

## **EXPLANATORY MEMORANDUM TO THE WELSH LEVY BOARD ORDER 2008**

1. This explanatory memorandum has been prepared by the Food and Market Development Division, Department of Rural Affairs, and is laid before the National Assembly for Wales in accordance with Standing Order 24.1.

### **2. Description**

The SI will make provision for the creation of a Welsh Levy Board responsible for functions and duties relating to the beef, lamb and pig industries in Wales. The Board may raise levies relating to each industry. The Board may also establish a subsidiary company covering the Welsh red meat sector, or may enter into an arrangement with a company wholly owned by the Welsh Ministers for the performance of such functions contained in Schedule 1 of the Order.

### **3. Matters of special interest to the Subordinate Legislation Committee**

None

### **4. Legislative Background**

4.1 Section 87 of the Natural Environment and Rural Communities (NERC) Act 2006 provides powers to Welsh Ministers to create a levy raising board.

4.2 Due to the abolition of the existing red meat levy board for Wales on 31<sup>st</sup> March 2008, WAG will establish from 1<sup>st</sup> March 2008 an interim levy raising ASPB under Section 87 of the Natural Environment and Rural Communities (NERC) Act 2006, by statutory instrument.

4.3 The Welsh Ministers have the power to create an ASPB levy raising board under section 87 of the NERC Act. The existing levy boards were established through legislation and given powers to collect a statutory levy. The existing boards are all answerable to all four Agricultural Ministers. The review is led by Defra but supported by the Devolved Administrations. The power to change the Levy Board structure is contained in the NERC Act. This Act allows for separate levy board arrangements in Wales and permits the Welsh Ministers to establish by order a levy raising board (ASPB).

### **5. Purpose and intended effect of the legislation**

5.1 The Agriculture Act 1967 gives statutory responsibility to the Meat and Livestock Commission (MLC) for the promotion and development of the red meat (ie beef, lamb and pork) sector in GB. Funding comes from parafiscal levy collected from producers and processors at the time of slaughter or export of cattle, sheep and pigs under the terms of the Agriculture Act 1967. In Wales, the levy amounts to around £3.5m annually. Since 2003, responsibility for MLC functions in Wales has been delegated to Hybu Cig Cymru – Meat Promotion Wales (HCC). The Welsh levy is collected by the MLC and transferred to HCC.

HCC receives the Welsh red meat industry levy and carries out the functions of the MLC in Wales, reporting to Welsh Ministers.

5.2 The MLC is one of five agricultural and horticultural levy bodies in the UK, the others being the Milk Development Council, British Potato Council, Horticultural Development Council and Home Grown Cereals Authority. All five levy bodies were subject to a review by Rosemary Radcliffe in 2005, at which time the structure of HCC was also examined. The Radcliffe Report concluded that a statutory levy should be maintained across the sectors, primarily in order to protect against market failure. Levy payers and stakeholders' views were sought on a number of issues covered by the Report. Responses to the consultation in Wales supported the establishment of UK levy bodies/subsidiaries for four of the five levy boards. The one exception is the red meat levy board where the industry in Wales overwhelmingly supported having a body that was directly accountable to the Welsh Assembly Government.

5.3 The Minister for Environment, Planning and Countryside announced on 28 June 2006 that Wales would retain a separate red meat promotion body that will not be part of the future Levy Board UK structure but instead will be accountable to Welsh Ministers.

5.4 Assembly Government officials have met Levy Board UK and HCC to ensure that the Welsh Levy Board Order will adequately cover the needs of the industry. However, where possible the Order removes unnecessary regulatory burdens and these are detailed in the Regulatory Impact Assessment below.

## **6. Implementation**

The proposed establishment of a Welsh levy board will not impact adversely upon rural communities, neither will it have any differential social impacts. The benefits from creating a Welsh levy board are detailed in the Regulatory Impact Assessment, as are details of the likely consequences on Welsh stakeholders should a Welsh Levy Board not be established. In summary, there would be no significant change in the activities and monitoring of Hybu Cig Cymru (HCC) and therefore the impact of a Welsh body on producers and processors would be negligible. It is proposed that the coming into force date of the Order will be 1 March 2008.

## **7. Consultation**

Details of consultation undertaken are included in the Regulatory Impact Assessment below

## **8. Regulatory Impact Assessment**

### **8.1. COSTS AND BENEFITS**

#### **i. Option 1 – Do nothing**

Costs: This option would affect everyone involved in the red meat sector in Wales. From 1 April 2008, no levy would be collected from those who present cattle, sheep or pigs for slaughter or export. Around £3.5m is currently collected per annum. This money would no longer be available for the promotion and development of the industry in Wales. The effect on the industry is unquantifiable but the lack of industry development work, information gathering, research and development and product promotion and advertising would have a significant negative impact on producers and processors of red meat in Wales and other related parts of the sector. Sales and exports would reduce, the Welsh brand would be damaged and the sector would be forced to decrease in size. The impact would be greater because of competition from elsewhere in the UK, where the industry would continue to pay levy and to benefit from the promotion and development work of the Sector companies.

HCC would not be able to continue in its current form and if it remained, would have to concentrate on its non levy funded activities, with a much reduced workforce.

Consumers in Wales would be affected by higher prices, less choice and a decreasing ability to purchase local products.

Benefits: Levy payers would be saved payment of levies currently amounting to around £3.5m annually.

## **ii. Option 2 – Establish HCC as a Sector Company accountable to Levy Board UK**

Costs: This option would affect the whole of the red meat sector in Wales. As a part of the UK levy board structure, a GB wide (including Wales) red meat sector company would be accountable to Levy Board UK and all UK Ministers and would lose separate identity and accountability to Welsh Ministers that currently exists. It would be more difficult to develop the Welsh industry appropriately and to promote the distinctiveness of the Welsh product within such a structure, with Levy Board UK responsible for the range of agriculture and horticulture sectors including the red meat sector in England.

Welsh Ministers would have no direct control of the GB wide red meat sector company and this would affect the close relationship they have with the industry and the scope they have for ensuring appropriate use of the levy in Wales. Decisions would be shared with other UK Ministers.

Consumers may notice a diminution in the distinctiveness of the Welsh product (particularly the 'Welsh' brand) and its profile in Wales.

Benefits: Levy collection would continue to be done centrally rather than by a dedicated Welsh Levy body.

## **iii. Option 3 – Establish a Welsh Levy Board**

This option should, for the benefit of Welsh levy payers and industry stakeholders, improve accountability and industry-ownership of levy-funded activities. The creation of a red meat levy raising body directly accountable to Welsh Ministers, rather than directly accountable to the UK Levy Board is seen as key to the continued developments of the sector in Wales. When consulted on proposals for the review of the levy boards, respondents from the red meat sector were wholly supportive of such an approach.

There would be no significant change in the activities and monitoring of HCC and therefore the impact of a Welsh levy body on producers and processes would be negligible.

## **8.2. CONSULTATION**

The recommendation in the Radcliffe report on the review of the levy bodies were subject to wide consultation. Respondents from the meat sector were wholly supportive of the idea of having a Welsh red meat levy-raising body directly accountable to the Welsh Assembly Government, rather than directly accountable to the UK Levy Board. The idea was accepted by all the main players including NFU Cymru, HCC, Welsh Lamb & Beef Promotions and Farmers' Union of Wales.

A six week public consultation on the draft affirmative instrument (SI) and closed on 24 August 2007. 6 substantive responses were received by the Welsh Assembly Government to the consultation.

Responses to the consultation were broadly supportive with varying degrees of acceptance of the need for a structure that raises and collects levy in Wales. The majority of respondents acknowledged that there was a need for the new Welsh Levy Board to work closely with Hybu Cig Cymru – Meat Promotion Wales to ensure HCC remains the body to deliver strategy and red meat promotion activities. There were some concerns about how the changes would work in practice. A number of suggested amendments were received and these were incorporated where practicable.

Copies of responses and a summary of the consultation responses are available from Food and Market Development Division.

## **8.3 POST IMPLEMENTATION REVIEW**

The performance of the Welsh Levy Board will be assessed through periodic reviews to assess the degree by which the benefits identified above have been achieved. The reviews will be undertaken by the Food and Market Development Division, on behalf of Welsh Ministers.

## **8.4 SUMMARY**

Options 1 and 2 will not deliver any sustainable benefits, option 3 has the following benefits:

- Improved accountability and industry ownership of levy funded activities;
- Activities meeting the needs of levy payers (identified in the Fresh Start consultation);
- Direct accountability to Welsh Ministers;
- Increased flexibility to adapt to changes in sectors/industry;
- Reductions in administrative and regulatory burdens for both levy payers;
- Increased fairness and efficiency of levy collection.