Alvis Brothers Ltd – Written evidence FUU0005

Background

Alvis Brothers Ltd is a family-owned farming and cheese-making business; milking c.1200 cows and purchasing milk from other local family businesses to turn in to award winning Cheddar, Red Leicester and Double Gloucester. The cheese is made at Lye Cross Farm, the company's head office, cheese dairy and packing site and the brand name used by the business. The company is one of the biggest organic producers and benefits from a geographical indication (EU Protected Designation of Origin) for the traditional production of West Country Farmhouse Cheddar. The company supplies UK retailers such as Aldi, Asda, Lidl, Ocado and Waitrose with a mixture of branded and private label products. Approximately 10 years ago the business decided that due to the consolidated nature of the UK market that it would invest in developing an export business. Last year the business sold approximately 1/3 of its cheese to export markets; c.50% of which to the EU, 25% USA and the remaining 25% throughout various other territories including Canada, South Korea, Japan, Australia, South Africa, Peru, Kuwait, UAE and Saudi Arabia, amongst others.

We are compelled to submit evidence to demonstrate the impact of the Trade and Co-operation Agreement (TCA) on our trade and to identify the areas that would ease trade with EU for products of animal origin.

1. ***As opposed to other possible outcomes, what does the presence of an EU-UK free trade agreement mean for trade in goods?***

The TCA was very welcome compared to the government's alternative of no agreement. Dairy categories are often heavily protected in international trade and the EU is no different with a tariff rate of c.40% on cheese. This would have made us uncompetitive in the EU, particularly versus Irish product, and would have made adapting to the new ways of working fruitless. Tariff free trade offers the opportunity to retain our EU business but is not without difficulties that remaining in the single market and customs union would have avoided. The political will to have more control of our laws and borders has certainly been at the expense of ease of business with our closest and biggest market. However, the TCA does provide us, with all other things being equal and some (commercially sensitive) mitigations, the expectation that we will be able to continue our trade in the EU at a similar level to that which we enjoyed during the withdrawal period (having lost some due to uncertainty and concerns over tariffs during 2020). It is worth noting that if we continued trade in the same manner in which we did pre-Brexit, with all the new processes and requirements, we would expect the cost of the new paperwork to serve the

EU would increase by c.£125,000 with any increases in haulage costs, administration costs and business restructuring costs in addition to this.

In this submission we do not cover many details on trade in organic products but the additional burdens from the TCA are significant and are in addition to those applicable to non-organic EU trade. The flow diagram (page 3) includes some of the steps that are involved, and we can expect that the requirements will be too much for small, niche organic producers on their own. A separate review of the impact on organic businesses is recommended.

2. ***What is your assessment of the relevant provisions in the TCA and their impact on your business or policy area?***

3. ***What do those provisions achieve?***

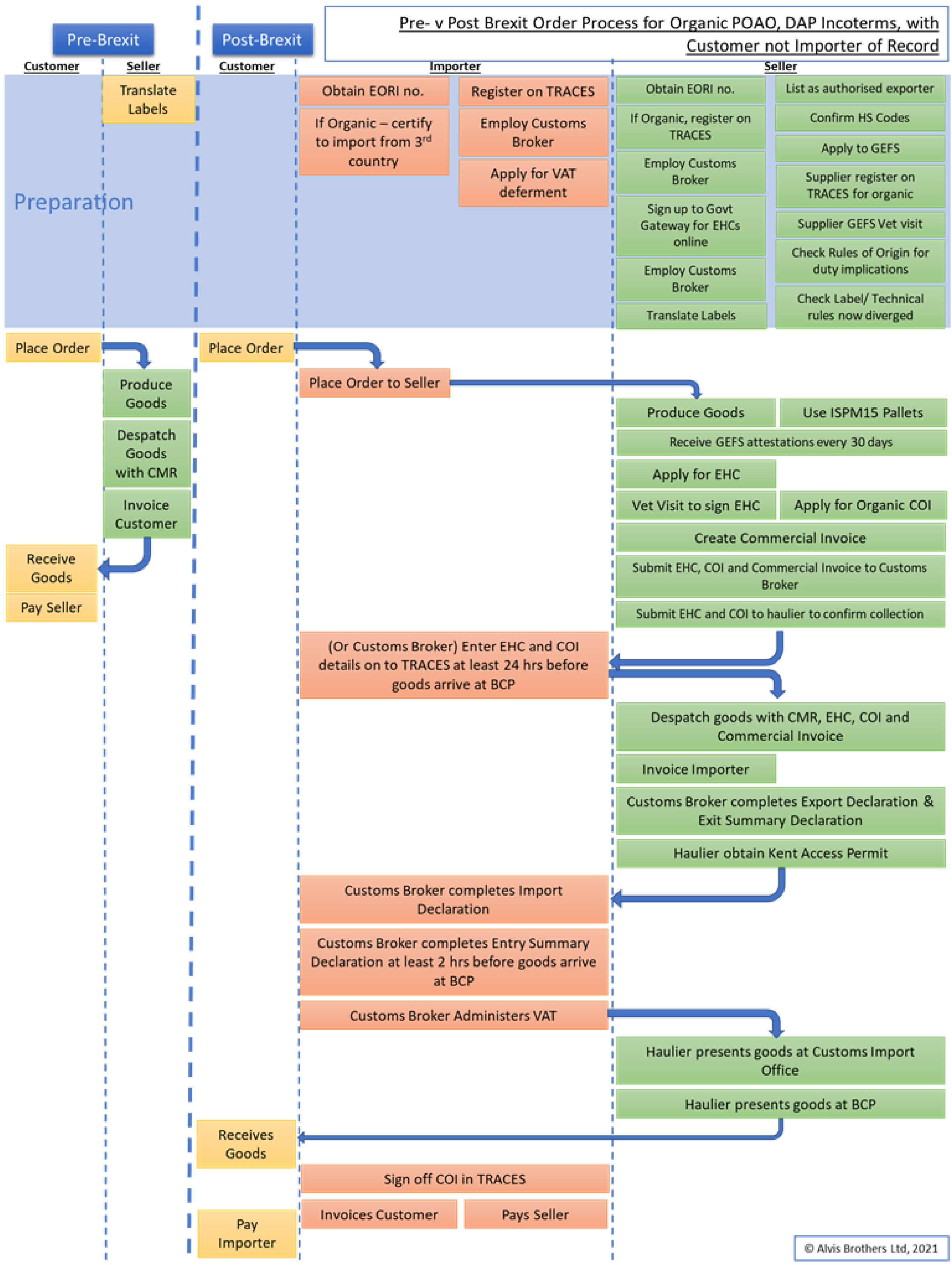
4. ***What, if any, challenges arise because of those provisions? How should these challenges be addressed and what support is needed, if any?***

The TCA provides very few easements to facilitate trade, thus introducing friction and cost. This means that EU trade will continue very much in the same way as we trade with more distant countries. The one difference being is the transition to these more complex arrangements is being done by businesses on both sides of the English Channel who do not have any (or limited) experience of trading in such quantities with this complexity. We are moving from a situation that was no more difficult than supplying the UK market to a vastly different, much more involved process. Before Brexit, we would receive weekly orders from some EU customers and ship single pallets to them via the regular groupage services. Post Brexit, there is a significant amount of preparation to be completed before trade can commence and then numerous stages of administration required to facilitate each transaction. Groupage is challenging (see HMG Trader Readiness Export of Animals and POAO from Great Britain to European Union - Useful Information – Issue 2, 25.1.21, v1.0) and is presenting hauliers with many issues - at the point of writing no hauliers are offering this service except where it is done with retailers and making use of the Groupage Export Facilitation Scheme (GEFS).

To supply retailers exporting to EU the GEFS scheme is welcome and makes trade smoother, faster and cheaper than using Export Health Certificates (EHC) but is still required to be updated at least every 30 days. Assuming that the scheme is successful it would be appreciated by business to extend the time period of GEFS past the 30 days to further reduce the administrative and cost burden. GEFS appears to be the solution to hauliers for groupage but will require investment in veterinary resource, processes and then the ability to update the EU Common Health Entry Documents (CHED) on arrival in the EU so that product can be distributed to more than one destination. With the absence of groupage, it can be expected that exporters will work together to consolidate consignments themselves - the result being that hauliers traditionally strong in groupage will lose out to full truck load (FTL), exporter grouped shipments. The FTL services are often run by EU businesses/vehicles on backhaul whereas groupage is managed in UK based facilities.

The EU EHC requirements appear more challenging than what we are accustomed to for the rest of the world. For other countries, the exporter's vet would require a signed manufacturers declaration for products that are not produced by the supplier. Under the EU system we are now required to have the supplier enlist a vet to complete a GEFS attestation every 30 days so that the exporter's vet can approve the EHC. The financial and administrative burden of this, on top of the EHC, is high and is also tying up veterinary resources in more and more admin. So, whilst GEFS is better than EHCs from every supplier, it is a long way from a perfect scheme and there is significant opportunity for improvement.

For organic export of Products of Animal Origin (POAO) with some products from a third party, we estimate that there are now approximately 44 steps to export to EU versus the 7 steps we enjoyed when part of the single market and customs union. We move from a lead time of approximately 2 weeks to a lead time of over 4 weeks – the new arrangements are making us slower, less flexible and add cost. Again, with some (commercially sensitive) mitigations we believe that within 3 months we will have mitigated much of the oncost, but we expect the longer lead time and reduced flexibility to remain unless future negotiations on the TCA gain some easements. Please find graphic to illustrate the steps involved now versus before (excludes details on the transit documents required):



5. ***What do you identify as the most important issues that the TCA leaves for further negotiation? What would represent a best-case resolution of these issues?***

6. Within the parameters of the TCA, what should the UK seek to accomplish with the EU in relation to your industry or policy area in the short, medium and long term?

It is clear that there is not the political environment to align more closely with the EU and so asking for customs process improvements or removal of phytosanitary controls feels unrealistic. Instead, there are a few ways that the government can work with the EU to try to facilitate trade more smoothly and less costly for business with reduced burden at the borders but still protects the EU and UK markets sufficiently:

1. Phytosanitary provisions – add cost, time and tie up a lot of border and veterinary and government resource:
    a. Increase length of approval period for GEFS – ideally annually or upon a substantial change to manufacturing process (need identifying), potentially by requiring a vet to spot check, unannounced, to check that any changes to process and others have been reported to them to arrange a reinspection.
    b. Review the requirement for GEFS versus rest of world EHCs.
    c. Allow company food business Technical Managers to undergo Certification Support Officer (CSO) training and complete EHCs. Again, maybe with a veterinary unannounced spot check to certify the site. The Global Food Safety Initiative (GSFI) standards mean that businesses are used to complying with and having their standards audited regularly.
    d. Move to a fully integrated digital EHC system whereby physical signatures are not required, and data is added to EU TRACES system seamlessly to create CHEDs – registered vets can digitally sign documents. The current process takes approximately 3 working days.
    e. An EHC licence is another possibility with a period that would allow a site to be authorised to supply for a period by a vet and the licence is presented at the Border Control Points (BCP) rather than individual EHCs.
2. Customs provisions – add cost, time and tie up agents in both importing and exporting countries:
    a. Seek a security cooperation agreement to remove the need for Entry Summary Declarations – a small change but one less process and cost. EU agreements have been made with Switzerland, Norway and Canada which could provide the framework.

   We do not know of any further easements that could be made here given the political landscape.

Summary
The TCA is welcome when compared to no agreement but with little alignment it has added significant administrative and financial burden on business. We believe that over time many, but not all, of the costs can be mitigated and business will find efficient routes to work with the new rules. Trade with the EU will be slower, more complicated and less flexible. There will inevitably be further issues for those companies working with more complex products than ours regarding Rules of Origin and managing EU:UK integrated supply chains. Currently business is 'running hard to stand still' but we are optimistic for the future of our EU business and yearning for the day when growth is the focus, not maintenance as a result of working our way through extensive 'red tape' and non-tariff barriers.