



Department
for Environment
Food & Rural Affairs

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Summary of responses to the consultation on the proposed revision of fees for statutory services delivered by the Animal Health and Veterinary Laboratories Agency (AHVLA)

16th July to 10th September 2012

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Llywodraeth Cymru
Welsh Government



The Scottish
Government



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Any enquiries regarding this document/publication should be sent to us at:

AHfeesconsultation@defra.gsi.gov.uk

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Background

The purpose of this consultation was to seek the views of stakeholders likely to be affected by proposed revisions to fees for seven statutory services delivered by AHVLA. In line with Government policy, the consultation outlined proposals to transfer the full costs of delivering the services from the general taxpayer to the users of them. The consultation built on informal discussions with some representative industry associations during the development of the impact assessments for each of the services.

The seven statutory services covered within the consultation were:

- Bovine Embryos
- Bovine Semen
- Porcine Semen
- Poultry Health Scheme (PHS)
- *Salmonella* National Control Programmes (NCP)
- Border Inspection Posts (BIPs)
- Control of Trade in Endangered Species (CITES)

In line with government policy, end users who benefit directly from a service are already charged a fee for these services delivered by AHVLA, however in a number of these areas charges have not been updated for a several years resulting in a subsidy to the end users and a cost to the taxpayer.

The consultation identified three options for consideration:

- Option 0 – No intervention. Fees would be maintained at current levels
- Option 1 – Increase fees to full cost recovery in 2012/13
- Option 2 – Phased fee increases to full cost recovery

Option 2 was the preferred option of AHVLA, Defra, the Scottish Government and the Welsh Government for all services with the exception of the *Salmonella* National Control Programmes, where option 1 was the preferred option. Option 2 would achieve the objective of full cost recovery (FCR) whilst providing time for businesses to adjust to the increases. It would also allow time for AHVLA to work with businesses to further streamline services, with the aim of reducing costs and limiting where possible the fee increases needed to achieve FCR in years 2 or 3.

Annexes 1 to 7 of the consultation document set out the proposed fees for activities under each of the seven areas based on both full cost recovery and a phased approach.

The consultation included a questionnaire which set out specific questions to help us make informed assessments of the risks associated with the proposed options for each of the services. Responses to each of the individual questionnaires together with the Government response are shown at sections 1-5 of this document.

Over 600 interested trade organisations and businesses were invited to respond to the consultation, together with the general public.

Summary of responses

47 responses to the consultation were received. Responses were received from a range of businesses, trade associations, farming unions and individuals. 40 questionnaires were received which addressed the specific questions posed. The remaining eight responses were via formal letters.

We are grateful to everyone who took the time and effort to respond. This summary tries to reflect the views offered but, inevitably, it is not possible to describe all of the responses in detail. Every response has been read and considered in developing the final impact assessments.

The majority of respondents expressed opposition to any changes in existing fees.

A list of respondents can be found at annex A.

Section 1: Bovine Embryo, Bovine Semen and Porcine Semen Questionnaires

Number of responses

Whilst no completed questionnaires were received in relation to bovine embryos, bovine semen and porcine semen, four respondents provided comments in support of one of the questions within their general response and two also provided comments in support of a second question. No responses were directly received from any trade associations, traders/exporters, bovine embryo collection, and production and transfer teams or animal genetic companies.

Breakdown of responses

What is your preference for achieving full cost recovery between option 1 (straight to full cost recovery) and option 2 (phased introduction of fees) and why?

One respondent preferred option 2 over option 1 as it would allow time for businesses to adapt to the increases.

Three respondents preferred option 0 (no intervention).

What are your views on having the Veterinary Officer (VO) time charged separately on a variable rate?

One respondent supported this proposal on the basis that it would be a fairer method of calculating charges and would encourage greater efficiency from businesses in helping to ensure the VO time is used as effectively as possible.

One respondent commented that VO time should not be more than that charged by a commercial VO delivering the same service and it was important to assess this proposal appropriately, relative to the skills and expertise of the VO.

Government response

Option 0

Three respondents expressed a strong preference for this option. However, this is not a considered option for delivering government's objective of transferring the cost burden to users but provides a baseline against which the other options can be assessed.

Option 1

The risk of a move to full cost recovery has not been identified. However, it does not give industry the opportunity to adjust their business practices to mitigate against any impacts.

Option 2

This is the policy option to be implemented. This option would give businesses time to adjust their business practices and allow time for the Government to identify and implement further efficiencies to reduce the cost of delivering these services, and hence the fees required to recover the full costs of providing the services.

Of the two options consulted on we believe option 2 is preferred in terms of minimising the impacts on stakeholders whilst ensuring progress towards full cost recovery. We therefore propose to move to FCR by April 2014.

Veterinary Officer (VO) time

The proposal to charge for VO time separately included charging for travel time for those activities where a visit to premises is required e.g. inspections. This was to be charged at the half hourly rate of the VO/Animal Health Office (AHO) carrying out the visit.

Recognising concerns raised in the consultation responses to this proposal we have subsequently taken the decision that travel time will not be included in 2013 fees. Instead, it is intended that travel time will be included when fees are increased to full cost in 2014. In preparation to apply this element of the fee from 2014, we will be looking at the different options for recovering travel time, the pros and cons for each, in order to develop a fair and transparent approach.

Section 2: Poultry Health Scheme (PHS) Questionnaire

Number of responses

Seven responses were received in relation to PHS fee proposals (three questionnaires and four letters). Questionnaires were completed by two traders and one trade association and four farming unions included comments in relation to some of the questions within their written responses.

Breakdown of responses

Are you a member of the Poultry Health Scheme (PHS)?

Two respondents were members of the PHS

How many people do you employ?

The number of people employed by the traders who responded (two) is approximately 800.

What are the main types of poultry that you trade in?

The main species that respondents trade in are turkeys and fowls

What is the average buying and selling price for the commodity you deal in?

One respondent replied and confirmed the average cost of turkey breeding stock is £12 each.

Do you export more than 20 birds or hatching eggs to another European Member State?

Two respondents replied yes to this question.

Do you sell birds to other PHS Members or export to certain third countries outside the European Union?

Two respondents answered yes to this question.

On average how many exports do you carry out annually to both the EU and third countries?

One respondent exports in excess of 350 consignments of turkeys and the other respondent approximately 600 consignments of fowl annually.

How much domestic trade do you do each year?

Only one respondent replied and confirmed that they trade approximately 150 turkeys each year.

How many UK businesses trade in your sector?

There are more than 500 sector traders with three main companies operating as primary breeders in the UK for chickens and two primary turkey breeders.

What is your preference for achieving full cost recovery between option 1 (straight to full cost recovery) and option 2 (phased introduction of fees) and why?

Four respondents preferred option 2 to facilitate adjustment to budgets.

Three respondents preferred option 0 and rejected options 1 and 2.

What are your views on having the Veterinary Officer (VO) time charged separately on a variable rate?

Two respondents supported this option. Comments included:

- The average field time quoted for a farm visit (5 hours) appeared excessive.
- It would be a fairer method of calculating charges and would encourage greater efficiency from business to ensure that they use the VO time as effectively as possible.

One respondent said that VO time should not be more than that charged by a commercial VO delivering the same services and another said that it made first visits very expensive.

Two respondents commented specifically on charging for VO travel time which they did not believe to be fair as businesses could end up paying more purely based on their location.

Does the impact assessment for PHS identify the key risks surrounding the implementation of options 1 and 2, their likelihood and their impact? Please highlight any other risks or consequences of the proposals.

Two respondents answered yes to this and one did not answer.

Do you consider the proposed fee changes to be fair? If no, please explain why

Four responded to this question.

One respondent said in general yes but if charging for the hour AHVLA staff must be efficient and accountable and this point was re-iterated by another respondent.

Two respondents did not consider the changes to be fair. Comments included:

- It goes against Governments aims to double the nation's exports and help smaller firms in new markets.
- There is an inaccurate premise that the service user should carry the full cost of the service.

What other options would you suggest that could transfer the cost burden of providing the services away from the general taxpayer?

One respondent could not suggest any alternative options, and a second suggested making the service competitive by offering companies an alternative to AHVLA.

One respondent commented that it did not feel that a full transfer of the cost burden should occur but would consider a move towards genuine cost sharing.

What would you expect to be the impact of fee increases on profit margins and would you expect to absorb this cost or transfer it to your customer? If the latter, how do you think this will affect the demand for your goods and services?

Two respondents answered this question.

One said that the fee impact would be shared between the producer and customer and may create some difficulties. The second said that increased fees would impact on profit margins but overall this was a small percentage of the total cost of their operations and they would initially absorb the cost then pass on to the customer.

What impact would you expect an increase in charges to have on the number of people you employ?

One respondent said the impact would be minimal and one respondent said it would have no impact.

In what way do you think you could adjust your business practices to respond to the increases, e.g. making fewer applications for more specimens?

All respondents said that there was no way of reducing this cost as premises have to be registered to be able to export.

Do you expect to reduce the number of exports or domestic trades you make each year and/or reduce the volume you trade in?

Three respondents replied and all said no.

To what extent would you consider adopting alternative trade routes, for example through EU countries?

Two respondents replied, one said they would not consider this on the basis on the fee increases and the second said this would not provide any means of reducing the impact of the fee increases.

Do you expect the proposed fee increases to place your business at a competitive disadvantage?

Two respondents said no and one went on to say that as they are a high value exporter the cost of the PHS fees are a small component of costs.

Do you believe that the introduction of the new charging regime will disproportionately affect some groups?

Three respondents replied and commented that the following groups may be affected;

- Some exporters exporting low volumes would be affected;
- Those with remote premises and those who are in the process of building an exporting business and requiring premises to be registered for the first time .
- Some small companies

Do you think businesses will reduce the use of AHVLA services as a result of the increased fees e.g. greater use of an Official Veterinarian (OV) as permitted under the scheme?

Two respondents said yes as companies would save money by using an OV, with one of these respondents confirming they would no longer use an AHVLO VO.

Do you think that there is a risk of non compliance or illegal trade as a result of fee increases?

Two respondents said not likely and one respondent said possibly.

Are there any other impacts not currently identified by the Impact Assessment that you think need consideration?

Three respondents replied and said they weren't aware of any other impacts.

Government Response

Option 0

Three respondents expressed a strong preference for this option. However, this is not considered an acceptable option for delivering the Government's objective of transferring the cost burden to users but provides a baseline against which the other options can be assessed.

Option 1

No respondent expressed a preference for this option. However, the risk of a move to full cost recovery in the short term is high, not giving traders an opportunity to adjust their business practices to mitigate against the impacts.

Option 2

This is policy option to be implemented. Four of the seven expressed a preference for this option. This option would give businesses time to adjust their business practices and allow time for AHVLA to identify and implement options to reduce the costs of delivering services for the Poultry Health Scheme.

There were no risks identified by the respondents.

Of the two options consulted on we believe option 2 is preferred in terms of minimising the impacts on stakeholders (particularly small and micro businesses) whilst ensuring progress towards full cost recovery. We therefore propose to move to FCR by April 2014.

Veterinary Officer (VO) time

One respondent questioned the VO deployment figures quoted in the IA. It is important to note that VO's costs are variable and depend on the size of the holding/premises as this would determine the length of time it takes to carry out an inspection. In the IA we used an average VO call out as an indicator of cost to businesses.

The proposal to charge for VO time separately included charging for travel time for those activities where a visit to premises is required e.g. inspections. This was to be charged at the half hourly rate of the VO/Animal Health Office (AHO) carrying out the visit.

Recognising concerns raised in the consultation responses to this proposal we have subsequently taken the decision that travel time will not be included in 2013 fees. Instead, it is intended that travel time will be included when fees are increased to full cost in 2014. In preparation to apply this element of the fee from 2014, we will be looking at the different options for recovering travel time, the pros and cons for each, in order to develop a fair and transparent approach.

Section 3: *Salmonella* National Control Programmes Questionnaire

Number of responses

In total nine responses were received on the *Salmonella* NCP fees (five consultation questionnaires and four letters). Responses were received from:

- Two commercial poultry companies, one of which was also a member of the poultry health scheme.
- Three farming organisations, representing over 64,000 farming members across Great Britain.
- Two poultry trade associations; one representing all aspects of the egg industry (breeding, hatching, rearing, laying, packing, egg processing and marketing) and one representing over 85% of the chicken and turkey producers affected by the proposals.
- A professional body, representing over 13,000 members of the veterinary profession in the United Kingdom

Breakdown of responses

Can you indicate which *Salmonella* NCP sector applies to you?

Responses were received from a wide range of industry and trade associations representing all parts of the poultry sectors (chickens, breeders and turkeys), as well as responses from individual businesses.

If you are a member of the Poultry Health Scheme, please give details of the type of poultry you export.

Two individual businesses with over 700 employees answered this question, confirming they were also members of the Poultry Health Scheme.

How many people do you employ?

Three responses (one trade association and two individual businesses) were received. Collectively the two individual businesses employ more than 750 people in the UK.

How many UK businesses trade in your sector?

Two out of the nine respondents (22%) answered this question. They provided details on the market, outlining that in the UK, three main companies operate as primary breeders for chickens and two for turkey primary breeders. Another response stated that there are over 500 poultry sector traders.

Are you a member of a farm assurance scheme or any other industry body?

Three out of the nine respondents (33%) replied saying they belonged to recognised trade associations.

What is your preference for achieving full cost recovery between option 1 (straight to full cost recovery) and option 2 (phased introduction of fees) and why?

All respondents answered this question. Five out of nine respondents (56%) favoured option 2, a phased approach to introducing the fees. Comments included:

- Would allow businesses time to adjust and pass these fees on to customers (where appropriate)
- It would allow AHVLA time to create a more effective process and explore options alternative options for delivery

One individual business respondent favoured option 1, as they felt the increases to the costs were not onerous.

Three respondents (farming trade associations) strongly favoured maintaining the current fees.

What are your views on the introduction of sector specific charges i.e. differentiating charges between the various *Salmonella* NCP sectors?

Six out of nine respondents (67%) answered this question. The majority (five respondents) favoured the introduction of sector specific charges. One respondent said that the charges should be the same for all the sectors.

One respondent suggested that AHVLA fees should be based on a flat rate hourly charge for each sector, with the final costs dependent on the time spent on farm units.

Currently Government subsidises the second component of the NCP which requires a dust test. What are your views on the layer sector paying for the dust test (at £15.30 per sample) in future?

Two out of nine respondents (22%) answered this question. Both were opposed to producers having to pay for a second sample. One respondent questioned whether the EU Regulation required a dust sample to be collected as part of the official sample. It was acknowledged that discussions are ongoing with Defra to identify further efficiencies, for example, by reviewing the administrative processes that underpin how AHVLA charges sites for the testing of samples.

What are your views on AHVLA charging £23.64 per ½ hour (or part ½ hour) spent for the time on farm (plus travel) for carrying out official sampling?

Eight out of nine respondents (89%) replied. Six respondents (67%) opposed the proposal and two respondents (22%) agreed. The principal concern of those who opposed was the inclusion of travel time within the charges, on the basis that it would be unfair to producers who are located a greater distance from AHVLA offices to pay higher costs.

One respondent agreed that charging on a time basis for the time spent on farm is acceptable, but stated it should be at a subsidised hourly rate. Another respondent suggested it would be fairer to have a standard fee.

What impact do you expect an increase in charges to have on your profit margins? Would you expect to absorb this cost or transfer it to you customers? If the latter, how do you think this will affect the demand for your goods and services?

Seven out of nine (78%) respondents answered this question. Two respondents said there would be 'negligible and minimal' impacts to their operations and that they would share the costs between producer and customers. One respondent disagreed and explained that businesses affected will not be able to pass on the cost of these proposed increased charges to their industry customers (in the case of breeding companies), or to their (retail) customers (in the case of egg producers), if the additional charge for testing the second sample was to come into force. Other comments included:

- As there is currently no independent control body for the broiler sector, there is no other alternative to AHVLA carrying out the official sampling.
- Producers are facing considerable financial pressure with the high cost of feed and would simply be unable to achieve improved returns from the market place.

What impact would you expect an increase in charges to have on the numbers of people you currently employ?

Two out of the nine (22%) respondents directly answered this question and neither could envisage any changes to the number of people they employed.

In what ways do you think you could adjust your business practices to respond to the increases, e.g. making fewer applications for more specimens?

Only one respondent answered, commenting that this question was not clearly understood. However, they would welcome a proposal to allow a greater number of samples to be tested as one sample.

If you are also a member of the Poultry Health Scheme (PHS), can you describe the cumulative impact of increased charges for AHVLA services for *Salmonella* NCPs and the PHS, if any? Do you agree with our assumption that it will be mainly larger multinational *Salmonella* NCP poultry food operators, and a few specialists that are likely to be affected by any cumulative impacts?

Four out of the nine (44%) respondents answered this question. Two respondents explained that because charges for the PHS are considerably higher, they would likely revert to using suitably qualified Official Veterinarians (OV's) for these inspections. One individual business respondent agreed with our assumption that cumulative impacts would be faced mainly by larger multinational poultry food operators.

Do you expect the proposed increases to place your business at a competitive disadvantage, both within the UK and across the EU?

Six out of the nine (67%) respondents answered this question. Of these, three said they would not be at a disadvantage. The other three respondents thought the increases could impact businesses.

One respondent made the point that businesses would be disproportionately affected if the UK increased charges and they were not raised elsewhere in the EU.

Do you believe that the introduction of the new charging regime will disproportionately affect some groups?

Three out of the nine (33%) respondents answered this question. Two responses stated that if the charges remained the same between the different sectors then there would be no impact.

Do you think that there is a risk of non compliance or illegal trade as a result of fee increases?

Three out of the nine (33%) respondents answered this question. Two respondents thought the risk of non-compliance within the *Salmonella* NCPs was very unlikely. The main point made was that proportionate fees will incentivise compliance.

Additional comments

Allow suitably qualified and trained Official Veterinarians (OV's) to carry out the organisation and supervision of official sampling of breeding chickens, on behalf of AHVLA. This would give the opportunity for the operator of the breeding farm to either use AHVLA or their OV for this service.

Government Response

Option 0

Three respondents expressed a strong preference for this option. However, this is not a considered option for delivering government's objective of transferring the cost burden to users but provides a baseline against which the other options can be assessed.

Option 1

This is the policy option to be implemented. Whilst only one respondent supported this option it would support the Government's policy of achieving full cost recovery and aligns with the approach previously agreed with industry.

Option 2

The majority of respondents favoured this approach. The principle of full cost recovery was previously agreed with industry and they have already benefited from a three year phasing in period (from when fees were introduced in 2007 (England) and 2008 (Scotland and Wales)) which allowed businesses to adjust their financial planning. The poultry sector has also previously benefited from concessions, such as Government not charging industry for the first year of NCPs implementation.

Option 1 is the preferable option as it will achieve our primary objective of full cost recovery of statutory services related to the *Salmonella* NCP sampling and the Defra approved laboratory network as soon as possible.

Introducing sector specific charges

The majority of respondents to the consultation favoured the introduction of sector specific fees for each of the *Salmonella* NCPs (laying flocks, breeder flocks, broiler flocks and turkey fattening and breeding flocks).

Travel time

As part of the move to full cost recovery we proposed to charge for 'travel time' for those activities where a visit is required e.g. inspections. This was to be charged at the half hourly rate of the VO or AHO carrying out the visit.

Recognising concerns raised in the consultation responses we have subsequently taken the decision that travel time will not be included in the 2013 fees. Instead, it is intended that travel time will be included from 2014 onwards. In preparation to apply this element of the fee from 2014, we will be looking at the different options for recovering travel time, the pros and cons for each, in order to develop a fair and transparent approach.

Layer Section

The layer sector will be subject to full cost recovery for the bacteriological testing of the official samples and will pay for the second official sample culture. This charge was previously subsidised by Government.

In response to the consultation, a query was raised about the requirement for dust samples to be collected. Recognising the revision to requirements set out in EC Regulation 517/2011, the default sampling requirement will in future be 3 pairs of boot swabs for all routine samples. However, this does not obviate the need for a second test to be conducted.

Competitive Disadvantage

In response to comments that businesses may be placed at a competitive disadvantage if fees are increased, we have examined the charges applied by other EU member states for the implementation of *Salmonella* NCP sampling requirements and updated the final Impact Assessment to reflect our findings. Recognising that other member states have implemented full cost recovery, our approach is not considered to represent a significant competitive disadvantage to UK industry.

Alternative options for collection/examination/charging of official samples

Government is willing to explore the option of establishing further Independent Control Bodies. Initial discussions have recently been held with some members of the broiler

sector in this respect, and we await their decision as to whether they want to pursue this further.

AHVLA are taking forward the suggestion to allow suitably qualified and trained Official Veterinarians (OV's) to carry out the organisation and supervision of official sampling of breeding chickens, on behalf of AHVLA. This would give the opportunity for the operator of the breeding farm to either use AHVLA or their OV for this service.

At the suggestion of industry representatives, we looked carefully at whether it is possible to change the way AHVLA charges for the testing of samples. Currently AHVLA invoices are sent directly to individual sites. Separately, the British Egg Industry Council (BEIC) sends their members an invoice to for the collection of the official sample by the ICB. It was queried whether AHVLA sending one invoice to BEIC for testing which they then follow up with their members would be more cost effective. We examined whether this approach would reduce the administration charge but the expected savings would be lower than expected. However, if in the future the situation alters, Government and AHVLA will consult with industry accordingly.

Section 3: Border Inspection Posts (BIPs) Questionnaire

Number of responses

Fourteen responses were received on the BIP fee proposals. Questionnaires were completed by eleven respondents (including one aquatic trade association, two zoos and five importers) and three respondents included comments in their general response letters.

Breakdown of responses

How many people do you employ in your organisation?

The number of people employed by respondents ranged from 0 (individual traders) to 265. One trade association represents up to 10,000 people working full time in the ornamental fish trade and another responded on behalf of its members, representing up to 20,000 birds of prey keepers in the UK.

How many UK businesses trade in your sector?

Six respondents answered this question and the figures they provided were:

- Two zoos estimated over 100 institutions
- Approximately 90 businesses importing ornamental fish, supplying around 3000 pet shops
- 300 businesses that import birds of prey and owls

On average how many times does your organisation use the service (s) AHVLA provide each year?

The responses varied from the ornamental and tropical fish trade which imports on a regular basis with over 7000 imports a year to importers of birds of prey with only occasional imports.

What is the current cost of fees you are charged for this service (s) as a percentage of your turnover?

One respondent estimated that the current cost represented 0.27% of import value and if fees were raised to FCR this would rise to 2.9%.

Two respondents said the current cost was a minimal percentage of their turnover. One respondent commented that the fee was probably <0.1% of turnover but as a percentage of profit it would be considerably more.

Which live animals do you import?

The respondents imported the following species:

- Ornamental and tropical fish.
- Birds of prey,
- Butterfly pupae
- Exotic animals
- Turkeys

Do you import live animals on a regular basis or only occasionally?

Responses ranged from occasionally to on a regular basis

Do you import live animals on a commercial basis i.e. for business purposes or for sale to the public?

There was a mixture of responses with some respondents importing for conservation purposes and others on a commercial basis.

What is your preferred option for achieving full cost recovery for each of the services, Option 1 (immediately to full cost recovery) or Option 2 charging the and why?

Four of the respondents indicated a preference for option 2, a phased introduction to full cost recovery. One respondent opted for option 1, moving directly to full cost recovery. The remaining respondents that expressed a preference indicated that there should be no increase to fees.

Does the impact assessment for BIPs identify the key risks surrounding the implementation of options 1 and 2, their likelihood and their impact? Please highlight any other risks or consequences of the proposals

Three respondents thought that the key risks had been identified. Other risks or consequences highlighted were:

- The cumulative impact of proposed increases to both BIPs and CITEs fees.

Do you consider the proposed fee changes to be fair? If no, please explain why

Three respondents thought that the changes to be fair and three respondents thought that weren't. Comments included:

- Fees for bees and insects seemed high.
- Proposed fees would disproportionately affect those businesses importing small consignments. These would typically be tropical fish from more remote origins.

What other options would you suggest that could transfer the cost burden of providing the services away from the general taxpayer?

Two respondents considered that the veterinary checks regulations should not apply to conservation species. Two others thought that the service should be outsourced to a more efficient service so the costs would be more realistic and proportionate to the risk being managed.

What would you expect to be the impact of the proposed fee increases on profit margins? Will you be able to absorb the cost or pass onto customers?

Two respondents stated that they would have to absorb the costs as they did not have customers to pass them on to. The majority of birds of prey importers that responded stated they did not make a profit. Another respondent stated that it would be an unnecessary tax on business.

What proportion of your profit is directly related to trade facilitated by the service(s) AHVLA provide?

The responses ranged from 100% to 0% in the case of non profit making enterprises.

What impact would you expect an increase in charges to have on the numbers of people you currently employ?

Respondents who imported ornamental and tropical fish were concerned the proposals would have a negative effect on the number of staff they employed. Of the others who responded one stated that they would be unable to take on more staff and another said that staff bonuses would be reduced.

In what way do you think you could adjust your business practices to respond to the fee increases, if any?

Responses ranged from increasing the size, therefore reducing the number of imports, to reducing the number of imports or importing via another member state.

To what extent would you consider adopting alternative trade routes, for example through other EU member states?

Two respondents stated that they would explore the possibility of using another member state. Other respondents commented that this was not a feasible option.

Do you think businesses will reduce their use of AHVLA services as a result of the increase fees by importing through other EU countries with lower charges?

Four respondents thought this was a possibility.

Do you expect the proposed fee increases to place your business at a competitive disadvantage?

Three respondents thought that the fees would affect the competitiveness of their business whilst three others stated there would be no affect or that it would not be significant.

Do you believe that the introduction of the new charging regime will disproportionately affect some groups?

Four respondents thought that some groups might be more affected than others, whilst one stated that it would have an impact on all businesses in the sector.

Will the out of hours charge change the time you import consignments?

Of those that responded to this question the general consensus was that they had little or no control on flight times.

Do you think that there is a risk of non compliance or illegal trade as a result of fee increases?

Three of the respondents answered yes and one thought it was inevitable. Two thought that there would not be an increase in the risk of illegal imports.

Are there any other impacts not currently identified by the Impact Assessment that you think need consideration?

Impacts identified included:

- Cumulative impact on sectors of charges from other Defra agencies
- Cumulative impact of proposed fee increases for both BIPs and CITES

Government Response

Option 0

Four respondents expressed a preference for this option. However, this is not considered an acceptable option for delivering the Government's objective of transferring the cost burden to users but provides a baseline against which the other options can be assessed.

Option 1

Just one respondent thought Option 1 should be implemented. The risks of a move to full cost recovery in the short term are high, not giving traders an opportunity to adjust their business practices to mitigate against the impacts.

Option 2

This is the policy option to be implemented. Four respondents selected this option as it would give businesses time to adjust their business practices and allow time for AHVLA to identify and implement options to reduce the costs of delivering the service.

Of the two options consulted on we believe option 2 is preferred in terms of minimising the impacts on stakeholders (particularly small and micro businesses) whilst ensuring progress towards full cost recovery. We therefore propose to move to FCR (for those categories where the full cost of delivering the service is more than the EU minimum fee or where an EU minimum has not been applied) in a phased approach. Where we can we are using the EU minimum fee as our first phased step, where we cannot we are implementing a stepped fee.

Section 4: CITES Questionnaire

Number of respondents

38 responses were received in relation to CITES fee proposals. Responses were received from Nine NGOs, four zoos, 20 traders and five individuals/hobbyists.

Breakdown of responses

How many people do you employ?

The number of people employed by respondents ranged from 0 (individual traders) to 2,000. One respondent was a trade association representing up to 10,000 working full time in the ornamental fish trade and another respondent, responded on behalf of its members, representing up to 20,000 birds of prey keepers in the UK.

What are the main CITES species you trade in?

The main species/specimens that respondents trade in included:

- Birds of Prey (and their derivatives)
- Antiques (including rosewood, mahogany, tortoiseshell, ivory)
- Exotic zoo animals
- Marine species, such as Siberian sturgeon
- Parakeets
- Primates
- Reptiles
- Tortoises/tortoiseshell

What is the average buying and selling price for the specimens you deal in?

The cost of CITES specimens varies significantly, from an average of £30 for taxidermy specimens to over £100,000 for some antique items.

On average how many CITES applications do you make annually and how many specimens do you trade each year?

Eleven respondents (hobbyists and NGOs) don't make any applications at all whilst some traders (auctioneers in particular) can make up to 2,000 applications per year.

How many UK businesses trade in your sector?

The number of business identified as dealing with CITES specimens range from two-three specialists to thousands, including auction houses, dealers, taxidermists, museums and private clients.

What is your preference for achieving full cost recovery between option 1 (straight to full cost recovery) and option 2 (phased introduction of fees) and why?

24 respondents said they would prefer Option 0, and 13 of these asked why it was not given as an option. Two said that the Consultation should be null and void as option 0 is not included.

Two respondents preferred Option 1 with one saying they can see no logical reason for the taxpayer continuing to subsidise trade in endangered species, especially in such financially straightened times.

12 respondents preferred Option 2 for the following reasons:

- There was more chance of retaining business.
- Phased increases would allow the opportunity for businesses to consider how the increased fees would affect their business and allow them time to make adjustments to compensate.
- Phased increase would allow Defra to see if full cost recovery (FCR) is necessary and identify efficiency savings elsewhere.

What are your views on the appropriateness of differentiating charges between animal and plant specimens?

Nine responded to this question, comments included:

- Two respondents thought that the differentiation was fair and justified.
- One respondent said that costs should reflect the complexity/effort of issuing licences.
- One believed the higher costs levied for plants were unjustified.
- One said the distinction was unnecessary and artificial in relation to non-living specimens as the higher costs of the scientific authority for flora (RBG Kew) related to live plant material.

What are your views on replacing the facility for bulk certificates with a single administrative fee of £1.50 for each additional permit or certificate issued?

Five responded to this question with the following comments:

- Two saw no problem with the proposal.
- One anticipated a minimal impact.
- One thought it would be difficult to evaluate the impact.

- One thought it was only relevant to those bulk buying CITES specimens.

What other options would you suggest that could transfer the cost burden of providing the licensing service away from the general taxpayer?

A number of suggestions for transferring the cost burden from taxpayers were given:

- Deregulate to ensure only species in need of conservation action were regulated.
- Review CITES regulations to assess their cost and conservation benefits, and deregulate where there is no conservation benefit.
- Limit the effect of CITES regulations to specimens that are wild sourced rather than captive bred to reduce the number of species affected to the most important ones.
- Consider legislative changes to avoid unintended consequences on conservation activity, such as the breeding of CITES specimens.
- Consider self regulation (e.g. for taxidermists) who could, for example, lose their licence if in breach of those regulations.
- Consider with other CITES Parties implementation of a streamlined process for derivatives for research purposes.
- Introduce a business levy rather than a cost to individual keepers of birds of prey.
- Retain the current level of fees with an inflationary linked increase.
- Adopt a sliding scale of fees which could be based on specimens' values or for quick turnaround times.
- Reduce proposed fees for pre-Convention specimens.
- Use fixed penalty charges for CITES offences.
- Reduce AHVLA's operating costs.
- Consider privatisation of licensing service.
- Consider cheaper alternatives for the provision of scientific advice.

17 respondents (traders) gave the same reply to this question:

- Register dealers/taxidermists and charge them an annual fee.
- Cancel the requirement for taxidermists to apply for Article 10's for specimens which may never be used for commercial purposes.
- Limit the application of Article 10 certificates for the top ten species.
- Suggest that Member States agree on a standard approach to licensing which in turn may help reduce red tape.
- Make better use the CITES system of registered breeders which is bogged down by bureaucracy, i.e. return it to its intended use for those producing domestic bred specimens on a regular basis.

What would you expect to be the impact on your profit margins and would you expect to absorb this cost or transfer it to you customers? If the latter, how do you think this will affect the demand for your goods and services?

31 respondents identified a negative impact on their business. This figures included eight of the nine NGO's who recognised that some businesses would be impacted. Five thought the increased fees would lead to a reduced profit margin and that whilst they could pass on costs to customers they risked losing business.

One respondent said that non-EU buyers are an important part of their market and would be less likely to buy from UK traders if the increased cost of fees were passed on to them. Another said that for low cost items an increased re-export fee (for exports outside the EU) could totally extinguish any profit.

One zoo said that providing the waiver for conservation purposes is retained then impact is likely to be low.

What impact would you expect on the numbers of people you currently employ?

Of those that responded to this question (28), 20 said they would not be employing more staff. Eight said there would be no impact on the number of staff they employ.

In what ways do you think you could adjust your business practices to respond to the increases, e.g. making fewer applications for more specimens?

One respondent said they would have to consider reducing their bird breeding programme. Another would be unable to continue to work with CITES species unless work was commissioned with the fee factored in to the cost of the item. Two identified this was not an option for the antiques trade as they deal in individual items and not usually groups of items.

Do you expect to reduce the numbers of applications you make each year and/or reduce the volume of specimens you trade in and/or consider trading in non-CITES listed specimens?

Six respondents said they did not expect to reduce the number of applications made, 20 said they would, and two didn't know. One respondent (zoo) said they could not reduce the number of applications as they have to move specimens in line with studbook recommendations to maintain a healthy captive population.

To what extent would you consider adopting alternative trade routes, for example through other EU countries?

22 respondents said they would consider this and five said they wouldn't. One said this is not feasible with live animal imports and another said that this would be difficult for taxidermists.

One respondent commented that additional transit costs may outweigh savings and there is increased chance of goods being damaged. Another pointed out that the UK has some of the best border controls in the EU and if goods are transited through other EU countries there may be scope for illegal activity.

Do you expect the proposed increases to place your business at a competitive disadvantage?

31 respondents thought that the increased charges would put their business at a competitive disadvantage including for the following reasons;

- In comparison to the rest of the EU long term business will be threatened.
- Added costs will discourage sellers from selling items in the UK.
- Non-EU buyers would be discouraged from buying at UK auctions.

- Price gaps will widen between legal and illegal trade which will be damaging for the legitimate trade.

Four thought that the proposed increase would not put their business at a competitive disadvantage, one citing that not all CITES specimens are used for commercial gain so are not subject to the fee increases.

Do you believe that the introduction of the new charging regime will disproportionately affect some groups?

Nine respondents thought so and identified the following that may be disproportionately affected:

- Zoos moving animals that are not part of a breeding programme.
- Taxidermists who deal in low value items (carcasses for the 8 most commonly used birds of prey have less value than the proposed charge).
- Those undertaking conservation work are charged the same as those profiting from trade.

To what extent do you think there will be an increased risk of non-compliance or illegal trade?

37 respondents believe that the risk would increase. One identified fish, reptile and amphibian trade at particular risk due to the growing exotic pet trade in the UK. One respondent thought that the increased risk of non-compliance is negligible saying there is no evidence to suggest an increase in fees will lead to an increase in illegal trade. One respondent said that the potential increase in illegal trade would need increased enforcement effort to tackle it.

Another expressed concern that if traders are discouraged from using the legal route they may become less concerned about sourcing specimens from sustainable sources.

Are there any other impacts not currently identified by the Impact Assessment that you think need consideration?

One respondent commented that reduced trade could have a negative impact on developing countries where livelihoods rely on trade in CITES specimens. Another thought that exporters could be put at a disadvantage if traders demand lower costs to compensate for higher fees.

One respondent was concerned about the reduction in applications referred to the scientific authorities.

One respondent commented that the cumulative impact of increased fees - such as the combined effect of increased fees for CITES licences and Border Inspection Posts - could impact negatively on businesses in the current economic climate.

Government Response

Option 0

24 respondents expressed a preference for this option. However, this is not considered an acceptable option for delivering the Government's objective of transferring the cost burden to users but provides a baseline against which the other options can be assessed.

Option 1

Two respondents thought Option 1 should be implemented. The risks of a move to full cost recovery in the short term are high, not giving traders an opportunity to adjust their business practices to mitigate against the impacts.

Option 2

This is the policy option to be implemented. This option would give businesses time to adjust their business practices and allow time for the Government to identify and implement further efficiencies to reduce the costs of delivering the CITES licensing service, and hence the fees required to recover the full costs of providing the licensing service.

A key risk identified by the consultation was the increased costs to businesses, leading to higher operating costs, reduced competitiveness, and an inability to expand.

Taking account of comments received and in light of the need to minimise impacts on businesses in moving to full cost recovery our preference is for option 2, the introduction of a full cost recovery charging regime for all applicants in two phases: a 25% increase to the current charges in April 2013 and, subject to review, a further increase to full cost recovery rates in April 2015. Introducing increases to fees on this basis will allow time for businesses to adjust to the increased fees and also provide the time needed for Government to review the procedures and IT systems for delivering the CITES licensing service, and hence deliver further efficiencies which may minimise any future fee increases.

Non-compliance

Another key risk identified by the consultation was the potential for increased non-compliance and illegal activity.

It is difficult to assess non-compliance with CITES requirements due to the nature of the illegal trade. However, there is no evidence to suggest that the previous, larger, increase in fees in 2009 resulted in any noticeable increase in non-compliance or illegal activity. It is also worth noting that previous assessments of the behaviour of those involved in CITES trade indicated that most would continue to comply with CITES regulations. However, non-

compliance is an important issue and one that will continue to be monitored following the introduction of increased fees.

Alternative options for transferring the cost burden of providing the licensing service away from the general taxpayer.

A number of alternative options for transferring the cost burden of delivering the licensing service away from the general taxpayer were suggested by respondents and our comments on each are below. A number of useful alternatives were suggested, many of which are currently under consideration. However, a number are currently not viable.

Reduce AHVLA's operating costs – Significant efficiencies have already been achieved by AHVLA, including a 20% headcount reduction in the CITES licensing team during 2011-2012. Ongoing work is exploring options for the introduction of new IT systems to help reduce operating costs and help alleviate the need for further increases in licence fees, and it is planned that new systems would be in place by before the end of the 2014/15 financial year. AHVLA is also in discussion with the Scientific Authorities to consider what further efficiencies can be made in the services they provide.

Privatisation of the licensing service – There are a number of uncertainties in privatising a regulatory service of this nature, in particular the risk of a reduced level of regulatory oversight that ensures there are no conflicts of interest or loss of integrity in operating the service. Such a separation with Defra's CITES policy team also risks delays in ensuring that policies are updated in a timely fashion and the consequent risk that customers' service requirements are not met. There are no guarantees that a privatised service that would need to operate at a profit would reduce overall costs when compared with the current non-profit service. For example, the current consideration of a new IT system will be centrally funded whereas the costs to provide an up to date system under a privatised regime would need to be passed to customers.

Self-regulation under licence – It is imperative to ensure that the issuing of CITES licences remains compliant with EU law and the CITES Convention. CITES regulations are complex, even for those who have dealt with them for many years, and it is unclear how a system of self-regulation would secure an appropriate level of compliance without substantial regulatory and scientific oversight which in itself would have significant cost implications. There is also the potential for conflicts of interest from a service provider who may be trading in CITES specimens themselves.

Introduce a business levy / one-off annual fee – A levy on individual business cannot guarantee full cost recovery as it does not take account of the effort associated with individual applications. We believe charging on this basis would also encourage speculative applications, increasing the cost of delivering the licensing service. It would not be possible to introduce a levy based on the sector one company works in as this would create artificial and unclear boundaries and many businesses may fall into different

sectors. Levying on the basis of specimens traded in is equally complex due to the wide and varied nature of businesses trading in CITES specimens.

Deregulation of licensing requirements – The UK takes a deregulatory approach in our negotiations with the EU and other Parties to CITES when considering changes to the relevant procedures and regulations. However, this approach is not always consistent with others' views. We have undertaken a review of costs and benefits of the stricter approach taken in the EU to the application of the Convention's requirements which identified a number of alternative solutions to the way in which CITES is delivered in the EU. This has been submitted to European Commission and Member States for consideration and we continue to seek a more substantive discussion of the review's findings.

Streamlining of licensing procedures - We continually seek to ensure that EU and CITES regulatory requirements are delivered as efficiently as possible in the UK although we remain required to deliver the obligations arising from the Convention and the EU's implementing regulations. As part of the development of the new CITES IT systems, AHVLA is considering ways to ensure a streamlined system, including the direct issue of certificates in certain defined conditions to help keep overall costs to a minimum.

Standardised approaches to licensing across EU Member States - The EU wildlife trade regulations set out the requirements for licensing in all EU Member States. It is possible that the application of these regulations differs between some Member States and where it does we seek to ensure consistency through our regular negotiations in the EU CITES Management Committee.

Cancel the requirement to apply for Article 10's for specimens that may never be used for commercial purposes – The EC Regulations include the requirement for Article 10 certificates where Annex A specimens are being kept or transported for commercial purposes. Where the person keeping or transporting the specimen trades in Annex A specimens, it would be difficult to determine whether such specimens would later be used commercially. A recent court case found that a specimen being kept by someone trading as a taxidermist was clearly being kept for commercial purposes. This suggestion is therefore inconsistent with current case law or with the EU wildlife trade regulations.

Limit the application of Article 10 certificates for the top ten species - This is not consistent with EU law or the intent of CITES. It would also introduce the risk of unmonitored over-exploitation of other species.

Review requirement that captive bred specimens or specimens bred to second generation need to be referred to Scientific Authorities – The licensing authority is currently discussing with the relevant Scientific Authority the possibility that decisions on these specimens can be delegated to them and not referred thus reducing associated processing resource requirements.

Limit the effect of CITES regulations to specimens that are wild sourced rather than captive bred - This would only be possible with a change to the current regulatory regime under CITES.

Simplify the system for registered breeders – CITES Resolutions 9.19 and 12.10 (Rev CoP15) set out the detailed process for registering captive breeding operations of Appendix I CITES Species. Any changes to this process would need to go through the Conference of Parties as amendments to the Resolutions would be required.

Retain the current fee levels with an inflationary linked increase - This would not guarantee delivery of the Government's objective of full cost recovery. However, once full cost recovery has been achieved we would anticipate any future changes to be linked to rates of inflation.

Adopt a sliding scale of fees based on specimens' values – It is unclear how full cost recovery could be achieved under such a system. Specimens' values change over time so a sliding scale of fees would need to be reviewed on a regular basis, introducing additional costs. The current calculation on the basis of amount of work required to process an application is considered to be more equitable.

Consider cheaper alternatives for the provision of scientific advice – There may be other UK scientific institutions which are able to provide scientific advice. However, we believe that this pool of expertise is limited as there are strict rules on the level of service that must be provided to ensure its legitimacy. There is therefore no guarantee that using alternative scientific advisers would result in cheaper overall costs, particularly in view of the loss of experience and expertise of the current scientific authorities.

Introduce a fast-track system - It is also not possible to guarantee fast tracked turn-around times as it can be difficult to assess how long consideration of individual applications will take if, for example, the applicant has not provided all the necessary information. A higher charge for fast-tracked applications risks the licensing service making a profit which is not permissible.

Use fixed penalty charges for CITES offences to offset future increases in fees – Fixed and variable Penalty Notices (FPNs) for minor offences will be considered during the more general review of the UK's regulations for the control of trade in endangered species (COTES). However, using FPNs to offset future cost increases is not an option as any costs recovered would go straight to Her Majesty's Treasury.

Section 5: General comments

General comments relevant to all of the services under consideration were received from a number of respondents including the four farming unions. These comments included:

Efficiency of the services – a full review of the efficiency of the services and costs included in the fees is required before any move to FCR is made to ensure that end-users are not paying for AHVLA inefficiencies. In return for increased costs a better level of service needs to be delivered by the agency.

Government Response - We recognise that, in increasing costs to businesses, we must ensure that services are delivered as efficiently as possible and at the lowest cost. Through its ongoing programme of process improvements and efficiency savings which include estate reduction, streamlining back office functions and rationalising and leaning service delivery functions, AHVLA has already delivered significant cost reductions (£29m over the last three years) and has been able to reduce costs associated with the delivery of statutory services. Looking forward, the agency will continue to consider ways of streamlining and securing improvements to the services it delivers. In support of this AHVLA, Defra, the Welsh Government and Scottish Government remain committed to working with representative trade associations and other key stakeholders to identify areas where processes can be further streamlined and efficiencies made. We are committed to progressing this work as quickly as possible in order to try and minimise the increases that will be required in phase 2 when fees are moved to FCR.

Transparency of service costs – greater transparency and more detail was needed regarding the makeup of costs for the seven statutory services.

Government Response – recognising the need for greater transparency of costs we have updated each final Impact Assessment to include a breakdown of service costs. We acknowledge that in that our phased move to FCR we need to work closely with stakeholders and are committed to providing them with further details so that they can see the different elements contributing to the service delivered.

Main beneficiaries of the services – the principle of whether the main beneficiary was always the end user was questioned, particularly for services such as the *Salmonella* NCP which is in place to safeguard public health. The full cost of delivering some services should continue to be subsidised by the taxpayer.

Government Response – Even at a time of severe economic pressures on public finances, Government is committing significant funds (> £200m) to the area of animal health and welfare that is not subject to recovery via fees. This includes continuing to subsidise a number of activities related to delivery of the *Salmonella* NCPs and also in relation to other activities linked to animal health and welfare, for example over £18m a year is spent on research in to animal diseases, all of which benefit industry and the general public. In the case for example of the *Salmonella* NCPs, successful implementation of the NCP maintains consumer confidence and enables industry to attract a premium price for its products. Other services featured within the consultation are also in place for the benefit of end-users as they facilitate trade.

Travel time – charging for VO and AHO travel time would be unfair as customers could potentially be financially penalised based on their geographical location.

Government response - As indicated under sections 1 , 2 and 3, travel time will not be charged for in 2013. We will look at the different options for recovering travel and the pro's and con's of each in order to develop a fair and transparent approach. It is our intention to charge for travel time from 2014.

The way forward

Whilst we understand some stakeholders would prefer not to see any increase in fees at this time, any delay carries significant risk to the overall animal health and welfare programme. The funding for AHVLA as a result of the UK Government's Spending Review will continue to decrease over the period to 2015. Any further delay in moving to full cost recovery could therefore impact the current level of service AHVLA provides both in relation to these statutory services and also other activities and subsequently lead to reduced animal and human health protection.

On this basis, revised fees will be introduced through legislation from 24th June 2013. In line with our preferred option, fees for services delivered in relation to bovine semen, bovine embryo, porcine semen, and veterinary checks at Border inspection posts will be phased in with a view to reaching full cost recovery from April 2014. Fees for CITES licensing services will be phased in over a three year period , with a view to reaching full cost recovery from April 2015 and fees for services delivered under the *Salmonella* National Control Programme will be increased directly to full cost from June 2013.

Annex A: List of Respondents

Aviagen Ltd
Aviagen Turkeys Ltd
Barry Williams Taxidermy
Bee Farmers Association of the UK
Bristol Zoo Gardens
British Antique Dealers Association
British Egg Industry Council
British Poultry Council
British Veterinary Association
Edinburgh Zoo
Farmers Union of Wales
Fox Tail Taxidermy
H Knowles-Brown Ltd
Hawk Board
Hawksport
Indigo Crow Taxidermy
International Centre for Birds of Prey
International Owl Society
International Wildlife Consultants (UK)
International Zoo Veterinary Group
ISP Microcaps (UK) Ltd
Lakes and Fells Taxidermy
National Farmers Union
National Farmers Union Cymru
National Farmers Union Scotland
Ornamental Aquatic Trade Association
Royal Society for the Protection of Birds
RS Douglas & Sons
South East Falconry Group
Stanford Livestock International Ltd
Taxidermy Law Company
The British Falconers Club
The Guild of Taxidermists
The Taxidermy Emporium
Thrope Lodge Taxidermy
TRAFFIC
Tropical Marine Centre
Twycross Zoo
UK Taxidermy
World Wildlife Fund