

Reintroduction of EU-Exit transitional arrangements for import of treated seeds and parallel products

Lead department	Department for Environment, Food and Rural Affairs
Summary of proposal	To enable the regulator in Great Britain (GB) to grant new parallel trade permits, which replicate previously issued permits that are due to expire. Also to enable the GB regulator to grant an extension to the current treated seeds transitional arrangement, which currently finishes at the end of December 2023.
Submission type	Impact assessment (IA) – 24 th August 2023
Legislation type	Secondary legislation
Implementation date	January 2024
Policy stage	Final
RPC reference	RPC-DEFRA-5290(1)
Opinion type	Formal
Date of issue	18 th October 2023

RPC opinion

Rating¹	RPC opinion
Fit for purpose	As originally submitted, the IA was not fit for purpose, due to the RPC assessing that the IA needed to explicitly provide a commentary on the derivation on the estimates within the IA. The RPC believes this is now sufficiently explained. Overall, the Department now presents a good IA that includes a robust and proportionate assessment of costs and benefits. The IA has been transparent about the uncertainties surrounding the assumptions that underpin its counterfactual and wider analysis. Sensitivity analyses have been conducted to address these uncertainties. The net benefit to business reflects the impact relative to a ‘do nothing’ counterfactual; the IA appropriately notes there would be minimal impact relative to a continuation of existing arrangements. A range of wider impacts have been considered in full, including competition and trade impacts. The Department has not committed to a post-

¹ The RPC opinion rating is based only on the robustness of the EANDCB and quality of the SaMBA, as set out in the [Better Regulation Framework](#). RPC ratings are fit for purpose or not fit for purpose.

implementation review (PIR), citing an exemption through the powers of the REUL Act.

Business impact target assessment

	Department assessment	RPC validated
Classification	Qualifying regulatory provision (OUT)	Qualifying regulatory provision (OUT)
Equivalent annual net direct cost to business (EANDCB)	£124.3 million (final IA estimate)	£124.3 million (2019 prices, 2020 present value) against the 'do nothing' counterfactual only
Business impact target (BIT) score	£497.2 million	£497.2 million
Business net present value	£704.7 million	
Overall net present value	£704.7 million	

RPC summary

Category	Quality²	RPC comments
EANDCB	Green	There is sufficient underpinning evidence and assumptions have been explained in full, as well as uncertainties surrounding them. Direct and indirect impacts have been appropriately classified. The EANDCB represents the impact relative to the 'do nothing' counterfactual; there would be minimal impact against a continuation of existing arrangements.
Small and micro business assessment (SaMBA)	Green	The SaMBA includes an adequate explanation for why exemptions for small and micro businesses, would not be appropriate. A mitigating action has been considered; however, the IA could benefit from exploring alternative mitigations as well.
Rationale and options	Good	The rationale for intervention is strong, with the IA having explained the impacts of not intervening. The IA considers a range of options including a discussion of a non-regulatory measure; the IA discusses the process of elimination in transitioning from its long list of options to its short list – a process that was underpinned by clearly defined critical success factors. The IA would benefit from discussing how the proposal fits in with long-term solutions – see 'Rationale and options' section below for further discussion.
Cost-benefit analysis	Good	The IA includes a very strong cost-benefit analysis – particular recognition should be given to the IA's first, second and third order impact approach, in addition to its clear presentation of risks, uncertainties (including a Monte Carlo analysis) and sensitivity analyses.
Wider impacts	Good	A range of wider impacts have been discussed with sufficient detail in the IA, including environmental, competition, innovation, distributional and trade impacts.
Monitoring and evaluation plan	Satisfactory	The Department has not committed to a PIR under the powers of the REUL Act. Nonetheless, the IA commits to a light-touch assessment to examine the effectiveness of the policy measure after implementation.

² The RPC quality ratings are used to indicate the quality and robustness of the evidence used to support different analytical areas. Please find the definitions of the RPC quality ratings [here](#).

Response to initial review

As originally submitted, the IA was not fit for purpose as key estimates in Table 2 were not sufficiently explained within the text of the IA. The Department needed to provide explicit commentary as to the derivation of the estimates in the table, as it was unclear where these figures came from or how they are used.

As areas for improvement, it would have been beneficial to make clear that the EANDCB reflected the IA's position against the 'do nothing' counterfactual only, rather than the status quo. Furthermore, the IA should have included discussions on medium and long-term solutions, to avoid the need for the Department to seek another extension in 2026, when the current extension ends. In addition, a number of points of improvement to the IA's discussion of consumer, environmental and distributional impacts were noted. This is because the IA had not provided much qualitative assessment of the impacts of counterfeit products on environmental and human health; differences in regional or local impacts were also not considered given that concentrations of agricultural industry are different around Great Britain (GB), due to hotspots in arable and livestock farming in various parts of GB.

The Department has now made the following amendments:

1. **EANDCB (visibility of calculations):**

- Added letters to link Table 2 with Table 3 and the explanation of the calculations.
- Added additional explanation around Table 2 to explain how the numbers differ from the summary pages due to base and price years.
- Added a version of the EANDCB table (Table 3) in 2023 prices and 2024 base year to enable interpretation of the calculation explanations. The Department have also altered this table to enable read across with Table 2 and the calculation explanations.
- Amended the explanation of the calculations to include more detail about how the calculations were made, including references to numbers in Table 2 and in the EANDCB Table 3.

2. **EANDCB (counterfactual):**

- Added text under Table 2 to improve clarity on this point.

3. **Wider impacts (consumer impacts):**

- Expanded the corresponding section to explain the likely impacts from parallel trade and seed treatments and the crops and consumer products that would likely be affected (and by how much).

4. **Wider impacts (environmental impacts):**

- Updated in line with updated input from scientists on the environmental impact of treated seeds and the relevant mitigations.

5. **Wider impacts (distributional impacts):**

- Added a more detailed qualitative assessment of the distributional impacts of the policies – including considering the distribution of maize growing areas across GB and the extent to which they would be affected.

Summary of proposal

The Department is proposing to address the following issues:

1. The end of the parallel trade permit scheme for plant protection products (PPPs) in GB; and
2. GB product authorisations for seed treatments imported under European Union (EU)-Exit transitional arrangements, which are scheduled to end this year.

The Department identifies that these issues could lead to shortages and higher prices of some plant protection products (PPPs) and significant impacts on the yield of key crops such as maize which is widely used in the dairy and anaerobic digestion sector.

The IA considers the following options:

- Counterfactual (baseline): No government intervention and transition arrangements for parallel trade and treated seeds end by December 2023.
- Option 1 (preferred option): Reintroduction/extension of transitional arrangements for parallel trade and treated seeds for 2 and 3.5 years, respectively.
- Option 2: Reintroduction/extension of transitional arrangements for parallel trade and treated seeds for 5 years.
- Option 3 (non-regulatory option): Concerted communication campaigns that would encourage farmers and growers to employ an increased number of integrated pest management techniques to reduce reliance upon pesticide products.

For the preferred option, the IA estimates an indicative net present value (NPV) of £704.5 million over a four-year (2024-2027 inclusive) appraisal period (2019 prices and 2020 present value). Total present value costs are estimated to be £10.2 million, the largest proportion of which are costs to manufacturers and distributors of non-parallel PPPs. Total present value benefits are estimated to be £714.7 million, most of which are the avoided costs to growers of anaerobic digestion production. The IA estimates an EANDCB figure of -£124.3 million (2019 prices) and a business NPV figure of £704.7 million. As the measures proposed are time-limited, the BIT score provided in the IA (-£497.2 million) is four rather than five times the EANDCB.

EANDCB

The IA uses a 'do nothing' counterfactual, which includes parallel products not being sold in GB and GB growers losing access to key seed treatments from January 2024; the IA provides detailed rationale behind the Department's chosen baseline

(pages 9 and 10). It is important to note that the EANDCB reflects the IA's position against a 'do nothing' counterfactual only, rather than against the status quo. Validating the EANDCB against the status quo would therefore be approximately zero, as the preferred option reflects continuity of existing arrangements already in place and any familiarisation costs for businesses would be minimal. The impacts of the proposals against the 'do nothing' counterfactual derive largely from avoided costs.

The IA provides a thorough discussion of the impacts of the preferred option, including price and profit differentials of crops in the baseline and the next best alternative(s). The assumptions underpinning the counterfactual and IA analysis are derived largely from stakeholder input. The IA does a very good job of explaining the rationale behind the assumptions used (pages 24 and 25) and remains transparent about uncertainties surrounding them (page 27). To address any uncertainties, the IA includes a thorough sensitivity analysis which clearly sets out the impact on NPV of changing specific parameters. In addition, the IA sets out the steps used in its Monte Carlo simulation to account for uncertainty in the assumptions and inputs used in the analysis.

On page 13 the IA sets out the impacts that have not been monetised, providing sufficient reasoning for why monetisation has not been possible. Furthermore, the IA very clearly defines first (direct), second and third (indirect) order impacts. On pages 16 and 17, the IA explicitly states that the crops grown are functions of the pesticides available; therefore, the IA's classification of the direct impact being the difference in profit versus the next best alternative after selecting an available pesticide, appears to be appropriate.

SaMBA

The SaMBA includes an adequate explanation for why exemptions for small and micro businesses would not be appropriate. The IA notes that SMBs would generally benefit from the proposal. While the IA, therefore, dismisses exemptions for small and micro businesses as counterproductive, it might have explored whether or not the preferred option of extending transitional arrangements could be applied solely to SMBs.

The SaMBA explains that whilst most of the small and micro businesses affected will not incur costs, manufacturers and distributors of PPP (MSBs) will likely be net negatively impacted. The SaMBA briefly explains that these negatively impacted businesses will have the opportunity to offset any potential losses by establishing routes to market for parallel products – a mitigating action that is supported by comments from the central industry body in the UK that represents over 90% of distributors. In the event that MSBs are unable to establish routes to market for

parallel products, it would be beneficial for the SaMBA to discuss alternative mitigating actions.

Rationale and options

The IA sets out a detailed explanation for the problem under consideration and the extent to which the options in scope align with critical success factors that are underpinned by the four policy objectives and wider departmental objectives. The IA explains how failure to intervene could increase operating costs for businesses and food prices for consumers. Furthermore, the IA shows consideration for a wide range of options, including a non-regulatory option. The IA very clearly sets out a detailed qualitative assessment to support the Department's transition from a long list of options to a short list.

However, the IA would benefit from discussing how the proposal fits in with long-term solutions, i.e., are there steps the Department could take to avoid being in the same position of considering another extension policy proposal in 2026 when the extension ends? This is an issue that also links to the monitoring and evaluation plan. The IA attempts to address this issue with the additional text included on page 10, but this does not sufficiently answer the questions surrounding long-term solutions.

Cost-benefit analysis

Overall, the IA presents a very strong cost-benefit analysis, with a clear and sequential approach to classifying impacts.

The IA discusses two ways of checking compliance and states that whilst these methods have historically been effective in identifying non-compliance, it is likely they will not be sufficient to identify and enforce against all non-compliance events. Therefore, the IA should explore other routes to detect non-compliance. The IA should also provide cost estimates for compliance checks. Despite being small, familiarisation costs have been estimated and accounted for in the IA.

Where the IA discusses risks and mitigations associated with the preferred option (pages 28 and 29), it would benefit from discussing whether the estimates take account of any additional direct costs to farmers of increased maize production as the growth of maize crops can often require a lot of maintenance to prevent or reduce the amount of runoff and soil erosion³. In addition, where the IA states on page 29 that additional internal resource would be allocated to deliver to a shortened timeline, it would be beneficial for the IA to quantify this additional resourcing and provide a cost estimate, if possible.

³ Manage maize to reduce runoff and erosion, DEFRA Blog.
<https://defrafarming.blog.gov.uk/sustainable-farming-incentive-pilot-guidance-manage-maize-to-reduce-runoff-and-erosion/>

Wider impacts

The IA includes a comprehensive assessment of wider impacts including environmental, competition, innovation, distributional and trade impacts. The IA has been transparent about its inability to monetise many of the wider impacts due to high levels of uncertainty combined with low confidence levels; in the absence of monetisation, qualitative descriptions have been provided.

Monitoring and evaluation plan

The Department has not committed to a PIR, citing the powers of the REUL Act as the reason for exemption from a review clause. Nonetheless, the IA states that a light-touch assessment will be conducted to examine the extent to which the policy objectives were met by the end of the implementation period. The IA discusses the means through which this assessment will be conducted, including the types of data the Department intends to collect. It would be beneficial for the IA to explain how each of the listed sources of evidence on page 39, are appropriate metrics to measure the effectiveness of each of the policy objectives. This is because it is currently unclear how certain policy objectives will be captured by the listed evidence sources, e.g., it is not obvious which data will explain whether unacceptable risks to the environment and human health were avoided.

Regulatory Policy Committee

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