

**THE FUTURE OF THE WOOL
TEXTILE INDUSTRY EXPORT
PROMOTION LEVY**

Impact Assessment

OCTOBER 2008

Summary: Intervention & Options

Department /Agency: Business, Enterprise and Regulatory Reform (BERR)	Title: Impact Assessment of the proposed closure of the Wool Textile Export Promotion Levy	
Stage: Final Proposal	Version: 6	Date: 10 July 2008
Related Publications: The Future of the Wool Textile Industry Export Promotion Levy - Consultation Document		

Available to view or download at:

<http://www.berr.gov.uk/consultations/ria/index.html>

Contact for enquiries: Simon Greaves

Telephone: 0113 341 2720

What is the problem under consideration? Why is government intervention necessary?

The Government is proposing to close the Wool Textile Industry Export Promotion Levy, which in 2006 cost the industry approximately £186,000. The majority of respondents to the Consultation Document published in August 2007 wanted to see an early closure of the Levy because they did not believe they derived any significant benefit from the services offered by NWTEC.

There is therefore a government failure problem in that the costs to business and government of the regulation - in this case the Levy - exceeds the benefits it generates. There is therefore a clear economic case for its removal.

What are the policy objectives and the intended effects?

Government's aim is to reduce bureaucracy by removing outdated and unnecessary legislation. Closure of the Levy will allow businesses in the wool industry to determine for themselves if they wish to spend money on overseas marketing. This will bring them in line with other textile and manufacturing sectors. The National Wool Textile Export Corporation (NWTEC) and the Confederation of British Wool Textiles (CBWT) have been encouraged to work together and with other related bodies to develop an alternative voluntary funding arrangement to promote the wool textile sector overseas.

What policy options have been considered? Please justify any preferred option.

The recommended option is to end the Levy with effect from 1 October 2008. All Levy payments due would be collected to cover the full period upto 30 September 2008. This option allows NWTEC sufficient time to develop and embed an alternative voluntary funding arrangement and also reduce any threat to the future successful overseas marketing of the woollen industry.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects?

No formal review will be carried out after the Levy ends. However, UKTI will work with NWTEC and CBWT to continue to support the industry's export activities through its existing arrangements.

Ministerial Sign-off For Impact Assessments:

I have read the Impact Assessment and I am satisfied that, a) it represents a fair and reasonable view of the expected costs, benefits and impact of policy, and b) that the benefits justify the costs.

Signed by the responsible Minister:

Shriti Vadera

.....Date: 22 August 2008

Summary: Analysis & Evidence

Policy Option: 2

Description: Closure of the Levy from 1 October 2008

COSTS	ANNUAL COSTS		Description and scale of key monetised costs by 'main affected groups' The closure of the Levy should not involve any additional financial costs.
	One-off (Transition)	Yrs	
	£ 0		
	Average Annual Cost (excluding one-off)		
	£ 0		
Total Cost (PV)			£ 0
Other key non-monetised costs by 'main affected groups'			

BENEFITS	ANNUAL BENEFITS		Description and scale of key monetised benefits by 'main affected groups' In 2006, 96 companies were affected by the Levy representing a total cost saving of an estimated £188,000 (£186,000 in Levy and some £2,000 in admin cost savings). Total cost savings to Government associated with collection and enforcement of Levy in the region of approximately £32,500.
	One-off	Yrs	
	£		
	Average Annual Benefit (excluding one-off)		
	£ 220,500		
Total Benefit (PV)			£ 220,500
Other key non-monetised benefits by 'main affected groups' Following the removal of the Levy, firms will be able to determine how they fund their future overseas marketing and export efforts. They will be on the same footing as other manufacturing sectors who do not have to pay a statutory export levy.			

Key Assumptions/Sensitivities/Risks This is a deregulatory proposal removing a statutory requirement that forces companies in the wool textile industry above certain thresholds to pay an export Levy. It is reducing burdens on business and mainly small firms. It will also save some Departmental administration costs.

Price Base Year	Time Period Years	Net Benefit Range (NPV) £ N/A	NET BENEFIT (NPV Best estimate) £ 220,500
--------------------	----------------------	---	---

What is the geographic coverage of the policy/option?	GREAT BRITAIN
On what date will the policy be implemented?	From 1 October 2008
Which organisation(s) will enforce the policy?	BERR
What is the total annual cost of enforcement for these organisations?	£ nil
Does enforcement comply with Hampton principles?	Yes
Will implementation go beyond minimum EU requirements?	N/A
What is the value of the proposed offsetting measure per year?	£ N/A

What is the value of changes in greenhouse gas emissions?			£ nil	
Will the proposal have a significant impact on competition?			No	
Annual cost (£-£) per organisation (excluding one-off)	Micro Nil	Small Nil	Medium	Large
Are any of these organisations exempt?	Yes	Yes	N/A	N/A
Impact on Admin Burdens Baseline (2005 Prices)			(Increase - Decrease)	
Increase of £	Decrease of £	Net Impact	£	

Key: Annual costs and benefits: Constant Prices (Net) Present Value

Evidence Base (for summary sheets)

1. TITLE OF PROPOSAL

Proposal to end the statutory Wool Textile Industry Export Promotion Levy (the Levy) collected from wool processors and suppliers of wool fibres.

2. PURPOSE AND INTENDED EFFECT

Objectives

That after listening to the views of business following a public consultation, Ministers should end the Wool Textile Industry Export Promotion Levy but ensure that sufficient time is allowed for the industry to consider and introduce any alternative voluntary arrangements to promote the woollen industry overseas.

Background

Initiated in 1950 at the request of industry, the Levy was implemented by way of an Order under the powers in section 9 of the Industrial Organisation and Development Act 1947. Its purpose is to raise funds that are provided to the National Wool Textile Export Corporation (NWTEC) to promote the export of wool textiles. Today, the Levy raises approximately £186,000 per year which accounts for just over half NWTEC's annual income. The role of NWTEC is to ensure the positive profile of the industry in overseas markets. To achieve this, the organisation provides a full colour and design intelligence for the industry on a seasonal basis. NWTEC facilitates a major industry presence at overseas events now pivotal to successful sales in mature and emerging markets. It is increasingly required to provide appropriate market intelligence for all sectors of the industry. Some of NWTEC's other income comes from UKTI grants and support under the Tradeshow Access Programme (TAP) and other export promotion programmes.

The Levy is collected on the Department's behalf (by the contractor AMEY) twice a year from around 100 wool processors and suppliers of fibre. In the case of suppliers the Levy is based on a formula linked to the weight of fibres supplied containing more than 15% by weight of animal fibres. For processors the Levy is based on a percentage of the company's salary and wages bill. There are exemptions where the wages and/or weight of fibre are below a minimum threshold of £50,000 per annum (in the case of processors) or (for suppliers) the daily average supply of tops and broken tops does not exceed 1,500

kilograms, or the daily average supply of fibre other than tops or broken tops does not exceed 2,800 kilograms. These thresholds were last updated in 1982.

UKTI funding for export promotion has been cut back in recent years as priorities have changed and the level of funding available to the textile and clothing industries, including the wool industry, has declined though textiles is still a major recipient of the support that is available.

Likewise the number of wool processors and suppliers has declined over time and the amount of Levy collected has also been on a downward trend (2000 - £366k, 2001 - £313k, 2002 - £269k, 2003 - £258k, 2004 - £220k, 2005 - £190k, 2006 - £186k)¹

Although the wool industry's export performance improved in 2004 for the first time in 3 years, the volume of raw and processed wool exported from the UK has declined again recently in both volume and value terms as a result of increased global competition though there have been some exceptions (wool tops).²

There is a risk therefore that if the Levy ends, the amount of support directly available to the wool textile industry will continue to decline (it is declining anyway because of contraction of the industry) and make it more difficult for NWTEC and its partners to maintain the level of service that the industry requires. But it must be for the wool industry itself to determine how much effort and finance it needs to contribute to its own export efforts. Removing the Levy would also put the wool industry on the same footing as the rest of the textiles and clothing industry that does not rely on a statutory levy to support its export activities.

3. CONSULTATION

Within Government

This is an issue confined to BERR and UKTI although there may be regional impacts so RDAs and devolved administrations were consulted.

Industry and Trades Union Consultation

As a result of some representations by industry and the determination by the Department to promote better regulation and reduce bureaucracy by removing outdated, unnecessary and overly burdensome legislation Ministers were minded to close the Levy but decided to seek the views of all interested parties before making a final decision. In undertaking the consultation Ministers were particularly keen to receive the views of those businesses that pay the Levy.

In addition, under the terms of the Industrial Organisation and Development Act 1947, the Department is obliged to carry out a consultation before any changes proposed can be implemented and that such changes or amendments (to the Wool Textile Industry (Export Promotion Levy) Order 1970 (SI1970/348), as amended) have to be made via a new Statutory Instrument subject to affirmative resolution in both Houses of Parliament.

A Consultation document was published in August 2007 with 163 copies being sent to industry representatives and all businesses paying the Levy as well as those using the

¹ British Wool Textile Export Corporation (2006/2007) *Annual Report of the National Wool Textile Export Corporation*

² Industry figures. Source: British Wool Textile Export Corporation (2006/07) *Annual Report of the National Wool Textile Export Corporation*.

services of NWTEC. An analysis of the responses and the conclusions reached is set out in the Annexes section. Full details of the consultation and the Government response can be viewed on the BERR website at: <http://www.berr.gov.uk/files/file44012.pdf>.

In addition the Department has also now consulted the three trades unions – Unite, Community and the GMB – who have raised no objections to the Levy being ended.

Economic rationale for removing the Levy

The majority of wool processors and suppliers which responded to the Consultation Document published in August 2007 wanted to see an early closure of the Levy because they did not believe they derived any significant benefit from the services offered by NWTEC. Many respondents regarded the Levy as an unwarranted stealth tax.

In economic terms, these responses confirm that there is a government failure problem in that the costs to business and government of the regulation – in this case the Levy – exceed the benefits it generates. As a result, there is a clear economic case for removing the Levy.

4. OPTIONS

The Consultation document proposed three different end dates for the Levy. These were:

- 6th April 2008
- 1st October 2008
- 1st October 2009

The first of these options was rejected. There were risks in that NWTEC may have had difficulty in restructuring and putting in place alternative funding to support its activities from April 2008. There was no possibility of underwriting NWTEC from other Government funds and there was a risk that the services provided by NWTEC could have declined as a result of the early closure of the Levy.

The third of these options was also rejected on the basis that Ministers were minded to close the Levy as soon as possible and believed that the proposed end date of 1st October 2009 granted NWTEC and CBWT a longer than necessary timeframe in which to put in place a new organisation with its own alternative funding arrangements.

The proposed closure date of 1st October 2008 therefore represented a compromise and became the preferred option. It also complied with the Government's aim to have common commencement dates for the introduction of legislative changes that bear on business. And, it gave NWTEC additional time to develop an alternative business plan, and consequently a much greater chance of developing a successful voluntary support mechanism to underpin their future marketing strategy for the woollen industry. However, because of the subsequent delay whilst the Department consulted the trades unions means that the coming into force date of a new statutory instrument will now be after 1 October 2008 and will not adhere to common commencement dates. The impact will be exactly the same because its provisions will mean that the levy will not be collected for any period starting after 30th September 2008.

Regarding the remainder of this impact assessment, the options considered in the cost-benefit analysis are as follows:

Option 1: Do nothing - continuation of the Levy (*Option 2 in the Consultation Document*).

Option 2: Closure of the Levy from 1 October 2008, the date proposed by CBWT. Levy payments would be collected to cover the full period up to 30 September 2008 (*Option 1b in the Consultation Document*).

Option 1: Do nothing - continuation of the Levy (*Option 2 in the Consultation Document*).

Detailed Description

All companies paying the Levy would continue to pay as long as they remained liable under the Levy criteria.

Implications

From a government perspective continuing the levy is not appropriate in a modern context. The Department believes that the industry itself should be given the freedom to make the arrangements most suited to its needs and that companies should be able to exercise choice over whether and how they participate. The Government also considers that where there are appropriate alternatives to regulation they should be pursued which is why Ministers were minded to end the statutory Levy.

Option 2: Closure of the Levy from 1 October 2008, the date proposed by CBWT. Levy payments would be collected to cover the full period up to 30 September 2008 (*Option 1b in the Consultation Document*).

Detailed Description

As part of our policy development we discussed the future of the Levy with NWTEC and CBWT. The two bodies were in the process of completing a project to set up a Textile Archive and planned to share joint office facilities, together with other related organisations. The Business Plan for the project envisaged a self sufficient organisation within the next two years. However, CBWT believed that this could be achieved in a faster timescale, by October 2008. Even so, those plans to share joint facilities were later shelved.

All companies paying the Levy would be required to make payments to cover all Levy periods up to and including the Levy period ending 30 September 2008.

Implications

Like the CBWT, Ministers also believed that any restructuring can be achieved in this time frame and that the Levy will then no longer be needed.

There is a risk that if industry fails to support any voluntary arrangements that the trade bodies seek to put in place the resources available to promote wool export marketing activity may decline. This option provides the industry with a relatively short period to put in place a new organisation with its own membership/subscription arrangements. In fact NWTEC have already launched their plans for a voluntary scheme supported by the industry that would commence from January 2009 and ensure there is no gap in funding.

5. COSTS AND BENEFITS

The benefits of removing the Levy would take the form of cost savings to wool processors and suppliers as well as Government.

Wool processors and suppliers will make two types of cost savings. First, they will no longer incur the cost of the Levy itself. Of the 96 companies in the wool industry currently affected by the Levy, the average payment in 2006 – and therefore saving should it be removed – was approximately £1,868 a year.

In addition, liable wool processors and suppliers will also make some small administrative cost savings associated with the calculation and payment of the Levy. Assuming that all firms – regardless of size – spend two hours filling in the necessary paperwork (1 hour twice a year) then based on the average gross wage rate for administrative/ secretarial staff³ we estimate each firm would save around £21.58 each year. Across all 96 firms this amounts to very roughly £2000 a year.

More importantly, however, these proposals gives them a choice in how they spend the money that they would otherwise be compelled to pay towards the Levy.

BERR will also realise small administrative cost savings associated with collecting the Levy and pursuing non-payers for payment. Based on our assumptions we estimate that the administrative cost savings to BERR itself would amount to approximately £2,420.⁴ The department would make a further £30,000 in administrative cost savings because it would no longer have to employ a contractor to collect the Levy on its behalf.⁵

On the costs side, a small number of respondents to the consultation were concerned that if the Levy is ended they will not be in a position to fund the level of marketing support that they currently receive from NWTEC. As a result, it is possible that some companies may export less to new and emerging markets than would otherwise have been the case.

6. SMALL FIRMS IMPACT TEST

³ According to the 2007 Annual Survey of Hours and Earnings published by the Official for National Statistics, the median gross wage for all administrative and secretarial staff is £8.92. This is raised by a factor of 1.21 to take account of non-wage costs (e.g. national insurance) to give a figure of £10.79. $£10.79 \times 2 = £21.58$.

⁴ The collection and enforcement of the Levy currently requires the following government resources: five days a year of a senior policy advisor costing around £4,300 a month and five days a year of a legal adviser costing around £3,700 a month. The total administrative cost saving – taking into non-wage costs is therefore approximately $[(0.25 \times £4,300) + (0.25 \times £3,700)] \times 1.21 = £2,420$.

⁵ This is the estimated cost that BERR would be charged by its contractors.

The current Levy affects approximately 100 firms in the wool industry, many of which are small businesses. In 2006, the Levy raised some £186,000 a year. Only some ten firms pay Levy in excess of £5,000 per year, and some firms just above the minimum thresholds pay just over £100 per year. In 2006, the average payment was around £1,868 a year. In 2006, the highest payment was £11,896 while the lowest was £108.37. If the compulsory Levy is removed it would benefit the many small firms that are currently liable to pay this Levy.

Removal of the Levy could have a positive impact in that it would remove a compulsory payment that the companies are obliged to make in law. All firms would then be free to choose whether to take part in a voluntary arrangement organised and run by the industry itself to promote export marketing of wool textiles. Businesses will still be able to access the help and support available from UKTI.

A small number of respondents are concerned that if the Levy is ended, they will not individually be in a position to fund the level of marketing support that they currently receive from NWTEC, but that also implies that other Levy payers are effectively subsidising a small number of other company's export efforts. Although the original plans were shelved we understand that NWTEC have proposed a voluntary scheme starting in January 2009.

7. COMPETITION ASSESSMENT

The Department's view is that there are no specific competition issues resulting from this proposal. Removal of the levy would have a positive impact in that it would remove a compulsory payment that the companies are obliged to make in law. Since, apart from those below the minimum thresholds, Levy payments are based on a percentage of the salary/wages bill or the volume of wool supplied the impact is proportionately the same on all Levy payers and therefore they would all make similar proportionate savings.

If the Levy were to end there are no perceived likely impacts on market structure, it would not affect set up costs or lead to higher ongoing costs for new entrants. Nor would this proposal restrict the ability of firms to choose the price, quality, range or location of their products. There are no technological changes in the industry that impact on whether there is a Levy or not.

8. EQUALITY

After initial screening as to the potential impact of this policy/regulation on race, disability and gender equality it has been decided that there will not be a major impact upon minority groups in terms of numbers affected or the seriousness of the likely impact, or both.

9. ENFORCEMENT

No enforcement is required once the Levy is ended. Not having to enforce the Levy will save on contractor costs and also save nominal resource and costs within the Department in that no administrative or legal input will be required once final levy payments are collected and dispersed.

10. IMPLEMENTATION AND DELIVERY PLAN

Implementation will require a new Statutory Instrument to be approved under affirmative resolution procedures in both Houses of Parliament. A new SI would revoke the existing Order, thus removing a statutory obligation. The Department will, however, continue to ensure Levy is collected for relevant periods up to the date the existing Order is revoked.

11. POST-IMPLEMENTATION REVIEW

No formal review will be carried out after the Levy ends. However, UKTI will continue to work with NWTEC, CBWT, their partners and the industry to support wool textile export activities but within their existing programmes and priorities.

Specific Impact Tests: Checklist

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

Type of testing undertaken	<i>Results in Evidence Base?</i>	<i>Results annexed?</i>
Competition Assessment	Yes	No
Small Firms Impact Test	Yes	No
Legal Aid	No	No
Sustainable Development	No	No
Carbon Assessment	No	No
Other Environment	No	No
Health Impact Assessment	No	No
Race Equality	Yes	No
Disability Equality	Yes	No
Gender Equality	Yes	No
Human Rights	No	No
Rural Proofing	No	No

Annexes

Findings of Consultation launched in August 2007

163 copies of a Consultation document which was published in August 2007 together with a questionnaire were issued. 91 to companies that currently pay the levy, 42 to companies that are liable to pay but fall below the threshold and 30 to representative bodies and other stakeholders.

There was a clear indication in the response to the public consultation that most respondents wished to see the Levy end and as quickly as possible. 61 responses to the consultation were received by the closing date 26 October 2007 (see Table 1 below). One response did not include details of the respondent or a signature, therefore it was disregarded. Only 58 of the respondents chose to indicate whether the Levy should be retained or ended. Of the 58 who did indicate a preference, 44 currently pay the Levy. Only 16 of the respondents currently use NWTEC services. All but one of the users of NWTEC services pays the Levy.

Table 1

Type and size of respondent	Number of responses	Currently Pay Levy	End Levy	Retain Levy	No Pref
Representative bodies	5		4	0	1
Sole Traders	1		1	0	0
Micro (0-9)	12	4	8	3	1
Small (10-49)	18	16	16	2	0
Medium (50-249)	21	21	20	1	0
Large (250+)	3	3	3	0	0
Total	60	44	52	6	2

Three closure options were given. The responses are detailed in Table 2 below.

Table 2

Proposed Closure date	Closure from 6 April 2008	Closure from 1 October 2008	Closure from 1 October 2009
No of respondents	40	6	6

Although only 44 out of 91 levy payers actually responded to the Consultation document (just under 48%), 88% of those who responded wish to see the Levy end. 68% of those respondents wanted an immediate closure of the Levy from 6 April 2008, with payments collected to cover the full Levy Period up to 31 March 2008.

The Department has also (in June 2008) now consulted the three trades unions – Unite, Community and GMB – most closely associated with the wool textile industry. We provided copies of the consultation and the initial Government response as well as answering any questions they had. As a consequence they have all confirmed that they have no objections to the ending of the Levy.

First published October 2008.
Department for Business, Enterprise & Regulatory Reform.
www.berr.gsi.gov.uk
© Crown Copyright.
URN 08/577