

Consultation



Llywodraeth Cymru  
Welsh Government

A wide-angle photograph of a Welsh landscape. In the foreground, a green field contains several sheep on the left and two cows on the right. A line of trees and a fence separate the field from the background. The background consists of rolling hills and mountains under a clear blue sky.

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# Brexit and our land: Securing the future of Welsh farming

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Responses by 30 October 2018

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## Foreword



Welsh land matters to us all. It supports livelihoods, anchors communities and generates vital natural resources we all rely on. The people who manage it contribute a huge amount to our country.

Leaving the EU presents significant challenges, but we have a unique opportunity to put in place bespoke Welsh policy which delivers for our economy, society and natural environment. We must take it.



There is an overwhelming case for supporting land managers and this paper puts forward our proposals for ambitious reform.

We are grateful for the help and energy of all Welsh stakeholders who have come together to aid this work. We will continue these discussions as we prepare detailed plans, bring forward legislation and implement change.

A handwritten signature in black ink that reads "Carwyn Jones". The signature is fluid and cursive.

**Carwyn Jones AM**  
**First Minister of Wales**

A handwritten signature in black ink that reads "Lesley Griffiths". The signature is fluid and cursive.

**Lesley Griffiths AM**  
**Cabinet Secretary for Energy,  
Planning and Rural Affairs**

## Consultation Overview

This paper explains the basis on which the Welsh Government proposes to continue to support farmers after Brexit. It outlines proposals for a planned, multi-year transition and seeks views and ideas on how the specific schemes that will deliver the support should be designed.

### How to Respond

We appreciate you taking your time to read and respond to this consultation.

All consultation questions are optional except for the 'About you' section. This shows us if we have engaged with a diverse and broad range of people. Responses on behalf of organisations will be analysed separately from responses from individuals, so it is important that we know in which capacity you are responding.

If you are responding on behalf of an organisation we ask for your name and the organisation's name. However, you have the option to remain anonymous if you wish. Please refer to the Data Protection section for further information about how this is used.

The consultation will run from 10 July 2018 to 30 October 2018. Any responses received after this time will not be included in the analysis of the consultation responses.

Tell us what you think. Your views are important to us. They will help us refine and shape our proposals.

The closing date for the consultation is **23:59 on 30 October 2018**.

You can reply in any of the following ways:

### Online

The consultation document can be accessed from the Welsh Government's website at [beta.gov.wales/consultations/](https://beta.gov.wales/consultations/)

### Write to us:

Brexit and Our Land  
Land Management Reform Division  
Welsh Government  
Cathays Park  
Cardiff  
CF10 3NQ

### Further information and related documents:

Large print, Braille and alternative language versions for this document are available on request. If you would like a hardcopy version of the document please email: [BrexitanTir.BrexitandOurLand@gov.wales](mailto:BrexitanTir.BrexitandOurLand@gov.wales)

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## A note of nomenclature

**In this document, we use the term "land manager" and "land management" to mean farmers, foresters and any other activity drawing on non-urban land to produce goods and services.**

**This reflects the fact we are putting in place a land management policy that looks across different land uses and classes. This is consistent with the holistic approach taken in the Environment Act 1995. Of course, the vast majority of Welsh land managers are – and will continue to be – farmers.**

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**Welsh land matters. It provides livelihoods, supports communities and generates vital natural resources which we all rely on.**

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**Land managers have shaped the Welsh landscape we recognise today. It is an intrinsic part of our nation. How land is managed therefore matters to us all – our land managers have the potential to produce outcomes of huge importance to Wales.**

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The Common Agricultural Policy (CAP) does not do enough to deliver these outcomes. Brexit gives us the opportunity to redesign support systems to enhance the wider benefits land brings to Wales and support the delivery of our unique legislative framework. Indeed the economic consequences of Brexit force us to do so. There is significant uncertainty, but the range of future scenarios show the status quo is not an option.

Following Brexit, we propose a new Land Management Programme that will replace the CAP in its entirety. The Programme as proposed consists of two over-arching schemes: the Economic Resilience scheme and the Public Goods scheme.

The Economic Resilience scheme will provide targeted investment to both land managers and their supply chains. The scheme will provide support to increase market potential, drive improvements in productivity, diversify, improve risk management and enhance knowledge exchange and skills. In doing so, it will help businesses to stand on their own two feet.

The Public Goods scheme will provide support to deliver more public goods from the land. In return, it will provide a new income stream for land managers and make a significant contribution to addressing some of our most pressing challenges such as climate change, biodiversity decline, adverse air quality and poor water quality.

To underpin both these schemes we believe there is a good case for fairer, simpler and more coherent regulation.

The Programme marks a significant change. Land managers can adapt but it is government's role to support change. We therefore propose a phased transition plan to move from old to new schemes. We intend to bring forward detailed proposals by spring next year and publish legislation by the end of the Assembly term. Our ambition is to complete reform by 2025. We will use existing, high-performing Rural Payments Wales systems as the administrative basis for schemes and seek simplification of processes wherever possible.

There is a strong case for bespoke support in Wales. Our land is different, our communities are different and our sectors are different. The future UK framework must recognise this and ensure there is the flexibility to make policies reflecting the unique context in Wales. To be truly effective we also need a fair funding settlement and we call on the UK Government to urgently provide greater clarity.

This document sets out the principles for change that provide the foundation for the years ahead. But this is just the start of further consultation and we will collaborate with stakeholders at all stages.

In our white paper, *“Securing Wales’ Future”*, we set out our priorities to ensure Wales’ future prosperity after the UK’s exit from the European Union. These included protecting and enhancing our natural resources and supporting the people who manage them. *“Prosperity for All”* – the Welsh Government’s national strategy – reiterated this commitment.<sup>1</sup>

1.1 This document is the latest in a series of Brexit papers produced by the Welsh Government on cross-cutting issues of national interest. While it is the first to put forward new devolved policy, the issues covered closely relate to Wales’ overall Brexit policy, namely:

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**Society and environment** – securing our social and environmental rights is dependent on policies which determine how our land is used, for example in terms of impacts on water quality

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**The single market, customs union and international trade** – our agricultural and forestry sectors may be significantly affected by changes to the trading environment

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**Finance and investment** – the Common Agricultural Policy is a significant element of EU funding in Wales and this full funding must return to Wales

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**Constitution and devolution** – there is a strong case for significant devolved flexibilities and we need better intra-UK governance to ensure cooperation across the UK

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**Migration** – many parts of the agricultural supply-chain are dependent on migrant labour from EU nations

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**Transitional arrangements** – we must have a planned and multi-year transition from current arrangements to new policy

1.2 While Brexit forces us to consider our policies afresh, we believe there are significant opportunities from reforming existing arrangements. The great challenge of Brexit is to ensure its impact does not undermine the true value our land and its managers provide to Wales; the great opportunity is to put in place new Welsh policies and support to help our land managers adjust and thrive in a post-Brexit world.

1.3 This is the basis on which we bring forward the proposals in this document. Our work has greatly benefited from significant stakeholder input, principally the Cabinet Secretary’s Roundtable and in particular the Land Management Sub-Group. We will continue the engagement and this consultation marks the start of a new and detailed conversation.

1.4 We will set out further, detailed proposals around spring of next year. Following this, we intend to bring forward primary legislation to make provision for reform and our ambition is to publish a Bill before the end of this Assembly term in 2021. Our ambition is to complete reform by 2025.

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<sup>1</sup> <https://gov.wales/docs/strategies/170919-prosperity-for-all-en.pdf>

## Chapter 2: The value of Welsh land

**Welsh land and land managers matter to all of us. Together they provide livelihoods, support communities and secure vital natural resources. We believe that when our natural resources are managed well, communities flourish, wider society and the economy are enhanced, and Wales' well-being is improved. We want to make sure our land managers are resourced and supported to make this happen.**

2.1 Wales is a small country with a highly varied geography. Mountainous regions in the north lead to uplands in the centre, leading to the valleys and coastal flatlands of the south and west. Within this, there is extraordinary diversity of landscape and habitat.

2.2 As a result, we have world-class tourism sites, a growing food and drink reputation, some of the best grass-fed livestock production in the world and a thriving timber industry – all underpinned by Welsh natural resources. The landscape and the habitats it contains represent an important element of our national identity. It is both internationally renowned and valued by the people of Wales – for its beauty, for the recreation opportunities it provides, for its native species, and for its cultural heritage.

2.3 Over 90% of Welsh land is in the hands of our farmers, foresters or other stewards of the landscape.<sup>2</sup> It is these land managers and those before them who have shaped the landscape we recognise today. Over hundreds of years, they have created an intrinsic part of our nation. How they manage their land has a significant impact on all the people of Wales.

2.4 This land is predominantly managed for the purpose of producing sheep, dairy and beef cattle, and for forestry. The sub-sector composition has changed over time, but there has been a longstanding and overwhelming focus on grasslands and grazing livestock, with large-scale forests on some of the upland areas. This reflects our topography and the landscape, making us different from the UK “average”. Table 1 highlights differences, in particular the emphasis on pasture and livestock.

<sup>2</sup> This figure is a combination of land claimed as agricultural, forestry land and farm woodland, as per Table 1



**Table 1: Welsh land in the UK context**

Population – % of UK		5
Land area – % of UK		9
	<b>Wales</b>	<b>UK</b>
% of employment from agriculture	4.1	1.4
% of total gross value added (GVA) from agriculture	0.7	0.6
% of land use in agriculture	78	70
% Forestry land (non farm)	10	13
Farm woodland	8	4
Permanent pasture – % of all UK pasture		17
Wales sheep flock – % of the UK flock		29
Wales dairy herd – % of the UK herd		13
Wales beef herd – % of the UK herd		11

Source: Survey of Agriculture, June 2017, Woodlands Wales indicators, 2016 and Forestry Commission, 2017

## The contribution of our land managers

2.5 Our land managers make an important contribution to the economy, deliver environmental value to Wales and support some of the most important parts of our society.

### Economic contribution

2.6 Agriculture contributes £370m to the Welsh economy (0.7% of GVA), with significant regional variation.<sup>3</sup> Estimated GVA for forestry and related sectors is £530m (0.9% of GVA), although this incorporates secondary processing.<sup>4</sup> While 23,500 people in Wales cite agriculture, forestry and fisheries as their main sector of employment,<sup>5</sup> 55,000 are involved in these sectors, including contractors, suppliers, and family members.<sup>6</sup>

2.7 But the true economic value to Wales can only be measured when considered in a broader context. Products from the land reach into Welsh

supply chains to support other important sectors, in particular food and drink (**Background Point A**). Chapter 5 explains how we can do more to join up Welsh primary production and Welsh processing and manufacturing.

2.8 More generally, a huge part of Wales' thriving tourism sector is underpinned by the landscape and amenities produced by land managers; they shape the landscape and the landscape is a major attribute that brings people to Wales. Visit Wales identifies the natural environment as our unique selling point, especially for adventure tourism.

### Environmental contribution

2.9 The way that land is managed has a huge influence on the appearance and character of the Welsh landscape, and the health and resilience of the natural environment. Welsh coast, countryside, wildlife and heritage are central to developing Welsh tourism.

<sup>3</sup> Covers forestry and logging, manufacture of wood and products of wood and cork, and manufacture of paper and paper products

<sup>4</sup> Census of Population (2011), ONS

<sup>5</sup> Welsh Agricultural Survey (June 2017) Welsh Government

<sup>6</sup> Annual Business Survey (2016), ONS

2.10 Good land management practices can enhance the environment, for example the use of grazing animals to maintain habitats. Active land management appropriate to the site will enhance the value and quantity of environmental outcomes land can provide. But over-exploitation of soil, the loss of habitats, poorly planned and designed forestry and over-use of fertilisers can have a negative impact on environmental quality, ecosystems and natural capital.

2.11 Moreover, farmers, foresters and other land managers are uniquely placed to address many of the most serious challenges facing our natural environment. Clean air, clean water, increased biodiversity, carbon sequestration, improved public health and educational opportunities can all be delivered through appropriate land and access management. As **Background Point B** demonstrates, high-quality natural resources and healthy ecosystems are part of the foundation of Wales' productive capacity for food and forestry, as well our wider health and well-being.

### **Social and cultural**

2.12 The activities of farms and forests provide support to rural communities, both economically and socially. This matters greatly given the predominance of rural areas in Wales. In terms of the economy, they draw on a wide array of local businesses, all of which in turn support rural communities. For society, the stability provided by the multi-generational nature of agriculture in Wales has helped support the Welsh language and culture in rural areas. Farms and farmers are often described as the social anchors for their local communities.

2.13 The Welsh language is an inseparable part of the social fabric of parts of rural Wales. Cultural connections with farming across Wales are strong and agriculture plays an important role in sustaining the Welsh language. Indeed, nearly a third of

individuals in land management sectors speak the language regularly (higher than any other employment category).

2.14 Land managers also benefit society through managing animal health and welfare. In particular, maintaining high standards linked to the protection of public health, including preventing anti-microbial resistance. This also links to the promotion of the Welsh brand, as noted above.

### **Our vision for Welsh land and land managers**

2.15 The broad and multi-faceted contribution outlined above represents the modern-day case for supporting land managers. It is also key for delivering Wales' unique legislative framework in the Well-being of Future Generations (Wales) Act 2015<sup>7</sup> and the Environment (Wales) Act 2016.<sup>8</sup>

2.16 Our vision for Welsh land is for land managers to produce outcomes of huge importance to Wales as a whole. Many of these can only be produced by Welsh land managers on Welsh land.

2.17 To realise these benefits we need to provide appropriate support. The Welsh Government will therefore provide advice and financial support which enables land managers to determine how best to manage their land and provide the outcomes society seeks.

2.18 This support must also recognise that the vast majority of land is managed as trading farm or forestry businesses, in particular, food-producing farms are the core of Welsh land. These businesses must be economically resilient if we are to deliver the widest range of environmental and societal outcomes. A holistic approach is therefore vital, as reflected in the Environment Act – finding ways to enhance our natural resources while building livelihoods around them. This is the basis on which we assess whether current policies are fit for purpose in the context of Brexit.

<sup>7</sup> <https://futuregenerations.wales/about-us/future-generations-act/>

<sup>8</sup> <http://www.legislation.gov.uk/anaw/2016/3/contents/enacted>

## Background Point A: Welsh Food and Drink

Primary produce helps support the wider food & drink sector – one of Wales' biggest sector with a GVA of £4.5bn (7.5% of total) and turnover of over £19bn. The value of Food & Drink Exports from Wales for 2017 was around £527m, up by around a fifth from 2016<sup>9</sup>. The recent growth in exports has been partly due to the exploitation of 15 protected food names.

High standards and the Welsh landscape are a vital component of the Welsh brand. For example, marketing campaigns from Hybu Cig Cymru - Meat Promotions Wales (HCC) often focus on the importance placed upon landscape, heritage and sports connections by retailers and consumers. Recognised standards and regulations support the production of high quality agricultural products and represent a potential way to break into emerging markets for Welsh agricultural exports.

<sup>9</sup> www.uktradeinfo.com, HMRC

## Background Point B: Benefits of natural resources, selected aspects

**951 million litres** of drinking water per day

**1.5 million tonnes** of green timber a year, making construction easier and cheaper

**14 million tonnes** of aggregates per year, for construction and other uses

**8,919 gigawatt hours** of energy from renewable sources, and rising, creating a renewable energy industry that employs 2,000 people

**410 million tonnes** of carbon stored in soil

**£2,870 million** in tourism to Wales

**28% of adults** meeting the recommended level of physical activity through outdoor pursuits

**£18.2 million** in health benefits to people from walking the Wales Coast Path

**£840 million** and **30,000 jobs** from the historic environment sector.

*Source: Natural Resources Wales, State of Natural Resources Report (2016)*

## Chapter 3: Case for change

European Union membership means our farmers and their supply chains benefit from access to a very large, tariff-free and frictionless market. The UK's new trading relationship is subject to significant uncertainty but it is clear we need to provide support in a different way to help build a resilient land management sector. The Common Agricultural Policy is insufficiently targeted to support our land managers after Brexit. We will therefore take the opportunity of Brexit to redesign support to protect and enhance the value our land brings to Wales.

3.1 The EU is the UK's single largest trading partner in agricultural, food and forestry products. This has been facilitated by our membership of the single market and customs union which has provided tariff-free and administratively streamlined access to a very large market. It also offers an important source of labour to specific parts of the supply-chain, particularly in the veterinary profession and meat processing firms.

3.2 **Background Point C** summarises the current trading position of the major Welsh sub-sectors with respect to the EU. The position varies greatly but, to give a sense of scale in Wales, a third of the lamb produced in Wales is exported to Europe and around 90% of Welsh food and drink exports are sold to countries within the single market.



## Scenario analysis

3.3 Brexit potentially brings an unprecedented departure from the trading framework that farm businesses and their supply chains currently operate within.

3.4 The opportunities and risks to different sub-sectors are best explored by considering different trade scenarios. The Cabinet Secretary's Roundtable sub-group on Evidence and Scenarios and the FAPRI (Food and Agricultural Policy Research Institute) analysis presented in our earlier document, "*Brexit and trade*", both used this approach as the basis for their assessments.

3.5 The FAPRI study sets out three scenarios, summarised in Table 2. The scenarios illustrate the potential impact of alternative, stylised trade arrangements. These are compared to a current baseline in order to highlight potential changes depending upon the manner in which the UK exits the EU.

3.6 Given the emphasis on dairy, beef and sheep production for the majority of farms in Wales it is reasonable to assume the impacts will be felt at least as strongly in Wales as in the rest of the UK. Indeed, for sheep meat the impacts may be proportionately greater given the relative share of sheep meat activities in Wales. The Evidence and Scenarios sub-group drew similar conclusions as illustrated by the FAPRI modelling. Their report explores the potential impacts in Wales in more depth across farming, fishing, forestry, food and environment and implications for rural communities.<sup>10</sup>

## Scenario 1:

### **A bespoke and comprehensive Free Trade Agreement (FTA) with the European Union (EU)**

3.7 Under this scenario, a bespoke and comprehensive FTA with the EU produces little change from the counterfactual, enabling "business as usual" to continue with no tariff barriers between the UK and the EU.

3.8 This scenario may enable the UK to develop further third nation trade deals over time, potentially opening up opportunities for new export markets for our agricultural products. Depending on the nature of the trade deal the UK agrees with the EU, these third nation agreements may increase Wales' exposure to external market forces.

<sup>10</sup> <https://www.afbini.gov.uk/publications/afbini-report-post-brexit-trade-agreements-uk-agriculture>

## Scenario 2:

### Exit under World Trade Organisation (WTO) rules as a Most Favoured Nation

3.9 Under this scenario, if the UK exits the EU on a 'no-deal' basis it will default to trading under WTO rules with all nations until further FTAs are signed. This will require goods to be exported and imported to the EU and third countries under 'Most Favoured Nation' (MFN) rules with a range of tariffs applied to those goods. The tariffs for animal products are amongst the highest in the range.

3.10 The FAPRI report suggests MFN tariffs on imported food may have the effect of rendering those imports uncompetitive compared to domestic production. This creates potential substitution opportunities for domestic producers. The effect is illustrated in the analysis by price increases ranging between 15% and 30%. Beef farmers, for example, might see an increase in output value of around a third as beef imports decline.

3.11 The scenario also reflects there are significant risks to sub-sectors reliant on exports. As the FAPRI analysis states:

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“The introduction of MFN tariffs diminishes the competitiveness and thus the volumes of UK exports to the EU, which leads to increases in available supplies within the domestic

market. The negative price impact is particularly marked in the sheep sector due to the large quantity of sheep meat currently exported to the EU from the UK. The projected fall in price has a depressing impact on UK sheep meat production and thus on the value of output”.

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3.12 This has particular relevance for Welsh agriculture given a large proportion of sheep meat from Wales is exported to the EU. The scenario suggests the imposition of MFN tariffs increases costs to EU buyers significantly, reducing exports sharply and leading to domestic over-supply, exacerbated by the loss to processors for cuts of sheep meat unpopular with UK consumers. This could be likely to have a negative effect on carcass balance and make the slaughter and processing of sheep meat less viable.

3.13 Reductions in production levels of sheep meat may also have follow-on impacts in terms of the scale of the processing sector if economic throughput cannot be maintained through increases in other areas such as beef. Without these increases in other products, farmers in some areas would need to transport animals further afield for slaughter and processing, further reducing their competitiveness in an oversupplied market.

## Scenario 3:

### Unilateral trade liberalisation

3.14 This scenario envisages the UK Government has used its ability to unilaterally reduce import tariffs in order to keep increases in the cost of imported food as low as possible. This would be particularly relevant following scenario 2 where FAPRI's analysis shows increases in the costs of agricultural products.

3.15 The nature of the impacts on different UK agricultural sectors in this scenario relate to the closeness of UK prices to global food prices. Figure 1 shows how all sectors would suffer in this scenario, with beef and sheep meat especially disadvantaged because other producers of those commodities in the rest of the world are very cost competitive. The report highlights that a large increase in imports for these products would significantly reduce prices to the consumer but at the cost of very significant pressure on all agricultural sectors, especially sheep and beef farmers.

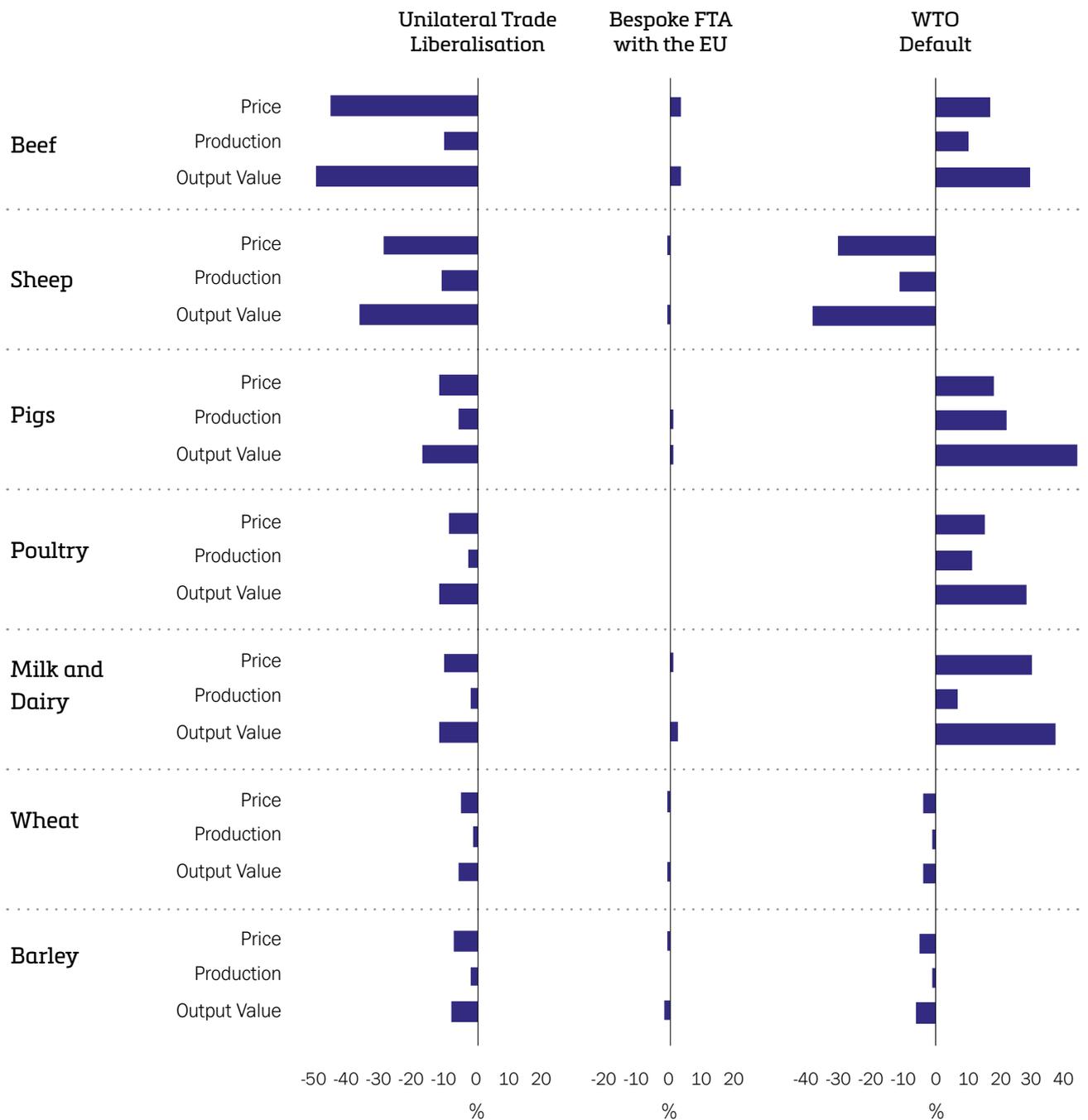
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**Table 2: Three alternative trade scenarios relative to baseline**

<b>Bespoke Free Trade Agreement (FTA) with EU (1)</b>	<b>World Trade Organisation (WTO) default (2)</b>	<b>Unilateral Trade Liberalisation (3)</b>
<ul style="list-style-type: none"><li>• UK retains tariff and quota free access to the EU and EU retains tariff and quota free access to the UK</li><li>• UK maintains EU tariff structure to rest of the world</li><li>• 5% trade facilitation costs on UK-EU27 trade</li></ul>	<ul style="list-style-type: none"><li>• MFN tariffs applied to imports from the EU</li><li>• TRQs from 3rd countries retained</li><li>• MFN tariffs applied to UK exports destined for the EU</li><li>• No change in tariff structure for exports to the rest of the world</li><li>• 8% trade facilitation costs on UK-EU27 trade</li></ul>	<ul style="list-style-type: none"><li>• Zero tariffs applied on imports to the UK from both the EU and the rest of the world</li><li>• MFN tariffs applied to UK exports destined for the EU</li><li>• No change in tariff structure for exports to the rest of the world</li><li>• 8% trade facilitation costs on UK-EU27 trade</li></ul>

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**Figure 1: Projected percentage change in UK commodity prices, production and value of output compared to baseline in 2025**



Source: [www.afbini.gov.uk/publications/afbini-report-post-brexit-trade-agreements-uk-agriculture](http://www.afbini.gov.uk/publications/afbini-report-post-brexit-trade-agreements-uk-agriculture)

## **The importance of the long-term**

3.16 All three scenarios are illustrative, but they serve the purpose of highlighting the potential impacts on UK producers depending on the terms upon which the UK exits the EU.

3.17 Once transitional relationships come to an end, the UK's trading relationship with the EU in the long term will essentially determine how much global competition our producers face and the balance of opportunities and risks for our land managers. As Figure 1 shows, there are significant differences between the scenarios, in particular a close future trading relationship with the EU (as illustrated in scenario 1) has very different potential impacts on agriculture to those generated by scenario 3.

3.18 The risks and opportunities faced in two years time will be different from those faced in ten years time. We must provide appropriate support to land managers that will enable businesses to transition.

3.19 The ultimate impacts will come down to the UK Government's trade position with the EU and third nations. Agriculture is often a key and contentious negotiation point in developing free trade agreements and the choices made could see significant impacts in the agricultural and food and drink sectors in particular. This brings risks and opportunities for land managers as new markets open up, while the agreements may also increase penetration of the domestic market by imported goods. Particular risks arise from negotiations on Tariff Rate Quotes (TRQs), which could increase the total amount of agricultural products imported into the UK at a lower tariff level.

3.20 The Welsh Government's approach to international trade is to prioritise participation in the EU's Single Market and in a customs union with the EU at least for the time being as this is where the majority of Welsh trade is transacted. However, we fully accept that economies and global trading patterns are never stagnant and that there are significant trading opportunities outside of Europe.

Building new relationships with countries around the world is important, but it should be seen as a complement to and not a substitute for the relationship with the EU.

## **The Common Agricultural Policy in Wales**

3.21 This range of potential changes to the trading environment raises significant questions for how best to support Welsh land managers, both in transition and on an ongoing basis.

3.22 The European Union has set the framework for Welsh agriculture and rural policy for the last 45 years through the Common Agricultural Policy (CAP). Around £300m a year of support is provided for farming and rural development in two ways (Pillar 1 and Pillar 2) with underpinning regulation (cross-compliance).

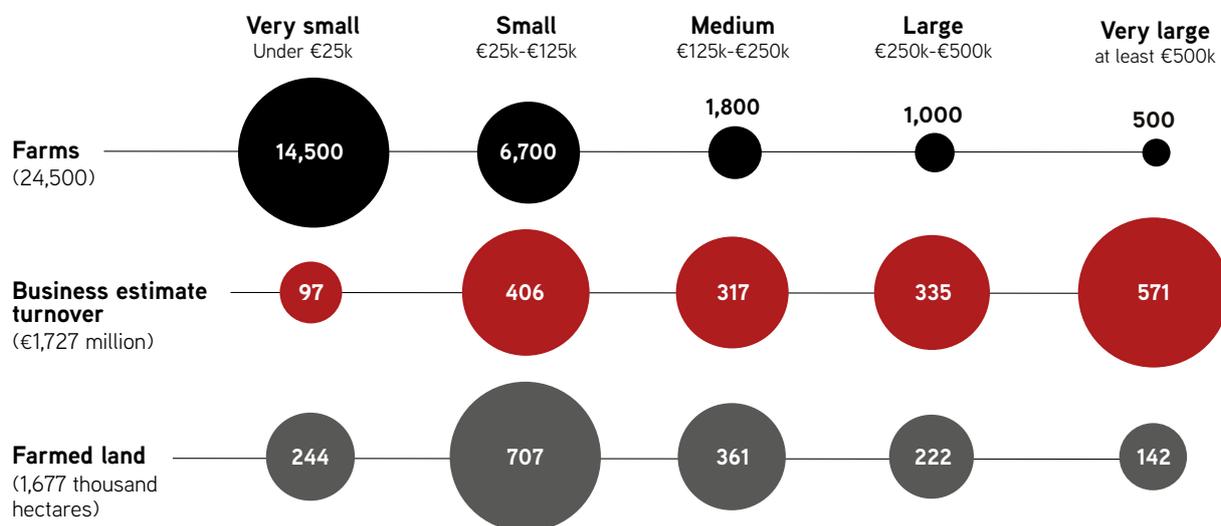
3.23 As **Background Point D** shows, two thirds of farm businesses by number generate 5% of standard output with 15% of the land. Of all farm businesses, nearly 60% of Welsh farms apply for and receive support payments under the CAP. Most non-claiming farms are small farms. Of those who claim, payments are broadly proportionate to the size of land holdings.

3.24 CAP support plays a significant role in the financial viability of medium and large farms. In particular, beef and sheep farm incomes are, on average, heavily reliant on funding from the Basic Payment Scheme (BPS) and Glastir. It has enabled many farms to continue operating, particularly in upland areas.

3.25 As Figure 3 shows, BPS is on average the major component of farm business income. For claiming farms, the average net contribution of traded agricultural activities is negligible. This is a longstanding fact and is no different from other parts of the UK. The dominance of these sub-sectors in Wales increases its significance.

**Figure 2: Number of farms, business turnover and farmed land - by economic size of farm, Wales 2016**

The size groups used in this chart show farm businesses with an estimated turnover (standard output)



Source: June Agricultural Survey, 2016

3.26 However, total payments are a relatively small share of turnover. Commercial income is the major component of farm turnover but significant costs mean it makes only a small (or negative) contribution to net income. A relatively small change in turnover or costs would have a proportionately large impact on the net income position. As such, changes to turnover and costs could have the potential to alter the perceived “reliance” on CAP support. This is explored further in Chapter 5.

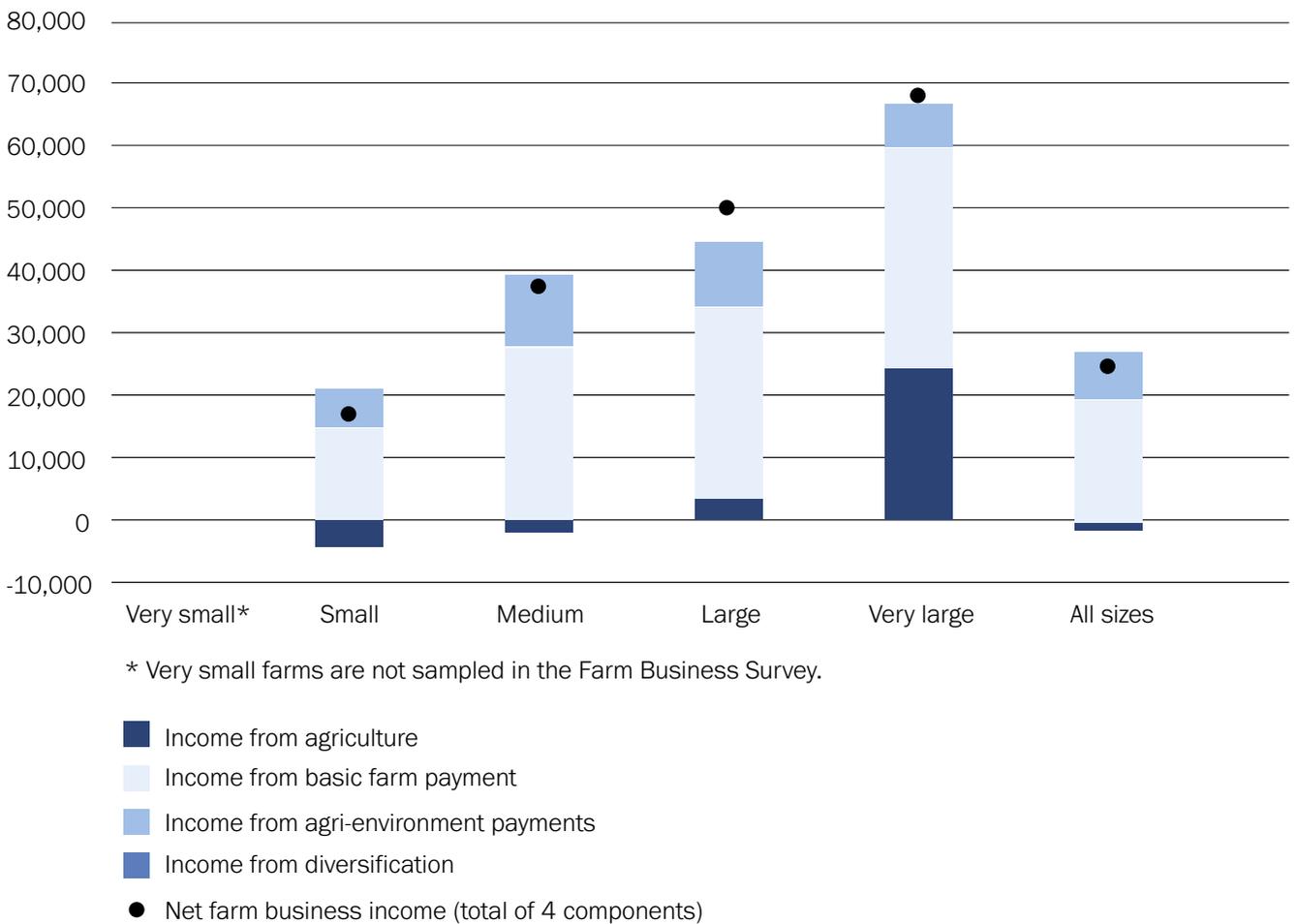
3.27 It is also important to recognise there is often a significant difference between net farm business income and farm household income. For small farms, net farm business income (and hence support payments) make up a smaller proportion of income than non-farm income.

### Why CAP is not right for Wales

3.28 The policy justification for CAP is complex and in some aspects contradictory given the way it emerges from a complex process of negotiation between all the EU’s Member States – all with very different agricultural sectors and rural communities. Indeed, the latest proposals on CAP reform from the European Commission attempts to address some of the shortcomings described below. UK politicians from all sides have challenged the efficacy and value of the policy for some time.

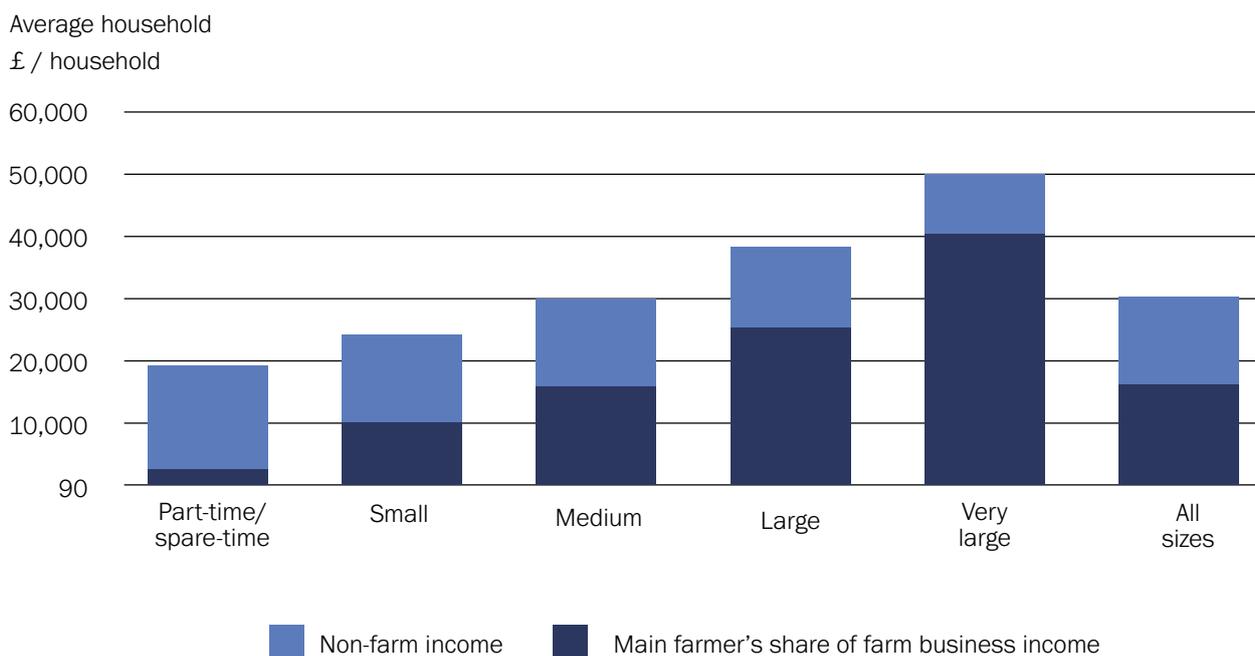
3.29 Overall, the rationale for CAP is to provide income support for farmers through Pillar 1 and Rural Development funding (including agri-environment) through Pillar 2. As noted above, the vast majority of funding goes toward income support through

**Figure 3: Average farm income and its component by economic size of farm**



Source: Farm Business Survey 2017

**Figure 4: Average farm business income as a proportion of household income**



Source: Farm Business Survey 2017

the Basic Payment Scheme (BPS). The Welsh Government believes the BPS has been insufficiently targeted to realise all the benefits potentially available from Welsh land.

3.30 In economic terms, the BPS has not done enough to improve farm productivity (the net margin per unit of production). This matters because farms are generally smaller in Wales than the UK average, in particular the patterns for distribution of farms, land and output are very different. Further, overall agricultural value-added in Wales has decreased over the same period, both in absolute terms and as a share of the economy. This is not a uniquely Welsh problem and the averages hide significant variation in productivity across sub-sectors and indeed between individual farms – there are notable examples of highly productive and sustainable practice.

3.31 In environmental terms, CAP has not done enough to take account of the wider benefits and consequences from land management. In particular, it has:

- had mixed results for Wales' natural environment;
- done little to respond to the challenge of decarbonisation – over 10% of Welsh emissions come from the agricultural sector, especially livestock; and
- reinforced a separation between forestry and agriculture as restrictions on eligibility for woodland areas to receive BPS are a barrier to new planting.

3.32 This reflects the fact that BPS payments are not intended to support productivity improvements or wider benefit delivery. These elements, together with support for rural communities and the environment, are considered by Pillar 2 schemes. Indeed, Wales is the first and only administration in the UK to make the maximum transfer of monies from Pillar 1 to Pillar 2. This has delivered a number of positive outcomes. However, as we set out in Chapter 6, our overall success has been constrained by administrative complexity and limited funding.

## **Policy implications**

3.33. Leaving the EU means that responsibility for setting land management policy will rest with the National Assembly. We must use these new powers to respond to the implications of Brexit. Without appropriate intervention, economic drivers may prompt changes to our land that are not in Wales' best interests. Anything that changes the economics of farming may lead to land use change and such change can have significant environmental and social impacts.

3.34 We need to support land managers to manage their land in a way which enhances the economic, environmental and social outcomes that are valued by society. Simply importing CAP into Welsh law does not deliver this. In particular, the BPS is not structured to offset the financial impact from significant downside risks to the trading environment (which result from some Brexit scenarios). CAP is designed for land managers within the European Union; outside the EU, a different support system is needed.

3.35 Brexit means, for the first time, it is possible to put in place a new programme that fully reflects Welsh needs. This is how we can realise our vision of maximising the wider benefits that Welsh land and land managers can bring to all the people of Wales.

## Background Point C: Trade position of major Welsh sub-sectors

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Agriculture in Wales is very much part of the wider supply chains in the UK as a whole. Livestock, products and goods move freely between Wales and the rest of the UK. Overall, Wales makes a significant contribution to the UK production of red meat and milk. It accounts for 29% of the UK breeding sheep flock, around 13% of the dairy cows and around 11% of beef herd.

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The export market has become increasingly important to the Welsh red meat industry, as this helps to balance supply and demand and ensures carcass balance. Export trade for Wales is underpinned by a reputation for high quality products built on good animal health and welfare, human health and environmental standards. In order to maintain this status Wales needs to continue to fund programmes that tackle Bovine TB rigorously.

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Being a member of the EU has allowed the UK to have free market access to established red meat markets across the continent, particularly important for sheep meat exports. In addition, there has been a growing EU market for beef exports after the UK re-gained access following the BSE sanctions.

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Consumers in the UK prefer certain cuts of lamb, such as legs, and UK domestic production is supplemented by sheep meat imports dominated by New Zealand (74% of all UK sheep meat imports in 2015) and Australia (15% in 2015). Other cuts that are less popular for the domestic market are exported abroad.

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The main destination for beef exports are other European countries. In 2015 93% of total UK beef and veal exports (excluding offal), was shipped to other member states within the EU. Conversely a high proportion of UK beef imports are sourced from the EU (91% of total imports in 2015).

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In the dairy sector, the UK currently has a trade deficit of around £1.1bn in 2015, a reduction of around £120m from 2014. The trade balance has improved over the past few years, with a reduction in imports and an increase in exports. Nearly all of the UK's imports come from the EU and in 2015 around 90% of the UK exports were to the EU.

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Welsh milk production accounts for around 12% of UK milk production. Nearly half of this milk is not processed in Wales. Excess production is transported out of the country, and there is a heavy reliance on England for processing capability and adding value.

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The UK is a net importer of forest products with a 2014 net trade deficit in timber, wood pulp and wood based panels of over £3 billion at today's rates.

*Source: AHDB*

## Background Point D: Components of CAP in Wales

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Direct income support under Pillar 1 is provided through the Basic Payment Scheme (BPS). This represents 85% of spending on agriculture in Wales (£235m in 2017) and provides universal payment to farms with entitlements (based on historical payments and production). Forestry businesses and other land managers are not eligible for support. The BPS is in the latter stages of transitioning to a flat, area-based payment. As a result, farmers have seen significant changes in their payments over the last 5 years.

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Pillar 2 is the Rural Development Programme for Wales (RDP). Wales is the only administration in the UK to have transferred the maximum amount of funding from Pillar 1 to support the Pillar 2 programme, recognising the importance of providing targeted support and delivering specific outcomes for Wales. The RDP comprises various schemes to improve the environment, increase the productivity of farming and forestry, and grow the rural economy. It is co-financed by the Welsh Government but all projects are required to align with European rural development priorities.

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Agri-environment schemes (Glastir) make up the biggest component of RDP spending. Glastir supports and incentivises action to improve the environment. Entry level schemes are available to all and reward environmental goods (for example, hedges and ponds). Advanced schemes target specific environmental priorities such as biodiversity, water quality, carbon and match specific interventions to achieve multiple benefits.

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Other schemes support economic development of the agricultural, forestry and food sectors through both capital investment and broader development measures like knowledge transfer, advice and training. They also aim to support community led rural development activity beyond farming, in particular through the LEADER scheme.

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On an area basis, forests and woodland cover close to a fifth of Welsh land. However, forests receive no payment under Pillar 1 and only limited support through Pillar 2. Overall, Welsh forests and their managers receive around 2% of available CAP support.

*Source: Rural Payments Wales*

Reform offers the opportunity to deliver our vision for Welsh land. We have five key principles to guide future support and these form the basis of the proposed new Land Management Programme. We propose that the programme will consist of two large and flexible schemes: the Economic Resilience scheme and the Public Goods scheme. To be truly effective we need a fair funding settlement and we call on the UK Government to urgently provide greater clarity.

4.1 Chapter 2 sets out our vision for Welsh land. Brexit provides the opportunity to realise it by changing the way we support Welsh land managers.

4.2 The work of the Brexit Roundtable clearly demonstrates that not changing policy leaves farmers and rural areas worse off. Simply maintaining current policy in the face of the likely upheaval created by Brexit would be a policy failure: it would do little or nothing to help land managers prepare for, and adjust to, Brexit and would miss a unique opportunity for change.

### Five principles for reform

4.3 We need to design a future for Welsh land that addresses economic realities and truly integrates land use with our broader ambitions in the Well-being of Future Generations and Environment Acts. To that end, earlier this year the Cabinet Secretary for Energy, Planning and Rural Affairs set out five principles to underpin reform in Wales.

#### Principle 1

4.4 The first principle is we must **keep farmers, foresters and other land managers on the land**. To produce the maximum benefit to wider society, land must be actively managed by those who are best able to do so. This is also what is best for our environment and communities. This does not mean land use and the people who manage it should not change over time, but we must avoid retrenchment from – or even abandonment of – our rural areas. Instead, we should take this as an opportunity to bring further vitality to them.

#### Principle 2

4.5 Second, **food production is vital** for our nation and food remains an important product from our land. That means continuing to support the economic activities of farmers where it is sustainable and financially viable to do so.

#### Principle 3

4.6 Our third principle is we must do this in a way that builds a **prosperous and resilient Welsh land management industry** – especially agricultural and forestry. We need this regardless of the nature of Brexit. Given the significant uncertainties, the support system must be sufficiently flexible to respond to changes in the post-Brexit climate.

#### Principle 4

4.7 Reform is also a significant opportunity to dramatically increase the services that Welsh society can receive from our land. And so our fourth principle is that **future support will encompass the provision of additional public goods** from land. The richness and diversity of the Welsh landscape means there is no paucity of public goods to procure – from clean air, to flood management, to better habitats, to public health and education.

There is no reason why the same farm and same farmer cannot produce both food and public goods – in many cases they already do.

## Principle 5

4.8 The final principle is that **all land managers should be able to access new schemes**; we will not restrict our support to current recipients of the Common Agricultural Policy (CAP) funding. But land managers may need to do things differently in return for support. This is the only way we can ensure our land delivers greater benefits for all the people of Wales. It is also the best way to justify public expenditure in this vital part of Welsh life.

### The new Land Management Programme

4.9 Overall, the principles introduce a strong sense of “something for something”, a contributory principle for our land. This resonates with the concept of the Economic Contract in the “*Economic Action Plan*”. There is a clear role for government support given the scale of change and opportunity. But we must provide support in the best way and that will mean a significant change from the current system.

4.10 Under the CAP, the Welsh Government currently supports eligible farms through the annual payments of the BPS. As described in Chapter 3, it has not been a targeted intervention and is in essence a payment for holding land. It is too blunt a lever to improve economic performance, is too poorly targeted to keep farmers on the land and does not contribute sufficiently to our environmental resilience. The Rural Development Programme for Wales also does not go far enough. In the face of Brexit, current policy does not deliver the five principles.

4.11 We will therefore bring forward a new Land Management Programme for Wales to replace CAP support in its entirety. The programme will provide support to enhance the benefit that Wales receives from the land.

### The case for twin support

4.12 There are good reasons for supporting investments in land-based economic activities, principally food and fibre, to ensure resilience and productivity. This is no different from why governments support non-food businesses across the economy. Furthermore, there is often a social and community rationale for supporting farmers given the important role played by farms in our most sparsely populated parts of Wales. While food is the clear focus, a similar rationale applies to other land-based activities.

4.13 In order to enable land managers to operate in a future external trading environment, we will provide targeted, wide-ranging economic support to those with the potential to be viable. The ultimate aim is to help land management businesses stand on their own two feet.

4.14 Alongside this, Welsh land has the capacity to enable many things beyond economic products, for example carbon absorption, improved water quality, increased biodiversity, public health improvement through access to outdoor pursuits and activities, flood prevention, educational support and the management of our heritage.

4.15 These are things that can benefit all the people of Wales and which are currently largely undelivered by the private sector. These are also things for which there is no established market; they may therefore fall within a definition of ‘public goods’. By supporting the delivery of public goods from the land, our objectives are to:

- provide a valuable new income stream for land managers, open to all and with payment for outcomes based upon the value society places upon them;
- create a significant and value for money contribution to addressing some of society’s most pressing problems such as climate change, habitat and species loss, adverse air quality, poor water quality and increased flood risk;

- increase rural community resilience and rural social capital by ensuring land managers have the opportunity to continue managing their land as part of the rural community.

4.16 Supporting both economic activities and public goods is the best way to realise the vision set out in Chapter 2 and the principles set out above. In doing so, we will create a new and powerful means to deliver on the obligations of our unique legislative framework (described further in **Background Point E**). For the first time, we will be able to target all support to activities that drive sustainable development, deliver Wales' wellbeing goals, further the sustainable management of natural resources and help to decarbonise. In doing so, we will also ensure Wales meets international obligations.

### **New support schemes**

4.17 We will need specific Welsh schemes through which to provide support. So far as possible, we intend to have a small number of large and flexible schemes. Based on the rationale for support, we intend to have two main components:

- **Economic Resilience scheme** – support for economic activities, in particular the production of food and timber. This will take the form of targeted investment in physical and human capital. An initial proposal is set out in Chapter 5.
- **Public Goods scheme** – support for delivery of public goods. This will take the form of ongoing payments for specific outcomes arising from active land management. An initial proposal is set out in Chapter 6.

4.18 There are strong links between the schemes and they will need to be designed and implemented in parallel. Many land managers will be able to benefit from both schemes.

4.19 We must ensure the schemes support each other. We will therefore seek positive opportunities where the same activities can deliver economic, environmental and social outcomes. A productive farm is often reliant on high quality natural resources, healthy livestock and healthy ecosystems. Equally, the provision of some public goods can only be achieved through traditional agriculture practices. For example:

- Using grazing animals to maintain sward structure and composition is an important part of managing some habitats. Knowing how and when to bring grazing animals on to a site to achieve a desired objective is an intrinsic part of farming knowledge.
- Supporting the implementation of an organic approach to farming in a sensitive water catchment may be an effective way of reducing external inputs and thus over time reducing nutrient loss into watercourses.

4.20 We are consulting on how best to align these schemes to ensure we optimise the value of our land. More generally, the proposals set out for these schemes are subject to consultation. While they reflect Welsh Government's views (drawing on the work on the Brexit Roundtable), we are consulting on whether there are additional or better ways of delivering our vision for Welsh land and the principles for reform.

4.21 This is particularly important in relation to support for rural communities. Both schemes contribute to sustaining rural communities. However, currently, specific support is offered through RDP schemes such as LEADER and we intend to explore with stakeholders whether these schemes should continue to operate and how they are best delivered. This needs to be considered alongside the future of structural funds and socio-economic support, as discussed in "*Regional investment in Wales after Brexit*".



4.22 We are also continuing to work with the UK Government and other Devolved Administrations, on the future of Common Market Organisation (CMO) which currently coordinates a small element of support at a UK level. This especially relates to managing extreme volatility and payments to farmers in crisis situations.

### **Access to schemes**

4.23 The fifth principle states all land managers should have the opportunity to be eligible for support. Restricting eligibility to current recipients of CAP would place artificial constraints on our ability to get the most from all types of Welsh land.

4.24 In particular, we need to ensure that different ownership, landlord and tenancy models do not constrain our ability to deliver outcomes and realise our vision for Welsh land. A significant portion of agricultural land in Wales is subject to some form of tenancy agreement, whether a Farm Business Tenancy (FBT) under the Agricultural Tenancies Act

1995 or an Agricultural Holdings Act 1986 tenancy. We are consulting on whether devolved policy change is needed in order for all land managers to benefit from both schemes described in Chapters 5 and 6.

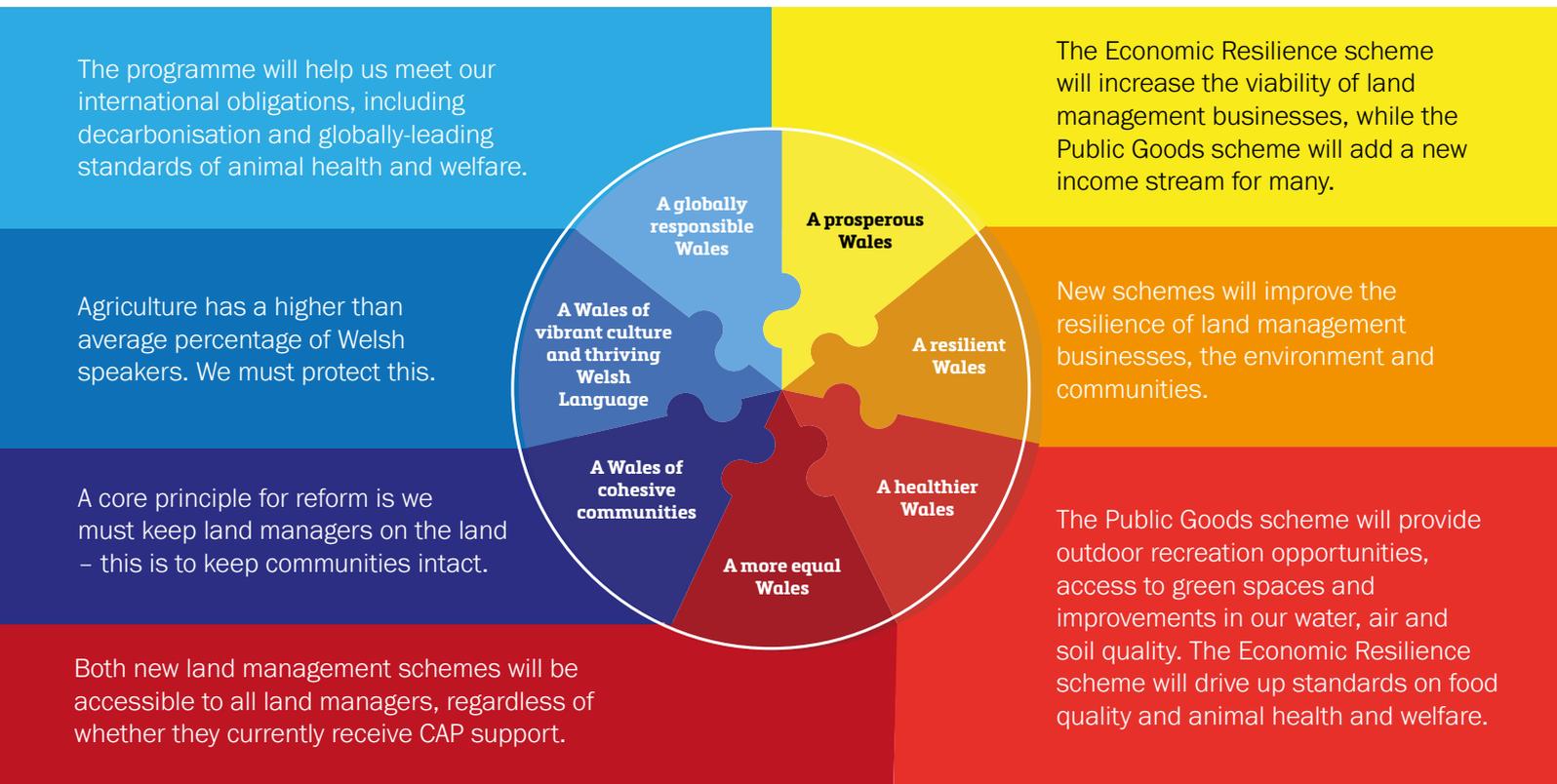
### **Fair funding**

4.25 While the Welsh Government is strongly committed to maintaining support, there will clearly be changes to the precise amount of funding that individual farmers and other land managers currently receive. We must manage this change sensitively and Chapter 8 explains our phased transition plan.

4.26 No changes to farm payments will be made without further consultation and no decision has been made on the appropriate balance of funding between the Economic Resilience and Public Goods schemes. Further analysis, including modelling and impact assessments, will be a key requirement. Policy reform must accord with the five principles described above.



**Figure 5: The Land Management Programme and the Wellbeing of Future Generations Act**



4.27 Our ability to plan is hindered by the lack of clarity from the UK Government on funding. While the UK Government has made high-level guarantees to protect farm support funding to 2022, there is no clarity on either the quantum of funding thereafter or how it will be allocated between the four administrations of the UK.

4.28 Welsh Ministers are clear that leaving the EU should not mean any reduction in the funding available to Wales. Any reduction would put in jeopardy our ability to support the activities we currently fund through EU programmes – including supporting farmers to get the most from our land.

4.29 We call for a new, rules-based system which ensures the allocation of resources within the UK is in future based on relative need rather than

being based upon the Barnett Formula. This new system must be the basis for determining how replacement CAP funding is allocated among the four administrations following Brexit.

4.30 Once funding is returned, Welsh Government will ensure funds are directed at land management support and not spent elsewhere. Nevertheless, future funding arrangements will be more transparent to Welsh citizens and this will mean greater pressure to justify spending in this area. This is an opportunity to increase the public's engagement with rural areas and demonstrate how land management spending benefits all the people of Wales.

## Background Point E: The Land Management Programme in the context of Wales' legislative framework

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The Wellbeing of Future Generations (Wales) Act 2015 requires the Welsh Government to think more about the long-term. It requires us to take a joined-up approach, to prevent problems and to create a Wales that we all want to live in, now and in the future. The Sustainable Development Principle and seven Wellbeing Goals provide a framework for government decision-making which must be reflected in our new approach to land management.

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The Environment (Wales) Act 2016 shows how this framework applies to Wales' natural resources, drawing on international best practice. The objective of Sustainable Management of Natural Resources (SMNR) set out in the Act is to maintain and enhance the resilience of our ecosystems and the benefits they provide to deliver lasting, sustainable economic, social, cultural and environmental benefits. The Act also sets the legal framework for decarbonisation and adapting to the impacts of climate change. The overall aim is to build greater resilience into our ecosystems, our businesses and society.

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SMNR is delivered by a number of statutory products set out in Part 1 of the Environment (Wales) Act, including the Natural Resources Policy (NRP) which sets out the national priorities for management Wales' natural resources sustainably. These priorities address the major pressing environmental trends of our time, such as climate change and biodiversity decline. The scale and pace at which the national priorities are delivered is key, and an ambitious approach to the proactive provision of public goods is vital to their delivery.

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Section 6 of the Environment (Wales) Act also puts in place a Biodiversity and Resilience of Ecosystems Duty for public authorities (including the Welsh Ministers) who must seek to maintain and enhance biodiversity, and in so doing promote the resilience of ecosystems, so far as is consistent with the exercise of their functions in Wales. This recognises the underpinning importance of biodiversity in its widest sense to healthy, functioning ecosystems, and therefore the multiple benefits that we derive from them.

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### Consultation Questions - 1 to 2 of 20

1. We propose a new Land Management Programme consisting of an Economic Resilience scheme and a Public Goods scheme. Do you agree these schemes are the best way to deliver against the principles? If not, what alternatives would be best?
  2. Does the Welsh Government need to take action to ensure tenants can access new schemes? If so, what action would be best?
-

The Common Agricultural Policy (CAP) has provided financial support but it has been largely untargeted. We will create a new scheme to provide targeted investment to both land managers and their supply chains, in particular to support high-quality food production. The scheme will provide support to increase market potential, drive improvements in productivity, diversify, improve risk management and enhance knowledge exchange and skills.

5.1 Leaving the EU brings a period of significant uncertainty but also the policy opportunity to provide better, targeted support to help land management businesses become more productive and resilient. This chapter sets out why the Welsh Government should invest to help businesses manage these risks and realise these opportunities. We propose to do this through a new Economic Resilience scheme that will be founded on the five principles for reform set out in Chapter 4.

### Economic context

5.2 As set out in Chapter 2, we can only realise the broader potential of Welsh land if we have sustainable and resilient businesses.

5.3 Within the context of overall Welsh economic policy, “*Prosperity for All*” recognises the importance of vibrant, innovative and competitive supply chains to help achieve a prosperous and secure Wales, one that spreads opportunity and tackles inequality, to deliver individual and national prosperity.<sup>11</sup> As set out in the “*Economic Action Plan*”, we want businesses to compete with confidence in a fast-changing and global economic environment which means supporting businesses to start, grow and succeed.<sup>12</sup> Land management businesses are no different.

### Current performance

5.4 Over the past 20 years in particular, the available evidence suggests the UK (and by extension Wales) has not kept pace with other countries in terms of productivity levels in the agricultural industry (Figure 6). Within the UK, Wales has fallen further behind, for example with a significantly lower level of income from farming per hectare from agricultural land (Figure 7). This is a high-level measure and differences in geography explain some variation, but our assessment is that Wales lags behind the rest of the UK in areas such as productivity.

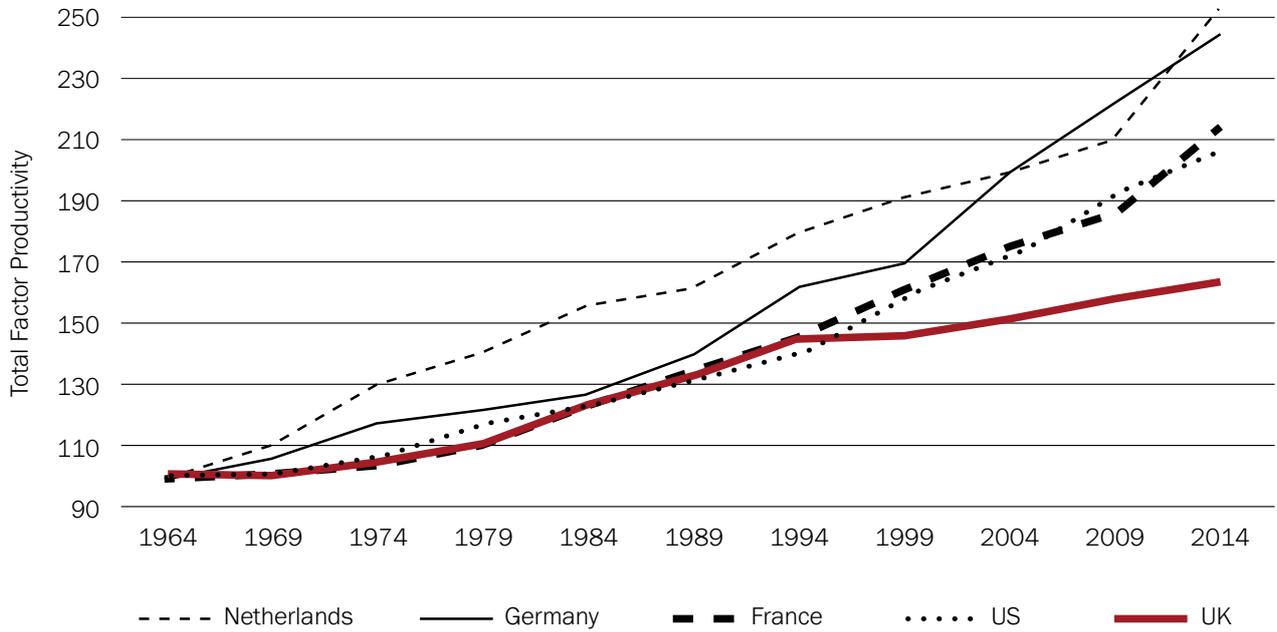
5.5 Despite this, there are many good examples of high-performing land management businesses operating in Wales. Like any industry, there is a spectrum of performance. The Welsh Government believes more can be done to identify the ways in which productivity and competitiveness can be enhanced and to disseminate the learning to support all businesses to improve. The current performance gap is significant and reducing it must be a key consideration for industry and government.

5.6 The corollary of a performance gap is the potential to improve. While some variation in performance will reflect differences in underlying natural resources we believe many businesses have significant potential to improve.

<sup>11</sup> National Strategy: ‘Prosperity for All’ –<https://gov.wales/docs/strategies/170919-prosperity-for-all-en.pdf>

<sup>12</sup> Prosperity for All: Economic Action Plan –<https://gov.wales/topics/businessandconomy/economic-action-plan/?lang=en>

**Figure 6: Total factor productivity (TFP) annual growth in agriculture, 1964-2014**



**Figure 7: Total income from farming per hectare**



Source: AHDB, Defra

5.7 Collecting evidence on performance is important. The 2017 Welsh Conditional Aid scheme for dairy businesses (DCA scheme) provided Welsh Government with a valuable data set which analyses performance in our dairy farms. Costs appear to be a significant factor differentiating the top and lower quartiles. The pattern in overhead costs is particularly striking, with farms in the lowest quartile displaying double the overhead costs of those in the top quartile.<sup>13</sup> The more profitable groups tend to have a greater proportion of block-calving herds. The Welsh Government will perform a similar exercise for the red meat sector.

5.8 Our best performing businesses also demonstrate a clear correlation with higher standards of animal health and welfare, recognising that prevention is better than cure for economic and welfare reasons. The DCA data also shows that dairy farms in the lowest quartile of performance will on average spend over 50% more on veterinarian and medicine costs compared to those in the highest quartile. The red meat sector faces similar issues with productivity.

### **Existing support**

5.9 The EU has set the framework for Welsh agriculture and rural policy for the last 45 years through its agricultural policy. Chapter 3 explains how this has worked in Wales.

5.10 The *Rural Development Programme for Wales* has been the main mechanism by which we have sought to influence the operation and performance of our primary producers. Programmes such as the *Sustainable Production Grant*, *Farming Connect* and the *Timber Business Investment scheme* have provided investment to land managers through measures such as capital and revenue grants, knowledge transfer and advice.

5.11 However, schemes have been constrained by the rural development regulations which place considerable and often unhelpful rigidity on the programmes. We have used the flexibility allowed, but the CAP has not enabled us to target support to where it has the greatest impact.

### **A new Economic Resilience scheme**

5.12 While the nature of Brexit remains uncertain, the scale and speed of potential change means we expect many businesses will need to change some aspect of their operations to remain viable. For the reasons set out in Chapter 3, support is needed to manage this change in a manner that improves resilience to the consequences of Brexit and the wider delivery of social, economic and environmental well-being objectives.

5.13 Chapter 4 sets out the reasons for supporting investments in land-based activities in order to improve resilience and productivity. Enabling land managers to operate in a different future external trading environment, we will provide a range of targeted financial support to those with the potential to become or remain viable.

5.14 We propose bringing forward an Economic Resilience scheme to invest in land management businesses on a scale that has not been possible in the past.

<sup>13</sup> <http://www.dairy.ahdb.org.uk/media/1670698/WelshEUConditionalAidScheme%20FULL%20WEB.pdf>

## **Access to the scheme**

5.15 Resilience can be advanced in many ways and not just by providing support directly to land management businesses. Their future viability is as much about the supply chain and consumer demands as it is about production. For this reason, we will invest in Welsh businesses involved in primary production, processing and manufacturing as well as providing support for other businesses critical to the wider supply chain (both upstream and downstream).

5.16 We are consulting on the appropriate shape and scale of this support but expect it to be conditional on a credible business strategy, assessment of viability and potential for a return on investment. Consistent with the Economic Contract presented in the *Economic Action Plan*, we expect businesses to be able to demonstrate potential for improvements in their social and environmental resilience as a consequence of improved economic resilience.

5.17 Financial and other support will be accessible and not conditional on the business size or stage of development. Instead, investment will be based on a business justification, supporting small-scale changes in production through to major infrastructure investment within the supply chain. It is important that investment, innovation and entrepreneurial skills are actively encouraged at all scales and stages of business development.

5.18 It may not be possible for every farm business to be economically resilient in every post-Brexit trade scenario (see Chapter 3). This is one of the reasons we are creating a new and valuable income stream through the Public Goods scheme described in Chapter 6.

## **Importance of quality and standards**

5.19 The work of the Brexit Roundtable has underlined our ability and need to harness Wales' excellent natural asset base and high quality products and services. This is critical to our future competitiveness in both international and domestic markets and should underpin the continuing establishment of the 'Cymru Wales' Nation Brand. Wales has great potential not only to sell the story of our landscape and culture through our products, but also to demonstrate our values and best practice with well-evidenced standards and assurance schemes.

5.20 Assurance schemes and standards such as FAWL, (Farm Assured Welsh Livestock), Red Tractor and UK Woodland Assurance Standard (UKWAS) schemes already operate within Wales and across the UK. We must build on these, encouraging high standards in animal health and welfare, more sustainable use of our natural resources and a lower carbon footprint. This relates closely to a new regulatory framework discussed in Chapter 7.

5.21 The productivity, profitability and resilience of businesses in Wales is intrinsically linked to the health and resilience of our natural resources. The same applies to the health and welfare of our livestock, for example, disease outbreaks and the measures to control them can carry wide and costly consequences for public health, the economy and the environment. The Welsh Government support will therefore be linked to these outcomes and designed to support improvements in standards.



## Areas of support

5.22 Evidence from the Cabinet Secretary's Brexit Roundtable, wider stakeholder analysis and other evidence has highlighted five key areas for potential support:

**Area 1:** increasing market potential.

**Area 2:** improving productivity.

**Area 3:** diversification.

**Area 4:** effective risk management.

**Area 5:** knowledge exchange, skills and innovation.

5.23 The potential changes induced by Brexit and facing our food and fibre supply chains require the Welsh Government to fundamentally change the scale, method and level of support offered to land management businesses. The five suggested areas of support are our initial views on what is required and we are seeking views on whether these are correct, how they can best be delivered, and the relative importance of each in terms of funding.

### Area 1: increasing market potential

5.24 The EU is currently the UK's single largest trading partner in agriculture, food and timber products, and any change in the trading position will have an impact on our primary producers as discussed in Chapter 3. Whatever the final trading environment that results from Brexit, the greater the market focus of our businesses, the more potential they will have to thrive and not just survive.

5.25 The Welsh Government will work with stakeholders to develop targeted and tailored support for improving competitiveness and access to both domestic and international markets. This will include encouraging more agile, market-facing businesses along the supply chain that are informed by consumer demands. As part of this we will promote a collaborative spirit between businesses throughout the supply chains, including working cooperatively in clusters and retailer producer groups. Collaboration will be founded on the principle of fairness in the supply chain.

5.26 Potential areas for support include:

- using the strategy behind the 'Cymru Wales' Nation brand to develop sustainable brand values that incorporate the quality of our products such as food and fibre as well as our natural resources;
- working with our levy bodies to improve market competitiveness, including improved routes to the domestic and international markets;
- increasing vertical and horizontal collaboration between rural businesses; and
- supporting businesses to be competitive in the market place through improvements in product design, branding, costs of production and use of market data.

### Area 2: improving productivity

5.27 Outside the constraints of the CAP, the Welsh Government will be able to provide a greater amount of capital investment that is targeted at improving the productivity and resilience along the supply chain. Increasing productivity does not mean increasing overall production. Instead support will be offered to help realise opportunities to reduce the unit cost of production, increase the value added to our primary produce, thereby improving competitiveness in existing and new markets.

5.28 Chapter 3 explains how a relatively small change in a farm's turnover or costs can yield a relatively significant change to net farm business income. Measures to improve productivity can therefore have a significant impact as highlighted earlier by the evidence from the DCA scheme. The Welsh Government EU Transition Fund is being used to collect similar data and understand opportunities for improved productivity in the red meat sector.

5.29 Improved use of our natural resources and a more circular economy that seeks to find value in products previously perceived as waste can also greatly increase business productivity. Support will be given for the adoption of technology, tools

and techniques that reduce the business' carbon footprint and impact on natural resources as part of improvements in productivity.

5.30 Investing in the skills and capability of those working within the supply chain, and particularly land managers, is integral to the realisation of the opportunities to improve productivity, as discussed further in the section on knowledge exchange, skills and innovation.

5.31 Potential areas for support include:

- targeted and evidence-based investment in businesses to sustainably improve productivity and management practices, while reducing costs and waste;
- encouraging the adoption of animal health and contingency planning to increase productivity and economic viability through reductions in disease and associated costs;
- investment in infrastructure, encouraging a more value added supply chain, a more circular economy and economies of scale; and
- the adoption of technology and innovation including tools, techniques and use of data to encourage improved productivity and decarbonisation.

### **Area 3: diversification**

5.32 Further diversification of our businesses will be crucial in building resilience to the market pressures that Brexit may bring. Many of our enterprising businesses are already diverse, but the changing market environment will lead to new risks as well as new opportunities.

5.33 We expect many land managers will need to consider strengthening their income through diversification and as such we intend to prioritise support to achieve this. Among the options for diversification are: a shift in emphasis within primary production; the production of public goods; and opportunities outside of land-based industries.

5.34 The opportunities for every business will be different and so we must provide an effective pathway for businesses to receive advice and consider opportunities to diversify their income. The scheme will need to integrate with other Welsh Government policies such as planning and land use considerations to enable appropriate diversification opportunities.

5.35 Potential areas for support include:

- advice and support for rural businesses to diversify within the food and fibre supply chains, including support to develop a wider range of services and products;
- integration with other national and regional support, such as from Business Wales, for rural businesses looking to diversify beyond food and fibre products and services, for example tourism or large scale renewable energy; and
- encouraging initiatives, such as investment in infrastructure, to increase the potential opportunity for diversification, for example, the take up of broadband connectivity in businesses.

### **Area 4: effective risk management**

5.36 As set out in Chapter 3, land management businesses will be more exposed to the cyclical nature and volatility of global markets. This is in addition to managing existing business risks, such as animal and plant diseases and adverse weather conditions. Even if it were possible, it is not the Welsh Government's role to isolate business in the supply chains from normal business risks. We can however encourage commercial opportunities to mitigate the financial consequences of these risks should they occur, while also supporting businesses to build their capability to manage these risks and increased volatility. In doing so, we must recognise direct support under the Basic Payment Scheme has been a tool for managing volatility.



5.37 There are already fiscal measures available to help farm and other businesses, for example capital allowances to incentivise investment and income tax averaging provisions. The commercial market in the UK provides opportunities for support, for example through insurance schemes. There is also a growing interest in the use of futures and options markets in the UK, particularly for commodity products such as milk and cereals, which are already available internationally.

5.38 There is a role for government to support such financial measures but any intervention should be designed to enable and not replace the commercial market that exists or restrict the potential to do so.

5.39 Improving productivity, diversified income streams and working in collaboration are also important forms of intervention that should be prioritised to help businesses manage both their current and future risks, for example, those resulting from climate change.<sup>14</sup>

5.40 Potential areas for support include:

- improving skills to enable the identification, targeting and management of operational risks in businesses, for example through encouraging the use of data to improve productivity (including disease and pest prevention, management or eradication);
- encouraging greater collaboration between businesses to share the risks and improve their resilience to market conditions; and
- considering role of Government to develop and encourage the take up of financial measures to reduce commercial risk.

5.41 Situations such as extreme weather conditions or a fundamental failure of the market can exceed the capacity of all but the most resilient of businesses. In these extreme situations there is a potential role for both the Welsh Government and the UK Government to help manage these risks.

## **Area 5: knowledge exchange, skills and innovation**

5.42 There is an opportunity and need for businesses to improve their productivity through the effective adoption and application of the latest knowledge, skills development and innovation. For some, this gap between current and best practice is considerable and unless addressed is likely to compromise their ability to trade independently in the future.

5.43 Knowledge exchange, skills development and innovation are not new activities for land managers in Wales, with ongoing initiatives such as the Farming Connect contract providing unique support for businesses through the RDP. There is also significant expertise in our academic institutions, as well as the levy bodies of Agriculture and Horticulture Development Board (AHDB) and HCC.

5.44 Various evaluations, however, have shown that provision can be fragmented and to some extent operates more in competition than collaboration. The Economic Resilience scheme proposes to transform this approach and promote a culture of collaboration in applying research, innovation knowledge exchange and skills development. This collaboration should be focused on driving productivity improvements, including improving health and welfare, food quality and safety, reducing environmental impacts and increasing resource efficiency.

<sup>14</sup>The 2016 Living With Climate Change report 'Agriculture & Forestry Climate Change Impacts' highlights a number of potential impacts including increased risks from pests and diseases due to the extension of geographical areas they are found. Sea level rises and the increased frequency of severe weather and increased temperatures could also lead to increased flooding or drought – <https://nerc.ukri.org/research/partnerships/ride/lwec/report-cards/agriculture/>

5.45 Modern precision technology and techniques have the potential to transform our businesses and significantly raise productivity, while also contributing to our obligations on decarbonisation and the sustainable management of our natural resources.

The Welsh Government will further invest in the adoption of precision technology and techniques by businesses in areas such as those set out in

### **Background Point G.**

5.46 Potential areas for support include:

- developing opportunities for the private sector to collaborate on knowledge exchange and innovation through the provision of funding and a co-designed and co-delivered programme;
- initiating and applying research and innovation to drive increased productivity, and reduce environmental impact, particularly through precision techniques;
- improving resilience through precision technology and techniques; and
- encouraging ongoing training and skills development as part of a culture of Continuous Professional Development (CPD).

### **Mechanisms of support**

5.47 As noted in Chapter 4, the Welsh Government intends to phase out direct payments which brings about a fundamental change in how support for businesses can be targeted. We must consider the best way to apply new support.

### **Tools for support**

5.48 The scheme will draw on a range of support methods, for example financial tools such as grants, loans or government guarantees involving Welsh Government and others such as the Development Bank of Wales and independent financial institutions. These investments will be designed to enable a step change in the opportunities, productivity and resilience of businesses in Wales to assist them to be

competitive. They will be outcome focused investments based on a viable business case, rather than a guaranteed income stream.

### **A step-change in the advice offer**

5.49 Businesses need to know what advice and support is available and have a clear pathway to access this whether as part of the Public Goods or the Economic Resilience schemes. The Welsh Government already provides substantial advice and support to land managers through services such as the Farm Liaison Service, Farming Connect and Glastir Contract Managers. Other organisations such as Natural Resources Wales (NRW), as the statutory countryside, environment and forestry body, also have an important role.

5.50 The scale of Brexit means we need to do much more to find a way to reach every farmer and forester, and provide non-financial support on the full range of changes that may be needed. The Welsh Government need not provide all this advice directly; it should come from the most appropriate organisation through an integrated programme involving government, levy bodies, academic institutions, and where appropriate others involved in the supply chain, such as banks and retail organisations.

5.51 The provision of skills and advice for businesses will need to focus on business planning, using data, financial and risk management and market access to prepare our entrepreneurs for the future.

### **Broader business support**

5.52 This scheme has been conceived in line with the objectives of *the Economic Action Plan*, in particular plans for food as a foundation sector. While the Economic Resilience scheme is targeted at land managers and their supply chains, there should not be barriers to land management businesses benefiting from broader forms of Welsh Government business support.



5.53 The Economic Resilience scheme will be aligned with the proposals outlined in our recent paper on *Regional Investment in Wales after Brexit*. We will design its delivery alongside the evolving plans for a successor programme to structural funds, with this scheme playing an important part in wider rural development.

5.54 Aligning the pathway for support mechanisms, for example with Business Wales, should provide an effective and more efficient form of enterprise and business support across Wales. The expectation is for an integrated, accessible and agile service which provides increased opportunities for all businesses.

### **Investing in people**

5.55 Farmers, foresters and other entrepreneurs are the foundation of this scheme and as such we intend to invest significantly in their development.

5.56 Working to produce quality products or services from the land should be seen as an opportunity for all, particularly those early in their career. Opportunities for mobility for individuals within the industry (for example, new business start-ups or succession planning in existing businesses) are also important, particularly for land managers. Removing the constraints of CAP and the link between scheme eligibility and historic entitlements provides a real opportunity for change.

5.57 While it is widely accepted that mobility, facilitating new blood and new ideas to flow in to supply chains is critical to their success, it is also an emotive matter. The Welsh Government is consulting on how to develop appropriate and cost effective support mechanisms to improve long-term mobility across the supply chain, for example by building on the Farming Connect Venture programme and the Young People into Agriculture scheme.

### **Working in partnership**

5.58 The scheme requires a new way of working where the mechanisms and support (from the private and public sectors) are designed and delivered in collaboration with everyone along the supply chain.

5.59 The Welsh Government is therefore committed to working with public sector organisations, farmers, foresters, processors and manufacturers. We will also involve others critical to the food and fibre supply chains, such as academia, financial institutions, wholesalers and retailers, to develop an appropriate and effective support package.

5.60 There is a need to consider the form of governance structure required for this transition to a new land management regime, including the role of sector specific groups such as the Wales Animal Health and Welfare Framework Group, Amaeth Cymru, the Food and Drink Industry Board for Wales, and Woodland Strategy Advisory Panel.

5.61 The Welsh Government has an important part to play but the industry will need to take an active role in the design and ownership of the economic resilience and public good measures if we are to achieve the desired outcome of competitive and resilient businesses who maximise their economic, social and environmental potential.

## Background Point F: Examples of market potential

**Added value** – There are opportunities for Welsh produce to be used as core ingredients in ready meals and other processed products. An example of this can be found in eight farms from North Wales that have been successfully contracted to a food processing company to take their PGI Welsh Lamb to the UK market in a range of new ready meals.

**Increase production to meet market demands** – The UK market for timber products is significant larger than the production of timber products (19% self sufficiency in timber raw material trade). With forestry covering 18% of land in Wales and a growing associated GVA, Wales could be in a position to take advantage of this opportunity to increase supply and add value through processing in the future.<sup>1</sup>

**Import substitution** – With a relatively low level of self-sufficiency and a strong UK market based on fresh product, the dairy sector could grow under a trade scenario that allows import substitution through increased import costs. Processing for the goods currently imported (cheese, yoghurts and milk based puddings) could move into the UK, increasing the demand and opportunity for milk from Wales.

**Substituting UK supply** – Despite a thriving drinks industry in Wales, the majority of ingredients are not home grown. A Cywain Food Group report from 2015 found that of 88 microbreweries in Wales, 82% were interested in buying Welsh hops, with more than 50% willing to pay a premium.<sup>2</sup> Tools such as the Agricultural Land Classification maps provide an opportunity to identify suitable locations in Wales to grow these ingredients.

<sup>1</sup> Woodlands for Wales Indicators 2015-16 – <https://gov.wales/docs/statistics/2016/161220-woodlands-wales-indicators-2015-16-en.pdf>

<sup>2</sup> Farming Connect article on the Cywain Food Group report – <https://businesswales.gov.wales/farmingconnect/demand-welsh-grown-hops-and-grapes>

## Background Point G: Improving resilience through technology

**Precision agriculture and forestry** – the range of applications of developing technology in agriculture and forestry is vast. Biotechnology is continually advancing, with innovative tools and techniques such as genomics and diagnostics that could improve animal and plant species health and breeding programmes. Technology such as satellite positioning data and remote sensing devices also demonstrate significant potential.

**Innovation in processing** – Similarly, innovation and better use of technology is important for our food and fibre supply chain businesses in order to add value. Innovation throughout the supply chain can help processing businesses to improve productivity, for example, in engineering, business systems, packaging design, distribution, energy efficiency and waste management.

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## Consultation Questions - 3 to 7 of 20

3. From your experience of current programmes, what do you feel would work well for the future?
  4. Do you agree with the focus of the Economic Resilience scheme being on growing the market opportunities for products from the land throughout the supply chain, rather than restricting support to land management businesses only?
  5. Are the five proposed areas of support the right ones to improve economic resilience? Are there any areas which should be included but currently are not?
  6. Of the five proposed areas for support, which are the priorities, both in terms of funding, and the sequence of delivery? For example, are certain measures needed in advance of others?
  7. Should we be investing in people, for example to bring in new ideas, skills and people into land management and the supply chain in Wales? If so, how should we look to do this?
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## Chapter 6: Public Goods scheme

Welsh land has the potential to deliver significant benefits for all the people of Wales. We want to establish a new and flexible Public Goods scheme. The scheme will enable land managers to be paid for the production of outcomes for which there is currently no market. It will be managed through individual agreements with land managers and we will provide advice to aid land managers make decisions about their business.

6.1 Welsh land has the potential to make a more significant contribution towards Wales' well-being as a result of careful and appropriate land management. Carbon sequestration, water quality improvement, promotion of public health improvement, educational support, the management of our heritage, increased habitat and species resilience, improved community resilience and the maintenance of rural social capital are all examples of what can be provided.

6.2 These are things that benefit all the people of Wales. To deliver our vision for Welsh land we will combine experienced land managers and the under-used potential of Welsh land to deliver significant scale public goods provision. This provides a valuable means for delivering the Natural Resources Policy, especially the national priority relating to nature-based solutions.

6.3 We recognise and celebrate the fact that Wales' land managers are part of a culture that has a value additional to its economic outputs. Retaining them on the land will be critical to maintaining and enhancing the environmental and social capital within our rural areas.

6.4 We will therefore help land managers deliver our vision through the provision of financial and advisory support. We will create a new Public Goods scheme and as a result give land managers a valuable new income stream for the long term. The purpose of the scheme is to support the delivery of outcomes for which there is no functioning market. Unlike traditional economic outputs, these outcomes are not capable of being substituted by the delivery of

outcomes elsewhere – for example, clean water in Wales' catchments can only be provided from within those catchments.

6.5 Where markets exist for products, for example for food, timber, renewables and tourism, we will support those economic activities through the Economic Resilience scheme described in Chapter 5. In many circumstances, land managers will be able to provide a mixture of public goods and economic outputs from their land. It will be for them to decide the relative proportions of both, within the parameters of both schemes.

### Current scheme

6.6 The provision of public goods is already supported to varying extents across Wales, including through agri-environment schemes, land designations or where other third parties have intervened. It must also be recognised that public goods are already delivered on land whose principal purpose is agricultural or forestry production. While there are some exceptions, in many cases these public goods have developed alongside economic activities as a result of relatively small scale changes to current practice and are delivered at a relatively low rate. They are nevertheless valuable both in terms of their contribution and their potential to be 'built upon' for additional provision.

6.7 Wales has sought to make the most of its limited flexibilities within the CAP, including putting the maximum amount of funding into Pillar 2 and establishing Glastir, Wales' current agri-environment scheme (described further in **Background Point H**).

The rationale for doing so was in order to maximise the ability to invest in the delivery of public goods, supporting the direction of travel set out by our legislation.

6.8 But Glastir is limited. In particular, it provides funding that is restricted to costs incurred and income foregone. Where agricultural incomes are marginal the quantum of funding is necessarily reduced to reflect a low or negative level of income foregone. This leaves insufficient incentive for participation, especially on land where intervention is most desirable. These schemes are also restricted in terms of scope, only supporting the delivery of environmental outputs and not social ends. This limited scope and the funding structure drives a focus on inputs rather than outcomes. It is therefore possible to have an agri-environment scheme where land managers fully meet the requirements of the scheme but without delivering the desired outcomes.

### **A new Public Goods scheme**

6.9 We can do more. Answering the criticism of existing schemes and reflecting our desire to keep land managers on the land, we will develop an outcome-based scheme that focuses on rewarding delivery. The outcomes will directly relate to domestic or international commitments and land managers will be paid an appropriate value for those outcomes rather than being compensated for input costs. In many cases, traditional land management practices will remain important for the delivery of these outcomes. As such, there is no reason why a farmer or forester cannot produce both public goods and food and timber.

6.10 Our objectives are to:

- provide a valuable new income stream for land managers, open to all and with payment for outcomes based upon the value society places upon them;

- create a significant and value for money contribution to addressing some of society's most pressing problems such as climate change, habitat loss, adverse air quality, poor water quality; and
- increase rural community resilience and rural social capital by ensuring land managers have the opportunity to continue managing their land as part of the rural community.

6.11 The scheme will enable farmers, foresters and other land managers to be paid for the production of goods for which there is currently no functioning market. The scheme will be outcome-based and we will often use proxy outputs to calculate payments to land managers. For example:

- an outcome is 'improved mitigation of climate change risk'. The output proxy could be number of tonnes of carbon dioxide sequestered in new woodland on a farm (estimated based on land area and type of woodland)
- an outcome is 'healthy and functioning habitats and ecosystems'. The output proxy could be hectares of habitat land under active positive management
- where multiple outcomes are sought in the same location, proxies will be devised to reflect the collective outcomes.

The scheme will be managed through agreements between land managers and the Welsh Government. These will be multi-year agreements that reflect the time needed to deliver meaningful public goods and giving land managers certainty regarding a future income stream. Many of these outcomes will require a long-term commitment from land managers and the Welsh Government.

6.12 We will provide an advisory service that supports land managers as they make decisions about their future business model. Advisers will be able to explain what outcomes we are seeking, how those outcomes are valued and offer guidance on the different land management options that will deliver

the outcomes. To be fully effective, the scheme must be underpinned by a coherent regulatory framework and this is discussed in Chapter 7.

### **Parameters of the scheme**

6.13 This section sets out a set of high-level design parameters for the Public Goods scheme. We are consulting on each of these parameters and intend to work with stakeholders on detailed design. The parameters are:

**Parameter 1.** Scope of the scheme – which public goods

**Parameter 2.** Open to all – ensuring all land managers have the opportunity for eligibility

**Parameter 3.** Opportunities for action – taking a spatial approach

**Parameter 4.** Evidence-based public goods – ensuring value for money

**Parameter 5.** Additionality – a focus on active land management

**Parameter 6.** Advisory support for land managers – how to provide appropriate guidance

### **Parameter 1: Scope of the scheme**

6.14 The scheme is intended to fund the delivery of a wide range of public goods – social, health, education and environmental outcomes can all be accommodated. Some examples are given below but it is important to emphasise this is not an exclusive list – we intend to add more opportunities following consultation. As previously stated, the scheme will not support the production of outcomes for which there is a functioning market, principally food and timber.

6.15 The public goods we will consider supporting include:

- **Decarbonisation and climate change adaptation.**

Climate change could accelerate the introduction of invasive species, pests and diseases leading to adverse impacts on native biodiversity and on the productive capacity of farm land and forestry. Climate change is also likely to increase the risk of winter flood and summer drought. To reduce these risks, the Environment Act sets out a new approach to measuring and tackling climate change. It commits us to ensuring that net Welsh emissions for the year 2050 are 80% lower than the 1990 baseline. This is in line with



our international response to the Paris Climate Agreement, to strengthen the global response to the threat of climate change. There are significant opportunities for reducing harmful emissions through activities such as peat bog restoration, as well as sequestration opportunities such as new woodland planting. In addition we will support actions that reduce emissions from the agricultural sector through whole farm nutrient management. There are clear links with the Economic Resilience scheme, for example with manure and slurry management.

- **Resilient habitats and ecosystems.** Many of the public goods we seek are intrinsically dependent on healthy functioning ecosystems for their delivery. Resilient ecosystems lock up atmospheric carbon, slow down water flow (thus reducing flood risk) and underpin our wider biodiversity and a varied landscape. There will be opportunities for all – with small or large holdings – to actively enhance or restore existing habitats or to create new habitats where there are none, through tree planting or grassland reversion to act as important links for small and fragmented habitat areas. Resilience will require linking up Wales’ biodiversity hotspots and the wider countryside, so that species are able to move within them as required for all stages of their life cycles.
- **Reducing flood risk.** Recent flooding has reminded us how devastating flooding can be to urban and rural areas alike. Climate change models inform us that we are likely to experience wetter winters in future. There are opportunities for networks of land managers across Wales to slow down water flow by creating or restoring floodplain woodlands, restoring peat bogs, providing land for upstream winter overflow and improving riparian habitats throughout water catchments to collectively reduce the risk of flooding to downstream communities.
- **Air quality.** Appropriate nutrient management practices can reduce ammonia and methane emissions, helping to meet air quality and decarbonisation objectives. Airborne pollutants from industry, agriculture and transport have significant impact on human health. Certain trees can trap particulates and therefore reduce airborne pollution. There will be opportunities to plant specific woodland types near to the point of emission, along transport corridors, and in peri-urban areas to reduce airborne particulates, muffle noise pollution and provide green space and access opportunities.
- **Water quality.** Reducing diffuse and point source pollution (including soil run off) from agriculture and forestry will improve a large proportion of water catchments and ground water sources. Failure to tackle water pollution could lead to future increases in the cost of processing drinking water, risk the availability of bathing waters through faecal coliform pollution (with further impacts to tourism and recreational businesses) and be detrimental to biodiversity including fish stocks that underpin the angling industry. Over and above regulatory compliance, there will be opportunities for land managers to improve water quality through the creation of more resilient habitats, as well as economic savings through improved whole farm nutrient and pesticide management.
- **Soil conservation.** Topsoil is one of our most fragile and important resources. Replacing topsoil lost through erosion takes time and depends on the latitude: in environments characterized by a mild climate, it takes 200-400 years to form 1 cm of soil. Retaining what we have is therefore vital if we are to maintain our current ability to produce food. Topsoil retention through actions such as cover crops, boundary run off control, erosion management and riparian zone vegetation development is of fundamental importance.



- **Heritage and recreation.** Land managers have a key role to play in the maintenance and conservation of our cultural heritage as well as the provision and improvement of outdoor recreation opportunities. Tourism, together with heritage construction or maintenance generates twice as much GVA as the agriculture sector in Wales. Walking and other physical activities generate employment and reduce long-term health costs.

### **Parameter 2: Open to all**

6.16 The public goods outcomes within the scheme can be separated into those that arise as a consequence of existing natural resources within the farm boundary (for example, watercourses or habitat features) and those that have the potential to be created (for example, decarbonisation actions, habitat resilience actions, soil conservation actions, air quality improvement actions). Within the scheme, we will describe these as existing or potential options.

6.17 Even on a farm that is entirely agriculturally improved there will be a range of potential options that can be delivered particularly if the land manager is willing to change the use of some of their land. This ensures opportunity for all, the fifth principle for reform (see Chapter 4). Thus no land manager should be constrained by the absence of existing features or habitats in terms of accessing the scheme.

### **Parameter 3: Opportunities for action**

6.18 Many public goods are dependent on being delivered in specific locations. Public goods that are location dependent are, by definition, existing options as defined above. The Welsh Government has developed a sophisticated evidence-based spatial targeting system to deliver the current Glastir Advanced scheme. This system overlaps a suite of digital maps identifying the spatial spread of a range of public goods opportunities across Wales. Where possible, multiple public goods will be sought in a single location. The Area Statements being

developed by Natural Resources Wales (NRW) as required by the Environment Act will also help inform future spatial targeting. We intend to build on this system to identify existing options on any farm that wishes to enter the scheme. It will be important to consider this spatial approach alongside the National Development Framework.

6.19 We propose as a principle of the scheme that existing options must be taken up while potential options may be included at the land manager's discretion. A scheme structured in this way will be able to offer opportunities for an income stream from public goods provision no matter the size of the land holding. This is vital for ensuring that all land managers have the opportunity to access support. This is also an effective alternative to the current approach of offering farmers an "entry" or "advanced" agri-environment schemes.

### **Parameter 4: Evidence-based public goods**

6.20 We will only include public goods in the scheme for which there is an evidence-based connection between land management actions and the delivery of a specified outcome. It is important that we can evidence value for money and a demonstrable connection between actions and outcomes is a strong part of that evidence. In return, there will be a regular payment for the amount of outcomes delivered. It will be important for both the Welsh Government and land managers to have transparency and confidence in the determination of the amount delivered and so there may be an additional role for independent third party assessment.

6.21 Valuation of outcomes will be important and new tools will be required to determine appropriate social values for the outcomes sought, as well as robust methodologies for measuring outcome delivery. We will seek to ensure that any valuation in part reflects the social value of keeping land actively managed through the retention of people on the land.

6.22 We must also define an appropriate baseline against which delivery can be measured and monitored. Through the Environment and Rural Affairs Monitoring and Modelling Programme (ERAMMP) we will build on the Glastir Monitoring and Evaluation Programme (GMEP) which was commissioned to assess the performance of Glastir. This will provide policy feedback on efficiency and effectiveness to enhance the spatial targeting of any future land management scheme design.

### **Parameter 5: Additionality**

6.23 Public goods funding will only be available for the delivery of additionality. Additionality has two criteria – the delivery of outcomes above the level required for regulatory compliance and the delivery of outcomes based upon continuing appropriate management activity. Both criteria will need to be satisfied in order for a land manager to enter and remain in the scheme. An example of management additionality might be where open habitats will need to be intermittently grazed by animals to maintain or improve habitat resilience.

### **Parameter 6: Advisory support for land managers**

6.24 The quality of outcomes is directly related to the quality of management applied to the land that generates and maintains them. For some public goods, land managers will be applying skills and knowledge directly derived from their years of experience in land management. Other outcomes will demand new approaches and it is for this reason that an advisory team will be available to support land managers both in terms of public goods and economic resilience (as described in Chapter 5).

6.25 The advisory team will use the information the Welsh Government holds on the potential location of public goods provision (derived from spatial data provided from a number of sources, including NRW) to enable a discussion with a land manager about what could be provided from the land under

management. The discussion will also cover options for action that will produce the desired outcomes and how much the scheme will pay for the delivery of those outcomes. In doing so, the adviser will also consider the place of the land in the wider landscape, informing decisions about the desirability of wider collaboration.

### **Collaboration and delivering at scale**

6.26 We anticipate that collaboration will be important in many instances as the outcomes we seek can either only be delivered at a landscape scale or provide much greater levels of delivery when land managers work together.

6.27 This is particularly relevant for common land in Wales, which is a significant component of the landscape. It is important for the habitats that can be supported and its potential for flood risk management. Many commons are highly valued for their cultural, historic and social significance.

6.28 The Welsh Government will be applying lessons learned from the Glastir Common Land Scheme, the Sustainable Management Scheme and other non-Welsh Government funded collaborative schemes to develop the best models. In the past, for areas and outcomes where optimum delivery requires landscape scale action, one approach has been to gather land managers together and encourage them to work collaboratively from the outset. This has sometimes proved complex for both parties, with a significant time lag before delivery begins. In addition, it demands commitment from land managers to spend time developing a collaborative approach with little certainty at the outset of future success. We therefore intend to explore different models.

6.29 For example, we may initially have only one land manager within a landscape who is signed up to the scheme. However, the scheme could be designed to provide additional funding to that land manager and their neighbours when those neighbours join

the scheme, provided that they all deliver the outcomes we have identified for collaborative action, reflecting the potential for synergy from collaboration. This does not exclude individual land managers from also delivering other outcomes individually as well.

6.30 In addition, the Welsh Government need not be the only administrator. We will also explore options for collaborating on delivery with other organisations, including NRW and the National Park Authorities.

6.31 When appropriate, the opportunity for private investment for public goods will be possible. Investment that would provide direct financial benefits to the private sector may provide indirect benefits to society, through the delivery of public goods, providing an additional income source for land managers. A number of these agreements exist in Wales delivering benefits for water quality and quantity, flood risk, carbon, biodiversity, pest management and recreation. This is a growing market with a number of economic, regulatory, and environmental drivers.

The Public Goods scheme will not only need to be able to run in parallel with these types of agreements but will need to encourage and promote this type of private investment.

### **Ensuring an income stream**

6.32 All agri-environment schemes must comply with World Trade Organisation (WTO) rules. Current CAP Pillar 1 and agri-environment schemes are classified within the 'green box' as defined in the WTO's 'Agreement on Agriculture' (AoA). **Background Point I** sets out the criteria for allocating funding to the appropriate box within the AoA. For agri-environment schemes, this classification limits the financial support provided to income foregone or costs incurred.

6.33 As noted above, we must go beyond this to ensure the Public Goods and Economic Resilience schemes can provide meaningful funding to land managers.

6.34 This is a vital part of ensuring we can meet our social tests expressed in our principles for keeping land managers on the land and ensuring they have the opportunity to make a living from the land. For some, public goods payments will form the foundation or a large proportion of their future business model. Welsh Government is therefore working closely with the UK Government to ensure these considerations are reflected in the UK's approach to WTO arrangements.



## Background Point H: Agri-environment schemes in Wales

Agri-environment schemes have a long history in Wales. At their peak there were 7,600 participants, representing a 52% of total utilised agricultural area of Wales, with the majority being located in the uplands.

There have been demonstrable achievements through these schemes:

- Significant improvements in the condition of peatlands in Wales. This brings multiple benefits and increases the provision of a range of public goods, including increasing the resilience of biodiversity, mitigating flood risk, improving water quality and reducing greenhouse gas (GHG) emissions.
- The quality of small and headwater streams has increased in response to changes in agricultural management of adjacent land. The Glastir Monitoring and Evaluation Programme survey found 83% in good or high ecological status.
- Over the last 10 years stabilisation has been observed across populations of specialist and generalist butterfly species following decades of decline.
- Topsoil carbon has been stable or has increased in woodland and improved land over the last 30 years.

## Background Point I: WTO classification of support

**Amber Box** - contains domestic support measures which are considered to distort production and trade. After subsequent rounds of domestic support reduction, some 30 WTO members have declared a level of maximum Amber Box support in their schedules. This is a commitment to capping and reducing their levels of trade-distorting domestic support.

**Blue Box** - measures include direct payments made under a production-limiting programme. This means the aim should be to limit production by imposing production quotas requiring farmers to set aside part of their land. Only a handful of WTO members use Blue Box measures.

**Green Box** - contains measures of support that have “no, or at most minimal, effects on production”, and which do not distort trade. Such measures must be government-funded and cannot take the form of price support. Examples of Green Box measures are subsidies which are de-coupled from production levels or prices, some environmental protection programmes and rural development programmes. Any domestic agricultural support measure that falls under the Green Box is permissible.

*Source: World Trade Organisation agreement on Agriculture, 1995*

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8. We have set out our proposed parameters for the public goods scheme. Are they appropriate? Would you change anything? If so, what?
  9. This scheme is meant to offer land managers the opportunity to access a significant new income stream as the BPS comes to an end. How could we improve what is being proposed to attract land managers whilst still achieving our vision and objectives?
  10. Are there any other public goods which you think should be supported? If so, why?
  11. A number of public goods could potentially take several years, sometimes decades, to be fully realised. e.g. carbon sequestration through broad leaf trees. To deliver on these, land managers may need to enter into a long term contract. How do you see such agreements working? What to you see as the benefits or disadvantages to such agreements?
  12. A collaborative approach to delivering public goods may in some instances provide better value for money than isolated activity. How could the scheme facilitate this approach? How could public and private bodies contribute to such partnerships?
  13. Some actions can deliver multiple public goods in the same location. For example, peat bog restoration can have benefits for carbon sequestration and flood risk reduction. However, some locations could be suitable for multiple public goods from different activities. For example, one location may be suitable to either plant trees for carbon sequestration, or to revert to wetland for biodiversity. How could locations for single, multiple or competing benefits be prioritised?
  14. Given that support for the delivery of public goods will be a new approach in Wales, there will be a requirement for a significant amount of training and advice for the sector. How best could this training and advice be delivered? Which areas of the sector need the most attention?
  15. Private investment in the purchase of public goods is already happening, but at a relatively small scale. How could the new scheme promote greater involvement from the private sector? What are the barriers to this type of investment?
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Land managers are regulated through a tapestry of regulation, much of it emanating from EU policy. Brexit provides the opportunity to build on the Environment Act to put in place a new coherent, principles-based, outcome-focussed and adaptive regulatory floor for land management. This is needed to provide a sound foundation for the new schemes outlined in this document, whose outcomes can be underpinned and reinforced if there are suitable baseline standards upon which payments can be made.

7.1 Since the UK joined the EU, land management practices have been governed by the framework of European and domestic legislation. This incorporates a patchwork of directives, statutes and codes of practice of which cross-compliance is one. Each has been introduced at a different time in response to a different issue.

7.2 The result is 9 EU directives and more than 20 further pieces of primary and secondary legislation that address the environmental impacts of agriculture, with many further regulations facing other aspects of land management. Much of the statutory framework applies to both farmers and foresters alike, although cross-compliance in CAP is largely agricultural.

7.3 Overall, the regulatory landscape is a complex patchwork of overlapping regulations that apply to different types of land and different land managers in different circumstances. The result is a system that is often difficult to comply with and difficult to enforce.

### **Opportunity for change**

7.4 Current legislation is either already part of UK statute or will become domestic law through the UK Government's EU (Withdrawal) Act 2018. This will perpetuate the current system, albeit on a different legal basis.

7.5 We will therefore soon have the opportunity to make changes to improve the quality of regulation. Building on the *Taking Forward Wales' Sustainable Management of Natural Resources* consultation, the Welsh Government will explore with stakeholders how best to ensure the design of the new Land Management Programme can support the opportunity to bring about a simpler and more coherent set of regulations.

7.6 The Environment Act (Wales) 2016, clearly outlines the principles of sustainable management of natural resources which the Welsh Government and NRW must seek to deliver through their functions. The principles outline an evidence-based approach to address short, medium and long term issues to enhance resilience in ecosystems and the services that derive from them, designed and delivered through a collaborative approach. These principles will guide and support the development of a fresh approach to regulation to underpin the Land Management Programme.

### **The importance of quality and standards**

7.7 To deliver our vision for a sustainable and vibrant Welsh land management sector, we need to enable the sector to perform in economic, societal and environmental terms.

7.8 There is clear consensus from the Brexit Roundtable process that the Welsh brand should be based on this tripartite foundation. If we wish to expand and develop new markets based on the concept of this brand, we must ensure it is founded on standards of product quality, animal health and environmental stewardship that are internationally recognised as market leaders. Appropriate regulation will also be the key to maintaining access to existing markets post-Brexit – trade with the EU will require continued compliance at least at the level of EU regulation, present and future.

7.9 Further, there is a strong relationship between the way we support land managers and appropriate regulation and standards. This is because:

- it is important that support for economic resilience is not at the expense of broader outcomes, particularly relating to animal health and the environment; and;
- it is inappropriate for payments for public goods to fund compliance with existing regulation. Payments should be made for outcomes above the regulatory floor.

7.10 The provision of advice also has a crucial role to play in driving positive outcomes, improving land managers' awareness of existing regulation and their contribution towards a sustainable environment beyond the regulations themselves. But advice does not reach all: while many farmers and foresters are compliant to the extent that their businesses already meet regulatory requirements, a minority continue to neglect basic good practice.

7.11 Advice, incentives and regulation all have an important and synergistic role to help land managers to adopt good practice, reducing the adverse impact of their activities on the wider environment and maximising positive outcomes.

## **A way forward**

7.12 As highlighted in the *Taking Forward Wales' Sustainable Management of Natural Resources* consultation, one option by which this could be achieved is by the introduction of Basic Measures. These would consist of a set of basic standards, developed with stakeholders, which define responsible land management. These standards could be derived from appropriate elements of existing codes and regulations including cross-compliance where they exist.

7.13 Basic measures for water, soil, animal health and welfare, and air quality objectives could apply equally to all land managers, simplifying and clarifying the current regulatory regime and addressing gaps, inconsistencies and conflicts that may presently exist. Critically, basic measures compliance could provide the gateway to the financial support schemes discussed in Chapters 5 and 6.

7.14 Applying a set of simple and coherent regulations to all land managers responds to the need for a level playing field to be applied to all within Wales, embedding good practice, supporting land managers that choose to do the right thing and providing effective deterrence for the small number who do not. Scotland and England already have basic measures in place for some aspects of agricultural practice.

7.15 As part of our preliminary thinking on a way forward, we propose all new approaches should:

- support Wales' legislative framework, in particular the principles for the sustainable management of natural resources;
- seek not to increase the regulatory burden, except where new issues have arisen or where societal needs are not being underpinned by existing regulation;
- aim to simplify and increase coherence of regulation rather than add further short-term patches;

- focus on outcomes, offering flexibility of approach, yet ensuring measures pursuant to these outcomes are delivered, quantified and enforced appropriately;
- be accompanied by clear, integrated advice and guidance, communicated effectively;
- be based around a proportionate approach to regulation underpinned by an understanding of risk; and
- target compliance and enforcement resources where they will yield greatest benefit.

7.16 These principles are likely to form part of a future consultation on this subject. In particular, we intend to explore measures that enable land managers to better assess and address their impact themselves. A principles-based approach that focuses on ends over means stimulates innovation and reflects the fact that compliance solutions may be different for different land managers in different parts of Wales under different circumstances. For example, nutrient management planning provides an integrated means of recognising and addressing impacts on water, soil and air, which simultaneously address environmental impacts of land management and point to resource efficiency savings.

### **Next steps**

7.17 The Welsh Government believes it is important to consider improvements to regulation alongside designing better ways to provide support payments. However, regulatory reform is a sizeable challenge that lies beyond the scope of the present consultation.

7.18 This chapter has set out Welsh Government and NRW's preliminary thinking on regulatory reform. The SMNR consultation results, together with future responses to this consultation and the forthcoming Welsh Government decarbonisation consultation will inform our long-term views on this issue.

7.19 We wish to allow the regulatory reform process sufficient time to ensure that the most appropriate solutions are brought forward. In the light of these consultations, we will therefore bring forward a statement in the autumn on how to approach post-Brexit regulatory reform.

7.20 A wide range of stakeholders including land managers, water companies, environmental bodies, tourism organisations and consumers all have an interest in ensuring that we have fit-for-purpose regulation in this area. The work of the Wales Land Management Forum Sub-group on Agricultural Pollution is recognised as providing a promising start and we will be considering both short and long-term needs.

**The way we provide support to land managers will change significantly. We will therefore undertake a multi-year transition period to manage the path to the new Land Management Programme. Rural Payments Wales will remain the administrative core for payments and we will ensure appropriate legislation is in place.**

8.1 In “*Securing Wales’ Future*”, we argued strongly that the UK Government should seek agreement on a transitional phase to avoid the uncertainty arising from a sudden cliff-edge departure from the European Union (EU). This is now the UK’s position and is reflected in the draft EU Withdrawal Agreement. But the nature of negotiations means nothing is agreed until everything is agreed.

### **Transitioning to the Land Management Programme**

8.2 The new Land Management Programme marks an unprecedented change in support arrangements. Reform cannot and must not happen overnight and we will not fully withdraw funding from old systems until new systems are operational. It will take time to put in place and we want to continue working together to achieve a smooth transition.

8.3 While there is significant uncertainty on the nature of Brexit it is clear that time is short. We are therefore setting out a high-level path for transition. Land managers can adapt and a transition will give them time to adapt.

8.4 We have already committed to maintain current CAP direct support (the Basic Payment Scheme) for 2019 on the same basis as we pay now. For this reason, transition to new arrangements will not begin before 2020. Our high-level ambition is to have completed implementation and be operating within the new programme by 2025.

8.5 In Wales, we envisage the phased transition period will involve three concurrent elements:

**Phase 1:** phased withdrawal of the Basic Payment Scheme

**Phase 2:** methodical introduction of new schemes

**Phase 3:** orderly exit from the Rural Development Programme (RDP)

8.6 The overall intention is to use funding released from direct support and the RDP (phases 1 and 3) and deploy it to fund new schemes (phase 2). This presents the challenge of ensuring we can provide support in the best way at the right time without disrupting the flow of funds to farmers. Given the close relationship between the programme, trade policy and funding, we will make specific decisions when there is greater certainty. Our call for greater clarity from the UK Government on funding are set out in Chapter 4.

8.7 Beyond financial support, the Welsh Government has a key advisory and facilitator role to play in helping our land sectors to prepare for Brexit, including business advice, knowledge exchange and research and development. The Welsh Government’s plans for a step-change in farmer advisory services is set out in Chapter 5.

## **Phase 1: phased withdrawal of the Basic Payment Scheme**

8.8 The Basic Payment Scheme has been a major part of farm business incomes for many years (varying greatly by sub-sector). We must therefore be careful, sensitive and clear in how we phase out payments. Detailed analysis will need to take place and we will consult on how best to do this. Illustrative options include reducing payments in absolute terms, proportionately or by changing capping rates. The purpose of reducing direct support is to release funds to flow back to land managers through the new schemes, as set out in phase 2.

8.9 While existing BPS continues to operate we will explore opportunities to reduce areas of administrative complexity. Further detailed consultation will be required but high-level options include:

- removing some or all of the current greening rules;
- simplify inspection selection criteria; and
- simplify cross-compliance rules and adjust the minimum requirements

## **Phase 2: implementing new schemes**

8.10 Funding released from the staged reduction of direct support will allow funds to flow into new schemes.

8.11 As set out in Chapter 4, no decision has been taken on the balance of funding between the Economic Resilience and Public Goods schemes. However, the appropriate balance is likely to change over time. In particular, there is a case for focusing funding on the Economic Resilience scheme in the early years to support land managers to respond to the post Brexit environment.

8.12 In the long-term, the Public Goods scheme may comprise the major part of the funding envelope. But it will take time and significant preparation to put in place. There is a good case for allocating funds to pilot projects before full-scale implementation.

This would allow a phased transition from existing schemes for land managers (particularly relevant for Glastir).

8.13 This funding is distinct from any calls upon the Welsh Government's sector-wide EU Transition Fund of £50m. Among other things, this will fund a red meat benchmarking project which will work with 2,000 farmers to understand in detail, their financial and technical performance. The results will help inform appropriate targets for support under the Economic Resilience scheme.

## **Phase 3: orderly exit from the RDP**

8.14 The RDP comes to an end in 2020 but many schemes involve ongoing activity and funding until 2023 and beyond. Commitments made under the current RDP and legacy schemes will therefore come to an end at a range of intervals during and after transition. All commitments in place at the point of leaving the EU will continue to be met.

## **Delivery of the Land Management Programme**

8.15 The evolution of CAP means that land managers and government have undertaken changes to payments in the past. In particular, the last two reforms introduced by the EU have seen a significant shift from coupled support (payments linked to levels of production) to a new area-based system.

8.16 Rural Payments Wales (RPW) has responded to both previous challenges and over the last 15 years, maintaining an excellent record for administering and delivering the EU schemes and payments in a timely and efficient manner. Our intention is to build on this success.

8.17 We envisage RPW will continue to act as the core administrator of any new schemes introduced but we will continue to explore the role for other delivery organisations. RPW will also ensure existing payments continue to be made until all the existing EU programmes come to an end.

8.18 Simplification of application and administrative process should be a key objective for the new schemes. Wherever possible, the Welsh Government should manage background complexity so that the front-end system is as simple as possible for the support recipient.

8.19 RPW will continue to develop services that provide a flexible and innovative approach to land management support. This includes continuing to improve and build on established digital connectivity, in particular the RPW Online portal and Customer Contact Centre. Information gathered over many years under the exiting RDP and internal and online mapping information will also be an invaluable data source for scheme development.

8.20 The Land Management Programme will be developed for Wales and appropriate arrangements will be made for cross-border business. The Welsh Government will consider this with the UK Government and the Rural Payments Agency.

### **Legislating for change**

8.21 The draft EU Withdrawal Agreement sets out the proposed terms of a formal transition period expected to cover 29 March 2019 (the day of exit) until 31 December 2020. As drafted, all EU rules will continue to apply until that date, albeit subject to UK and devolved provisions made under the UK Government's EU (Withdrawal) Act 2018. In the event of no withdrawal agreement, all powers and responsibilities will take effect from 29 March 2019 under provisions made through the Act.

8.22 An important exception within the withdrawal agreement relates to the CAP Direct Payments. These will be under UK legislation from claim year 2020, not 2021. Claim years 2018 and 2019, by contrast, will operate on the same basis as previous years. The Rural Development Programme for Wales will continue to operate under EU regulation until the end of the Programme, which could be until 2023.

8.23 The EU (Withdrawal) Act 2018 will have the effect of preserving and correcting directly applicable EU Regulations into UK law. To go further, the Welsh Government recognises the need to bring forward primary legislation to make provision for the programme. Our ambition is to put such legislation in place before the end of this Assembly term and in good time to ensure the phased transition period can take effect.

8.24 In addition and on a time-limited, interim basis, the Welsh Government is considering including Welsh-specific provisions in the UK Government's forthcoming Agriculture Bill. The purpose of provisions is to provide powers for Welsh Ministers to commence the phased transition plan until Welsh primary legislation takes effect.

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## Consultation Questions - 16 to 20 of 20

16. What are your comments on the phased transition period and our ambition to complete the changes by 2025?
  17. What is the most appropriate way to phase out the Basic Payment Scheme to fund implementation of the new schemes?
  18. How can we simplify the current administration and delivery of the Basic Payment Scheme during the phased transition period?
  19. **Welsh Language**  
Will the proposed land management programme have any effects (either positive or adverse) on:
    - opportunities for persons to use the Welsh language;
    - treating the Welsh language no less favourably than the English language?
  20. Do you wish to make any further comments?
-

**Brexit will mean the National Assembly for Wales will take on new and significant powers. This is the basis on which we propose the Land Management Programme for Wales. Where appropriate, we will work constructively with the four administrations on common frameworks. But we call on the UK Government to provide much more clarity on future funding.**

9.1 The proposals in this document are clearly based on the Welsh perspective but they will be delivered in a UK context. We stand to deliver the best outcomes – for Wales and the UK – by working together. For this reason, we will continue to work constructively with the UK Government as it prepares for EU exit and implements its new farmer support schemes for England. This is particularly relevant given the inter-governmental agreement signed between the Welsh and UK Governments in relation to the EU (Withdrawal) Act 2018.

9.2 The four administrations of the UK have agreed that there should be a significant increase in the decision-making powers for the devolved administrations. This applies to farm support, rural development, animal health and environmental regulation.

9.3 The Welsh Government will work with the other administrations on common frameworks where they are necessary. The Joint Ministerial Committee (European Negotiations) has agreed common frameworks will be established where they are necessary in order to:

- enable the functioning of the UK internal market, while acknowledging policy divergence;
- ensure compliance with international obligations;
- ensure the UK can negotiate, enter into and implement new trade agreements and international treaties;
- enable the management of common resources;
- administer and provide access to justice in cases with a cross-border element; and
- safeguard the security of the UK.

9.4 Frameworks in areas such as farming support should afford significant additional flexibility for Wales. Landscapes and their communities vary greatly across the UK and this is why agriculture and the environment are two of the most longstanding devolved competences.

9.5 These flexibilities do not undermine the UK's ability to make trade policy and agree free trade deals. But the Welsh Government expects to be fully engaged on the UK's new trade policy with the EU and third nations given its potential impact on our land management sectors – both because of the markets that may be opened and the standards that may be set.

9.6 Trade is but one example of how any framework must be underpinned by a significant improvement in the devolution architecture. In our paper *“Devolution and Brexit”*, we proposed a new Council of Ministers to provide appropriate coordination and decision-making on matters affecting the four administrations of the UK. It is right to work together but this must be done with appropriate governance and in the context of mutual respect.

9.7 It is in this context that the Welsh Government entered into the Inter-governmental Agreement (IGA) with the UK Government on the EU (Withdrawal) Act 2018. Following the IGA, neither government will make new provisions in a small number of areas, including agricultural support, until a framework is agreed. This will ensure no legislation is made without UK and devolved consent in these areas.

## **Funding**

9.8 The UK Government has made two types of guarantees for farm support payments. First, total funding of Pillar 1 of CAP will be guaranteed until 2022. This will be calculated as the cash average from 2014-2020. Second, commitments made under the Rural Development Programme will be guaranteed by the UK Treasury – if not met by the EU – until contracts come to an end (spending potentially until 2023).

9.9 These are both important measures but no clarity has been provided on how funding will be distributed between the four nations once the UK has left the EU. This matters greatly to Wales and we call on the UK Government to urgently confirm that Wales will maintain its current share of funding. The proposals in this document demonstrate the strong case for continued public support. This is discussed further in Chapter 4.

## Chapter 10: Next steps

10.1 Brexit is the catalyst for land management reform in Wales. There is a strong case for continuing to support our land managers, but we need to do it a different way to harness all the benefits that our land can yield for the nation.

10.2 This is the basis on which we bring forward a new Land Management Programme for Wales. The case for devolution is stronger than ever and the programme sets out how Wales will use new powers returned from Europe.

10.3 We are clearly operating in a period of significant uncertainty. Details can only be decided as the nature of the UK's future relationship with the EU and other nations becomes clearer.

10.4 Similarly, we can only make further progress with the support of our stakeholders. For this reason, we are running an extended 16-week consultation exercise. We will spend the Summer engaging and establishing new collaborative working arrangements. This engagement will ultimately culminate in a formal, detailed white paper with specific proposals for consultation in Spring 2019.

## General Data Protection Regulations

The Welsh Government will be data controller for any personal data you provide as part of your response to the consultation. Welsh Ministers have statutory powers they will rely on to process this personal data which will enable them to make informed decisions about how they exercise their public functions. Any response you send us will be seen in full by Welsh Government staff dealing with the issues which this consultation is about or planning future consultations. Where the Welsh Government undertakes further analysis of consultation responses then this work may be commissioned to be carried out by an accredited third party (e.g. a research organisation or a consultancy company). Any such work will only be undertaken under contract. Welsh Government's standard terms and conditions for such contracts set out strict requirements for the processing and safekeeping of personal data.

In order to show that the consultation was carried out properly, the Welsh Government intends to publish a summary of the responses to this document. We may also publish responses in full. Normally, the name and address (or part of the address) of the person or organisation who sent the response are published with the response. If you do not want your name or address published, please tell us this in writing when you send your response. We will then redact them before publishing.

You should also be aware of our responsibilities under Freedom of Information legislation

If your details are published as part of the consultation response then these published reports will be retained indefinitely. Any of your data held otherwise by Welsh Government will be kept for no more than three years.

## Your rights

Under the data protection legislation, you have the right:

- to be informed of the personal data holds about you and to access it
- to require us to rectify inaccuracies in that data
- to (in certain circumstances) object to or restrict processing
- for (in certain circumstances) your data to be 'erased'
- to (in certain circumstances) data portability
- to lodge a complaint with the Information Commissioner's Office (ICO) who is our independent regulator for data protection.

For further details about the information the Welsh Government holds and its use, or if you want to exercise your rights under the GDPR, please see contact details below:

Data Protection Officer:

Welsh Government  
Cathays Park  
CARDIFF  
CF10 3NQ

e-mail: [Underspecification@gov.wales](mailto:Underspecification@gov.wales)

The contact details for the Information Commissioner's Office are:

Wycliffe House  
Water Lane  
Wilmslow  
Cheshire  
SK9 5AF

Tel: 01625 545 745 or 0303 123 1113

Website: <https://ico.org.uk/Consultation Questions>

### 1. Chapter 4

#### **Land Management Programme**

We propose a new Land Management Programme consisting of an Economic Resilience scheme and a Public Goods scheme. Do you agree these schemes are the best way to deliver against the principles? If not, what alternatives would be best?

### 2. Chapter 4

#### **Land Management Programme**

Does Welsh Government need to take action to ensure tenants can access new schemes? If so, what action would be best?

### 3. Chapter 5

#### **Economic Resilience**

From your experience of current programmes, what do you feel would work well for the future?

### 4. Chapter 5

#### **Economic Resilience**

Do you agree with the focus of the Economic Resilience Scheme being on growing the market opportunities for products from the land throughout the supply chain, rather than restricting support to land management businesses only?

### 5. Chapter 5

#### **Economic Resilience**

Are the five proposed areas of support the right ones to improve economic resilience? Are there any areas which should be included but currently are not?

### 6. Chapter 5

#### **Economic Resilience**

Of the five proposed areas for support, which are the priorities, both in terms of funding, and the sequence of delivery? For example, are certain measures needed in advance of others?

### 7. Chapter 5

#### **Economic Resilience**

Should we be investing in people, for example to bring in new ideas, skills and people into land management and the supply chain in Wales? If so, how should we look to do this?

### 8. Chapter 6

#### **Public Goods**

We have set out our proposed parameters for the public goods scheme. Are they appropriate? Would you change anything? If so, what?

## 9. Chapter 6

### Public Goods

This scheme is meant to offer land managers the opportunity to access a significant new income stream as the BPS comes to an end. How could we improve what is being proposed to attract land managers whilst still achieving our vision and objectives?

## 10. Chapter 6

### Public Goods

Are there any other public goods which you think should be supported? If so, why?

## 11. Chapter 6

### Public Goods

A number of public goods could potentially take several years, sometimes decades, to be fully realised. e.g. carbon sequestration through broad leaf trees. To deliver on these, land managers may need to enter into a long term contract. How do you see such agreements working? What to you see as the benefits or disadvantages to such agreements?

## 12. Chapter 6

### Public Goods

A collaborative approach to delivering public goods may in some instances provide better value for money than isolated activity. How could the scheme facilitate this approach? How could public and private bodies contribute to such partnerships?

## 13. Chapter 6

### Public Goods

Some actions can deliver multiple public goods in the same location. For example, peat bog restoration can have benefits for carbon sequestration and flood risk reduction.

However, some locations could be suitable for multiple public goods from different activities. For example, one location may be suitable to either plant trees for carbon sequestration, or to revert to wetland for biodiversity. How could locations for single, multiple or competing benefits be prioritised?

## 14. Chapter 6

### Public Goods

Given that support for the delivery of public goods will be a new approach in Wales, there will be a requirement for a significant amount of training and advice for the sector. How best could this training and advice be delivered? Which areas of the sector need the most attention?

## 15. Chapter 6

### Public Goods

Private investment in the purchase of public goods is already happening, but at a relatively small scale. How could the new scheme promote greater involvement from the private sector? What are the barriers to this type of investment?

## **16. Chapter 8**

### **Transition, delivery and legislation**

What are your comments on the phased transition period and our ambition to complete the changes by 2025?

## **17. Chapter 8**

### **Transition, delivery and legislation**

What is the most appropriate way to phase out the Basic Payment Scheme to start implementation of the new schemes?

## **18. Chapter 8**

### **Transition, delivery and legislation**

How can we simplify the current administration and delivery of the Basic Payment Scheme during the phased transition period?

## **19. Welsh Language standards**

Will the proposed land management programme have any effects (either positive or adverse) on:

- opportunities for persons to use the Welsh language;
- treating the Welsh language no less favourably than the English language?

## **20. Do you wish to make any further comments?**





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