost is lower than both Option 1 and 2. For further details see table 2 (page 10)

Other key non-monetised costs by 'main affected groups'

Some of the imported animals will also need a licence under the Convention on International Trade in Endangered Species (CITES). There is currently a charge for these licences which is less than full cost recovery (FCR) and a proposal is being brought forward to move to FCR for these licences.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low			
High			
Best Estimate		0.47	3.97

Description and scale of key monetised benefits by 'main affected groups'

The taxpayer benefits by an average of £470K per annum as business eventually has to pay the full cost of conducting the veterinary health checks of imported live animals

Other key non-monetised benefits by 'main affected groups'

None

Key assumptions/sensitivities/risks

Discount rate (%)

3.5

Assumption: Service cost calculations for 2011/12 assumes the number of import consignments will remain at or close to 2009/10 values. Risk: That main risks are that (a) niche market sectors where profitability is marginal may become unprofitable although costs are likely to be transferred to the customers and (b) some of the trade in live animals moves to cheaper regimes operating in the EU but transfer costs are likely to mitigate these risk (see paragraph 29).

BUSINESS ASSESSMENT (Option 3)

Direct impact on business (Equivalent Annual) £m:			In scope of OIOO?	Measure qualifies as
Costs: 0.46	Benefits:	Net: 0.46	No	NA

Evidence Base (for summary sheets)

Background: Import of live animals from third countries

1. Imports of animals from third countries outside the EU represent an important contribution to the UK economy; in 2010 the value of imported live animals (from outside the EU) was judged to be approximately £110m – but they can also bring with them the risk of animal diseases. Imports are therefore subject to strict controls at the UK border under EU and national rules.
2. Disease outbreaks and the measures to control them can carry wide and costly consequences for public health, the economy and the environment. The 2001 Foot and Mouth Disease outbreak required £2.6bn of Government spending to directly contain and eliminate the disease. The loss to the UK economy overall (including this figure) was estimated by various analysts to be in the range of £3-4 bn.
3. Each year GB imports around 14,000 consignments of live animals from third countries which include small numbers of livestock: approximately 100,000 day old chicks, around 200,000 live reptiles, approximately 8,000 cats and dogs, 15 million tropical fish, 160 million insects and pupae and 25 million poultry and fish eggs – (full details included in Annex 1) which pose a risk of introducing new pests and diseases to human and animal health.
4. Animals may only be imported from countries approved by the EU. Live animals may only enter the EU at specifically approved points of entry – called Border Inspection Posts – where they are subject to checks by Animal Health and Veterinary Laboratories Agency (AHVLA).
5. All animals must be accompanied by the appropriate animal and/or public health certification and then entered on the EU's Trade Control and Expert System (TRACES) which provides robust tracking and audit. All consignments undergo a documentary check and identity check. Each consignment of live animals has a physical check, which could be a visual examination of some of the animals in the consignment or a clinical examination including blood samples. Member States are required to collect fees to cover the costs occasioned by the documentary checks, identity checks and veterinary checks (see annex 2).
6. Importers of live animals range from individuals, to large scale pharmaceutical companies (insects). Imports are primarily related to retail sectors (rather than farmers) including imports of tropical fish and reptiles for the pet shops/hobby market and trout eggs for fisheries. In 2010, the total value of imports of live animals from outside the EU to the UK was around £110m.
7. In 2010, over 5,000 organisations and individuals imported a live animal into the GB from a third country. Of these imports 93% were by individuals and 7% by businesses or institutions. Of those individuals the vast majority were for single cats and dogs and are assumed to be unaccompanied pets by owners rather than businesses, and a small number of horses are imported by horse trainers. The value of the imports is variable: from goldfish of little monetary value to high value thoroughbred race horses. Freight costs can range from £500 - £1,000 per consignment and any of the proposed policy options form only a small percentage of the costs of importing and the value of the imports.
8. In 2010, the total AHVLA income for live animal imports was £250,288. Charges currently vary from animal to animal (see annex 3). In addition, a minimum fee of £25 applies for most imported mammals and a reduced rate once the consignment of animals exceeds 50. For live fish, other aquatic animals and reptiles the basic fee is 30p per box with a minimum of £5. For bees the basic fee is also £5. The annual charge invoiced per importer ranged from no charge to a maximum of £14,626 (equivalent to 1,109 consignments).

Problem under consideration

9. The controls on live animals imported from third countries are based on EU provisions. Council Directive 91/496/EEC requires that all live animals (other than accompanied pets) are inspected by

an official veterinarian on entry into the EU at a Border Inspection Post. Council Regulation 882/2004 (EC) requires that the costs for carrying out the checks under Council Directive 91/496/EEC are recovered from the importer. This Regulation also lays down a minimum fee for each consignment imported into the EU. At present this is set at €55 (see annex 2). This Regulation is directly binding on all UK administrations. Charging for import/veterinary check services is consistent with the principle that 'risk owner's pay for risk mitigation'; since many diseases that arrive in this country may do so via commercial trade in animal and animal products.

10. The Regulation provides for two charging options (see Annex 2 for more details). Either Member States can charge the minimum according to a standard schedule of charges as set out in Annex V, Section b Chapter III of Regulation 882/2004/EC, or they can establish their own charges based on the actual cost of inspections. Regulation 882/2004/EC states that these cost-based charges should reflect: salaries of staff involved in official controls, the other costs involved in official controls including facilities, tools, equipment, training travel and associated costs, and for laboratory analysis and sampling.
11. AHVLA has charged for the import of live animals from outside the EU since 1997 through the (Animals (Third Country Imports) (Charges) Regulations 1997) and although the EU Regulation 882/2004/EC came in to force 1 January 2007, the new charging regime as laid out in this Regulation was not implemented. Importers have therefore been paying significantly less than full cost recovery for this service with no increase in charges for 14 years and less than the EU minimum for nearly 5 years. Our preferred option is set out in paragraph 47 by meeting the EU minimum and move to FCR, where this is greater than the EU minimum at a later date. This will allow GB to fully comply with Regulation 882/2004/EC. Failure to act could result in UK charges continuing to be recovered at less than the EU Euro equivalent minimum, leading to a risk of infraction proceedings by the Commission. The Food and Veterinary Office of the European Commission (FVO) have regularly criticised the UK's implementation of fees for veterinary checks on live animals in their reports on the UK's import controls. Another visit by the FVO is due shortly. Estimated minimum cost of infraction proceedings is £10m.
12. The income recovered from the beneficiaries of this service (importers) is currently less than 24% of the cost to Government of providing the service. It is estimated by AHVLA that the cost of service provision will be in the region of £1 million in 2011/12 (breakdown provided in annex 7) yet the income received from charging the fees in 2010/11 was only £250,288. The % change in fees required to cover the costs occasioned by the service in undertaking documentary checks, identity checks and veterinary checks to the minimum required in Regulation 882/2004 would represent an increase of up to 874% for certain animals but the majority would rise by approximately 98%. Full cost recovery would necessitate higher fees than the EU minimum and in this case increases could be up to 1460%. Annex 5 provides more details on the percentage changes across different animal species and for each option. The proposed increases actually form a very small proportion of the value of imported live animals (approx. one percent).
13. The impact of increasing charges to the EU minimum of 55 Euro (£48.71) for each consignment for all species increases charges for the top 10 importers from a total of £57,000 to £221,000. However, calculated as an additional cost per 1,000 animals imported the effect ranges from £4.62 to £26.99 and three of the suppliers would actually pay less. Those affected by the highest percentage increase are importers of tropical fish, however, consignments of fish may contain large numbers of fish and increased cost per head will be lower. Fee structures, including those stated in Regulation 882/2004/EC, are linked to volumes either to the number of animals or set tonnage limits. For 2010, the vast majority of consignments/imports were below the specified tonnage limits set in Regulation 882/2004 (<6 tonnes) and the proposals have been calculated on this basis. Importers of single animals will incur greater costs but those importing larger numbers may actually benefit, for example a consignment of 50 pigs currently cost the importer £400 but under the new regime this would have cost £48.71 as an EU minimum and £53.70 at full cost recovery. Importers of large quantities of poultry will pay more but only approximately 50 pence per consignment which may encourage importers to increase the number of animals per consignment to reduce costs. This may therefore lead to changes in behaviours and reduced costs for importers. Importers are aware of the proposals to increase charges and although not welcomed the industry recognises that they have benefitted from a subsidised service for many years.

14. The European legislation makes no differentiation in fees for the time of day a consignment arrives in a Member State. However, operating a BIP for 24 hours a day has a significant impact on resource requirements for AHVLA. Outside normal working hours AHVLA incurs the cost of a travel of the Veterinary Officer (VO) to and from the BIP and there are consequential time resource implications which result in reduced availability of the VO as that time (and more) is recouped. For welfare reasons animals should not be held for any significant length of time at BIPs and therefore the service must be maintained but it is important the AHVLA recoup the actual cost of the service they provide at unsociable hours, either through a raised out of hours fee or charging for their time and travel.
15. The proposal is to charge the normal fee plus an additional call out charge of £80 which will increase on an annual basis in line with wage inflation. (The 1997 Regulations allow for a 50% increase in fees outside 8.30am-5pm weekdays and 100% increase on weekends).

Rationale for intervention

16. The rationale for Government intervention is twofold. The first is a legal requirement to comply with Council Regulation 882/2004 which requires that at least the minimum costs for carrying out these checks are recovered from the importers. Secondly, it is Government policy to fully charge for providing goods and services where feasible. Charging for executing checks relieves the taxpayer of costs as they should be borne by the users who largely benefit from imports. This accounts for a more efficient use of limited public expenditure and borrowing, as well as removing market distortions resulting from a public subsidy for the service.
17. These costs are transferred to the industry by charging. Essentially there is a cost to industry and equivalent benefit to society as the revenue is transferred to AHVLA. This arrangement avoids the implicit subsidisation of the private sector at the taxpayers' expense. Charging for these services is in accordance with HMT and Defra's overall rationale for charging.
18. It is also GB Government policy to charge for publicly provided goods and services where feasible. Charging for live animal veterinary checks relieves the taxpayer of costs borne by users who largely benefit directly from imports.

Policy Objectives and intended effects

19. The aim of the cost recovery regime for the import inspection/veterinary check services is to relieve the burden on the taxpayer of providing this service. It is intended that this will be achieved by transferring the costs of the import checks from the general taxpayer to the businesses using the services to the EU minimum as a first stage and eventually to full cost recovery. The intention is to achieve this without compromising the Government's objectives to guard against the introduction of harmful animal pests and diseases into the EU.

Description of Options Considered

20. Four options have been considered in delivering the policy objective of ensuring that the import inspection service is cost neutral for Government.

- **Option 0: No intervention (Business-As-Usual).** Under this option charges would be maintained at current levels.
- **Option 1: Introduction of Full Cost Recovery (FCR) for the import inspection services for all applicants plus an additional 'call-out' fee for out of hours work, with implementation in October 2012.**

This option would deliver the Government's stated objectives and recover the full cost of the service. It would also mean compliance with EU legislation and remove the (small) risk of infraction.

- **Option 2: Introduction of the EU minimum fees level in October 2012. (Further consideration and consultation on move to FCR to then follow in October 2013)**

This option would deliver the compliance with the EU legislation (removing the small risk of infraction) and works towards the Government's stated objectives to recover the full cost of

the service, but unlike option 1 the EU minimum fee pre-cedes any implementation of FCR as this would follow on shortly subject to further consideration of impacts and formal consultation on any proposals. This IA will form the basis of our consultation. This is our preferred option.

- **Option 3: Introduction of FCR where this is below the EU minimum and EU minimum where FCR is above an additional ‘call-out’ for out of hours work.**

This option would not deliver the Government’s stated objectives of recovering the full cost of the service. It would deliver partial compliance with EU legislation.

Costs and Benefits

Option 0

21. This is the Do Nothing option and represents the baseline against which the other policy options are appraised. This option therefore has no associated costs and benefits. Selecting this option would fail to meet a Government objective of full cost-recovery and would effectively be subsidising a commercial sector when there is little or no economic rationale for doing so. This option would contravene EU legislation and risk infraction.

Options 1,2, and 3

22. These options all propose to implement Full Cost Recovery (FCR) however; they differ according to when FCR is implemented. The table below summarises the difference between the 3 options:

Table 1: The implementation of FCR across the all options

Option	Implementation Date
1	FCR by October 2012
2	EU minimum fee level no later than October 2012; formal consultation on proposals for FCR with proposed implementation in 2013 to follow
3	Introduction of FCR, where below EU minimum, and EU minimum where FCR is higher from October 2012:

Costs

23. The costs of these options are imposed on business who will face an increased fee to pay for veterinary health checks for imported live animals. In 2010 businesses paid a total sum of £250,288 (full details contained in Annex 4), if FCR is implemented then assuming 2010 import levels persist into the future these fees will rise to a total of £953088 per annum. This represents an increase of £702800 in fees payable by business when the move is made from the current fee level to FCR. If the EU minimum fees level of 55 Euro’s per consignment up to 6 tonnes is implemented then the total charge would be £768553 per annum, an increase of £518265 on current levels.

Benefits

24. Increasing the fee represents a transfer from live animal importers to Government; the costs of the veterinary health checks are now fully met by the importers rather than partly met by Government. The benefits of this fee increase therefore accrue fully to Government and match the extra fees paid by importers i.e. £702800 per annum in Option 1.

Summary of costs and benefits

25. There are keys costs and benefits associated with options 1,2 and 3.

Introducing full cost recovery charges from October 2012 (option 1) would mean the services, which are only used by importers, will be self funding and costs will be borne by those who stand to benefit rather than being funded by the taxpayer. Option 1 would also achieve compliance with EU minimum requirements for Regulation 882/2004/EC in year 1 of implementation however it would also place the greatest financial burden on businesses at an additional cost of over £754K annum and in some cases would result in an immediate 1370% increase in the fee charged.

The benefits of phasing the introduction of full cost recovery where this is below the EU minimum and the EU minimum where FCR is above (option 3) would mean that the cost of the services, which are

only used by importers will be borne by those who stand to benefit rather than being funded by the taxpayer. It would also provide time to work with importers to establish more efficient working practices which could lead to a reduction in the fee increases needed in years 2 & 3. However, this option would mean that compliance with the EU minimum requirement is not achieved.

Implementation of option 2 (introduction of EU minimum in October 2012 (then formal consultation on move to FCR) would achieve full compliance with EU minimum requirements by early 2012 thus removing any infraction risk immediately and could be implemented without the need for new legislation as fees are already listed in 882/2004/EC. This option would provide a transitional period for full cost recovery (on which we would formally consult) creating less of a financial burden on businesses than option 1. It would also provide time to work with importers to establish more efficient working practices which could lead to a reduction in the fee increases. This does mean there would be a loss of income to Government but this would be less than proposed in option 3.

The following table summarises the increased cost to business as a consequence of higher charges. These costs are shown on the summary pages at the beginning of this document and are equivalent to the reduced need for subsidy from the general taxpayer. They are also therefore the benefits of these options.

Table 2: Increase in costs to business from higher charges (equivalent to benefit to taxpayer) (Financial years £m)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
At constant prices											
Option 1	0.352	0.703	0.703	0.703	0.703	0.703	0.703	0.703	0.703	0.703	6.679
Option 2	0.259	0.518	0.518	0.518	0.518	0.518	0.518	0.518	0.518	0.518	4.921
Option 3	0.245	0.490	0.490	0.490	0.490	0.490	0.490	0.490	0.490	0.490	4.655
Present Value											
Option 1	0.352	0.679	0.656	0.634	0.613	0.592	0.572	0.553	0.534	0.516	5.700
Option 2	0.259	0.500	0.484	0.467	0.451	0.436	0.421	0.407	0.393	0.380	4.200
Option 3	0.245	0.473	0.457	0.442	0.427	0.413	0.399	0.385	0.372	0.360	3.973

Administrative Burdens

26. We predict that there will be a minimal (perhaps insignificant) increase in the administrative burden on businesses or Government, because, although charges will increase, the administrative process will remain unchanged – the scope and structure of import inspection remains the same.
27. A small number of imported animals require to be licensed under the Convention on International Trade in Endangered Species (CITES) for which there is currently a charge that is less than full cost recovery (FCR). However this is due to be updated to FCR. The average annual number of licences issued that this would apply to is 30,000 applied for by a few hundred importers (licences for imports, exports and re-exports from 1/4/11 to 31/3/12 were applied for by 72 individuals and 276 businesses). The charge being proposed in relation to import controls is in line with the EU minimum and consistent for businesses wishing to import such animals into Europe.

Risks and Assumptions

Risks

28. The AHVLA is required to make substantial cuts to its costs by Year 4 of the Comprehensive Spending Review. The main risks if increased charges are not introduced are:

- by not moving to the minimum EU fee we maintain the risk of infraction proceedings;
- increased cuts being required elsewhere within the AHVLA Programme, increasing the risk that animal disease introductions may be missed (e.g. surveillance) and eradication actions increasing in frequency and cost, costs that are borne by the landowners / business owners and Government.

29. The main risks if the requirement to introduce full-cost recovery based charges is implemented is that the increase in charges proposed may:

- reduce demand for the service if some market sectors become unprofitable
- 'export' of some of the trade to cheaper regimes operating elsewhere in the EU with impacts on importer businesses.

These implementation risks are considered manageable as import costs are a small proportion of the value of most animals and freight costs, furthermore options 2 & 3 provide a longer time scale for businesses to adjust.

30. Changes in business practices in response to fee increases will vary between types of animals and will be subject to the ability of sub-sectors to adapt. Importers may adapt by passing through some or all of the extra cost to customers, possibly resulting in lower demand, or absorbing the cost and reducing their profit margins. However, in principle it may not be possible for some businesses to be able to pass on the costs to customers or consumers or to absorb them themselves. There may be some markets, particularly where profit margins are currently low, where demand is insufficiently robust for consumers to pay increased prices e.g. independent pet shops. If this is the case then there is the chance that some markets may not remain commercially viable. We have little formal information to further inform this analysis and it would require a disproportionate amount of effort to quantify the very minor impacts which are likely to result. However, we are aware that some imports such as racehorses are extremely valuable and any increase would form a small proportion of their values. Goldfish, on the other hand have little monetary value, but the numbers imported in each box would reduce the increased cost per head.

31. Importers could also avoid the higher charges by importing of live animals through other parts of the EU with lower charges. Setting charges in the UK at the EU minimum will be in line with many other member states (e.g. Austria, Czech Republic, Lithuania, Portugal, and Cyprus). Other member states charge less than the minimum e.g. France. Others such as Finland charge full cost recovery above the EU minimum level. However, the importer would then have to pay freight costs through the EU.

Country	Compliance with 882 Y/N	Actual Charges	Out of hours
AUSTRIA:	Yes		BIPs open from 7:00am to 11:00pm
CYPRUS	Yes		No
CZECH REPUBLIC	Yes		No additional charge
FINLAND:	No	Charges are more than 882	Yes
FRANCE	No	Charges are actual which are more than the minimum under 882	Yes
IRELAND	No	Lower	No additional charge
LITHUANIA:	Yes		No additional charge

NETHERLANDS	No	Lower	Not known
POLAND	No	Lower	Not known
PORTUGAL:	Yes		Not known

32. GB will therefore face a change in its comparative competitive position if Options 1 and 3 are adopted. However, the magnitude of its impact is difficult to predict, because of the complexity of the market and the mixed fee regimes adopted across the EU and it would require a disproportionate amount of effort to quantify the very minor impacts which are likely to result. Whilst there is the possibility of some shift in trade to other countries in some sub-sectors, it is likely that the overall effect will be small because the transport, insurance costs and other costs of importing by different routes are likely to be relatively greater than the proposed increase in the import charges.
33. There may also be increases in illegal trade, including with-certificate trade (e.g. fraudulent declaration), without-certificate trade (smuggling) and non-payment of debt. Controls already in place should restrict any shift to illegal activity or non-payment of debt, making it likely the impacts will be relatively small. However, where it does occur it will have a negative impact on taxpayers both through lost revenue and costly eradication and control programmes that may be necessary to mitigate pests and disease introduced by illegally imported animals.

Assumptions

34. The service costs for 2011/12, upon which the fees are calculated, are based upon the assumption that trade volumes (no. of consignments) in 2010 will be maintained post-implementation, i.e. adoption of FCR fees would not have a significant impact on trade.
35. The calculations of costs to businesses also assume that the administrative burden of implementation will not be significant for businesses. These burdens (i.e. implementation of regulation that require substantial capital and administrative spends) are a particular issue for small and medium size enterprises. Options 1, 2, and 3 do not require any changes to the way in which regulation is carried out and therefore the assumption has been made that business will not face significant changes capital or administrative compliance costs.

One-In-One-Out

36. One-In-One-Out methodology has been followed. However, it should be noted that these proposals are not under the scope of One-In-One-Out in line with the statement by the MoS for Business and Enterprise that 'fees and charges should only be considered in scope of the Government's One in One Out policy where they resulted from an expansion in the level of regulatory activity.' These proposals do not expand the level of regulatory activity. Treasury's Managing Public Money clearly states that it is government policy to charge for many publicly provided services and the norm is to cover full costs services and all options presented work towards this aim.

Wider impacts

Statutory equality duties

37. The increases in fees may be passed to buyers of imported live animal thereafter. However, any price increases would apply equally to all individuals and most businesses involved in the activities covered by the import inspection service. Therefore, no negative or adverse impacts on a particular social group are anticipated.

Competition Impact Assessment

38. The increase in charges will be an additional cost to business in this sector. It may not be possible for some businesses to pass on the costs to consumers or to absorb them themselves. In principle, there may be some markets, particularly where profit margins are currently low and/or demand is insufficiently robust for consumers to pay increased prices. If this is the case then there is the chance that some businesses may not remain commercially viable, potentially leading to more competitive businesses increasing their market shares e.g. from independent pet shops to larger 'chain' pets shop/garden centres. The phasing of fee increases is targeted at reducing this risk.

39. Nevertheless, the fragmented nature of the sector, which is dominated by individuals, would indicate that the impact of any market concentration resulting in the exit of less competitive business from this sector would be relatively small. On this basis, we do not anticipate that implementation of any proposed options will result in any significant restriction in competition in any particular market. We will explore this further when we consult on the move to FCR.

Small firms impact assessment

40. A significant proportion of companies in this sector are small to medium sized enterprises (SMEs). Given that the import service and charging scheme are long established, Options 1, 2 and 3 should entail no additional administrative costs or capital investments on business. Furthermore, the majority of the options proposed offer businesses a chance to adjust to and plan for the increased charges. On this basis, we do not anticipate any significant, disproportionate impact of these proposals on SMEs. However, this review will continue discussions with businesses and their trade associations to assess the robustness of this assessment. BRE guidance states that fees and charges where there is no change in the level of regulatory activity arising from a corresponding change in the regulation placed on business are exempt from the moratorium on small business. In this case, the regulatory requirement on importers has been in place since 2007, and indeed charges from 1997. There is no change in regulation placed on businesses. We will explore this further when we consult on the move to FCR.

Greenhouse gas assessment

41. Options 1 and 3 may result in some changes in trade routes for live animals. If this is the case, this is expected to increase road transportation of animals as results of some imports moving to other EU countries who may apply lower charges. However, the overall changes are expected to be small and therefore will not have a significant impact on emissions of greenhouse gases.

Wider Environmental issues assessment

42. The policy options will have no significant impacts on wider environmental issues: it will not be vulnerable to the affects of climate change, have no financial, environmental or health impact on waste management, air quality, pollution or flood risk, biodiversity or noise levels.

Health and well-being assessment

43. The policy options will not directly impact on health or well-being and will not result in health inequalities.

Human rights assessment

44. The policy is consistent with the Human Rights Act 1998.

Justice assessment

45. The policy options do not create new criminal sanctions or civil penalties.

Rural proofing assessment

46. Conditions apply equally to all individuals and businesses involved in the activities covered by the proposal. There should be no equity issues arising for individuals or businesses wherever they are based.

Sustainable development assessment

47. The proposal contributes to the Government's sustainable development principle of achieving a sustainable economy by transferring the cost burden of delivering the import inspection charging regime from the taxpayer to businesses using the service, thus enabling more efficient allocation of public money.

Summary and preferred option with description of implementation plan

48. Our preferred option is Option 2. The initial increase to the EU minimum charges will allow us to fully comply with EU rules by October 2012. As some of the increases are significant our approach will allow us to monitor the impact on trade and business and take action if required. A new SI will not be required for recovery of these charges as they are currently listed in Regulation 882/2004. We are working up a further proposal to formally consult on the transition to full cost recovery. The total value of import from countries outside the EU is estimated at £110m per annum with the import of over 14 thousand consignments inspected by the service each year. The increase in charges to adopt FCR, which amounts to £754K per annum, is low in comparison with value of these imports of £110m. In principle, therefore overall cost recovery should be achievable.
49. Given the EU requirement for minimum fees for import checks, but bearing in mind the magnitude of the increases in some charges, and the potential for implementation to put UK importers at a disadvantage compared to importers in some other Member States (leading to possible diversion of trade), we are recommending introducing the increased charges in a phased manner, with an increase to the EU minimum as the first phase so that impacts on trade and business (foreseen and unforeseen) can be monitored and action taken if required. Our plan is to introduce the EU minimum charge in October 2012 following a 3 month industry notification period.

Post Implementation Review

50. AHVLA will routinely monitor whether the increase in charges has had an adverse impact effect on UK animal import business from third countries and consider action where appropriate. The underlying EU legislation is currently under review and new rules are intended to be in place by mid to late 2014.

Annexes

Annex 1: Volumes of live animals imported from third countries in 2010

AARDWOLVES	6	HALIBUT	9600	SNAKES	4448
ALPACAS	35	HATCHING EGGS	1419580	SPF EGGS	1671100
AMPHIBIA	3500	HORNBILL	1	SPIDERS	4523
ARCTIC CHARR EGGS	25000	HORSE	227	SPIDER CRAB	1
BEARDED DRAGON	1	HORSESHOE CRABS	275	TORTOISES	24528
BEN. INSECTS	2100000	HYENAS	12	TICKS	3000
BENEFICIAL PUPAE	4000000	INSECTS	152580818	TIGER	4
BEES	3399	INSECTS LARVAE	10000	TROPS	15973674
BIRDS	116	INVERTS	56097	TROUT EGGS	20270000
BEEYLES	76	KOI	55320	TURKEY EGGS	522280
BUSTARDS	25	JELLYFISH	1017	TURTLES	39675
CAT	2638	LAMPREY EELS	120	URCHINS	500
CORAL	16243	LARVAE	8800	ZEBRA FISH	1461
CLAMS	7330	LEOPARDS	2		
COLD	720	LIGERS	2	Total	220,389,407
CRABS	456	LIZARD	515		
CRUST	10209	LOBSTERS	120		
CW	2372059	LEECHES	9025		
CATTLE	10	MACAW	2		
CHICK EGGS	119520	MIXED	8411403		
CHICKEN H EGGS	70201	MONKEY	1		
COCKROACH	14	MOTH PUPAE	90		
COCOONS	4000	OCTOPUS	50		
CRAYFISH	16	PARROTS	115		
CYPR	1697521	P BIRDS	51		
DAY OLD CHICKS	26209	PIGS	243		
DAY OLD DUCKS	29936	PIGEONS	219		
DAY OLD TURKEYS	4809	PUPAE	787625		
DAY OLD PHEASANTS	40550	RABBITS	3		
DOG	4591	RAMS	27		
DUMP FLIES	426000	RAYS	102		
EAGLE OWL	1	REPTILES	141503		
FALCONS	33	ROCK	25083		
FERRETS	8	SCORPIONS	4		
FISH EGGS	844100	SEA LIONS	12		
FLIES	2968750	S TURTLES	5		
FLY PUPAE	3506076	SEA URCHINS	800		
FLYING SQUIRRELS	8	SHARKS	2		
FROGS	11006	SHEEP	4		
GOLDFISH	19640	SHREWS	42		
GARRA RUFFA	10900	SHRIMP	26158		
GYR	1	SNAILS	3425		

Annex 2: Fees for import of live animals from third countries as established in Regulation 882/2004/EC

Article 27

FEES OR CHARGES

1. Member States may collect fees or charges to cover the costs occasioned by official controls.
2. However, as regards the activities referred to in Annex IV, section A, and Annex V, section A, Member States shall ensure the collection of a fee.
3. Without prejudice to paragraphs 4 and 6, fees collected as regards the specific activities mentioned in Annex IV, section A and Annex V, section A shall not be lower than the minimum rates specified in Annex IV, section B and Annex V, section B. However, for a transitional period until 1 January 2008, as regards the activities referred to in Annex IV, section A, Member States may continue to use the rates currently applied pursuant to Directive 85/73/EEC. The rates in Annex IV, Section B and Annex V, Section B shall be updated at least every two years, in accordance with the procedure referred to in Article 62(3), in particular to take account of inflation.
4. Fees collected for the purposes of official controls in accordance with paragraph 1 or 2:
 - (a) shall not be higher than the costs borne by the responsible competent authorities in relation to the items listed in Annex VI; and
 - (b) may be fixed at a flat-rate on the basis of the costs borne by the competent authorities over a given period of time or, where applicable, at the amounts fixed in Annex IV, section B or in Annex V, section B.
5. In setting the fees Member States shall take into consideration:
 - (a) the type of business concerned and relevant risk factors;
 - (b) the interests of businesses with a low throughput;
 - (c) traditional methods used for production, processing and distribution;
 - (d) the needs of businesses located in regions subject to particular geographical constraints.
6. When, in view of own-check and tracing systems implemented by the feed or food business as well as of the level of compliance found during official controls, for a certain type of feed or food or activities, official controls are carried out with a reduced frequency or to take account of the criteria referred to in paragraph 5(b) to (d), Member States may set the official control fee below the minimum rates referred to in paragraph 4(b), provided that the Member State concerned provides the Commission with a report specifying:
 - (a) the type of feed or food or activity concerned;
 - (b) the controls performed in the feed and food business concerned; and
 - (c) the method for calculating the reduction of the fee.
7. When the competent authority carries out several official controls at the same time in a single establishment, it shall consider these controls as a single activity and charge a single fee.
8. Fees relating to import controls are to be paid by the operator or his representative to the competent authority in charge of import controls.
9. Fees shall not directly or indirectly be refunded, unless unduly collected.

10. Without prejudice to the costs deriving from the expenses referred to in Article 28, Member States shall not collect any fees other than those referred to in this Article for the implementation of this Regulation.

11. Operators or other relevant businesses or their representatives shall receive proof of their payment of fees.

12. The Member States shall make public the method of calculation of fees and communicate it to the Commission. The Commission shall examine whether the fees comply with the requirements of this Regulation.

Annex V, section B.

FEES APPLICABLE TO IMPORTED LIVE ANIMALS

1. The fee for the official control on the import of a consignment of live animals is fixed:

(a) for bovine animals, equidae, pigs, sheep, goats, poultry, rabbits and small game birds or ground game and the following land mammals: wild boar and ruminants, at:

- EUR 55 per consignment, up to 6 tonnes, and
- EUR 9 per tonne, up to 46 tonnes, thereafter, or
- EUR 420 per consignment, over 46 tonnes,

(b) for animals of other species at the actual cost of inspection expressed either per animal or per tonne imported, at:

- EUR 55 per consignment, up to 46 tonnes, or
- EUR 420 per consignment, over 46 tonnes,

it being understood that this minimum does not apply to imports of species referred to in Commission Decision 92/432/EEC.

2. At the request of a Member State, accompanied by appropriate supporting documents and in accordance with the procedure laid down in Article 18 of Directive 89/662/EEC, a lower level of fees may be applied to imports from certain third countries.

Annex 3: Schedule of current fees for import of live animals from third countries

Category of animals	Charge
• Bovine animals	
Basic fee per animal	£9.00
Fee per additional animal in the consignment after first 50 animals	£6.00
Minimum fee	£25.00
• Equidae (horses, asses, mules and hinnies)	
Basic fee per animal	£7.00
Fee per additional animal in the consignment after first 50 animals	£5.00
Minimum fee	£25.00
• Pigs and wild boar	
Basic fee per animal	£8.00
Fee per additional animal in the consignment after first 50 animals	£6.00
Minimum fee	£25.00
• Sheep, goats, alpaca and cria	
Basic fee per animal	£5.00
Fee per additional animal in the consignment after first 50 animals	£3.00
Minimum fee	£25.00
• Poultry, rabbits and small game birds	
Basic fee per large consignment (5 or more boxes)	£49.00
Basic fee per small consignment (less than 5 boxes)	£25.00
• Captive birds, and rodents (excluding rabbits)	
Basic fee per box	£10.00
Maximum fee per consignment	£49.00
• Ratites	
Basic fee per animal	£5.00
Fee per additional animal in the consignment after first 50 animals	£3.00
• Live fish, other aquatic animals and reptiles	
Basic fee per box	£0.30
Minimum fee	£5.00
• Bees and other insects	
Basic fee per consignment	£5.00
• Dangerous zoo animals	
Basic fee per animal	£9.00

Category of animals	Charge
Fee per additional animal in the consignment after first 50 animals	£6.00
• Ungulates (other than bovine, equine, porcine, ovine and caprine animals)	
Basic fee per animals	£8.00
Fee per additional animal in the consignment after first 50 animals	£6.00
Minimum fee	£25.00
• Ferrets, minks and foxes; and cats and dogs which are commercially traded under Council Directive 92/65/EEC	The greater of £25.00 or the actual cost of inspecting the animal

Annex 4: Import of live animals from third countries veterinary check fees – comparison of options over a full year period

Activity - Exchange Rate 1.1292 Euros to Pound	Proposed Full Cost Recovery Fees/Charge (2012-13 Rates)	Current Total Income - £'s		Option 1	Option 2	Option 3
		Consignment Vols 2010 YR		All Full Cost Recovery 2011-12 Rates and out of hours fee (£80)	EU minimum* (£48.71) and out of hours at fee (£80)	FCR where below minimum and EU minimum where above out of hours fee (£80)
Normal Hours					48.71	50%
Equidae	53.70	721	7,267	38,718	35,120	35,120
Pigs and wild boar	53.70	6	1,838	322	292	292
Sheep, Goats, Alpaca and Cria	53.70	11	385	591	536	536
Poultry, rabbits and small game birds	42.42	98	4,835	4,157	4,774	4,157
Pets (unaccompanied pets)	42.42	3,940	112,310	167,135	191,917	167,135
Captive birds and rodents	42.42	30	875	1,273	1,461	1,273
Animals not covered by any other category	42.42	114	4,507	4,836	5,553	4,836
Live fish, aquatic animals and reptiles	73.52	7,303	71,621	536,917	355,729	355,729
Bovine animals	53.70	10	90	537	487	487
Ratites (Flightless birds)	42.42	0	0	0	0	0
Bees and other insects	73.52	761	5,488	55,949	37,068	37,068
Dangerous Zoo animals	42.42	7	225	297	341	297
Ungulates (Hoofed mammals)	42.42	0	0	0	0	0
Sub Total – Normal Hours		13,001	209,441	810,730	633,279	606,930
Out of Hours						
Equidae, pigs, wild boar, sheep Goats Alpaca, cria, bovine	53.7	431	7,383	23,145	20,994	20,994
Poultry, rabbits, small game birds, dangerous zoo animals	42.42	5	594	212	244	212
Pets (unaccompanied pets)	42.42	328	25,505	13,914	15,977	13,914
Captive birds, Ratites, Ungulates and rodents	42.42	3	115	127	146	127
Live fish, aquatic animals and reptiles, bees and other insects	73.52	284	7,250	20,880	13,834	13,834
Out of hours travel and time charge	80	1,051	-	84,080	84,080	84,080
Total		15,103	250,288	953,088	768,553	740,091

*EU minimum fee based on conversion rate of £1 = €1.1292 as published at September 2011 for use in 2012. Before minimum charges are introduced AHVLA will agree sterling equivalent of €55 on a specific date and publicise this as the rate for the year

Annex 5: Import of live animals from thirds country veterinary check – percentage increase of fees for each option

Import of live animals from third countries (882/2004/EC)	Current fees*	Proposed Full Cost Recovery fees *	Option 1 - full cost recovery	Option 2 EU minimum	Option 3 FCR where below minumun and EU minimum where above out of hours fee (£80)
			Percentage increase (%)		
Equidae	25	53.70	115	95	95
Pigs and wild boar	25	53.70	115	95	95
Sheep, Goats, Alpaca and Cria	25	53.70	115	95	95
Poultry, rabbits and small game birds	25	42.42	70	95	69
Pets (unaccompanied pets)	25	42.42	70	95	69
Captive birds and rodents	10	42.42	324	387	322
Animals not covered by any other category	25	42.42	70	95	69
Live fish, aquatic animals and reptiles	5	73.52	1370	874	874
Bovine animals	25	53.70	115	95	95
Ratites (Flightless birds)	5	42.42	748	874	748
Bees and other insects	5	73.52	1370	874	874
Dangerous Zoo animals	9	42.42	371	441	371
Ungulates (Hoofed mammals)	25	42.42	70	95	70

- Assumes minimum import value

Annex 6: Import of live animals from third countries veterinary check fees –

	Current fees	actuals where below EU minimum else EU minimum	EU minimum *	Fees at Full Cost Recovery 2013
Import of live animals from third countries				
Equidae	25	48.71	48.71	53.70
Pigs and wild boar	25	48.71	48.71	53.70
Sheep, Goats, Alpaca and Cria	25	48.71	48.71	53.70
Poultry, rabbits and small game birds	25	42.42	48.71	42.42
Pets - Pet travel scheme	25	42.42	48.71	42.42
Captive birds and rodents	10	42.42	48.71	42.42
Animals not covered by any other category	25	42.42	48.71	42.42
Live fish, aquatic animals and reptiles	5	48.71	48.71	73.52
Bovine animals	25	48.71	48.71	53.70
Ratites (Flightless birds)	5	42.42	48.71	42.42
Bees and other insects	5	48.71	48.71	73.52
Dangerous Zoo animals	9	42.42	48.71	42.42
Ungulates (Hoofed mammals)	25	42.42	48.71	42.42

*EU minimum fee based on conversion rate of £1 = €1.1292 as published at September 2011 for use in 2012. Before minimum charges are introduced AHVLA will agree sterling equivalent of €55 on a specific date and publicise this as the rate for the year