Title: Agriculture Bill Impact Assessment **RPC Reference No:** RPC-DEFRA-5019(1) **Lead department or agency:** Deparment for the Environment, Food and Rural Affairs **Other departments or agencies:**	**Impact Assessment (IA)** **Date:** October 2020 **Stage:** Development **Source of intervention:** Domestic **Type of measure:** Primary legislation **Contact for enquiries:** farmingecon-queries@defra.gov.uk.

Summary: Intervention and Options

RPC Opinion: fit for purpose

Cost of Preferred (or more likely) Option			
Total Net Present Social Value	**Business Net Present Value**	**Net cost to business per year**	**Business Impact Target Status**
Unknown	Unknown	Unknown	Qualifying provision

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

For over 40 years, the UK's agricultural policy has been driven by the EU Common Agricultural Policy (CAP). The CAP is not fit for purpose and there is a strong, evidence-based case for change. Leaving the EU is an opportunity to leave the CAP and design a bespoke English agricultural policy tailored for our needs and policy objectives. The Government is seeking to design a new agriculture policy centred around public money for public goods and encouraging a resilient and productive agriculture sector. The Agriculture Bill is required to give Government the powers implement a new agricultural policy and manage the transition away from the CAP.

What are the policy objectives and the intended effects?:

- A significant contribution to environmental (air quality, soil quality, water quality, biodiversity) and climate change / net zero goals (GHG emissions and carbon storage)
- Increased productivity, competitiveness and resilience in the agriculture sector, including through improved animal health and welfare

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

- Option 1 Do minimum: Leave the CAP framework behind without replacement. This will be detrimental to the agricultural sector and to Defra's environmental aims. This option does not meet Defra objectives for environmental or economic outcomes and is thus not progressed further.

- Option 2 Status Quo: Continuation of Common Agricultural Policy programmes including Direct Payments and existing agri-environment schemes. A continuation of current policy and interventions, in their current form, would not offer value for money, or produce the desired outcome of a sector that is more productive, competitive and resilient to challenges. The existing approach would not align with the environmental outcomes that Defra would like to achieve and has previously been discarded.

- Option 3 Implement primary legislation which will allow for powers to implement new schemes (preferred): The Government does not consider that there is an alternative to implementing the Agriculture Bill, as there is no other legislation that can lead to a change in the status quo. In order to be able to move away from the CAP, the Government needs to implement primary legislation which will allow for powers to implement new schemes, move away from the CAP system of Direct Payments and continue enforcement of the regulatory baseline.

Will the policy be reviewed? N/A **If applicable, set review date:** N/A

Does implementation go beyond minimum EU requirements?	N/A			
Is this measure likely to impact on international trade and investment?	Yes			
Are any of these organisations in scope?	**Micro** Yes	**Small** Yes	**Medium** Yes	**Large** Yes
What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 equivalent)	**Traded:** N/a	**Non-traded:** N/a		

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible SELECT SIGNATORY: _____ Date: _____

Summary: Analysis & Evidence

Policy Option 1

Description:

FULL ECONOMIC ASSESSMENT

Price Base Year N/a	PV Base Year	Time Period Years	Net Benefit (Present Value (PV)) (£m)		
			Low: Optional	**High:** Optional	**Best Estimate:**

COSTS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	Unquantified		Unquantified	**Unquantified**
High	Unquantified		Unquantified	**Unquantified**
Best Estimate	Unquantified		Unquantified	**Unquantified**

Description and scale of key monetised costs by 'main affected groups'

The Agriculture Bill principally contains enabling powers and the regulatory changes that follow from these, set out in this document, will be implemented through secondary legislation or further requirements. As such, the powers do not in themselves introduce any direct impacts. A small number of measures are directly implemented by the Bill, but have minimal business impact. For many of the clauses, there is some uncertainty about the details of this secondary legislation. More detailed individual impact assessments will be produced alongside the secondary legislation. The Government also published a more detailed evidence document alongside the Agriculture Bill[1] which presents the evidence on removal of area-based Direct Payments and the adoption of new payment schemes.

Other key non-monetised costs by 'main affected groups'

At the secondary legislation stage, it is likely that there would be familiarisation costs for business and time and monetary costs associated with additional requirements resulting from the regulations. There may be additional costs to government associated with monitoring and enforcement activities associated with the new regulations.

BENEFITS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	Unquantified		Unquantified	**Unquantified**
High	Unquantified		Unquantified	**Unquantified**
Best Estimate	Unquantified		Unquantified	**Unquantified**

Description and scale of key monetised benefits by 'main affected groups'

As with costs, there are no direct benefits associated with the enabling powers contained in the Agriculture Bill. Full impact assessments will be produced alongside the secondary legislation. The powers in the Bill are likely to generate benefits for business and the wider environment, but these will be estimated in full impact assessments which will be produced alongside the secondary legislation.

Other key non-monetised benefits by 'main affected groups'

It is expected that there would be benefits to business, as a number of the clauses in the Bill provide powers which could be used to reduce the administrative or regulatory burden, which could see costs reduce. The powers may be used to strengthen regulations on the environment and animal health and welfare, which should deliver benefits for wider society.

Key assumptions/sensitivities/risks — **Discount rate (%)** 3.5

Not applicable. This document does not set out a quantititative analysis of the impacts of the Bill.

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			Score for Business Impact Target (qualifying provisions only) £m:
Costs:	**Benefits:**	**Net:**	N/A

[1] Agriculture Bill: Analysis and Economic Rationales for Government Intervention
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/740670/agri-bill-evidence-paper.pdf

Contents

Section 1: Introduction

1. Leaving the EU means the UK is leaving the EU's Common Agricultural Policy (CAP). The Agriculture Bill (henceforth, the Bill) provides the legislative framework for replacement agricultural support schemes. It provides a range of powers to implement new approaches to farm payments and land management. In England, farmers will be paid to produce 'public goods' such as environmental or animal welfare improvements. The Bill also includes wider measures, including on improving fairness in the agricultural supply chain and on the operation of agricultural markets.

2. This document is a narrative impact assessment to support consideration of the Bill, the purpose of which is threefold:
   - summarise the main powers in the Bill and identify which measures are regulatory provisions, on which we will produce impact assessments (IA) in due course;
   - describe the anticipated main impacts of these measures (costs and benefits) and affected groups; and
   - where applicable, set out a clear plan of action for when the Government will produce more detailed individual IAs for these measures.

3. The document is therefore structured as follows:
   - **Section 2** summarises the purpose of the Agriculture Bill and its main powers, and outlines our approach to producing IAs for the Bill;
   - **Section 3** discusses each of the main policy themes in further detail, describing the main anticipated impacts of these measures and specifying IA plans, where applicable;
   - **Section 4** describes the main anticipated impacts on small and micro businesses, and our plans to assess these further;
   - **Section 5** sets out a timetable for implementation of the measures set out, which links to when IAs will be produced;
   - **Section 6** summarises the evidence on the contribution of the agricultural sector to society, and considers the potential broader impacts of the new policy approach which the Bill takes forward; and
   - **Section 7** describes how we intend to monitor and evaluate impacts.

Section 2: The Agriculture Bill

The purpose of the Bill

4. The Government is seeking to devise a new agriculture policy of public money for public goods, which will shift resources away from inefficient subsidies under the Common Agricultural Policy to an effective and efficient environment and land management policy. This will drive sustained environmental outcomes and contribute to the commitments set out in the 25 Year Environment Plan. Improvements in soil health, water quality, air quality, biodiversity and carbon reduction can lead to better health, protect natural capital, tackle climate change and preserve our heritage and landscapes.

5. The Bill includes powers to:
   a. Implement future schemes for public goods.
   b. Enforce compliance with conditions attached to payments to farmers and land managers.
   c. Phase out, delink and simplify Direct Payments.

d. Continue to honour rural development and Fruit and Vegetable Aid Scheme (Pillar 2) legacy schemes
e. Intervene in times of extreme market disturbance.
f. Amend market intervention powers.
g. Strengthen data collection and data sharing powers.
h. Strengthen fairness and transparency in the supply chain.
i. Enable continued collaboration between farmers and growers
j. Reform the Red Meat Levy.
k. Amend the remit of the Agriculture & Horticulture Development Board (AHDB) to cover disease control and involvement in the Livestock Information Service.
l. Design a fertilisers regulatory framework fit for modern farming, incorporating environment and societal aims.
m. Provide for common marketing standards and carcass classification.
n. Set a common UK framework to comply with obligations to report to the World Trade Organisation.
o. Introduce a new domestic regime for organic production
p. Amend the Agricultural Holdings Act (AHA) 1986 to enable the tenant to refer to dispute resolution any clause in their lease which restricts their ability to access future financial assistance schemes governed by the Agriculture Bill or which prevents them from meeting a regulatory requirement.
q. Repeal the Commercial Unit Test (CUT) and replace it with an improved Suitability Test (ST)
r. Encourage Landlord Investment in AHA holdings
s. Amend schedule 3 case A of the AHA, which sets out the age at which a tenant of a council farm can be issued a retirement notice to quit
t. Remove the minimum age of 65 before which applications to the Tribunal for succession on retirement can be made.

These powers are discussed in further detail in section 3.

Approach to Impact Assessments for the Bill

6. We have reviewed these powers and considered which measures are classified as regulatory provisions as per the guidance set out in the Better Regulation Framework.[1] As the framework sets out, an IA should be prepared for all significant regulatory provisions[2] as a standard of good policy making.

7. In determining our approach to producing IAs for the Bill, we have also made reference to the Regulatory Policy Committee's (RPC) guidance on the assessment and scoring of primary legislation measures.[3] The Agriculture Bill falls within the bounds of scenario 2, as described in the guidance. That is, there is uncertainty over the contents of the secondary legislation

[1] Better Regulation Framework pg. 6 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/872342/better-regulation-guidance.pdf

[2] According to the Better Regulation Framework, a "regulatory provision", in relation to a business activity, means a statutory provision which— (a) imposes or amends requirements, restrictions or conditions, or sets or amends standards or gives or amends guidance, in relation to the activity, or (b) relates to the securing of compliance with, or the enforcement of, requirements, restrictions, conditions, standards or guidance which relate to the activity. The framework sets out further detail and exemptions.

[3] https://www.gov.uk/government/publications/rpc-case-histories-primary-legislation-ias-august-2019

meaning that the Department will need to submit further IAs at the secondary legislation stage for equivalent annual net direct cost to business (EANDCB) validation.

8. This narrative IA sets out, at a descriptive level, the anticipated impacts of the regulatory provisions within the Bill.

9. We plan to produce more detailed full IAs and submit to the RPC for independent scrutiny in advance of introducing any secondary legislation for all measures within the Bill that are above the £5m per annum threshold for net costs to business.[4] Analysis to support these changes will be produced in line with HMT Green Book methodology, and will include consideration of the impact on small and micro businesses.[5]

10. We intend to produce analysis that is proportionate to the scale of the problem being addressed and reflects the scale or impact of the measure. RPC scrutiny is not required for measures below the ±£5 million EANDCB threshold. For measures below this threshold we will produce proportionate IAs, which will be subject to internal Defra procedure.[6]

11. We do not intend to produce IAs for all measures, for example, grants and financial schemes are excluded from the Better Regulation Framework definition of regulatory provision. Though, proportionate analysis will be developed for these schemes, in line with best practice.

Section 3: Measures included in the Bill and anticipated impacts

12. This section discusses the measures in the Bill by policy theme, summarises the main anticipated impacts and affected groups, and, where applicable, sets out impact assessment plans. Note: we have provided a greater level of detail for those measures which we have identified as regulatory provisions and where we expect to produce an IA alongside the relevant secondary legislation. Measures which are out of scope (e.g. changes to grants or other financial assistance) are outlined briefly for completeness.

13. The UK agriculture industry is made up of 218,000 farm holdings.[7] Direct impacts of the regulatory provisions, once implemented, are expected to fall primarily on a subset of farmers and primary producers. Some measures may also have an impact on first purchasers (e.g. processors).

14. When the regulatory provisions set out below are implemented, they may be used to strengthen regulations on the environment and animal health and welfare, which should deliver benefits for wider society. However, it is likely that there will be familiarisation costs for business and time and monetary costs associated with additional requirements resulting from the regulations.[8] There may also be additional costs to government associated with monitoring and enforcement activities associated with the new regulations. IAs produced alongside secondary legislation will take due and proportionate account of the range of impacts on business, government, the environment, and wider society.

[4] The majority of measures set out in the Bill do not have any impact on business unless they are brought into force by secondary legislation

[5] In accordance with RPC guidance on Small and Micro Business Assessments: https://www.gov.uk/government/publications/small-and-micro-business-assessment-samba-guidance

[6] These lighter touch assessments are sometimes referred to as Regulatory Triage Assessments (RTA)

[7] Future Farming Evidence Compendium pg.28 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/834432/evidence-compendium-26sep19.pdf

[8] Though a number of the clauses in the Bill also provide powers which could, in some cases, be used to reduce the administrative or regulatory burden, which could see costs reduce.

15. The vast majority of farming businesses in England could be described as **small or micro businesses**, as per the definition set out in the Better Regulation Framework guidance[9], with 98.3% of farms employing less than 10 FTE employees and 1.5% employing 10-50 FTE employees.[10] Overall, once implemented, changes are likely to have disproportionate benefits for small and micro businesses. Measures on fairness and transparency, data sharing, and producer organisations aim to strengthen the market position of the large number of small primary producers in the supply chain and re-balance power. Measures to reduce cost impacts for small and micro firms will be further investigated through consultation and engagement with these businesses, and developed prior to the implementation of secondary legislation. A more detailed assessment of impacts of the proposed measures on small and micro businesses will also be carried out at secondary legislation stage as part of the Impact Assessment process.

16. The impact of measures to strengthen the market position of producers on consumer prices is uncertain. We are aware of the need to consider the potential for consumer/producer tension and will carefully bear in mind the risk of detrimental consumer impacts as we develop the underlying secondary legislation, and supporting impact assessments.

a. Provisions to implement future schemes for public goods

Measure

17. These powers will provide a list of 'purposes' for which the Government could provide financial assistance. This flagship power will enable the delivery of all schemes to pay for public goods. Such schemes will encompass (but are not limited to) environmental land management, animal health and welfare, plant and tree health, rural communities, and access to capital grants and loans for productivity outcomes.

Anticipated impacts

18. The Government published a detailed evidence document alongside the Agriculture Bill[11] which presents the evidence on removal of area-based Direct Payments and the adoption of new payment schemes. Section 6 draws upon this and other key published sources, in summarising the evidence on the contribution of the agricultural sector to society, and considering the potential broader impacts of the new policy approach which the Bill takes forward

Impact assessment plan

19. There are no Impact Assessments required, according to Better Regulation Framework, as these are spending powers. However, the Department will consider submitting an Impact Assessment for the Environmental Land Management scheme for independent review, in advance of the full scheme launch, due to the significant impacts of this measure on the farming sector.

b. Provisions to enforce compliance with conditions attached to payments to farmers and land managers

Measure

[9] Small businesses are defined as those employing between 10 and 49 full-time equivalent (FTE) employees. Micro businesses are those employing between one and nine employees.

[10] Defra analysis of the Farm Business Survey. 1 FTE unit is defined as 2,200 working hours per year.

[11] Agriculture Bill: Analysis and Economic Rationales for Government Intervention https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/740670/agri-bill-evidence-paper.pdf

20. These powers will create a new modern and proportionate enforcement regime for future schemes ensuring appropriate spending and high standards are maintained.

Anticipated impacts

21. The enforcement of the regulatory baseline through cross compliance will become redundant as CAP payments are removed. Without the Bill powers we will not be able to establish a replacement overarching enforcement regime. This will risk environmental, animal health and welfare, and plant health standards, as existing baseline regulations have either weak or absent sanctioning tools.

22. The new enforcement regime may incur additional costs to businesses depending on the extent and delivery of the regime.

23. Participation in these schemes is voluntary, that is, farmers have to decide whether it is in their interest to apply for any of the different schemes. It should follow that farmers will only apply to those schemes where the cost of meeting the conditions is lower than the payment, that is, there is a net economic benefit to the farmer.

Impact assessment plan

24. No Impact Assessments required according to Better Regulation Framework as these refer to the conditions attached to financial assistance schemes.

c. **Provisions to phase out, delink and simplify Direct Payments.**

Measure

25. Measures to give the Secretary of State powers to amend the Direct Payments Regulation. Provisions in the Bill will establish the agricultural transition period for Direct Payments, simplifications to be made to the current regime, apply reductions to the payments and establish a scheme of delinked payments.

Anticipated impacts

26. The Government published a detailed evidence document alongside the Agriculture Bill[12] which presents the evidence on removal of area-based Direct Payments and the adoption of new payment schemes. A summary of the rationale and evidence supporting reform of the Direct Payments system is set out in section 6.

Impact assessment plan

27. No Impact Assessments required according to Better Regulation Framework as these are spending powers.

d. **Provisions to continue to honour rural development and Fruit and Vegetable Aid Scheme (Pillar 2) legacy schemes.**

Measure

[12] Agriculture Bill: Analysis of the impacts of removing Direct Payments https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/740669/agri-bill-evidence-slide-pack-direct-payments.pdf

28. These powers provide for the continued payment of existing rural development funding agreements entered into before the end of 2020 which extend beyond Exit day. They also provide for the simplification and modification of the retained EU law governing rural development schemes and the programmes as a whole.

29. These powers also provide for the continuation of existing operational programmes in the Fruit and Vegetable Aid Scheme through to completion where those programmes were entered into prior to EU Exit.

Anticipated impacts

30. Without the Agriculture Bill, we would not have the powers to fulfil the Government guarantee to fund any Pillar 2 agreements entered into before the end of 2020 for their full lifetime. We would also not have the powers to continue to pay aid to Producer Organisations recognised in the Fruit and Vegetable Aid Scheme.

31. Funding these schemes will ensure that there continues to be financial incentives for farmers and land managers to protect the environment and that agreement holders continue to receive the funding set out in their grant agreement. There are also benefits to business from the rural and productivity schemes. The Agriculture Bill powers will enable the Government to ensure that the overall level of checks and controls is appropriate and does not place a disproportionate burden on business.

Impact assessment plan

32. No Impact Assessment required as these powers refer to legacy spending schemes.

e. **Provisions to intervene in times of extreme market disturbance.**

Measure

33. These powers will provide reassurance to the sector that the Government will be responsible and extend help where appropriate, whilst maintaining a dynamic and self-reliant agriculture industry that is resilient enough to survive in a free market.

Anticipated impacts

34. This measure will allow the Government to retain its power to act to avoid and/or mitigate exceptional market conditions. The main anticipated impacts are the financial costs of future intervention and impacts on market dynamics of future interventions.

Impact assessment plan

35. No Impact Assessments required according to Better Regulation Framework as these are spending powers.

f. **Provisions to amend market intervention powers.**

Measure

36. The CAP currently provides powers to remove surplus products from the market and stabilise market prices. These domestic powers will amend what products and foodstuffs are eligible for specific aid schemes and gradually phase out these requirements as the sector becomes self-reliant.

Anticipated impacts

37. This power would enable the Government to tailor intervention schemes to the domestic market, and give them the power to phase out these measures in the future. There are no costs from primary legislation.

Impact assessment plan

38. There are no Impact Assessments required according to Better Regulation Framework as these are spending powers.

g. **Provisions to strengthen data collection and data sharing powers.**

Measure

39. These powers will provide for the Government to collect and share data from the supply chain to help farmers and producers increase productivity. The 'agri-food supply chain' ranges from primary producers, through intermediary food processors to retailers and, ultimately, the individual consumer. Augmenting the flow of relevant data along the supply chain could have positive effects on overall efficiency. Greater availability of data from the retail end of the supply-chain will help farmers, growers and producers have a greater understanding of the market in which they operate. This could help increase productivity and help producers to manage risk and market volatility.

40. The absence of accessible information restricts the ability of primary producers to make better informed business decisions, such as: where to source products, to whom and for how much to sell their products, and how to manage on-farm risks (e.g. disease). By improving the transparency of the supply chain, fairness in the industry will also likely improve. In addition the powers will further improve on-farm performance and disease control, through the collection and dissemination of traceability and animal and plant health data.

Anticipated impacts

41. There are no costs to business from primary legislation. Costs will be fully assessed at the secondary legislation stage. Data obligations from those sectors targeted will increase, which may increase costs for business. However, it is expected these businesses will be providing data under the new regulations that the firm already know and have easy access to. Therefore, the additional impacts in terms of familiarisation and compliance costs are not likely to be as high as they would be in the absence of current voluntary practice.

42. Larger organisations may lose some of their asymmetric advantage over small or independent producers, who would gain a better ability to bargain and could become more productive and competitive due to better access to data. Producers with livestock and crops, if targeted, could improve production, as they will have more information available to improve animal health, plant health and biosecurity.

43. It is extremely challenging to quantify the costs to business of this measure before its scope and targeting approach is determined. However, it is likely that the policy will be specifically targeted at certain subsectors and it is not likely to cover the entire supply chain.

Impact assessment plan

44. Initial internal analysis suggests that the EANDCB for this measure is below £5m, though this is highly dependent on the scope of the measure. An updated impact assessment will be produced at secondary legislation stage, anticipated to be in 2021.

h. **Provisions to strengthen fairness and transparency in the supply chain.**

Measure

45. For many years, serious concerns have been raised about the commercial relationships between farm businesses and much larger food-chain intermediaries (dairy processors, abattoirs, food manufacturers etc.). The farming sector is characterised by small, fragmented businesses trading perishable produce with highly consolidated business partners and this imbalance can lead to one-sided business relationships and the emergence of unfair trading practices.

46. These powers will define principles of fair trading in agricultural products and enable the Government to publish, maintain and enforce statutory codes of practice on fair contractual relations in agricultural trade.

47. These are enabling powers which allow codes to be introduced under secondary legislation, once we have undertaken industry consultation, to build a more comprehensive understanding of the issues faced. Codes of conduct are expected to be introduced on a sector-specific basis and will be used initially in sectors where we know the problems are most acute (e.g. red meat and dairy sectors).

Anticipated impacts

48. Secondary legislation is needed to introduce statutory codes, and the intention is to consult widely with each sector to establish the appetite for a statutory code and the provisions to be included therein. The Government has already begun this process for the dairy sector, and has recently concluded a consultation exploring contractual relationships between dairy farmers and milk buyers.[13] The main benefits are likely to be to farmers, from having greater clarity over terms in their contracts, and greater certainty over the price they will receive. Increased transparency and certainty for farmers could lead to higher investment on-farm and increase productivity.

49. There are no costs from primary legislation. The introduction of a statutory code of conduct for the red meat and dairy sectors will affect two primary stakeholders: producers and first purchasers.[14] We expect up to 60,000 UK red meat farmers to be impacted by this regulation[15][16], and up to 600 first purchasers in the red meat sector – based on an estimate of

[13] Consultation: Contractual relationships in the UK dairy industry https://consult.defra.gov.uk/agri-food-chain-directorate/contractual-relationships-in-the-uk-dairy-industry/supporting_documents/dairyconsultationdoc.pdf

[14] First purchasers in the dairy sector are almost exclusively dairy processors. In the red meat sector, they are usually meat processors or abattoirs.

[15] Based on 26,127 beef farmers and 35,545 lamb farmers.
http://beefandlamb.ahdb.org.uk/wp-content/uploads/2018/10/UK-Cattle-Yearbook-2018.pdf
http://beefandlamb.ahdb.org.uk/wp-content/uploads/2018/10/UK-Sheep-Yearbook-2018.pdf

[16] Though this is likely to be an upper estimate, given that only some of them deal directly with abattoirs or processors whilst many are breeders who sell to other farmers. The 60,000 estimate is also comprised of separate estimates for beef and sheep farmers, but in reality, we would expect that some farmers would farm both beef and sheep.

184 abattoirs[17] and 200-400 red meat processors[18]. In the dairy sector, we expect around 7,000 UK dairy farmers[19] and approximately 370 processors[20] to be affected by this regulation.

50. The additional burden of reviewing and reissuing regulation compliant contracts is expected to cost producers through familiarisation costs, time costs of reissuing and revising contracts and through changes in trading relationships.

51. There is a possibility that these costs could be passed along the supply chain, and could therefore be reflected in higher consumer costs. Though when similar measures were implemented at the retail end of the supply chain (GSCOP and GCA[21]), it did not result in detectably higher consumer prices. We will carefully assess the risk of detrimental consumer impacts as we develop the underlying secondary legislation, and supporting impact assessments.

Impact assessment plan

52. We plan to produce two impact assessments (for red meat and dairy sectors) alongside secondary legislation, anticipated to be introduced in 2021.

i. Provisions to enable continued collaboration between farmers and growers

Measure

53. Producer Organisations (POs) are voluntary groups of primary producers who co-ordinate their activities to strengthen their position in the market. At the time of writing, there are 35 registered POs within the UK, 34 of which are fruit and vegetable growers and 1 from the dairy sector.

54. These powers provide for continued exemptions from competition law and a new system of recognition for groups of farmers wishing to become POs. Tailored schemes could then be offered to support collaborative working and improved productivity across the agriculture sector.

55. Allowing POs exemption from competition law aims to ensure the sustainability of the supply chain in the long run. There is evidence to suggest that there is excessive market concentration on the part of processors, retailers and other buyers of agricultural produce.[22] On the "other side" of the agricultural market, there is often a large number of small primary producers, with relatively small market shares.[23]

Anticipated impacts

56. There are no costs from primary legislation. Once implemented, this measure will provide flexibility enabling policy to evolve over time (e.g. it will give SoS powers to change recognition criteria). Simplifying the recognition criteria for POs is expected to increase the number of producers that form or join POs. This would allow participating firms greater bargaining power

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[17] http://beefandlamb.ahdb.org.uk/market-intelligence-news/number-abattoirs-slaughtering-cattle-2017/

[18] https://www.emap.org.uk/map.aspx?sid=1 and https://www.ibisworld.com/united-kingdom/market-research-reports/meat-processing-industry/

[19] https://dairy.ahdb.org.uk/market-information/farming-data/producer-numbers/uk-producer-numbers/#.XUMMh5UUnIU

[20] 3 https://dairy.ahdb.org.uk/market-information/processing-trade/uk-processors-data/uk-processors-data/#.XUMQG5UUnIU

[21] The Groceries Supply Code of Practice (GSCOP) regulates the behaviour of supermarkets in relation to their suppliers. The Groceries Code Adjudicator (GCA) ensures compliance.

[22] AHDB data shows that in 2015, around 79% of milk processed in the UK was processed by 9 companies each processing over 300 thousand tonnes per annum. These 9 companies account for only 2% of UK milk processing companies. Link here: https://ahdb.org.uk/dairy#.XQyoi5UUnmJ

[23] See chapter 9 of 'The supply of groceries in the UK market investigation', Competition Commission 2008.

and the ability to collaborate, without the fear/uncertainty that they may fall foul of competition law (given the related exemption from competition law associated with being a recognised PO).

57. By reducing the barriers to PO membership, and opening the door to greater collaboration and the benefits of economies of scale, this measure could help strengthen primary producers' market position in the supply chain. It may also help maintain the competitiveness of the UK farmers compared to their EU counterparts, particularly in those sectors where there are a high number of recognised POs in the EU.[24]

58. Joining or forming a PO would remain an individual choice of the producer and thus any direct costs to businesses of doing so would be voluntary. Though it is possible that there will be subsequent impacts in the supply chain. We will consider the impacts on the supply chain as well as the risk of detrimental consumer impacts, alongside secondary legislation.

59. The exemptions from competition law granted to POs remain the same as they are currently with only small changes being proposed to the recognition criteria for POs which carry minimal costs to businesses and government.

60. The intention is to undertake a public consultation to establish how the new recognition regime can work best for UK farmers and consumers. This process will also include consultation with the Competition and Markets Authority to ensure the regulations place appropriate parameters on the permitted size/market share of POs.

Impact assessment plan

61. An impact assessment will be produced to accompany the secondary legislation which will enact these powers, anticipated to be introduced in 2021.

j. **Provisions to reform the Red Meat Levy.**

Measure

62. These powers would tackle perceived inequality on levies collected from animals moving from one part of the UK to another. The power would enable the redistribution of collected levy from one part of the UK to another in accordance with an agreed scheme.

Anticipated impacts

63. There are no additional costs to business from this measure. Red meat levy is already collected and any changes under these powers would represent a transfer of costs from one group of red meat producers to another. There would be no additional costs at the aggregate level.

64. There are also no additional benefits to business. The Red meat levy is already collected and can only be spent on activities which benefit red meat producers in the country where it was collected. Changes under these powers would enable the red meat levy collected by a levy body in one country within Great Britain to be paid to another levy body in Great Britain to reflect the fact that some cattle, sheep or pigs produced in one country may be slaughtered in another country. Any changes would represent a transfer of benefits from one group of red meat producers to another.

[24] https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/market-measures/agri-food-supply-chain/producer-and-interbranch-organisations_en

Impact assessment plan

65. There is no impact assessment planned for this measure, as there are no additional costs to business.

k. **Provisions to amend the remit of the Agriculture & Horticulture Development Board to cover disease control and involvement in the Livestock Information Service.**

Measure

66. The Livestock Information Programme (LIP) aims to design and deliver a fully digital, single multi-species movement reporting database/service in England, which will be known as the 'Livestock Information Service' (LIS), and other improvements to livestock traceability. LIS will be run by Livestock Information Limited (LI Ltd), a subsidiary of the Agriculture and Horticulture Board (AHDB), in which Defra has a 49% stake.

67. Extending the remit of the AHDB will strengthen governance and delivery mechanisms for livestock disease control schemes. The powers will also allow government to deliver improvements to animal identification and traceability including real time animal movement reporting, retrospective tagging of the existing herd and individual animal movement reporting amongst other improvements.

Anticipated impacts

68. There are a number of anticipated benefits for business from the proposed changes to secondary legislation. Retrospective electronic tagging will improve management of bovine disease and improve traceability, and there would also be time savings costs associated with quicker reading and reporting of animals. Other changes will substantially improve upon current traceability regime, and will allow for faster and more targeted response to disease outbreaks mitigating potential losses for farmers. The reduction in identification inspections could also reduce time burdens for business.

69. Anticipated costs to business incurred by the powers, include time and monetary costs associated with tagging animals, time costs incurred in reporting real time animal movements and reporting vehicle details. There may also be wider costs for the environment associated with having fewer identification inspections, which could increase the risk of non-compliance.

Impact assessment plan

70. We anticipate producing two impact assessments (for AHA and NERC sub-clauses) ahead of secondary legislation planned to come into force during 2020 and 2021.

l. **Design a fertilisers regulatory framework fit for modern farming, incorporating environment and societal aims.**

Measure

71. The ultimate purpose for these primary powers is to create a fertilisers regulatory framework fit for modern farming, incorporating environment and societal aims. There are three main policy strands: encouraging nutrient recycling, supporting new products and introducing contaminant limits and potentially other environmental safeguards.

72. Government intervention is required to support improvements in fertiliser products and use, and to address the main market failure of fertilisers having negative externalities. Farmers accrue the benefits from fertilisers by gaining higher crop yields, but they only pay the cost of purchasing and administering the fertiliser. However, there are wider costs from fertiliser use, including, for example, run-off into surrounding watercourses leading to eutrophication (mineral over enrichment leading to damaging algal growth). These wider costs are borne by society. By providing further powers for the Secretary of State and the devolved administrations to make fertiliser regulations, the UK can support fertiliser innovation, reduce negative externalities and ensure that fertiliser use reflects the full social cost.

Anticipated impacts

73. The measures provide primary powers to make fertiliser regulations, as such, there are no direct impacts at this stage. Potential impacts of future changes to regulation can be identified in qualitative terms.

74. New regulations will encourage the fertiliser industry to innovate and position themselves better in the market. This will mean more investment, particularly in biostimulants and mixed organic mineral fertilisers[25]. The innovation could lead to farmers benefitting from increased crop yields and quality, reducing farm waste by supporting products from composts. Organic fertilisers can help farmers meet environmental goals and access environmental land management funds. Other businesses could also benefit such as food and water/sewage industries.

75. Fertiliser producers will have slightly increased costs if new conformity assessment procedures are brought in and costs in bringing a new product to the market. Farmers may have to pay more for higher standard fertilisers and limits on contaminants could make them less competitive than foreign competition. However, the exact costs will depend on the details to be confirmed in secondary legislation.

Impact assessment plan

76. An impact assessment will be produced alongside secondary legislation, planned to be introduced in 2021.

m. **Provide for common marketing standards and carcass classification.**

Measure

77. These provisions provide the Secretary of State with domestic powers to amend or revoke existing marketing standards and carcass classification rules and to introduce new standards or rules.

78. The intention is to build on and adapt existing marketing standards and carcass classification rules in EU legislation, which will be retained after EU exit. Current EU law contains powers to amend the marketing standards and carcass classification rules in prescribed circumstances only. This domestic power provides greater flexibility for changes to be made to the standards and rules. It allows for changes to be made for reasons which fall outside of those currently prescribed in EU law.

79. These powers will ensure that marketing standards (for example, grading standards of eggs) or rules on carcass classification do not place an excessive burden on farmers, protect

[25] Organic means organic matter in this context eg compost

consumers and support the agriculture sector, in England, by introducing standards and systems tailored to domestic needs.

Anticipated impacts

80. The powers do not make any immediate changes to the current marketing standards or carcass classification rules.

81. Any newly introduced marketing standards or carcass classification rules will potentially impact producers, retailers and consumers and will apply to products being marketed or slaughtered in England. Products from third countries will be required to meet the marketing standards as they are set.

82. These powers would enable the Government to be more responsive and flexible in making changes to marketing standards. Benefits will be assessed at secondary legislation stage and will depend on the usage of powers. Potential benefits could include reductions in food waste and time and cost savings for business.

83. There are no costs from primary legislation. Costs will be assessed at secondary legislation stage and will depend on the usage of powers. Potential costs could include familiarisation costs and some implementation costs for business.

Impact assessment plan

84. An impact assessment will accompany any statutory instruments which are introduced using the marketing standards and carcass classification powers in the Agriculture Bill, where appropriate. There is no scheduled implementation date, although Defra expects to bring forward legislation in the near future.

n. **Set a common UK architecture to comply with obligations to report to the World Trade Organisation.**

Measure

85. These powers would set financial ceilings on the level of farming subsidies paid by the devolved administrations and England; establish a decision-making process to classify agricultural support in accordance with WTO criteria, and require devolved administrations to provide information in relation to any of their proposed or existing farming support (for the purposes of WTO reporting).

Anticipated impacts

86. Makes it easier to avoid WTO disputes, and makes it easier to effectively fight disputes that are brought against the UK.

87. Costs to government from discussions on scheme classifications and to resolve disputes (if necessary).

Impact assessment plan

88. No IA required as no costs to business.

o. **Introduce a new domestic regime for organic production.**

Measure

89. These powers will allow the Government to set and tailor organic standards to fit the needs of the domestic agricultural sector post EU exit

Anticipated impacts

90. The primary legislation in the Agricultural Bill is simply providing powers to amend organics regulation in the future, and so the impacts will depend on the nature of the changes. If the UK imposes more stringent regulations, this could generate additional costs to business for farmers who have to change their farming methods. It could also increase the costs of monitoring and enforcement for government. There may also be barriers to trade if the UK were to diverge from EU regulatory standards.

Impact assessment plan

91. An impact assessment will be produced ahead of secondary legislation stage. Defra provisionally intends to make this legislation in 2021, although there is no firm date as yet.

p. **Amend the Agricultural Holdings Act (AHA) 1986 to enable the tenant to refer to dispute resolution any clause in their lease which restricts their ability to access future financial assistance schemes governed by the Agriculture Bill or which prevents them from meeting a regulatory requirement.**

Measure

92. These powers would enable the tenant to refer to dispute resolution any clause in their lease which restricts their ability to access future financial assistance schemes governed by the Agriculture Bill or which prevents them from meeting a regulatory requirement.

Anticipated impacts

93. Tenants would receive direct financial benefits if they are successful in varying the restriction, but this is hard to quantify because it will be different in each case. Examples of direct benefits for the tenants could include access to payments from future financial assistance schemes and/or increased profitability and income from being able to undertake activities that were previously restricted. Landlords could benefit from increased productivity gains/greater access to financial assistance as tenants are less likely to enter into rent arrears and could afford to pay more.

94. There may be some familiarisation costs associated with the new regulations. The dispute resolution process would only be initiated if tenants and landlords cannot privately resolve issues to do with restrictive clauses, so other costs are expected to be very low. Costs associated with dispute resolution will be decided through the arbitration process.

Impact assessment plan

95. An impact assessment will be produced ahead of secondary legislation stage. Defra is working towards laying this legislation in 2021, subject to securing parliamentary time.

q. **Repeal the Commercial Unit Test (CUT) and replace it with an improved Suitability Test (ST)**

Measure

96. The Agricultural Holdings Act 1986[26] provides succession rights for up to two generations of eligible close relatives of a deceased or retiring tenant, and sets out some specific eligibility tests that succession applicants must meet in order to succeed. The eligibility tests include the CUT and the ST.

97. The CUT is open to gaming: well advised tenant farmers are able to restructure their business so that, legally, they do not occupy a commercial unit, thus making them eligible but resulting in costs and distortions to their business. The ST is viewed by industry as an ineffective test that does not account for the business skills required to thrive in the modern agricultural sector.

98. These powers would allow the Government to repeal the CUT and update the ST to include a more clearly defined set of suitability criteria, including farming experience and business competency.

Anticipated impacts

99. At this stage, the salient benefits stem from the removal of the CUT. The distortions (resulting from business restructuring), costs and game playing created by the failing regulation will be removed. Other benefits include an eventual increase in the area of land farmed by highly skilled and experienced farmers, leading to improved productivity. The change to the ST could also encourage less capable future succession applicants to gain more skills / experience in order to meet the new higher standard business competence test. This would represent an increase in the human capital within the sector.

100. There may be some familiariation costs associated with the new regulations. Other costs associated with this measure will be less clear until details of the ST are finalised in secondary legislation. Complying with higher standards for succession could require applicants to pay for training or certification. In a small number of cases the removal of the CUT may lead to an increase in disputes where Landlords wish to regain their farmland upon the end of an AHA tenancy but tenants wish to pass it on to their relative. This would increase dispute resolution or legal costs associated with such actions in those cases, however we expect that most landlords and tenants will come to negotiated agreements.

101. This policy impacts a small subsection of the population of farm businesses. The number of AHAs with a successor is falling year on year. 52 ending AHAs had a successor in 2008, falling to 32 in 2014 and falling again to 11 in 2017.[27]

Impact assessment plan

102. An impact assessment will be produced ahead of secondary legislation stage. Given the small subsection of the population affected we anticipate that this IA will fall below the EANDCB threshold. Defra is working towards laying this legislation in 2021, subject to securing parliamentary time.

[26] http://www.legislation.gov.uk/ukpga/1986/5/contents

[27] CAAV land occupation survey 2017 section 5.3 data on succession to 1986 tenancies 220018 – 2017.

r. **Encourage Landlord Investment in AHA holdings**

Measure

103. This amendment to the statutory rent review provisions will ensure that agreed investment return payments from the tenant to the landlord for improvements to the holding funded by the landlord are explicitly excluded from the rent review process.

Anticipated impacts

104. The main benefit of this measure is through the rent review process. It removes the risk to the landlord of the investment return charges paid by the tenant leading to a reduction in rent. It therefore provides more of an incentive for landlords to invest in their property. There may be some familiarisation costs associated with the new regulations.

105. We expect the overall EANDCB to fall under the +/- £5m threshold for producing an IA for RPC scrutiny. Technically there is no change to the regulatory burden, but even if all possible voluntary impacts of the measure are included, the costs and benefits of the measure are both well under the £5m threshold, and the benefits to both parties are likely to be greater than any costs. In addition, it should be noted that investment agreements between landlords and tenants will be negotiated and entered into voluntarily by both parties.

Impact assessment plan

106. These provisions are directly implemented by the Agriculture Bill upon Royal Assent. Given the estimated scale of impact, an RTA for this measure has been produced and verified through a Defra internal process.

s. **Amend schedule 3 case A of the AHA, which sets out the age at which a tenant of a council farm can be issued a retirement notice to quit**

Measure

107. This amendment will ensure that tenancy regulations in England and Wales are updated so that they remain in step with the recent changes to the state pension age.

Anticipated impacts

108. The two principal benefits are as follows:
1) Financial security for tenants: the risk of an income gap for council farm tenants is removed as local authority landlords will have to wait until their AHA tenants have reached state pension age before they can issue a retirement notice to quit; and
2) Alignment with State Pension Policy: this will achieve a greater level of continuity between government legislation in different areas.

109. There may be some familiariation costs associated with the new regulations. There may also be a one-off cost of amending tenancy agreements with affected farmers, though due to the small number of contracts and the magnitude of the change, any cost from reissuing contracts is expected to be small.

110. Defra's 2016/2017 smallholdings report shows there are approximately 2,503 council farm tenants in England and 15% have retirement AHA agreements. This means the change will impact on approximately 375 farm businesses.

Impact assessment plan

111. These provisions are directly implemented by the Agriculture Bill upon Royal Assent. Given the estimated scale of impact, an RTA for this measure has been produced and verified through a Defra internal process.

t. **Remove the minimum age of 65 before which applications to the Tribunal for succession on retirement can be made.**

Measure

112. This amendment will repeal 65 as the minimum age for when applications to the Agricultural Land Tribunal (ALT) for succession on retirement can be made, so that in future the tenant can make an application for succession on retirement at any age if they wish to.

Anticipated impacts

113. The main benefit from this policy is increased flexibility for farm owners as they can choose when they want to retire. While it is possible for tenants to request and negotiate an earlier retirement or succession, industry feedback suggests there may be many cases where the landlord may refuse, or the tenant may not wish to ask. Current regulation stops farmers under 65 being able to take make an application to the ALT to resolve the issue.

114. There are unlikely to be any significant additional costs to business as this is a deregulatory measure. This policy impacts a small subsection of the population of farm businesses. The number of AHAs with a successor is falling year on year - 52 ending AHAs had a successor in 2008, falling to 32 in 2014 and falling again to 11 in 2017.[28]

Impact assessment plan

115. These provisions are directly implemented by the Agriculture Bill upon Royal Assent. Given the estimated scale of impact, an RTA for this measure has been produced and verified through a Defra internal process.

Section 4: Small and micro business assessment

116. A small business is defined in the Better Regulation framework manual as one employing fewer than 50 full-time equivalent employees, and a micro-business as one employing up to 10 employees.

117. Direct impacts of the regulatory provisions, once implemented, are expected to fall primarily on a subset of farmers and primary producers. Some measures may also have an impact on first purchasers (e.g. processors). In view of the structure of the agricultural sector, we would expect the majority of businesses affected to be small and micro businesses. 98.3% of farms employ less than 10 FTE employees and 1.5% employ 10-50 FTE employees.[29]

118. We will set out a fuller assessment of the impacts of individual measures on small and micro businesses as part of the process of developing IAs alongside secondary legislation.

[28] CAAV land occupation survey 2017 section 5.3 data on succession to 1986 tenancies 220018 – 2017.

[29] Defra analysis of the Farm Business Survey. 1 FTE unit is defined as 2,200 working hours per year.

This analysis will be produced in line with HMT Green Book methodology and RPC guidance on small and micro business assessments.[30]

119. Overall, once implemented, changes are likely to have disproportionate benefits for small and micro businesses. Measures on fairness and transparency, data sharing, and producer organisations aim to strengthen the market position of the large number of small primary producers in the supply chain and re-balance power.

120. Measures to reduce cost impacts for small and micro firms will be further investigated through consultation and engagement with these businesses, and developed prior to the implementation of secondary legislation.

Section 5: Implementation timetable for regulatory provisions

121. The table below sets out provisional dates of implementation for each regulatory provision. For most measures, implementation is through secondary legislation.[31] All dates of implementation are provisional and subject to securing parliamentary time.

122. As per the discussion in section 2, impact assessments will accompany these measures, though these assessments will only be submitted for independent scrutiny and subsequently published where they exceed the EANDCB threshold.

Proposed Agriculture Bill Measure	**Expected Date of Implementation**
g. Sections 21, 26: Strengthen data collection and data sharing powers.	Defra provisionally intends to make this legislation in 2021, although there is no firm deadline.
h. Section 27: Strengthen fairness and transparency in the supply chain	Regarding the dairy regulations: Defra currently intends to make this legislation in the first half of 2021. Regarding the red meat regulations: Defra currently intends to make this legislation towards the end of 2021.
i. Section 15: Enable continued collaboration between farmers and growers.	Defra provisionally intends to make this legislation in 2021
k. Section 32 (1) and (2): Amend the remit of the Agriculture & Horticulture Development Board to cover disease control and involvement in the Livestock Information Service	Defra provisionally intends to lay this legislation in 2020 and 2021

[30] https://www.gov.uk/government/publications/small-and-micro-business-assessment-samba-guidance

[31] Note: This table just sets out the secondary legislation pertaining to the regulatory provisions identified. Further secondary legislation is expected to be introduced using the powers of the Bill, but it is not expected that this will include regulatory provisions.

l. Section 31 (3), (4): Design a fertilisers regulatory framework fit for modern farming.	Defra plans to lay this legislation in late 2021, with a view to having it in force by the end of the year.
m. Sections 39 (1, 5), 42 (1), 43(1): Provide for common marketing standards and carcass classification.	There is no scheduled implementation date, although Defra expects to bring forward legislation in the near future.
o. Section 36 (1, 5, 7, 8): Introduce a new domestic regime for organic production.	Defra provisionally intends to make this legislation in 2021, although there is no firm date as yet.
p. Amend the Agricultural Holdings Act (AHA) 1986 to enable the tenant to refer to dispute resolution any restrictive clauses.	Defra provisionally intends to lay this legislation in 2021
q. Provisions to repeal the Commercial Unit Test (CUT) and replace it with an improved Suitability Test (ST)	Defra provisionally intends to lay this legislation in 2021
r. Provisions to encourage Landlord Investment in AHA holdings	These provisions are directly implemented by the Agriculture Bill upon Royal Assent.
s. Provisions to amend schedule 3 case A of the AHA, which sets out the age at which a tenant of a council farm can be issued a retirement notice to quit	These provisions are directly implemented by the Agriculture Bill upon Royal Assent.
t. Provisions to remove the minimum age of 65 before which applications to the Tribunal for succession on retirement can be made.	These provisions are directly implemented by the Agriculture Bill upon Royal Assent.

Section 6: Agriculture sector, role of government and analytical assessment of new policy approach

The agriculture sector makes an important contribution to society…

123. The UK agriculture industry is made up of 218,000 farm holdings, using 17.4 million hectares of land (71% of the UK land total in 2018).[32] Farmers and land managers play a vital

[32] Future Farming Evidence Compendium pg.28 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/834432/evidence-compendium-26sep19.pdf

role in the provision of a number of public goods, such as enhanced biodiversity and natural environments:

- Sustainable land management practices which provide these goods can secure substantial social and economic benefits[33], some of which extend beyond farming and forestry. These include protection against foreseeable and repetitive hazards such as floods.
- Farmland acts as a carbon sink and filters and removes air quality pollutants. The UK greenhouse gas emissions inventory records emissions from cropland and net sequestration from grasslands but at present, this is not directly measured. Aside from greenhouse gases, enclosed farmland filters and removes air pollution. In 2015, farmland removed over 786,000 tonnes of air quality pollutants from the atmosphere. The value of this service was estimated to be £182 million.[34]
- Sites of Special Scientific Interest (SSSI) provide the best examples of UK's flora, fauna, geological and physiographical features, exhibiting both provisioning and cultural services in the form of biodiversity and recreational benefits to society, respectively. As such, it is essential to conserve and improve this remaining natural heritage. Of the 672,000 hectares of agricultural area within SSSI's, 30,000 are in unfavourable condition owing to agricultural production. Intervention will allow the existence of these societal benefits to be protected and continue.
- Benefits derived from cultural services include recreation, cultural heritage and aesthetic appearance. Farmland and woodland deliver important benefits, particularly in terms of landscape character. Benefits derived from cultural services include recreation, cultural heritage and aesthetic appearance. The recreational benefits of farmland were valued at £205m and those of woodland at £301m[35].

124. The substantial public value contribution of the agriculture sector largely rests on public goods such as biodiversity and enhanced beauty of the countryside. Such goods have the characteristics of being non rival (one person's enjoyment of the good does not reduce the amount available for the next person) and non-excludable (where other consumers can free-ride the service without paying for it). Environmental goods which have these characteristics may be under produced by free, competitive markets.

125. If suppliers such as farmers and land managers cannot exclude free-riders there is no incentive for consumers to pay for the service, so the supplier might not be able to earn sufficient revenues to cover its costs, even when society would value its provision. Hence government is seeking to intervene to ensure that such goods and services (as well as goods that have some of these characteristics) are provided in sufficient quantities.

126. Farming in the UK provides the major part of the diet of the country's population –the UK has a production to supply ratio of 75% in indigenous food and 62% in all food.[36] Agricultural production provides an essential basis for the food and drink industry, and it benefits further

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[33] For example, the economic benefit of pollinators on UK fruit, vegetable and oil seed rape production is estimated at £600m-£700m GVA per annum.

[34] UK Natural Capital: ecosystem accounts for freshwater, farmland and woodland https://www.ons.gov.uk/releases/uknaturalcapitallandandhabitatecosystemaccounts; in 2017 prices.

[35] Ibid. It is worth noting that these only count the benefits of those which have travelled to reach the respective land, so these figures may be underestimates.

[36] Agriculture in the United Kingdom 2019, Table 14.1. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/904024/AUK_2019_27July2020.pdf

industries, including fibre production where wool and biomass crops provide additional products.

127. Agriculture, the environment and rural communities are linked in terms of employment. 15% of registered businesses in rural areas are in the agriculture, forestry and fishing sectors[37], so they remain an important source of employment and contributor to the wider rural economy.

...but agriculture is not achieving the economic and environmental returns it should.

128. The wider business environment, which encompasses physical infrastructure, market frameworks, institutions and regulations, shapes the context within which businesses in the UK operate. However, approaches to farming have been shaped by the rigidity of the CAP. This includes Direct Payments which are poor value for money, untargeted, undermine farmers' incentives to improve the productivity in their businesses and distort land prices and rents. The CAP also impedes necessary productive churn where new entrants and existing farms become more and more enterprising and less productive businesses leave the market. The variability of farm performance in England is highlighted by 42% of farm businesses in England producing only 2% of agricultural output, farming 8% of our land area.

129. The CAP has not incentivised the right approach towards enhancing the environment, improving our soils, water and other natural assets – those things which fall under the umbrella term "natural capital".

130. 30% of a farmer's Direct Payment is dependent on carrying out certain agricultural practices, nominally of benefit to the environment, known as "Greening". However, a report from the European Court of Auditors concluded that Greening is 'unlikely to provide significant benefits for the environment and climate'.[38] The limited scale of change in farming practices brought about by Greening has been linked to a significant level of deadweight.[39] Beneficiaries of Direct Payments must also comply with a series of 'cross compliance' rules, though the majority of these are already implemented within the UK's domestic regulatory baseline.

131. Agriculture currently contributes more than 80% of UK ammonia emissions, reducing life expectancy through heart and lung damage. Agriculture is also responsible for 10% of the UK's greenhouse gas through the methane and nitrous oxide emissions of grazing livestock and pollution resulting from agricultural activity costs over £200m per year. Farming methods adopted since the seventies have resulted in the depletion of our soil's fertility, a reduction in wildlife numbers and increased greenhouse gas emissions. 2.9m tonnes of topsoil is estimated to be lost through water and wind erosion every year in the UK, which may take centuries to replace.

132. According to the Farmland Bird Index[40], farmland birds have fallen 54% since 1970, an alarming indicator of the deteriorating state of our wildlife and biodiversity. The turtle dove, grey partridge, corn bunting and tree sparrow have declined by more than 80 per cent. The

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[37] Future Farming Evidence Compendium pg. 45 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/834432/evidence-compendium-26sep19.pdf

[38] European Court of Auditors (2017), Greening: a more complex income support scheme, not yet environmentally effective.

[39] European Commission (2017), Evaluation study of the payment for agricultural practices beneficial for the climate and the environment. Deadweight describes situations where public money (the Greening payment) is paid to a beneficiary (a farmer) for public goods (farming practices beneficial for the environment) that would have been provided anyway, even without public support, because they are either part of the beneficiary's normal activity or required by law (many elements of cross compliance).

[40] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/845012/UK_Wild_birds_1970-2018_final.pdf

97% decline of our wildflower meadows, rich in pollinators and insects, and the risk of extinction of one in five British mammals, such as the red squirrel, require urgent attention.

The Government wants agriculture policy to focus on public goods in the future, particularly the environment, animal welfare and plant and animal health…..

133. There is a range of environmental public goods that the public would like government to support. This includes better animal health, improved animal welfare, crops, trees and plant health, rural resilience and traditional farming and landscapes in the uplands, digital infrastructure and the rural historic environments (historical monument and sites of archaeological interest).

134. The principal public good is the environment, which is reflected in the Government's 25 year Environment Plan. New land management contracts are essential to the delivery of the commitments in the plan such as:

- 75% of the 1 million hectares of terrestrial and freshwater protected sites to be in a favourable condition;
- creating or restoring 500,000 hectares of priority habitats;
- planting 180,000 hectares of woodland by 2042;
- that all soils will be managed sustainably by 2050;
- that natural capital resources will be doubled by 2050; and
- that wildlife is further protected and that all food is produced sustainably and profitably.

135. A new environment and land management policy can achieve these goals in the following ways:

i. **New environmental land management contracts:** these would offer multi-annual contracts to support the delivery of valuable environmental improvements countrywide. They would be open to all land managers who wish to enhance the natural environment. In sharp contrast with the prescriptive, one size-fits-all nature of the current system, these contracts would offer farmers and land managers the opportunity to decide how best they can deliver environmental benefits from their business and their land;

ii. **Funding for collaborative projects**: these would incentivise land managers to work together to secure environmental improvements at landscape and catchment level. This funding will support co-ordinated action on areas such as diffuse water pollution and the protection of priority habitats, where land managers need to work together across multiple sites in order to deliver environmental benefits;

iii. **Capital grants:** many of these environmental benefits will require change in enhanced husbandry practices, involving new machinery, such as minimum tilling. We will be exploring with land managers how best to provide for these, whether it is through up front capital grants, or through an income stream over several years; and,

iv. **Innovative mechanisms:** over time, we will explore competitive options to achieve particular environmental outcomes, such as peatbog restoration, to secure the greatest environmental benefits each year. Such mechanisms could include reverse auctions, tendering, conservation covenants and actions which encourage investments in natural capital.

We also want to create an agriculture sector that is sustainable and independent, more profitable and more productive.

136. Our vision is that this will be achieved through increased resilience within the sector, with farm businesses that are no longer dependent on subsidy. Farm businesses in the future will proactively manage market risks through uptake of insurance, financial products and risk management strategies throughout the supply chain and have effective strategies for disease prevention and biosecurity. Measures within the Agriculture Bill will make provisions to allow greater access to data and increased market power for producers, which will allow them more scope to run their businesses independently and profitably.

137. Measures within the Agriculture Bill should also help to reduce the barriers to entry and exit for the farming sector by giving new entrants better access to capital and land to enter the sector. The Government plans to use the powers to manage the transition away from Direct Payments to ensure that those firms that want to leave the sector before the policy changes have options to do this. Some measures within the Bill will also ensure that farm businesses are less burdened by bureaucracy, such as the provisions to change the process for creating producer organisations to remove some of the onerous elements.

In order to achieve these ambitions, we need to transform our system of Direct Payments

138. The Government is seeking to phase out Direct Payments over a seven-year Agricultural Transition period in England from 2021-2028, as significant sections of the industry have managed their businesses to fit around the current system. The Farm Business Survey (FBS) 2014/15 - 2016/17 matched dataset[4] shows that around 16% of farm businesses in England made a loss (i.e. had negative Farm Business Income[41]) even with the Direct Payment. This rises to 42% if the payments are removed, with many variations across the different sectors. However this does not include adjustments in farm business models and rent that might mitigate against a large increase in farm businesses entering losses. Hence sufficient time is needed for farm businesses to adjust optimally to phasing down Direct Payments.

139. Direct Payments are widely accepted to be poor value for money. They contribute to a culture of subsidy dependence, as farms have been receiving and relying on subsidies in various forms for over 40 years. It is also likely that Direct Payments inhibit the overall productivity performance of agriculture by undermining incentives and structural change in the sector. This unintended consequence could prevent long term gains to farmers' incomes.[42]

140. Direct Payments are **not distributed evenly** across farm businesses and not all sectors benefit from Direct Payments to the same extent. Since Direct Payments are based on land area, recipients of the largest amounts are typically farmers with large land holdings. In England, the top 10% of recipients of Direct Payments receive almost 50% of total payments while the bottom 20% of recipients receive just 2%.

141. In order to enable a planned and effective withdrawal of Direct Payments, as well as to facilitate the introduction of a new system focused around the provision of public goods, a transition period where Direct Payments are gradually withdrawn is needed[43]. This will give farmers time to prepare for new trading relationships and the new system of public money for public goods. Farmers will, for example, be able to restructure their businesses, plan necessary investments and engage in diversification.

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[41] Farm Business Income (FBI) is the standard definition of profit for farm businesses. It comprises income from four "cost centres" Agriculture, Diversified Income, Basic Payment and Agri-environment Income.

[42] Agriculture Bill: Analysis of the impacts of removing Direct Payments https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/740669/agri-bill-evidence-slide-pack-direct-payments.pdf

[43] This follows the same logic set out by Swinbank and Tangermann in 'A Bond Scheme for CAP Reform' in Swinbank and Tranter (eds.) of the same name, 2004, where they argued that policy makers should consider the need for adjustment assistance when policy deviates from its established track because of the lead times on investment and business structure decisions.

142. On balance, considering the trade-off between minimising the disruption to the sector and avoiding much-needed change being postponed, government believes that a transition period of seven years is appropriate.

143. In the evidence paper, published in 2018, three broad modes of reducing Direct Payments were considered: applying a cap, applying equal reductions and progressive reductions, with higher percentage reductions applied to amounts in higher payment bands[44]. A progressive reduction starting for all farms in year 1 was deemed to offer the greatest advantages for transitioning away from Direct Payments. This option signals change to all farms in the early years and does not concentrate reductions on a small number of farms.

144. The Future Farming Policy Update published earlier this year set out the maximum percentage reductions that would be applied to payments for the 2021 scheme year.[45] This is based on making progressive reductions that give smaller businesses more time to adjust but ensures that all farmers see a reduction in payments in early years. Responses to the Health and Harmony consultation[46] made clear that it was important that all businesses saw reductions early in the period in order to catalyse change. We are conducting further analysis to assess the potential impacts of different reduction profiles over the remainder of the transition period.

145. We also plan to delink payments from the land, sending a clear signal that Direct Payments are coming to an end. This will remove the requirement to farm the land in order to receive these final payments. The exact timing of delinking and the reference period on which eligibility is assessed is still to be determined and this will be subject to public consultation.

Section 7: Monitoring and evaluating impacts

146. Monitoring and evaluation (M&E) has been placed at the fore of Defra's approach to introducing a new agricultural policy. Over the agricultural transition, Defra will be gradually pivoting towards public money for public goods and withdrawal of subsidy, using a test and learn approach underpinned by robust monitoring and evaluation to understand how to most effectively deliver the Government's objectives. Within the context of agricultural and environmental policies, there are particular and complex challenges in assessing policy impact. These include the uncertainty over future environmental scenarios, potential interactions between policies leading to additional impacts and the large number of actors (e.g. public and private sector, farmers and land managers, local communities, households etc.) involved.

147. Measures in the Agriculture Bill will be monitored and evaluated as part of the Future Farming and Countryside Programme (FFCP) M&E strategy. This strategy will take account of the range of different policy levers (both spending and regulatory) being used to deliver our long term objectives and the interactions between these.

148. As part of the M&E strategy, an overarching logic model and detailed theories of change are being developed. These will detail a comprehensive set of activities, outputs and outcomes we expect to see at different points in time alongside the assumptions and metrics. Key elements of the strategy include:

- Monitoring of indicators to track progress;

[44] Agriculture Bill: Analysis of the impacts of removing Direct Payments https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/740669/agri-bill-evidence-slide-pack-direct-payments.pdf

[45] Pg. 36 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/868041/future-farming-policy-update1.pdf

[46] https://www.gov.uk/government/consultations/the-future-for-food-farming-and-the-environment

- Testing, piloting, process evaluations and user research to understand how schemes are working for different groups and any changes required in delivery processes;
- Assessing long term impact of policies and programmes on intended outcomes through quantitative impact evaluation

149. For all activities, outputs, and outcomes, indicators and key metrics are being developed using a 3 step process; defining indicators, identifying potential data[47] and collecting new data and evidence. These indicators will be tracked at the FFCP programme level by a dashboard setting out key management information, delivery data and indicators for our programme level outcome.

150. Policy evaluation will be undertaken in accordance to HMT Magenta Book guidance, as well as considering natural capital frameworks as envisaged by the HMT Green Book. Cumulatively, policy evaluation will aim to answer specific questions, such as:
- Have the right inputs and activities been put in place to generate the desired policy outcomes?
- To what extent does the existing monitoring data capture the outcomes observed, or are there other unexpected outcomes?
- Are activities underpinning the measures in the Agriculture Bill managed effectively and efficiently?
- Are resources in the right places to achieve the intended outcomes?
- What learning can be drawn on from the implementation of current initiatives to inform implementation of future policies?

[47] National Audit Office and HM Treasury, Choosing the right FABRIC, A Framework for Performance Information, February 2001