

**EXPLANATORY MEMORANDUM TO THE
PLANT HEALTH (IMPORT INSPECTION FEES) (ENGLAND)
REGULATIONS 2005**

2005 No. 906

1. This explanatory memorandum has been prepared by the Department for Environment, Food and Rural Affairs and is laid before Parliament by Command of Her Majesty.

This memorandum contains information for the Joint Committee on Statutory Instruments.

2. Description

The Regulations provide for fees to be charged for certain plant health examinations, namely documentary, identity and plant health checks, on certain plants and plant products imported from third countries.

3. Matters of special interest to the Joint Committee on Statutory Instruments

- 3.1 The Regulations permit Defra to charge fees for documentary, identity and plant health checks. The fees are set out in Schedules 1, 2 and 3 to the Regulations.
- 3.2 The requirement to carry out these checks, which arises from EU obligations, has only recently been introduced and so fees for such checks have not previously been charged. The basis for the calculating the fees is set out below.

4. Legislative Background

- 4.1 Council Directive 2000/29/EC on protective measures against the introduction into the Community of organisms harmful to plants or plant products and against their spread within the Community¹ (“the Plant Health Directive”) establishes the Community plant health regime. It contains measures to be taken in order to prevent the introduction into, and spread within, the Community of serious pests and diseases of plants and plant produce. The Directive is implemented in Great Britain, for non-forestry matters, by the Plant Health (Great Britain) Order 1993. Similar but separate legislation operates in Northern Ireland.
- 4.2 The Directive was amended, among other amendments, by Council Directive 2002/89/EC of 28 November 2002.² Among the changes introduced by this Directive was clarification of the existing requirement for mandatory examinations (documentary checks, identity checks and plant health checks) on certain plants and plant produce and obligations to charge fees for these inspections.
- 4.3 Defra inspectors have powers to carry out these examinations under the Plant Health (Great Britain) Order 1993 but that Order does not contain powers to charge fees. This

¹ This Directive can be found at <http://europa.eu.int/eur-lex/en/search/index.html>.

² This Directive can be found at <http://europa.eu.int/eur-lex/en/search/index.html>.

instrument is made under section 56(1) of the Finance Act 1973 which permits a Government department to require the payment of fees or other charges for the provision of any services or facilities or the issue of any authorisation, certificate or other document, in pursuance of any Community obligation. The power is subject to Treasury consent.

5. Extent

This instrument applies to England only. Similar legislation will be applied in Scotland, Wales and Northern Ireland.

6. European Convention on Human Rights

Not applicable

7. Policy background

7.1 A package of significant changes to the EU regime for checks on third country imports was formally approved by the Agriculture Council at the end of November 2002. The changes, which are set out in full in Council Directive 2002/89/EC, are quite extensive and came into force on 1 January 2005, although they have still to be fully implemented in the UK. They will affect primarily importers of controlled plants and plant produce; i.e. those that require a plant health (or phytosanitary) certificate when imported from non-EU countries. In broad terms this includes plants, potatoes, the major fruit other than bananas and grapes, cut flowers and some leafy vegetables.

7.2 One of the more significant changes is a requirement to introduce charges to cover the costs of plant health import inspections. There has long been agreement among Member States over the need to introduce a harmonised charging regime to cover the cost of inspection of consignments of plants and plant produce imported from third countries. Some Member States already have such fees, while others, including the UK, have waited for a Community basis for charging. The Forestry Commission already charges for plant health checks on imported timber. Charges have also been in place for some time for veterinary checks on imported animals and meat and meat products. Charging is consistent with the principles that the 'polluter pays' and that 'risk owners pay for risk mitigation', since most quarantine pests and diseases that arrive in this country do so via commercial trade in plants and plant produce.

7.3 The Directive requires that Member States collect fees to cover the cost of carrying out the documentary and identity checks and physical inspections required by the Directive. It provides two options for charging. Member States can either:

- a) charge according to a standard schedule of charges as set out in the Directive³, or
- b) they can establish their own scale of charges based on the actual cost of inspections, if the standard fees are insufficient to fully recover those costs⁴. The Directive describes the various elements that may be taken into account by a Member State when establishing their own fees. It also provides that the fees set by a Member State must be no more than the actual costs of providing the inspections.

³ See Directive 2002/89 Article 1(19) or the amended Directive 2000/29 Annex VIIIa.

⁴ See Directive 2002/89 Article 1(8) or the amended Directive 2000/29 Article 13d.

- 7.4 A consultation exercise seeking views on the introduction of charges for plant health import inspections was launched on 9 July 2004 and ran until 12 October 2004. Meetings have also been held with interested trade organisations and individual importers.
- 7.5 The standard charges are based on the average inspection cost in those Member States that provided data to the Commission but are skewed towards the lower end of the spectrum. Costs in England (and the rest of the UK) tend to be higher than in most other Member States. It is usual Government policy that where charges are made for services they are set on a full cost recovery basis. Existing plant health chargeable services operate on that basis. However, work on how several of the key elements of the new regime will operate in practice has still to be finalised, which makes it difficult at this time to predict accurately what the full cost will be.
- Defra has, therefore, adopted the standard fees in the Directive as an explicitly temporary solution with a move to full-cost recovery after a year, if the standard fees are not fully recovering costs.
- 7.6 The charges set out in Schedules 1 and 3 are the sterling equivalent of the standard fees in the Directive (which are set in euros), with an uplift of 10% to cover against any fluctuation in the exchange rate which could take the sterling equivalent below the Euro minimum. Additional charges, where applicable, apply where importers request inspections to be undertaken outside normal working hours.
- 7.7 The revised Directive 2000/29 requires that each individual consignment of controlled plants and produce must be physically inspected. However, the Directive also provides exceptions under which a reduced level of physical inspection can be set. Reductions have been agreed by the Commission in the level of inspection on 32 trades where there have been sufficient clear inspections over the last three years to provide confidence in the plant health status of the trade. An agreed reduction in the level of inspection on a particular trade will be reflected in a reduced charge on all consignments of that trade, whether or not they receive an inspection. Details of the trades subject to reduced levels of physical inspection and the relevant fees are at Schedule 2.

8. Impact

A Regulatory Impact Assessment has been prepared for this instrument and a copy is attached.

9. Contact

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FINAL REGULATORY IMPACT ASSESSMENT

1. TITLE OF PROPOSAL

INTRODUCTION OF CHARGES FOR PLANT HEALTH IMPORT INSPECTIONS

2. PURPOSE AND INTENDED EFFECT

2.1 Objective

To implement in England the requirement in Council Directive 2002/89/EC that Member States charge for plant health inspections on certain material imported from outside the EU.

Directive 2002/89/EC applies throughout the United Kingdom. However, this assessment has been prepared on an England only basis as implementation is being considered separately in Scotland, Wales and Northern Ireland.

2.2 Background

There are many plant pests and diseases that, if they were to become established in the United Kingdom, could cause serious damage to our crops and plants. To guard against the spread of these harmful organisms official controls apply to the import of plants and plant produce from outside the EU, including inspection of imported material. These controls are based on EU and UK legal provisions.

Council Directive 2000/29/EC (the 'Plant Health Directive') establishes the Community plant health regime and contains measures to be taken in order to prevent the introduction into, and spread within, the Community of serious pests and diseases of plants and plant produce. The Directive is implemented in Great Britain by the Plant Health (Great Britain) Order 1993. Separate but similar legislation operates in Northern Ireland.

Council Directive 2002/89/EC introduces an extensive package of amendments to the Plant Health Directive, including a requirement for Member States to charge for plant health inspections on certain material imported from outside the EU.

Charging is consistent with the principle that 'risk owners pay for risk mitigation', since most quarantine pests and diseases that arrive in this country do so via commercial trade in plants and plant produce. There has long been agreement among Member States over the need to introduce a harmonised charging regime to cover the cost of inspection of consignments of plants and plant produce imported from third countries. Some Member States already had such fees, while others, including the UK had waited, for a Community basis for charging.

The Directive provides two options for charging. Either Member States can charge according to a standard schedule of charges as set out in Annex VIIIa of Directive 2000/29/EC, or they can establish their own charges based on the actual cost of inspections, if the standard fees are insufficient to fully recover those costs.

2.3 Risk assessment

There are two main risks if the requirement to introduce charges is not implemented. Firstly, there is the risk of action by the European Commission. Infraction proceedings would be initiated. Secondly, we would be out of line with the rest of the Community and not charging could therefore be considered by the Commission as subsidising industry and contrary to EU law on State Aids.

3. OPTIONS

Four options were identified. Alternative proposals were also sought from those consulted, although none were forthcoming.

Option 1 - Do nothing

Option 2 - Adopt the schedule of standard fees set out in Council Directive 2000/29/EC

Option 3 - Establish our own fees that cover the cost of carrying out import inspections in England

Option 4 - Adopt the schedule of standard fees set out in Council Directive 2000/29/EC initially and review the position after a year

4. COSTS AND BENEFITS

4.1 Business sectors affected

The main businesses affected are commercial importers of plants and plant produce that require a plant health (or phytosanitary) certificate when imported from non-EU countries. In broad terms this includes plants, potatoes, the major fruit other than bananas and grapes, cut flowers and some leafy vegetables. Charities and voluntary organisations should not be affected unless they are involved in the commercial importation of controlled material.

4.2 Issues of equity and fairness

Based on pre-consultation discussions with trade organisations and individual businesses and responses to the written consultation exercise, it is envisaged that none of these measures will have an unfair impact on any particular sector of the industry. Our initial view that the likely burden on small businesses will not be any more onerous in relation to size, than it would be for larger businesses was challenged by 7 respondents to the consultation. However, the costs associated with inspecting a consignment of a certain size are the same whether it is imported by a large organisation or a small non-commercial importer. We will look at the impact on small businesses as part of the review process prior to any move towards increasing charges to cover costs.

Existing plant health chargeable services operate on a full cost recovery basis. The Forestry Commission also charges for plant health checks on imported timber on a full-cost recovery basis. They are currently reviewing those charges to take account of increased inspection

costs. Full cost charges have been in place for some time for veterinary checks on imported animals and meat products.

Import inspection charges designed to cover costs have been introduced in the Netherlands (the main comparator for UK importers) and in Austria in advance of implementation of harmonised charging arrangements, with a charge per inspection of around £40 and £37 respectively. France and Spain intend to adopt the schedule of standard charges as set out in Annex VIIIa of Directive 2000/29/EC. Belgium are planning to do likewise and review the position after a year with a view to a move to full-cost recovery.

Option 1 - Do nothing

Benefits

- Industry would continue to receive import inspection services without charge.

Costs

- Failure to meet Government objective of cost-recovery, effectively subsidising a commercial sector where there is no economic rationale to do so.
- Annual loss of income to Defra of the order of £814k (Options 2 and 4) or £985k (Option 3). This is on the basis of inspection of around 24,000 consignments of controlled plants and plant produce per year and an average charge per inspection of £25 (Options 2 and 4) and up to £40 (Option 3).
- Potential for significant costs associated with dealing with infraction procedures and possibly action under EU law on State aids.
- Inconsistent policy between different Departments performing similar services.

Option 2 - Adopt the schedule of standard fees set out in Council Directive 2000/29/EC

Benefits

- Level playing field between English importers and ports and some of those on the continent with which they compete.

Costs

- Probable failure to meet Government objective of cost-recovery, assisting a commercial sector where there is no economic rationale to do so.
- Annual loss of income to Defra of the order of £171k (see above).
- Additional financial burden to industry - total annual cost of around £814k.
- Inconsistent policy between different Departments performing similar services.

Option 3 - Establish our own fees that cover the cost of carrying out import inspections in England

Benefits

- Total cost of services provided is met by those who require import inspections for their business rather than the general taxpayer.
- Consistent policy between different Departments performing similar services.
- Possible distortion of trade as a result of charges in England being lower than those in some other Member States.

Costs

- Additional financial burden to industry - total annual cost of around £985k.
- Possible distortion of trade as a result of charges in England being higher than those in some other Member States.

Option 4 - Adopt the schedule of standard fees set out in Council Directive 2000/29/EC initially and review the position after a year

Benefits

- Level playing field between English importers and ports and some of those on the continent with which they compete.
- Phased approach to full-cost recovery easier for industry to absorb.
- Chance to assess full-cost of import inspection effort under new EU import regime.

Costs

- Probable initial failure to meet Government objective of cost-recovery, effectively subsidising a commercial sector where there is no economic rationale to do so.
- Additional financial burden to industry - total cost in first year of around £814k.
- Loss of income to Defra in first year of the order of £171k.

5. CONSULTATION WITH SMALL BUSINESS: THE 'SMALL FIRMS IMPACT TEST'

A significant proportion of companies in this sector are small to medium sized enterprises. A number of small businesses, and some trade organisations which include small businesses within their membership (e.g. British Ornamental Plant Producers, Flower Import Trade Association, Fresh Produce Consortium), took part in pre-consultation meetings to discuss how best to implement the requirement to introduce charges to cover the costs of import inspections. In common with the majority of businesses and trade organisations with whom we have discussed the issue, those small businesses who responded to the consultation would prefer to see charges set which do not place them at a competitive disadvantage with their competitors in other Member States.

There was also concern that a single, across the board charge would unfairly penalise small-scale and non-commercial importers. There is no option to apply charges at a level below the standard fees set out in Council Directive 2000/29/EC but, as part of the review and consultation process prior to any move towards increasing charges to cover costs, we would check that there was no disproportionate effect on small businesses.

The Small Business Service has been consulted as part of this assessment.

6. COMPETITION ASSESSMENT

Implementation of options 2, 3 and 4 would impact upon a number of different markets, all of which are already subject to regulatory controls that may, in themselves, inhibit competition to some extent. However, we do not anticipate that implementation of any of the proposed options will result in any significant further restriction in competition in any particular market. A detailed assessment has therefore not been prepared.

The introduction of inspection charges will be an additional cost to businesses. Contrary to our initial assessment, based on responses to the written consultation it appears that in some cases it may not be possible for businesses to pass on the cost 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. If this is the case then there is the chance that some markets may not remain commercially viable.

7. ENFORCEMENT AND SANCTIONS

It is a statutory obligation under Council Directive 2002/89 that Member States charge for plant health import inspections. Implementation in England will be through a new statutory instrument, enforced by Defra, setting out the charges to be paid. The service is likely to operate on an invoicing basis and any unpaid charges will be pursued accordingly.

8. MONITORING AND REVIEW

Defra will operate a Memorandum Trading Account, which will reflect the full costs of carrying out the inspections and the amount of income received, in order to assess whether the charges have been set at the appropriate level, with a formal review taking place every 12 months.

9. CONSULTATION

9.1 Within Government

Other relevant sectors within Defra, HM Customs and Excise, the Cabinet Office, HM Treasury and the Small Business Service have all been consulted.

9.2 Public Consultation

A number of individual businesses and trade organisations took part in pre-consultation meetings to discuss how best to implement the requirement to introduce charges to cover the costs of import inspections. A written consultation exercise was launched on 9 July

2004 and was due to run until 4 October 2004. The deadline was subsequently extended until 12 October to allow time for further comments following a series of open meetings with interested parties at the end of September and in early October. A summary of responses received is attached. The views of interested parties had also been sought in July 2001, during negotiation of changes to the Plant Health Directive, and an update on the outcome of those negotiations was issued in November 2002 to all those consulted.

10. SUMMARY AND RECOMMENDATION

Option 1 - Do nothing

Not implementing the new provisions will place England out of line with the rest of the Community. It would also result in infraction proceedings by the Commission and possibly action under EU law on State aids. Charging is consistent with the principle that 'risk owners pay for risk mitigation', since most quarantine pests and diseases that arrive in this country do so via commercial trade in plants and plant produce.

Option 2 - Adopt the schedule of standard fees set out in Council Directive 2000/29/EC

Adopting the standard fees in the Directive would result in a basic inspection charge of around £25 per consignment for most categories of material, increasing in proportion with the size of the consignment. It would ensure a level playing field between English importers and ports and some of those on the continent with which they compete. However, the standard fees would probably not cover the cost of carrying out import inspections in England. Government policy is that where charges are made for services they should normally be set on a full cost recovery basis and not provided at the expense of the general taxpayer. Existing plant health and other Defra chargeable services operate on a cost recovery basis.

Option 3 - Establish our own fees that cover the cost of carrying out import inspections in England

Setting our own scale of fees would provide more flexibility in ensuring that we recovered the cost of our inspection effort but this would be likely to result in fees that were roughly double the standard fees in the Directive, with a cost per consignment of up to £40 for most categories of material, increasing in proportion with the size of the consignment.

The total value of horticultural imports into the UK from third countries in 2002/03 was around £2bn. The cost of the current import inspection regime is insignificant in comparison with this figure. In principle, therefore, overall cost recovery should not be a problem. However, trade bodies and individual stakeholders who have taken part in pre-consultation meetings have expressed concern that the level of charges applied in England should not put them at a competitive disadvantage with importers and ports in other Member States. It could be argued that introducing import inspection charges which were higher than the standard charges set out in the Directive was in excess of the basic requirements we are obliged to implement; placing UK importers at a disadvantage compared to importers in some other Member States leading to possible diversion of trade.

Option 4 - Adopt the schedule of fees set out in Council Directive 2000/29/EC initially and review the position after a year

Our preferred option, and one which was favoured by most respondents to the written consultation, is to adopt the standard fees in the Directive as an explicitly temporary solution with a move to full-cost recovery after a year, if the standard fees are not recovering costs. As the new regime will require a fundamental change in the way in which imported consignments are dealt with such an approach would give things a chance to bed down and allow us to fully assess its impact on inspection levels and costs. Continuing uncertainties about how several of the key elements will operate in practice makes it difficult at this time to predict accurately the cost of operating the new regime. It would also provide businesses with time to absorb the new charges.

We are therefore proposing that for the first year we adopt the minimum fees in the Directive (which are set in euros), with an uplift of 10% to cover against any fluctuation in the exchange rate which could take the sterling equivalent below the Euro minimum and additional charges, where applicable, for inspections undertaken outside normal working hours. The basic charge per inspection would be of the order of £25 for most categories of material (higher charge for potato consignments) with the charge reduced proportionally for those trades subject to reduced levels of physical inspection.

Our plan is to introduce charges via a statutory instrument in April 2005, with a review after 8 or 9 months so that, if necessary we are in a position to reset them via a further S.I. in April 2006.

11. DECLARATION

I have read the Regulatory Impact Assessment and I am satisfied that the benefits justify the costs.

Signed by the responsible Minister...Ben Bradshaw

Date...21st March 2005

12. CONTACT POINTS

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