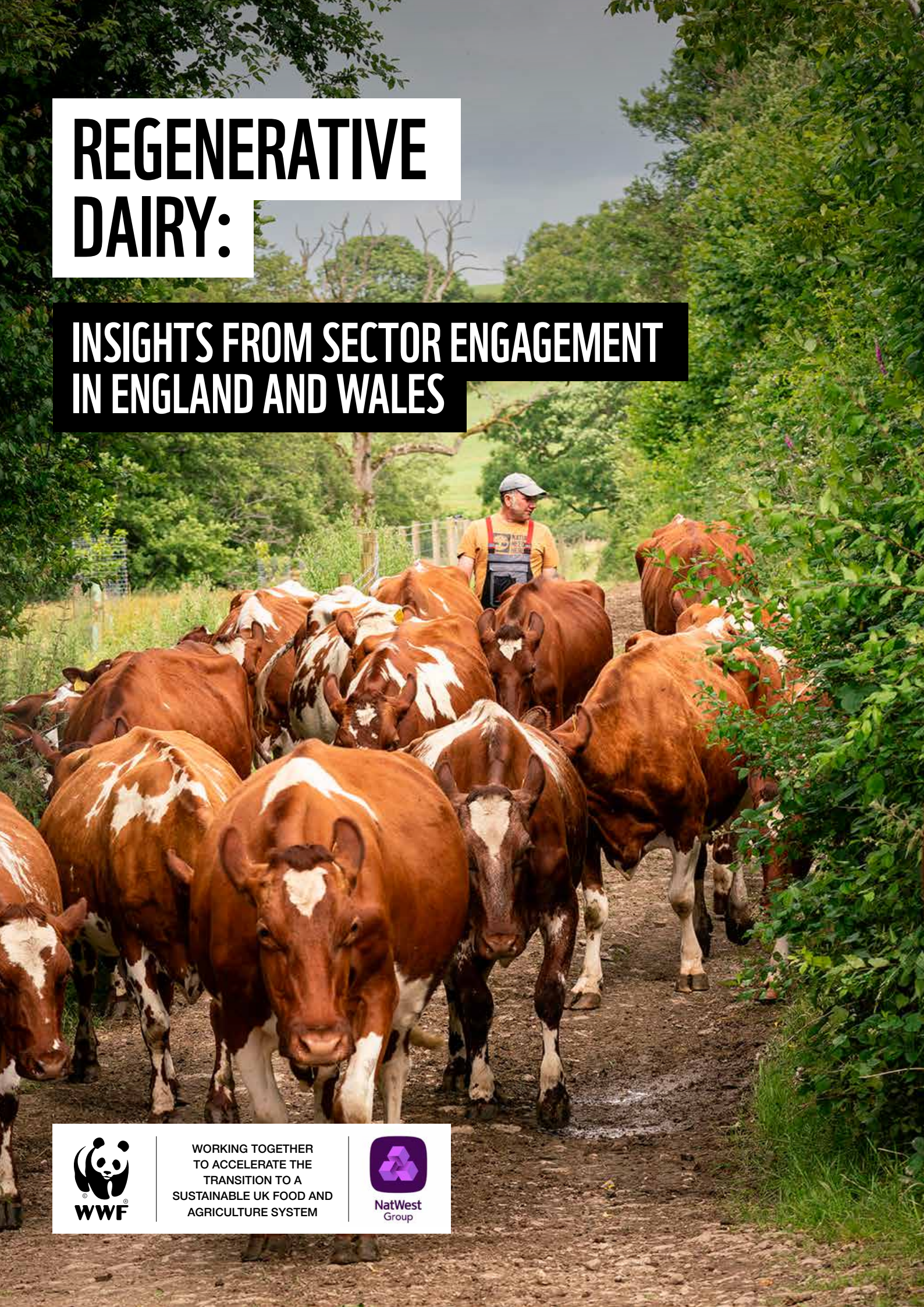
REGENERATIVE DAIRY:

INSIGHTS FROM SECTOR ENGAGEMENT IN ENGLAND AND WALES



WWF

WORKING TOGETHER TO ACCELERATE THE TRANSITION TO A SUSTAINABLE UK FOOD AND AGRICULTURE SYSTEM

NatWest Group

ABOUT WWF

We're WWF, the leading global environmental charity and we're bringing our world back to life. We're tackling the causes of nature loss. And we're finding solutions so future generations inherit a world where nature is thriving and the climate is stable.

We thank NatWest Group for sponsoring this work.

ABOUT NATWEST GROUP

NatWest Group's retail, corporate, investment and advisory product offer aims to deliver solutions and tailored expertise to meet our customers' varied needs. It includes the brands NatWest, Royal Bank of Scotland and Ulster Bank. We aim to help customers at all stages in their lives, from opening student accounts, to buying their first home, setting up a business, and saving for retirement. Alongside a wide range of banking services, NatWest offers businesses specialist sector knowledge as well as access to specialist entrepreneurial support.

ABOUT THIS REPORT AND ACKNOWLEDGEMENTS

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This report is a summary of the discussions held during two workshops in England and Wales.
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BACKGROUND

NatWest Group with WWF-UK hosted two workshops under the theme of unlocking profitability and sustainability for dairy farmers through the transition from an intensive system that requires high inputs to produce high outputs to regenerative systems.

The two workshops, attended by 85 participants, brought together a diverse group of stakeholders including representatives from organic and regenerative dairy farms, banks, food retailers, food producers, farm advisors, NGOs, and civil servants. The aim was to explore the financial and business case for regenerative farming in the dairy sector and drawing conclusions from the discussion. These workshops, held in London, England in November 2024 and in Carmarthen, Wales in January 2025, provided valuable insights into the realities of dairy farming. This document outlines the key themes and proposals to banks and governments that emerged from both events.

Panel discussions highlighted the stories and shared experiences of a selected number of dairy farmers from both England and Wales. These farmers had either transitioned to an organic farming system during the early and mid-2000s, when government support was available or had independently shifted to a regenerative farming system. This document captures insights from their journeys, detailing the transition from high input-high output dairy farming to predominantly grass-fed organic or regenerative systems. **All insights, including the voices of these farmers, are presented anonymously.**

Additionally, on both panels, Soil Association Exchange shared findings from the *'Banking for Change: Addressing Financial Risk as a Barrier to Farm Transition'* research and report published in December 2024, which has included input from 120 farmers in the UK. A Soil Association Exchange specialist highlighted: "The report identified financial risk as a barrier to transition for two-thirds (66.1%) of farmers in the research. The research also revealed that 58.6% of farmers viewed industrial farming systems as 'insurance', meaning they feel locked into a system that they know because they know what they will get from it, even though the system is not resilient to climate impacts or fluctuating input costs." The report, which supports the research findings led by WWF-UK, emphasises that farmers do not need more debt; instead, they need a financial institution to support them during the transition period. The report also highlighted the need for farm business financial planning for transition.

This paper presents findings from both Wales and England, where each workshop included a varied yet limited mix of stakeholders representing both nations. While this sample size provides valuable insights, it may not fully represent all stakeholders, so the findings should be interpreted with this context in mind. The insights shared in this document are the outcomes of the discussions held during the workshops and should be read alongside the other resources produced under the Case for Regenerative Farming in the Dairy Sector research.

THE 'CASE FOR REGENERATIVE FARMING IN THE DAIRY SECTOR,' ACROSS THE UK:

Focused on England, Scotland and Wales, WWF-UK will be publishing a range of resources in March 2025:

- *'Regenerative dairy farming: modelling the transition costs for farmers in the UK'* - a report, which includes an analysis of the impacts on profit and cash flow of the transition to regenerative agriculture for a typical UK dairy farm (modelled on a farm size of 167 hectares).

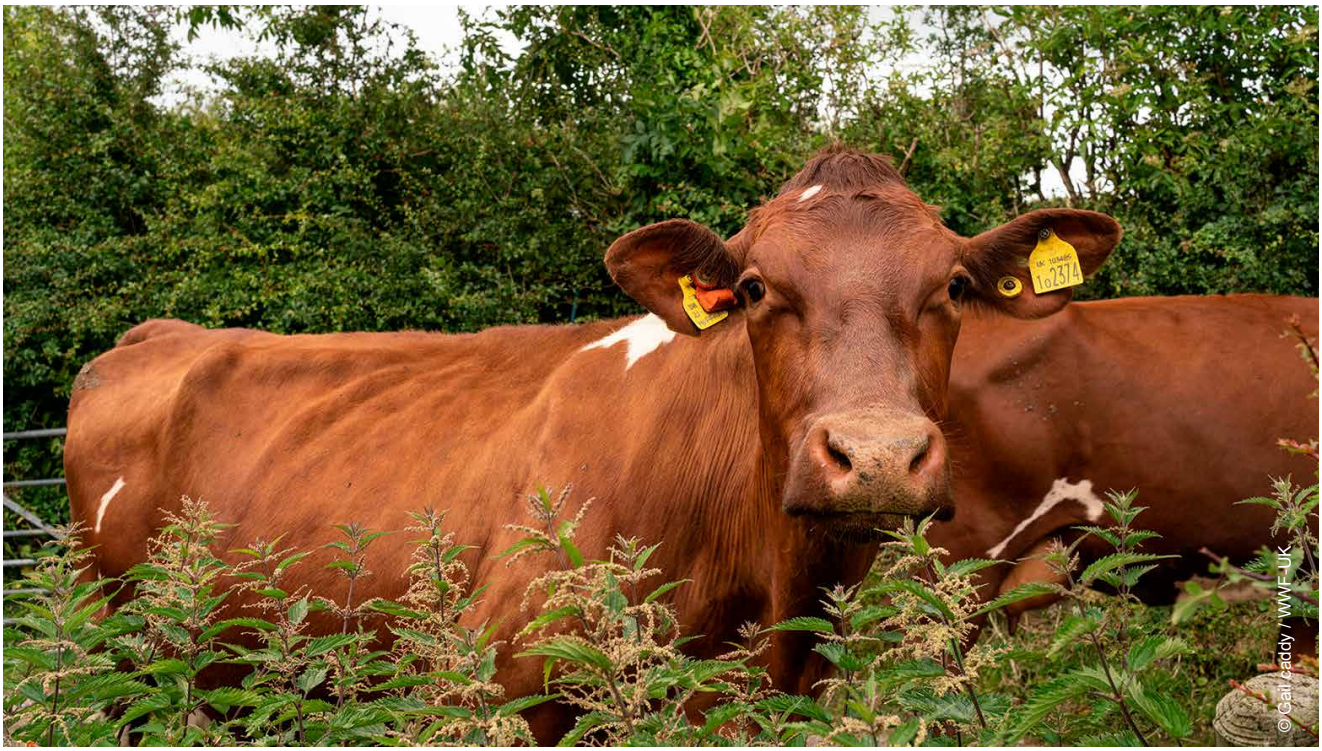
- *'Regenerative Dairy Farming: A path to profit and sustainability for UK Farmers'* - a series of case studies on UK dairy farmers making this transition. These case studies showcase the diverse motivations driving farmers to make this shift, from seeking a better work-life balance to ensuring a resilient farming system for future generations. Importantly, the case studies also highlight that transitioning to a regenerative system can be financially sensible and a strategic business decision.

- Five documentary films that complement the case study report: Accelerating the transition to regenerative ag | WWF

- *'Regenerative Dairy: Guidance for farming consultants and finance practitioners in the UK'* - a guidance aimed at upskilling bankers and farming consultants will be included as part of this package.

The combined insights from the case studies, modelling and workshops underscore that, with equitable risk distribution across the supply chain, the transition to regenerative farming can lead to healthy and sustainable farms. The research complements already published roadmaps on the regenerative transition in England and Scotland:

- A roadmap for financing a Regenerative Agricultural Transition in Scotland (2025)
- A roadmap for financing a regenerative agriculture transition in England (2024)



THE CHALLENGE

Transitioning to a sustainable food system represents a great challenge and a great opportunity for our future. WWF-UK is committed to halting and reversing nature loss by 2030 by addressing the connections between the food system, climate, and nature. The latest data from WWF's Living Planet Report [1] released in October 2024 shows that the way we produce food globally is responsible for 90% of tropical deforestation, 27% of global greenhouse gas emissions, and substantial soil degradation undermining the foundation on which agriculture depends. As it stands, we are using up natural resources faster than they can be replenished, leading to environmental degradation and jeopardising our future [2]. WWF's presentation highlighted how food production drives land-use changes such as deforestation and the draining and burning of peatlands that lead to biodiversity loss and generate significant carbon emissions, which in turn exacerbate climate change. Our future is critically dependent on biodiversity and a stable climate, and we need to understand how nature's decline and climate change are connected [3].

WWF's Cymru [4] and Scotland's [5] analysis shows that, in 2018 alone, extreme weather cost Welsh and Scottish farmers £335 million in things like extra feed costs, while this winter's rainfalls led to the worst projected crop harvest in decades. The current high input-high output systems arguably fail to account for environmental and social costs [6] and often doesn't provide consistent financial returns for farmers. As climate change makes weather patterns more unpredictable, these challenges will only grow.

WWF's vision is one where food production, nature restoration and tackling climate change go hand in hand, we call this addressing the triple challenge. Farmers should be at the centre of addressing this challenge: change should happen with farmers, not to farmers, by ensuring they are active participants in the decision-making process so that the changes are beneficial and practical for them.

1 Living Planet Report 2024 | WWF

2 Half of the world's habitable land is used for agriculture - Our World in Data

3 United Nations Convention to Combat Desertification, 2022. The Global Land Outlook, second edition. UNCCD, Bonn UNCCD_GLO2_low-res_2.pdf

4 Extreme weather and its impact on farming viability in Wales. WWF Cymru | WWF

5 The impact of extreme weather events on Scottish agriculture | WWF

6 FAO State of Food and Agriculture

THE OPPORTUNITY

The NatWest Group Agriculture team's experience serving farmers across the UK, along with WWF-UK's initial findings, emphasise that each farm is unique, and decisions are context-dependent, with farmers carefully evaluating potential changes. While farmers take significant risks to improve their farms, potential unpayable debt, changing policies, and inappropriate advice can threaten their business viability and impact their families.

The 'Case for Regenerative Farming in the Dairy Sector,' research, has demonstrated that adopting regenerative practices would typically ensure a dairy farm's financial profitability, mostly by reducing reliance on external inputs, and increase its resilience, among other things to intense climate events such as floods and droughts. This should be considered as an investment for farmers, and our model suggests a typical payback period of 4 to 7 years.

Support from policymakers, financial services providers and the entire supply chain is crucial. Policies must avoid undermining regenerative farming, emphasising a triple challenge approach to balance nature, food quality and climate change efforts. We should consider reassessing how we measure farming's success, considering broader benefits and costs.

Relationship managers and farming advisors need to dig deep and understand the specific farming needs of those who want to farm with nature, fostering trust and respect through long-term relationships.

Lastly, most farmers are constantly innovating and seeking improvements. Education should also support nature-friendly practices. Evidence of what works on the farm and what doesn't is important. This will also help overcome stigma, with some farmers expressing fears that they will be seen as the ones who ruin the legacy of their farm.

NATWEST'S PERSPECTIVE

Opening remarks were given at both workshops by Ian Burrow, Head of Agriculture at NatWest Group. The agriculture division at NatWest Group has supported the farming sector for over 200 years. As one of the leading lenders to the sector, as at 31 December 2024, the bank provided over £5 billion in lending to agriculture businesses. As at 31 December 2024, NatWest's lending to agriculture amounted to 21% of the bank's financed emissions.

NatWest Group aims to support dairy farmers in their transitions through the bank's network of 125 dedicated agricultural managers located across the country, and the willingness of relationship managers to come to the farm to speak to farmers about their transition plans. NatWest Group agriculture relationship managers have also been trained by the universities of Cambridge and Edinburgh in signposting farmers to the support available to help them transition to more sustainable practices.

NatWest Group financial support for sustainable agriculture continues to be integrated within its Climate and Sustainable Funding and Financing (CSFF) inclusion criteria, contributing towards the NatWest Group's target of deploying £100 billion CSFF target between 1 July 2021 and the end of 2025[7]. NatWest's relationship managers and frontline teams, including our credit sanctioners and risk teams, are working closely with its agriculture customers to understand the challenges they face and work with them in finding ways to overcome these challenges via innovative funding solutions.

At the workshops in Carmarthen and London, NatWest Group shared its commitment to 'win with customers' to mobilise the transition to an agriculture system that considers climate and nature, including developing lending propositions for farm businesses that can support the transition.

Collaboration is needed to make the transition happen at scale, and this means that financial institutions need to work together with stakeholders through the food supply chain. NatWest Group represents banks at the Food and Drink Sector Council (FDSC), which brings together senior leaders from the agri-food chain.

Carbon emission reductions, through the food supply chain and financial system, are a central theme of this work. However, NatWest Group believes that it is not enough to focus only on carbon emissions. Nature loss presents a threat to the supply chain of food businesses and to the UK's ability to respond to climate change. Farming systems that work with nature's complexity understanding and leveraging the intricate and interconnected relationships within natural ecosystems, (including plant and animal diversity, soil health, and water cycles), such as regenerative agriculture, present an opportunity to address climate change, nature restoration, climate resilience, food security and health outcomes, as well as profitability for farm businesses.

This is why NatWest Group has partnered with WWF-UK to deliver the **Case for Regenerative Farming in the Dairy Sector** research outputs as well as showcasing case studies of dairy farmers.

Some farmers shared that they do not see how their investments into transitioning will be paid back through proposed subsidies and the market. A common theme expressed from a number of banks that participated in the workshops was that whilst they are putting green products and lending support measures in place for farmers to invest into adopting climate and nature practices, they do not appear to be hearing from customers regarding the support they would like in order to undertake the transition. Furthermore, it can be unclear what kind of support farmers would want from banks during the early years of the transition period. These reasons serve as the catalyst for engaging with dairy farmers, decision-makers and actors across the dairy system through these workshops to see how the full dairy system can share the cost and risk of the transition.

Both organisations have been working towards creating explainers that enhance understanding of the business model which places nature at the centre. They also developed case studies to build confidence that change is possible, and launched engagement campaigns to gauge interest from farmers in trying new actions and raise awareness about the availability of support packages. Having a library of case studies provides evidence that a regenerative and energy-efficient dairy operation can become profitable. This can encourage farmers' to explore what actions are most suitable for them in their transition journey.

7 For the year ended 31 December 2024, the NatWest Group CSFFI criteria published in March 2024 was used to determine eligible assets, activities and companies for inclusion. For the year ended 31 December 2023, our CSFFI criteria published in December 2022 was applied. For the year ended 31 December 2022, our CSFFI criteria published in October 2021 was applied. For the period ended 31 December 2021, the CSFFI criteria published in February 2021 was applied. Climate and sustainable funding and financing, as defined in our CSFFI criteria, represents only a relatively small proportion of our overall funding and financing.

BARRIERS TO TRANSITION IN ENGLAND AND WALES

Key themes and synergies emerged across the two workshops, which we have captured below.

THE FACTORS THAT SHAPE THE FINANCIAL RISK OF TRANSITION

The workshops highlighted the key factors that shape the financial risk of the transition to a regenerative farming system, and make it difficult for farmers to justify investing into adopting regenerative actions. The financial risk of the transition should not fall solely on the farm business. The risk must be shared with the entire supply chain including food processors and retailers, financial actors including banks, and the government.

Uncertain and volatile times

A backdrop of uncertainty and volatility for [dairy] farm businesses was a strong theme at both workshops, with examples including:

- **Policy uncertainty** with regards to the recent changes to the basic payments phase-out[8] (which has been fast-tracked in England[9], while 2025 is the final full year of payments in Wales[10]), and inheritance tax implications for farm businesses announced in the November 2024 budget.
- **Market volatility** in terms of fluctuating input costs due to impacts of inflation and Brexit, as well as income streams to dairy farms due to fluctuating milk pricing.
- **Uncertainty on when extreme weather events will occur, and the volatility caused by the impact** of these events, including very poor harvests due to excess rainfall in 2024.
- **Uncertainty on the climate and environmental impacts of regenerative transitions** due to complexities, which makes messaging complex. For instance, it was debated whether or not organic dairy farms have a larger carbon footprint than intensive dairy systems.

This backdrop makes it difficult for farmers to develop business plans for new investments and operational changes, and has created low levels of confidence, despite the policy direction and pressures to respond to nature loss. Many farmers have revealed during the workshop that they felt averse to moving towards or changing to regenerative farming and don't feel supported by the key stakeholders such as the Government, banks and other supply chain actors. Yet, they expressed that there is a big pressure to succeed in getting the farm business and the environmental standards right for future generations.

8 Basic Payment Scheme – Rural payments

9 https://ahdb.org.uk/trade-and-policy/delinked-payments-in-2025

10 https://www.gov.wales/written-statement-publication-basic-payment-scheme-bps-financial-budget-ceiling-2025-and-bps-2024

Profitability and resilience

The uncertainty and volatility forces farmers to focus on surviving in the short term rather than thinking of what actions they can take now so their businesses (and profits) can be more resilient to changing circumstances in the long run.

Many dairy farms have been structured as high inputs, high output systems in response to increasing demand from the market for low-cost and high-volume dairy produce. These factors have led to farm businesses seeking economies of scale through the intensification of production. These dairy businesses have significant fixed costs that are challenging to balance. The scale of these dairy operations, coupled with the existing capital investment and fixed costs, creates cashflow challenges that perpetuate the current system that requires a high level of output to pay back these costs. The methods employed to achieve expected levels of productivity and output (e.g. reliance on imported feed, artificial fertilisers) further entrench this cycle, making the transition to a regenerative system challenging. When input prices increase – as they did in 2022 – without a corresponding increase in milk prices, profits of dairy farmers are squeezed.

This is why it is important to have business planning guidance and case studies to demonstrate farms that have transitioned from high input, high output to regenerative systems can be resilient in the long run. Despite the lower dairy yield per hectare in systems such as organic or regenerative, there is growing recognition of the benefits these systems offer for profit margins for farmers due to lower input costs.

Participants noted that the message of profitability and business resilience is compelling for farm businesses in uncertain times, but these messages are not being heard. The messages about regenerative agriculture have largely focused on the carbon, biodiversity and climate resilience benefits rather than financial and business resilience.

Many of the regenerative farmers in the two workshops described how their farm businesses have also become more resilient to climate shocks such as floods and droughts, statements that are backed by the case study report. They also reported increased profitability due to reduced reliance on external inputs. Responding to climate impacts was one of the key drivers of transition for farm businesses alongside the historical financial incentive for organic transition.

However, profitability and resilience through the transition to regenerative systems come at a cost in the short and medium term as production yields drop and supply contracts and the farm business sheet need to transition with this. The 'fallow years' of transition present very real financial risks to farm businesses and for families. The upfront costs and risks of the transition need to be shared between government subsidies, banks' lending and the supply chain. In the long run, there needs to be a value for dairy that is produced regeneratively.

The current value of dairy produce

The financial risk is exacerbated by the lack of confidence by farmers in the market for regenerative or nature-friendly food. Typically, there is no premium for regenerative produce, and there is a lack of evidence that regenerative farming can be commercially successful and viable as an industrial dairy system.

The dairy industry in England and Wales faces challenges due to the low value of milk and dairy produce, market uncertainty, and fluctuating prices within the dairy value chain. The low food prices consumers have come to expect, particularly for dairy produce, may be a symptom of a food system that promotes quantity, availability and low cost over quality.

The current lack of premium for 'regenerative dairy' and limited support for the transition from other sources means farmers have no financial lever to support the transition away from a high input-high output system and very little profit within the business to carry the cost during the transition years. Many dairy farm businesses could not justify transitioning to a regenerative system because their business and balance sheet are already committed financially to a high input-high output system.

There was a strong call, from both workshops, for food to be priced properly. This includes not just the direct costs like labour, materials, and transportation, but also the hidden costs such as internalising the environmental cost of food production. The main message is that if consumers are asking dairy (or other) farmers to transition to a system that prioritises healthy food, environmental outcomes and climate resilience, then food will need to be valued and priced accordingly – **a true price that includes the environmental cost of production.** This approach not only supports farm businesses but also promotes environmental stewardship and long-term business resilience.

The counter to this argument is that the consumer market is not ready for food to be valued properly.

Defining and proving dairy is produced regeneratively

Addressing the lack of a price premium will require a shift in the entire food system, as well as policy support. However, this context also presents a unique opportunity for transformation. While many milk buyers currently demand the same volume of supply year-on-year, there is potential for regenerative dairy to command premium pricing as consumer awareness and demand for sustainable products increase over time. However, the market for regenerative dairy still has a long way to go and needs to be developed to fully support this transition. This includes identifying and assuring consumers that dairy products that are made regeneratively.

There were different opinions, in both workshops as to whether regenerative agriculture should have a clear and consistent definition and be certified for end consumers. Farm businesses will need time to work through their own context and the outcomes they are able to achievet. Regenerative farming systems are not one-size-fits-all, which is why there has been an emphasis on achieving outcomes through various tailored approaches on the farm.

Relying solely on certification may not be the best approach. If a definition of regenerative produce is agreed to provide a signal to consumers, it still requires the entire supply chain to put the systems in place to ensure transparency, traceability and assurance in food production for consumers. For instance, concerns were raised by some participants about the accuracy of retail branding in the UK. Participants suggested that many retailers use 'Backing British' to refer to produce made in the UK, even though many of the inputs into the farming system are imported. This does not protect those trying to farm regeneratively because these inputs can undermine the principles of regenerative agriculture.

Other participants called for a Scope 3 emissions tax or equivalent to reflect the true cost of the food system or other forms of internalising the true costs of production and environmental degradation caused by industrial systems.

JOINED UP POLICY NARRATIVE

Uncertain or volatile times for farming require clear leadership and direction from policymakers, and there was a strong appetite in both workshops for joined-up narrative from governments establishing clarity on nature, agriculture, food and health policy in England and in Wales. Policy narrative can be informative and can send clear signals and confidence to markets, supply chains and the financial system.

The need to address whole food systems challenges, including the environmental impact of farming and land use as well as public health impacts, was a key issue for both the English and Welsh contexts. There were calls for a 'visionary approach to policy that is rooted in industrial strategy, with outcomes for people, environment and economy'.

The workshop in London called for a "Food Systems Transition Plan" that would set out policy from across government with outcomes for nature, food, and health. In Carmarthen, there was a call for a "Climate Committee for Nature", which would hold the government accountable for clear policy direction across land use, nature, farming, food and health – as well as actions.

In January 2025, the UK government launched a land use consultation that will inform the development of a Land Use Framework to support decision-making and inform discussion on how we can guarantee food security, economic growth and achieve nature and climate goals [11].

Both workshops highlighted an important role for government and in particular, a powerful role for development finance to step in to de-risk farm financing through transition. They also called for technical assistance in the form of business and financial advisory services, creating an important interface between government and farming communities and farmer groups. The National Wealth Fund was cited as an example of a development finance institute that should be participating in these challenges at the London workshop, and the Development Bank of Wales was present at the Carmarthen workshop as well as discussed by participants. Deploying innovative financial solutions through and with existing farming clusters and groups (such as Wildfarmed) was also referenced.

While subsidies are seen as catalytic but not a long-term solution for mitigating financial risks during farm transitions, there is a strong demand for comprehensive financial solutions and business advisory services. These services could support dairy and other farmers through their transition, including facilitating engagement and negotiation with the food supply chain.

Certainly, there is an understanding that banks' relationship management teams are still developing their understanding of the transition to regenerative agriculture and related new business and financial models. Similarly, credit teams are in the process of building the expertise needed to assess the evolution of farms' risk profile associated with regenerative agriculture, to provide flexible financing solutions to support this transition. This is a timely exercise, it is now arguably more important than ever for banks and the entire supply chain, exposed to climate and nature-related financial risks, to support farmers in their unique context through transition. Upskilling these teams will be important in offering the necessary support for farm businesses.

11 https://www.gov.uk/government/news/government-launches-national-conversation-on-land-use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ENGLAND AND WALES UNIQUE CONTEXTS

As well as synergies across the two workshops, specific opportunities and issues emerged from each, which we have captured in the following two sections.

UNIQUE TO ENGLAND'S CONTEXT

Baselining and open data

At the London workshop, the cost of baselining farmland (or initial assessment of the farmland's current conditions) and capturing measurement data before transition was highlighted as a significant barrier to transition. There was a call for financial support, through the Environmental Land Management scheme (ELMs)[12], for biodiversity, soil, and carbon baselining on farms. One farmer gave an estimate of £18K for a toolkit and measurement work on their farm.

Additionally, there was a call for the standardisation of data collection and standardised regenerative agriculture measurement framework, as well as the provision of open access to soil, biodiversity and carbon data and financial data.

The importance of financial case studies

In terms of financial data, participants proposed making evidence of profitability and business resilience of regenerative farm businesses, available for public use. Financial and farm business case studies could support banks to both stimulate demand for transition and offer support, as well as assess lending risk to proposals for regenerative farm businesses.

Supply chain mapping and labelling

The London workshop called for data mapping through the entire food supply chain i.e., supply chain transparency for food produced all the way through to consumer food labelling. It was felt that this should be mobilised by the government. Bord Bia Quality Mark[13], in the Republic of Ireland, was cited as a good example of this. Arla's incentive structure[14] to capture data from farm businesses has demonstrated that farmers are striving to improve outcomes, but if this data was collected and benchmarked at an industry level it could create greater transparency and potential competition for improvements.

12 Environmental Land Management (ELM) update: how government will pay for land-based environment and climate goods and services - GOV.UK

13 https://www.bordbia.ie/bord-bia-quality-mark/

14 How Arla farmers are rewarded for their sustainability activities | Arla

UNIQUE TO WALES'S CONTEXT

Policy delays and uncertainty

The Welsh Sustainable Farming Scheme (SFS) is not expected to be in operation until January 2026. The delay in this crucial environmental subsidy scheme, which will define how millions of pounds of Welsh government money is spent within the farming sector, has meant uncertainty for the agriculture sector, landscape recovery projects, and the mobilisation of natural capital [15] from investors and funders. Some farmers are cautious about taking action towards nature-friendly or regenerative farming until there is a clear direction of travel.

Adding to a lack of policy direction for farming, food and nature, there is a significant lack of confidence in the government's role in farming and land use. There is also growing farmer concern about the need to report environmental measurement data to the government to qualify for payments such as the Basic Payment Scheme and other related schemes as part of the Sustainable Farming Scheme. Some farmers raised concerns about the government having access to detailed farm data and the future implications and unintended consequences of this.

Market volatility and significant gap in finance

The workshop in Carmarthen revealed that many Welsh farmers are facing a lot of market volatility including challenges with access to land and overstocking as a consequence, rising costs of inputs and inflation, climate change impacts, and struggling to finance their businesses. Dairy farmers have been structured for high-input and high-output systems, and have significant investment in infrastructure and operating expenses.

More can be learned within the Welsh Government regarding green finance, such as on sustainable investment principles, ecosystem services markets, and mobilising private sector finance which includes blending public and private finance to enable regenerative farming transitions. So far, there appears to have been little engagement with investors. There is a significant national gap in finance needed to ensure legally binding commitments to restore nature and tackle climate change in Wales are met. It is estimated that £594 million is needed annually to restore nature and support farming businesses to transition to regenerative farming systems [16], while the Welsh government has a budget of £300 million (or less) at this time [17].

There is a significant opportunity for development banks to step in to catalyse finance to support nature recovery as well as to deploy innovative finance into the agriculture sector, and to act as an interface between the government and the farming community. A development bank with a strong focus on supporting the transition of agriculture could also deploy technical assistance and ongoing learning for this important sector for Wales.

15 Enabling a Natural Capital Approach guidance (accessible) - GOV.UK

16 Available online: https://www.wildlifetrusts.org/sites/default/files/202407/Scale%20of%20Need%20Report%20July%202024%20FINAL.pdf

17 Written Statement: Publication of Basic Payment Scheme (BPS) financial budget ceiling for 2025 and BPS 2024 balance payments (12 December 2024) | GOV.WALES

Land use policies

In Wales, agriculture makes up 90% of land use, generates 15% of carbon emissions, and is a significant contributor to nature's decline [18]. However, it's important to avoid placing blame on farm businesses which are operating within market conditions that have driven demand for high yields and increased stocking and a policy environment that has not sufficiently supported a transition to regenerative practices to date.

Government will need to establish stocking rate policies for land use. Stocking is highly concentrated in certain areas in Wales. For instance, certain areas in Pembrokeshire are stocked very intensively with cattle, including one of the catchment areas stocked at the most highly concentrated level in the UK.

DRIVERS AND BENEFITS OF TRANSITION

As well as the challenges of transitioning a farming system that emerged in the workshop discussions, there are also powerful examples of levers of change.

Farmers shared stories of the challenges including **impacts of climate change and extreme weather events, as well as increasing economic uncertainty and rising inputs,** which had led to financial, business, family stresses and in some instances poor mental health. Farmers often spoke of reaching a turning point or a crossroad leading to an entire change in farming system and way of life. This shift allowed them to spend more hours off the farm, engaging in activities such as business planning, training, and enjoying leisure time or holidays. **It seemed that a challenging business context is also an opportunity to rethink the farm business model and farming system.**

In several examples, dairy farmers also talked of the benefits of shifting from a complicated intensive dairy system to a grass-based system, resulting in short, intensive work but allowing for a winter break. Ultimately, the time and space that no- or low-input systems allow can create opportunities to think about the business, and to have a **better work/life balance and improved wellbeing.**

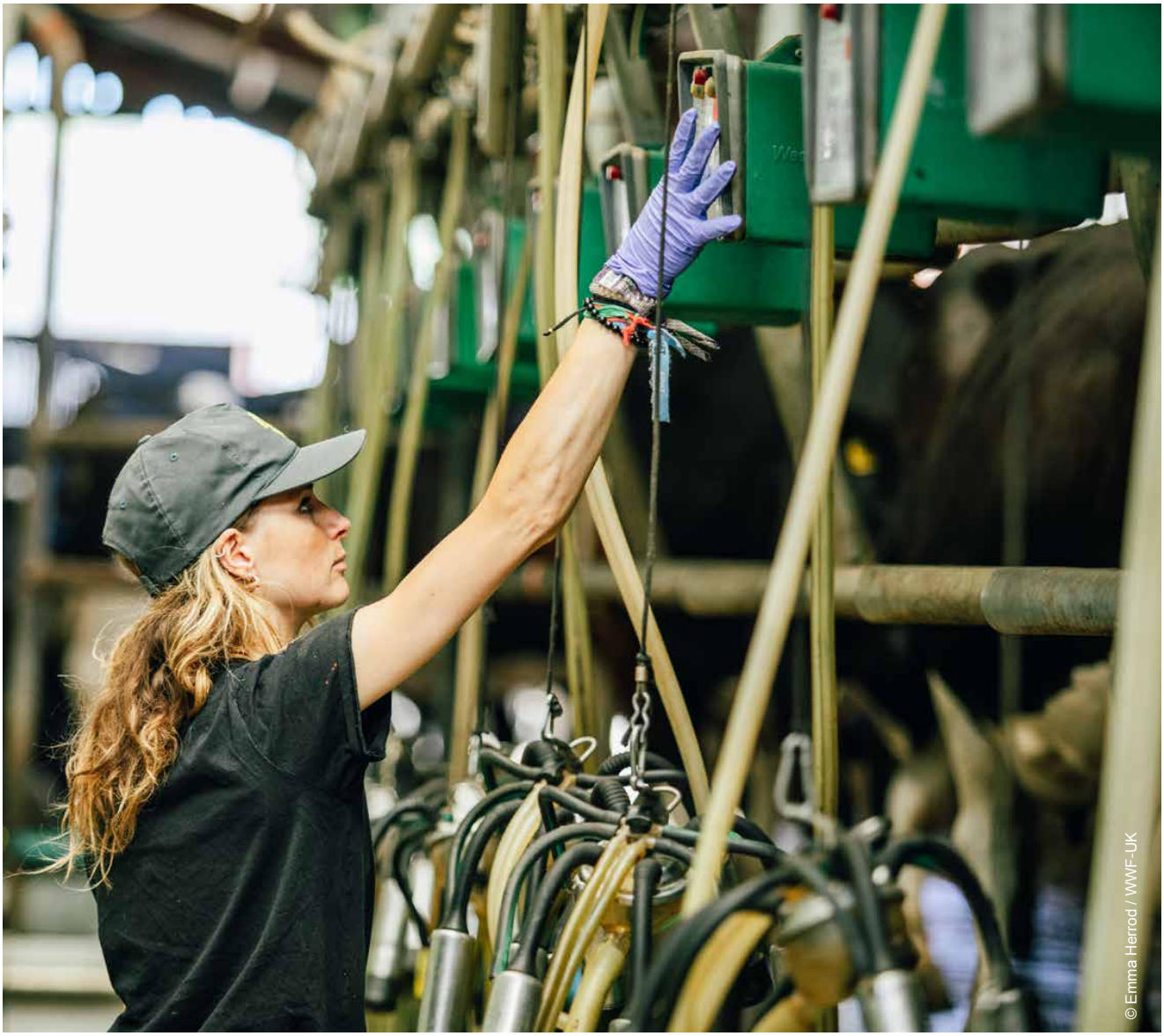
Exposure to feed and other input costs was a significant driver of change for dairy farmers in the workshops. One farmer talked about the expansion of their arable operations, within their dairy farm business, to provide feed resilience for their dairy herd. This business had also diversified into beef production to integrate with the arable production. Financial planning and good financial management are needed for diversification, and this is where banks can support. **But it is important for financial institutions to get out on the ground on farms, to understand the business models.**

18 Land of Our Future | WWF

For others, transitioning to an organic dairy system encouraged by government support at the time had changed the whole farm context, prioritising and working with nature. This can lead to **generational benefits;** for example, one farmer spoke of how three generations of family members have been **dedicated to maintaining soil health and promoting biodiversity,** in addition to managing the dairy herd and dairy production.

Overall, farmers and other stakeholders emphasised that 'transition doesn't have to happen across the entire farm business all at once'. **A start small, learn, and adapt approach was encouraged,** although it is important to recognise that for many farm businesses small experiments on farm can result in a significant loss and risk for their balance sheet.

Learning from other farmers, and being inspired by others in their farming community, is a consistent theme in this research and the outputs of the workshop. This insight is not new. It is well understood that **farmer-to-farmer support, including the impact of farmer clusters,** is an effective way of communicating and sharing learning, building group confidence, and catalysing change. Banks could recognise these groups and offer financial support and advice through them. The Wildfarmed farming community groups, ADHB's farmer groups, Farming Connect in Wales, Nature Friendly Farming Network, and farmer clusters are examples that were referenced in the workshops.



SOME IDEAS FOR BANKS AND THE FOOD SUPPLY CHAIN

CASE STUDIES

Banks, the food supply chain and other food sector stakeholders (including farmers, suppliers, processors, distributors, retailers, consumers, regulators and financial institutions, advisors and consultants, environmental and advocacy groups) could, collectively, develop financial case studies of different farm types that demonstrate the cash flow impacts of transitioning from an industrial to a regenerative system. However, this would require farmers' permission to show financial data and real cash flow analysis, which presents a potential barrier to this exercise. Financial case studies should be supported with evidence of environmental outcomes to present the whole picture of transition. Case studies can evidence the financial sustainability of regenerative farming and demonstrate other impacts, with the aim of providing confidence in transitioning for farm businesses. Case study evidence of farms that have already transitioned can help inform decision-making for farm businesses and bank credit teams.

The development and database of case studies should be facilitated by the government, or a separate body representing nature finance such as the Green Finance Institute, and be accessible to the agriculture sector and the financial and food systems at large (as opposed to individual banks).

ASSESSING CLIMATE AND NATURE RISK

The changes in government subsidies from basic payments towards incentives to support climate and nature outcomes, along with farms' exposure to climate events like heatwaves and floods, do not just affect farmers. While farmers need to consider these factors in their business planning, so do the banks that lend to them, and the food value chains they supply.

In the UK, financial institutions must disclose how they are managing their climate risk through the Taskforce on Climate-related Financial Disclosure (TCFD); and it is anticipated that under the upcoming Roadmap for International Sustainability Standards, financial institutions will need to address nature risks in their portfolio. NatWest Group continues to develop a proposition to supporting farming customers in the southwest of England and Wales in integrating climate-related considerations into farm-level asset and liability assessments.

Equally, the supply chain should also reward its farm businesses for climate and nature outcomes as a way of mitigating supply chain risk. Examples of this in the dairy sector include milk processors First Milk and Arla's efforts to reward their dairy farm suppliers. Since 2024, First Milk has offered a 'regenerative bonus' at 0.5ppl, with higher payments for higher regenerative farming scores. In April 2024, First Milk also increased the price of its manufacturing standard litre of milk by 0.75ppl to 38.75ppl[19]. This increase included the variable regenerative bonus. Arla's FarmAhead Incentive[20] is a points-based system that rewards farmers for their sustainability efforts. The more points farmers earn, the higher their milk price.

TRUSTED ADVISORS

The role of bank relationship managers, alongside external farm advisors, to support farm businesses through the 'fallow years' of transition, was a theme emerging in the workshops.

Relationship managers can engage with farmers to discuss their willingness to adopt practices that provide benefits farmers value, such as improving soil health and animal welfare, and reducing long-run operational costs. Relationship managers can also provide case studies of farmers who have adopted similar actions, and direct farm businesses to trusted advisors. Farm advisors are a key point of contact for farm businesses and banks' relationship managers.

Trusted farm advisors, farmer membership groups, cooperatives or farmer clusters, can provide the support needed to develop regenerative farm business plans and cash flow models. This type of business planning and financial assistance might include support for businesses to access payments for ecosystem services (PES)[21] and/or corporate investments aligned with farm-level plans that facilitate integrated land use strategies.

19 https://www.firstmilk.co.uk/news/first-milk-announces-april-milk-price-increase/

20 https://www.arla.com/sustainability/the-farms/arlas-sustainability-incentive-model-qa/

21 Payments for Ecosystem Services (PES): best practice guide - GOV.UK

REGENERATIVE AGRICULTURE CAPACITY BUILDING

Capacity building across the industry is needed. This can give finance, government and supply chain stakeholders a better understanding of what it takes for a farm business to transition, raise awareness of the breadth of subsidies, grants and payments on offer, and help build networks of farm advisors and membership groups.

Tools are being developed to help capacity building in the industry. For instance:

- As part of the Case for Regenerative Farming in the Dairy Sector, WWF-UK has produced comprehensive guidance aimed at upskilling banks' relationship managers and agri-consultants. The guidance highlights (i) the financial impacts of the transition to regenerative agriculture for a typical UK dairy farm, (ii) the subsidies and grants available for each regenerative farming practice identified, and (iii) the carbon and nature impacts that can be expected from these practices.
- To increase the understanding of the type of climate and nature subsidies and/or private sector payments available to farm businesses, the Sustainable Markets Initiative is working with food supply chain actors, banks, and suppliers to align farmer requirements with a menu of payment and subsidy options. A pilot of this match-making proposition, deployed together with The Royal Countryside Fund, Sustainable Food Trust, and Ceres, is getting under way from March 2025 in the east of England.
- Soil Association Exchange's platform helps farmers to match regenerative farming actions with Sustainable Farming Incentive (SFI) payments in England, and provides an SFI data store or asset for farmers to access. It also match-makes corporate 'insetting' payments to farmer actions through the Exchange Market.

FAIR PRICING AND TRANSPARENCY

Showing that the market is ready to reward and invest in regenerative agriculture systems and regeneratively produced food will help send the right signals to farm business owners and build market-wide and public confidence.

To support the transition to regenerative agriculture, the food supply chain should ensure fair pricing for regenerative produce and provide clear information on what it means to consumers. Additionally, the food industry can help by highlighting the true cost of industrially produced food, which often relies on inputs and imports. Retailers also play a crucial role in informing consumers so they can be aware of the impacts of their food choices.

FINANCING FROM THE SUPPLY CHAIN

As well as pricing, the dairy cooperatives and food retailers could offer farm businesses financial support and stability to transition through long-term contract agreements, direct payments for particular farm practices, and paying premiums for goods produced to a higher environmental standard.

Supply chain actors should also explore opportunities to participate PES schemes, within landscape recovery scale projects that encompass multiple farm businesses. This could involve multiple actors providing payments to land owners or land managers for actions that reduce climate risk or environmental impacts.

Food businesses should seek to align investment within their supply chains or PES with farm-level plans, data and standards frameworks developed for public subsidy programmes, to facilitate integrated land use strategies and investment programmes.

INNOVATIVE FINANCIAL PRODUCTS

Flexible financial solutions, along with working capital, could be seen as essential to support farm businesses during their transition. These measures help mitigate the risks associated with the 'fallow years' and stimulate the transition process. Additionally, transition risks could be shared among all supply chain actors, who also face nature-related risks. For example, flexible lending options like revolving credit facilities and financial support from banks could be complemented by advanced market commitments or other financial incentives from the food supply chain. This combined offer from banks and the supply chain further de-risks financing the transition for farmers.

Additionally, communication strategies to clearly demonstrate how products and services support whole farm transition plans would be beneficial. An example is Waitrose's partnership with LandApp, a digital mapping tool, to provide over 2,000 Waitrose farmers with free access to advanced mapping tools and expert advice, helping them to create bespoke land management plans that protect and enhance the environment. The partnership is a key step in Waitrose's Farming for Nature programme, which aims to support its British farmers to move to nature-friendly farming practices, helping to boost the financial resilience of farms in the long term, combat biodiversity loss and tackle the effects of climate change.

SOME IDEAS FOR POLICY MAKERS

CLEAR AND JOINED-UP POLICY NARRATIVE

In Wales

The government needs to provide leadership and a signal on the direction of travel for nature as a public good. The narrative should underpin how a transition to regenerative farming and nature-friendly farming can support farmers achieve profitability and business resilience. Championing this messaging next to farming communities, supply chain actors and the public is essential.

Government should play a role in explaining and informing on the benefits of environmental data collection for farm businesses and what this means for data-driven decision-making, helping to address the potential mistrust by farmers about government data collection. It was suggested that the government do this through organisations that have credibility within the farming community or within business sectors. Support should include reducing the administrative burden on accessing subsidies and finance for farm businesses.

In parallel, there needs to be a clear policy direction on the food system from the Welsh government, with clarity about the impact of ultra-processed foods and the importance of good nutrition for the whole population of Wales, which aligns with nature and farming policy. Food strategy should include a government food procurement policy that encourages the supply of regenerative and locally produced food into Welsh schools and other public services.

In England

There was a strong call for a policy direction to join up food, public health, farming and land-use policies with outcomes for people. A food systems transition plan should include deep collaboration across government departments as well as across industry actors including banks, farmers, food processors and retailers. The National Food Strategy [22], led by Henry Dimbleby, and the Food and Farming Countryside Commission's [23] work on the 'Food Conversation', and the Land Use Framework for England [24] were mentioned as examples of joined-up policy development and narrative. Additionally, the Secretary of State for Rural Affairs in England, Steve Read, announced in December 2024 that a new national food strategy will be developed in 2025, focused on four key areas: food security, health, environment and economy [25].

A transition plan would set the direction of travel for farming and food systems, including a strategic direction for public procurement to source regeneratively farmed food to catalyse the transition to regenerative agriculture. A clear and bold cross-government narrative, coming from the centre of government in both England and Wales, should help to build confidence in the transition to regenerative agriculture and position it as critical for people and planet to thrive driving positive food security, public health, environmental and economic outcomes.

22 https://www.nationalfoodstrategy.org/

23 https://ffcc.co.uk/so-what-do-we-really-want-from-food

24 Land use framework - Food, Farming and Countryside Commission

25 https://www.nutrition.org.uk/news/new-national-food-strategy/

DEVELOPMENT BANK FOR NATURE

In Wales

There was a strong call to mobilise banks including the Development Bank of Wales to work with supply chain actors to deploy innovative financing instruments that incentivise and reward farm businesses to transition to regenerative farming. This can reduce the financial risk as well as help unlock private sector capital into nature markets. A financial facility through the Development Bank of Wales, for example, could make use of Welsh government funds to, for instance, offer loan guarantees through mainstream banks.

In England

Similarly to Wales, the government should deploy innovative financial instruments through major lenders, such as first loss guarantee schemes for asset financing, working capital and/or other transition finance needs. Government guarantees through major banks would mean that they could offer more favourable terms to farmers in transition. Support through a development finance institute such as the British Business Bank or the National Wealth Fund could help build capacity and provide technical assistance for farm businesses, although budgets for this would likely need to be mobilised through government departments such as Defra.

The tax system was seen as another mechanism for catalysing transition, for example through instruments such as research and development tax credits to support farm and food business model innovation and transition.

Additionally, a 'development finance bank for nature' could facilitate natural capital transactions with farm businesses. For instance, it could support preferential lending solutions alongside providing guidance on nature markets. The Forestry Commission's guidance on the England Woodland Creation Offer [26] was seen as a good example of the sort of guidance needed.

TOWARDS A SHARED ENVIRONMENTAL FRAMEWORK

Governments in England and Wales should work towards a shared environmental framework that everyone, in this case within farm contexts, can work with and report to. It was felt that any framework should guide holistic approaches that avoid focusing on one environmental outcome at the expense of another.

Governments should provide funding, or 'match-funding' with the supply chain, to cover the cost of environmental and social baselining on farms as well as measuring outcomes in year one of farm businesses' transition. This could be a powerful lever for change. Funding should be facilitated through banks and/or other financial stakeholders, which would help to stimulate a discussion with banks about financial position and planning for transition, as well as the uptake of tailored financial solutions.

26 England Woodland Creation Offer - GOV.UK

Environmental baselining and ongoing outcomes measurement for farm businesses is expensive, and it is not clear how farm businesses will finance. This cost should also be factored into government-backed financial lending and guarantees, working with the banks for risk sharing, credit enhancement and policy implementation.

With the right support and a shared vision, great things can be achieved. By fostering collaboration between governments, banks, and all the supply chain stakeholders, we can create a path forward and addresses the financial challenges faced by farmers while also prioritising environmental and social outcomes. Together, we can overcome barriers and drive meaningful change in the agricultural sector, paving the way for a sustainable and prosperous future.

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