

# Agricultural Industries Confederation – Written Evidence (TIG0002)

## The AIC

The AIC (Agricultural Industries Confederation) is the trade association which represents the UK agri-supply industry which has a farmgate value of over £8 billion.

We represent a wide range of members who supply farmers with the key inputs and advice they require to produce crops and livestock products. AIC also Services manage a range of trade assurance schemes for specific sectors of the UK agri-supply sector. Our industry is therefore an integral part of the agri-food supply chain. The key sectors in which our members operate are shown below.



## Response to call for evidence questions

*What has been the experience of businesses and other stakeholders in the UK regarding implementation of the trade provisions in the UK-EU Trade and Co-operation Agreement?*

*How effectively is the UK-EU trade relationship being managed through the mechanisms under the Agreement, including the Partnership Council and the bodies that sit beneath it?*

*What impact is the Agreement having, and what might be its future impact, on the UK's wider trade policy – including in relation to trade with non-EU countries?*

*How is implementation of the Agreement, along with the wider UK-EU trade relationship, likely to evolve?*

The AIC is clear that many difficulties remain as a result of the Trade and Cooperation Agreement (TCA) between GB and the EU. These problems are being witnessed across as non-tariff barriers across the UK animal feed, fertiliser, seed, crop protection and grain sectors.

In June 2021, AIC undertook a survey of its members on issues they have faced since the TCA came into force. Almost all AIC Members involved in import/export trade have experienced at least some degree of friction for a variety of reasons, impacting supplies. This impact has been felt the mostly strongly in the feed sector.

The survey revealed that there is no single reason behind the difficulties faced by supply businesses. It is a combination of the TCA, its interpretation by EU member states, and the unwillingness of hauliers/couriers to transport goods. These issues are in addition to the impact of Covid-19 and global availability of products.

A summary of the challenges identified during the survey are as follows

#### GB to EU trade

- 94% of businesses have experienced delays or friction on exports to the EU since 1<sup>st</sup> January.
- Half of AIC Members surveyed said that problems were prevalent in more than 75% of their exports. 61% said at least half of their exports had issues.
- Most common problems lie with finding hauliers or couriers, customs or tariff procedures or incorrect documentation such as Export Health Certificates (EHCS) being asked for by importing authorities.
- About 20% of Members said they found their exporting issues to be unresolvable.
- Whilst most Members felt that information from UK Government was consistent (69%), they stated that EU Member state guidance was inadequate (61%).

#### EU to GB trade

- 25% of AIC Member businesses had noticed issues on importing goods from EU to GB since 1<sup>st</sup> January.
- The main problems cited were physical readiness at ports/points of entry and costs such as tariffs/agent fees/customs (over half of respondents named both).
- 61% of AIC Members said they were not confident of what would be expected of them when full inspection checks phase in from October 2021.

*a) What have been the key challenges of existing border controls for GB-EU trade in goods so far? To what extent have these challenges improved or worsened over the course of 2021, and how might they be mitigated further?*

From an AIC perspective, the key challenge faced by AIC members lies in the non-harmonised implementation by EU Member States of rules around official controls. This challenge is particularly apparent in the **animal feed** sector, including those containing animal by-products or no animal by-products. This has led to that a lack of consistency in the way in which rules are being applied on exports of feed to EU countries, adding to considerable costs and challenges on exports.

AIC members assessing the implications of new barriers to trade are making the following strategic decisions:

- Cease exports to EU given that they are now non-competitive – costs and delays mean EU customers go elsewhere. This is particularly relevant for those who have established direct to farm business or direct to end user (equine supplements and fishing bait) business. Problems with logistics compounds the difficulties – many couriers and groupage operators are refusing to carry these products.
- Move logistics operations to EU. UK businesses are investing in EU based warehousing and logistics in order to reduce number of dispatches from UK. Implications for cashflow, shelf-life, employment law etc all need managing.

For the **UK seed sector**, from January to March 2021 there was no equivalence granted by the EU to GB, meaning exports could not be physically carried out. In March, the EU then granted this seed equivalence, meaning recognition that field inspections and maintenance of varieties in the UK were equivalent to EU practices. This means that certified fodder plant, cereal, beet and oil and fibre plant seed *can* be exported to the EU. As the UK is now a third country, all seed to the EU requires a phytosanitary certificate as it is a regulated good, and it is necessary for companies to contact the National Plant Protection Organisation of the country of import for information on pre-notification requirement. The variety will need to be on the EU Common Catalogue and the seed must comply with the EU Plant Health Regulation and the EU Official Controls Regulation. Exporters will need to arrange with the EU customer the completion of a Common Health Entry Document for Plant Products (CHED PP) through TRACES (Trade Control and Export System). As well as a phytosanitary certificate seed will also need to be OECD labelled where it is a species in an OECD scheme, be ISTA sampled, and have an Orange International Certificate (OIC). Therefore, whilst exports can take place, there is evidently considerable trace friction to accompany it for UK businesses.

For imports from the EU, since January 2021 only 'high priority' seed has required a phytosanitary certificate, OECD labelling, OIC and pre-notification. From July 2022, all seed will need a Phytosanitary Certificate and only 1% of these imports will need prenotification. There is currently a consultation about the notification requirement, which AIC is discussing.

*2. Do you agree with the Government's decision to delay further the introduction of certain checks and controls on imports of EU goods into GB? What are the advantages and disadvantages of this decision?*

It was anticipated that inspections would take place on feed materials from 1<sup>st</sup> October 2021, however feedback received to the AIC from both importing members and individual Member State veterinary authorities, it was clear that Government authorities and EU member states were not ready to implement the requirements.

The AIC position on imports has been clear – if the UK cannot guarantee a smooth transition to import checks from 1st October 2021, given current supply chain and labour pressures, then a delay was the only feasible option. It is of course preferable that eventual import checks will take place, in order to achieve some kind of balance to trade with the EU. However we should be clear that given the current pressures in the agri-supply chain relating to inputs and labour shortages, we must keep this timetable under review as circumstances change.

*3. What are the implications of continued 'asymmetry' between GB and EU border controls, for example on the competitiveness of GB businesses, on border security, and on customs revenue? Are these asymmetric arrangements sustainable?*

As stated above, it is clearly preferable that some kind of eventual symmetry takes place on both imports from the EU as with exports to the EU. However it should be stressed that across many of the AIC sectors, animal feed, seed and cereals exports to the EU have not been treated equally from member state to member state. AIC has received of many examples of where exporting one good to one EU member state is treated entirely differently with exporting the same good to another member state. Therefore, the immediate priority is to try and achieve some kind of harmonised approach across EU member states so that GB businesses exporting to the EU can be confident of the fact they know what processes will be followed and what paperwork will be asked for. As it stands, there is little consistency across EU member states' importing bodies. AIC is happy to provide further specific examples of this to the Committee.

*c. To what extent are businesses, ports, hauliers, the customs intermediary sector and other relevant groups ready for the introduction of full customs controls, and the expiry of other relevant grace periods, from 1 January 2022, and for additional SPS controls from 1 July 2022? Are there any particular challenges or concerns ahead of these deadlines? How do current levels of preparedness compare to previous preparedness for the end of the transition period on 31 December 2020?*

It was clear to AIC this summer that authorities across many EU member states, including EU businesses and trade associations were not prepared for new inspections from October 1<sup>st</sup>. AIC worked with members who were trying to understand differences in approaches between UK Government and EU member state veterinary authorities. AIC recommends that the UK Government fully communicates what is expected to EU member states, the Commission and EU trade bodies, and takes on board feedback and queries as early as possible.

AIC recognises that delays to import processes cannot continue in perpetuity, however we must fully understand the unique combination of factors that current exist in global supply chains, leading to a considerable rise in commodity prices, as well as reduced availability of goods as a result of high energy costs and protectionist policies across the globe. There, Government must be prepared to take these factors into account for any future changes to import processes.

*4. Ahead of these changes, what is your assessment of the quality of existing Government communications, guidance, advice, funding and support for traders and ports? If there are any shortcomings, how should these be addressed?*

*a. Having made the decision to delay the introduction of certain checks, how should the Government best use this extra time?*

*b. Do you have confidence that the Government's revised timetable for the introduction of checks will be delivered on time?*

When AIC surveyed its members this summer, 60% of those who responded stated they were not confident on what they would need to do ahead of phased in inspections into GB from the EU for goods. When asked what specific issues they were not confident about, members stated unequivocally that their concerns lay in the physical readiness at points of entry and subsequent haulier delays, Government computer systems not being ready, EU/supplier awareness and costs of instructing import agents or couriers.

*5. Is disruption to trade flows or supply chains expected from the implementation of additional checks and controls from January and July 2022? If so, what form might any disruption take, and can it be mitigated by Government action?*

It would be very unrealistic for any checks on imports, whatever format they take, and whatever date is finally agreed upon, to be seamless. From 1<sup>st</sup> January 2021, there were a number of immediate 'teething' issues that arose as a result of new systems being put in place. Examples were staff not having the correct guidance or training or errors that arose from Government IT systems. In the case of the latter, problems often arose from one system (such as TRACES) having to interact with another system owned by a different Government department (such as CHIEF).

Teething issues or human errors happen, especially with new processes in place. What the UK Government must do is ensure that where such errors occur, there is a fast resolution procedure in place to rectify such errors. In January of 2021, there were a number of cases in which an obvious error was identified. However when AIC, or an individual member company, tried to contact the relevant Government Department or statutory body (such as APHA or HMRC) to resolve the issue, it was common for emails to go unanswered or for phone lines to be diverted to voicemail or to ring unanswered. Examples included large vessels of cereals held up in ports

*6. What, if any, is the relationship between the timetable for the introduction of new checks and controls and the current challenges facing supply chains due to labour shortages?*

There are current difficulties surrounding the delivery of some inputs to UK farms. For the year ahead, the combination of factors including shortages of delivery drivers and hauliers, disrupted global supply chains, rising energy costs, legacy issues from Covid-19 and self-isolation, and EU - UK trade friction, mean that this approach to ordering inputs will be placed under considerable strain. This could have far reaching impacts across the UK's agricultural sector. For example, reduced availability of fertiliser or crop protection products and / or their increase in price will inevitably have an impact on how food is grown in the UK. Defra, Whitehall more broadly and devolved administrations must take this seriously and contingency plan with industry for these medium to longer term challenges. Given

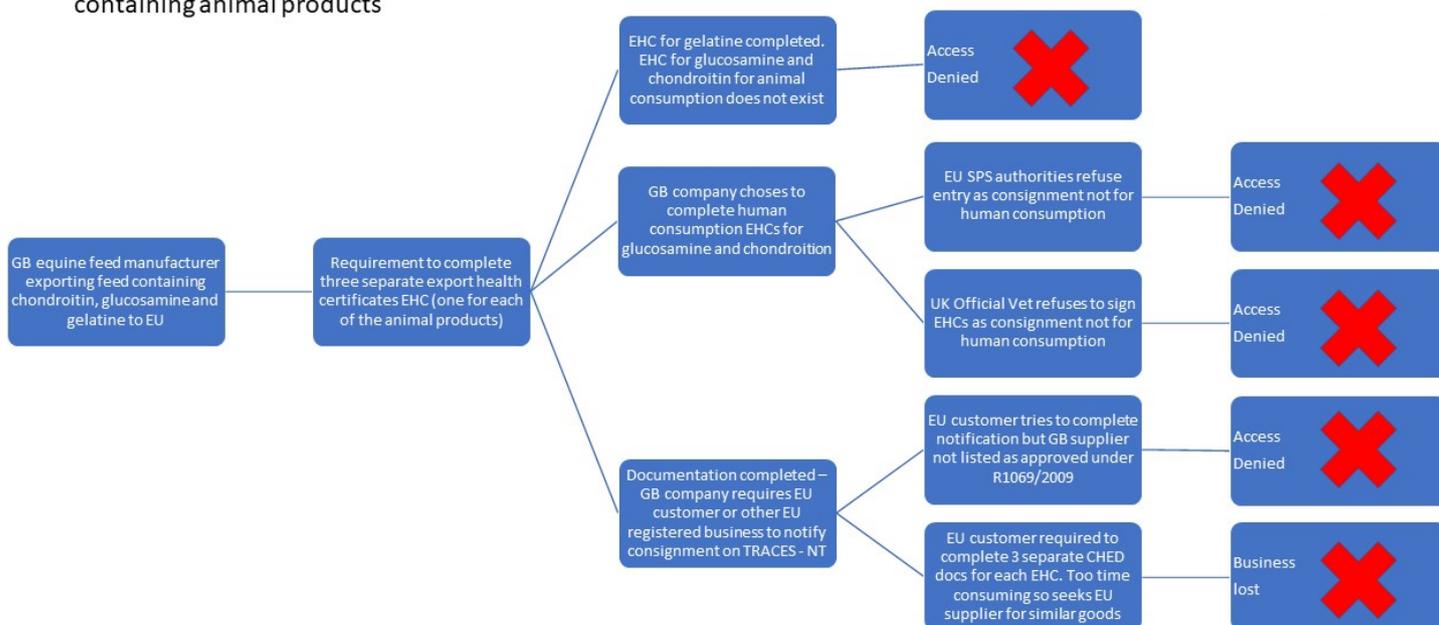
that checks are to be delayed until the new year, when the bulk of these inputs are applied on farm, it would be prudent for Defra to be liaising with other Government Departments in ensuring that the availability and supply of inputs, especially those that are imported, are unduly delayed from entering the UK. Where issues do arise, such core agricultural inputs must be expedited to ensure that the nation's food security is not jeopardised.

7. How would you assess the checks and controls that GB exports to the EU have faced since January 2021, such as Sanitary and Phytosanitary requirements, customs formalities, Rules of Origin, and VAT?

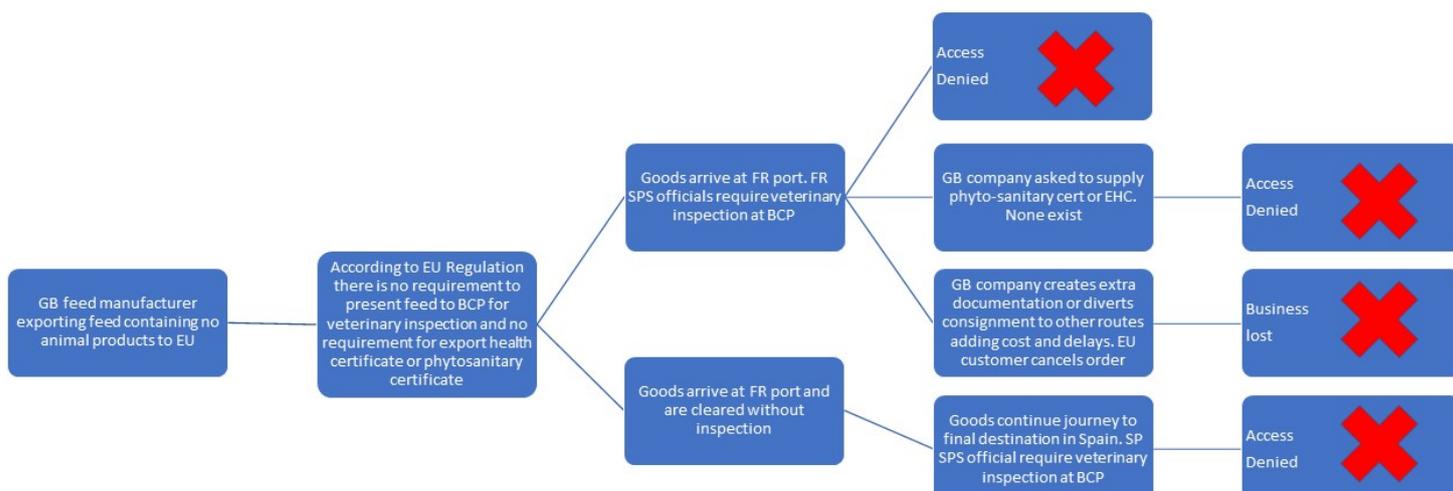
a. What has been the impact of these checks and controls on British traders and hauliers?

Below is a set of decision trees that AIC has devised in demonstrating the unequal and disproportionate approach taken by EU member states to exports of goods from GB to EU:

EU trade scenario – animal feed containing animal products



EU trade scenario – animal feed containing no animal products



*b. Have these controls on GB exports been applied fairly, proportionately and consistently across EU Member States?*

No. This is a core concern of the AIC's, and it is leading to loss of export business to the EU. As explained in our answers to questions 1 (a) and 3, the seed and animal feed sectors have experienced this frequently since 1<sup>st</sup> January.

To help illustrate the many problems that AIC businesses have faced, below is a member case study:

### **Case Study: GB Exporter to the EU**

- A UK business has a successful trade selling fish feed and baits to EU customers. Customers buy direct from the business in small quantities on a frequent basis. This is a small business employing a small number of people. The owner of the business has spent the last nine months trying to keep this export activity alive.
- Post EU exit, he was faced with enormous certification problems (his products contain multiple animal by-products) and hauliers/couriers refused to carry his products.
- He tried to get customers to buy in larger lots (pallet delivery) but problems remained with groupage services again refusing to carry his products and offering discount to customers to buy ex-works (in other words organising their own logistics) was not possible.
- He decided he had to change his export business model and has spent the last 9 months setting up a new system.
- He has appointed a Dutch manufacturer as his EU distributor. They have existing reach into his customer base, available warehousing and, importantly, he trusts them.
- His first consignment (full container load) was cleared after 10-14 days delay. One cause of delay was that his vet had stamped the EHCs with blue ink (correct) but annotated page numbers in black ink (incorrect and therefore rejected).
- His second full container went recently and was cleared in 48 hours.
- He needed a creative solution to the multiple EHC issue, and this was provided only after direct communication with his Member of Parliament, who contacted the Defra Minister, who in turn, got together a team from Defra and APHA to come up with a solution.
- It was proposed that he use an export health certificate (EHC 8312) which is for animal by-products for purposes outside the food chain (his baits are exclusively used in catch and release coarse fishing waters and so fish caught are not eaten)
- This proposal needed to be agreed by receiving officials in the Netherlands and APHA staff who helped allow this to happen

- As part of the deal he has to label all packs with 'not for human consumption' and 'not for fish for human consumption'.
- On costs, the most significant was giving away 25% margin to his EU distributor. Container costs are borne by him (£1600 per load) whereas for his direct to tackle shop/club business the customer paid for delivery. He has extra labelling costs, EHC costs which are £150 per vet visit and the obvious cash flow and working capital implications of sending larger stocks to a single distributor who has a credit account as opposed to smaller retail buyers who paid in advance.
- Indirect costs could be much more significant for a business like his. In the past 9 months he has had no opportunity to divert resource to business growth, expanding his export base beyond EU or for new product development.
- His conclusion was that without the intervention of his MP and Minister, followed up by good comms between APHA and the Dutch authorities, he would have lost most of his EU business.