

Our response



Llywodraeth Cymru
Welsh Government

Brexit and our land:

Securing the future of Welsh farming



Summary

In July last year, the Welsh Government published *Brexit and our Land*, a far-reaching consultation on the future of agricultural support in Wales.

Over the summer and autumn we undertook one of our largest ever consultations among farmers, rural communities, environmental groups and interested individuals.

The Basic Payment Scheme (BPS) is coming to an end as the UK leaves the European Union. However, there remains a strong case for continuing to support farmers.

In the light of the consultation exercise, we intend to make a number of changes to our policy proposals.

We now propose to pursue an overall objective of sustainable land management. Our ambition is to have sustainable farms producing both food and public goods in a system which enhances the well-being of farmers, communities and all the people of Wales.

We propose a farm sustainability scheme to provide an income stream to farmers in return for delivering sustainable land management outcomes, such as water quality, biodiversity and animal health.

Many of these outcomes can be produced alongside sustainable food production.

The continuing uncertainty of Brexit means we cannot make decisions on the timetable for reform at this stage. We will not make changes until we have considered responses to further consultation and the relevant impact assessments, and until we can demonstrate a new system is adequately designed.

A further consultation document will be published in early July this year. We will then work with farmers and others in a process of co-design to help determine the details.

We are grateful for the debate we have had through the *Brexit and our Land* consultation and future policy will be better for it.

This statement provides the Welsh Government response to the *Brexit and our Land* consultation. The Welsh Government intends to issue a subsequent, more detailed consultation in July this year.

Brexit and our Land consultation

Last year, the Welsh Government undertook one of its largest ever consultations among farmers, rural communities, environmental groups and interested individuals. We received over 12,000 responses to the *Brexit and our Land* consultation and over 1,000 individuals attended engagement events. The scale of the consultation reflects a highly engaged sector. We are grateful to all those who contributed to this national debate on how to support Welsh farmers and Welsh land.

Following the close of the consultation, the Welsh Government commissioned an independent research company (Miller Research Ltd) to produce a comprehensive summary of responses. The full summary of responses is published alongside this statement.

It is clear from the summary of responses the views expressed by respondents were both strong and wide-ranging. In very broad terms, around half of respondents supported the proposals and half did not. In general, farmers raised concerns about the proposals and environmental groups supported the proposals. Within these broad statements were many exceptions. However, the vast majority agreed the Welsh Government should continue to support Welsh farmers and Welsh land – the question is how best to do it.

The Welsh Government has carefully considered the views expressed in the responses received and intends to make a number of changes to its policy proposals in response. These are discussed below and will be explored further in the forthcoming consultation.

Overall case for change

Brexit and our Land set out the case for reforming farm support payments after Brexit. In the consultation, we explained the current system provides important support. However, it is designed for countries within the European Union.

The Welsh Government remains of this view. EU membership means our farmers and their supply chains currently benefit from access to a very large, tariff-free and frictionless market. The UK's new trading relationship with Europe remains subject to significant uncertainty, but it is clear we will face new challenges when operating outside of the economic union.

Absent of membership of a major trading bloc, the UK – and hence Wales – will be more exposed to the forces of global trade. In response, farms will need to become more resilient. Simply importing the Common Agricultural Policy (CAP) into law in Wales does not deliver this. In particular, current income support is not structured to offset the financial impact from significant downside risks to the trading environment (which result from many Brexit scenarios).

Leaving the European Union also means, for the first time, Wales will have powers to put in place its own farm support system. To decide how to use these powers, the starting point must be our obligations contained within the Well-being of Future Generations (Wales) Act 2015 and the Environment (Wales) Act 2016.

The Well-being of Future Generations (Wales) Act 2015 places upon the Welsh Government a multi-faceted duty to carry out sustainable development to improve the social, economic,

environmental and cultural well-being of Wales. In addition, the Environment (Wales) Act 2016 introduces a further set of principles and duties designed to support the sustainable management of natural resources and biodiversity in Wales. The obligations contained within these Acts must form the basis for Welsh Government policy.

The current system of support for farmers is the CAP. The majority of funding is delivered through the BPS. The BPS provides important support, but it is universal income support decoupled from outcomes.

The BPS is coming to an end as the UK leaves the European Union. In order to determine what should replace it, it is helpful to reflect on farm support in the context of each of the seven well-being goals for Wales, as defined in the Well-being of Future Generations (Wales) Act 2015. This will be considered further in the forthcoming consultation document in July.

The accompanying evidence pack, *'Agriculture in Wales'*, sets out information relevant to this consideration, in particular relating to farm productivity and performance, the distribution of the BPS among farms and environmental indicators.

A prosperous Wales

The majority of consultation comments about the BPS concerned its role in helping farms to survive. This reflects the fact many farmers rely on income support to make a profit. It is right to provide support given the keystone role of farming in our environment, communities and the rural economy. However, while the BPS clearly supports the financial position of farms, the payment does not support the broader drivers of prosperity.

We propose the best way to help farmers achieve long-term prosperity is by promoting all aspects of sustainability – economic, environmental and social. In particular, this includes harnessing the natural environment to support farmers' economic

prosperity. In turn, prosperous farms can contribute to prosperous supply chains and prosperous rural communities.

A resilient Wales

The BPS prevents money being spent on specific interventions to enhance all types of resilience. In particular, it does not allow for interventions to provide for environmental resilience – a necessary condition for long-term prosperity. Farmers are the custodians of much of Wales' natural environment and are therefore key in protecting and enhancing our ecosystems. The BPS does not recognise this, nor does it encourage adequate mitigation against the effects of climate change to reduce the risk for future generations, including future farmers.

We propose farm support should help farm businesses to become and stay resilient – economically, environmentally and socially.

A healthier Wales

The structure of the BPS does not allow us to target outcomes addressing some of our society's most pressing health challenges, for example cleaning our air, cleaning our water and providing opportunities for physical recreation.

We propose farm support should promote the management of land in a way which will contribute to creating a healthier Wales.

A more equal Wales

Income support has historically been based on entitlement rather than need. While this is due to cease when the change to universal area-based payments is complete, there will still be no link between the level of support and need, effort or performance. This is not equitable for farmers, especially for new or young farmers trying to enter the industry. Similarly, this is not an equitable use of increasingly scarce public money.

We propose farm support should be accessible fairly and should link levels of payment to farmers' efforts on the ground.

A Wales of cohesive communities

The BPS has provided support which has helped keep farmers on the land. These farms bring economic activity to rural Wales, supporting rural communities. This needs to be maintained, however it is at risk if farm businesses are not resilient.

We propose farm support should support rural communities by promoting resilient farms and by promoting ongoing activity on the land.

A Wales of vibrant culture and thriving Welsh language

Farming is an industry which underpins culture, especially in rural areas and especially through the Welsh language. Providing support to farmers helps maintain this.

We propose farm support should secure the resilience of farm businesses in order to preserve the long-term future of farming and thus secure wider cultural and Welsh language benefits.

A globally-responsible Wales

We all have a responsibility to do our part in responding to global challenges, including climate change, biodiversity decline and the sustainable production of food. The BPS does not target improved outcomes.

We propose farm support should help us combat global challenges in order to fulfil our global responsibilities.

Conclusion

Leaving the European Union will present new challenges which force us to reflect on how best to provide support to farmers. As noted above, the BPS is coming to an end as the UK leaves the European Union.

No decisions on future schemes will be taken without further consultation and impact assessment. This also reflects significant and continuing uncertainty about the nature of Brexit.

However, at this stage, the Welsh Government considers universal income support decoupled from outcomes does not provide an effective way to support farmers, both in a new economic context and in the context of our unique legislative framework.

The Rural Development Programme (RDP) for Wales has sought to provide targeted support to address many of the issues noted above. Indeed, Wales is the only administration in the UK to have transferred the maximum amount of funding to the programme. However, while the RDP has delivered a number of positive outcomes, its overall success has been constrained by administrative complexity and funding.

In replacing the BPS and the RDP, the Welsh Government therefore intends to move away from a universal income support scheme based on land under management, to a new system of outcome-targeted payments. This will be subject to further consultation in July.

Sustainable land management

Throughout the consultation, the Welsh Government emphasised maintaining the status quo was not an option because the UK had decided to leave the European Union and its CAP. We have listened to and reflected on the responses to the proposals put forward for what should replace the CAP. In the light of these, the Welsh Government intends to adapt its proposals for reform.

On the basis of consultation feedback and flowing from Wales' legislative framework discussed above, the Welsh Government proposes to pursue an objective of sustainable land management.

Sustainable land management balances the needs of the current generation with our obligations to the next, including Wales' future farmers. The overall ambition is to have sustainable farms producing both food and public goods in a holistic system which enhances the well-being of farmers, communities and all the people of Wales.

Food production is a vital component of sustainable land management. A sustainable approach will make it possible for farms to produce public goods as a consequence of producing food.

By focusing support on overall sustainability, we aim to move beyond considering economic productivity in isolation. The former ensures the long-term productive potential of land is preserved and enhanced while the latter may be dependent upon unsustainable use of natural resources.

We propose the new system should be targeted on outcomes. This provides the foundation for Welsh land and its farmers to help meet a whole host of challenges facing our nation. This is the only way we can harness the potential of Welsh land and Welsh farmers to help deliver many of the Welsh Government's commitments, for example reversing the decline in biodiversity, meeting carbon budgets and hitting clean air targets.

A sustainable farming scheme

Sustainability is the concept which binds together the Economic Resilience and Public Goods schemes proposed in *Brexit and our Land*. As such, the Welsh Government proposes to bring together the farm-side elements of the proposed Economic Resilience and Public Goods schemes into a single sustainable farming scheme.

The proposed high-level nature of the scheme is set out below. These proposals will be subject to the outcome of the further consultation in July.

The proposed purpose of the scheme will be to provide funding to farms in return for delivering sustainable land management outcomes not rewarded by the market.

It is proposed the new scheme will comprise of two broad types of support: sustainable farm payments and business development measures.

As proposed in *Brexit and our Land*, the new system is intended to replace the BPS and the main elements of the RDP, in particular existing agri-environment and farm business support schemes.

Sustainable farming payments

The Welsh Government proposes to pay a revenue funding stream in return for public goods outcomes – sustainable farming payments.

The majority of public goods outcomes will relate to the environment. *Brexit and our Land* set out examples of environmental outcomes the Welsh Government would consider supporting, for example decarbonisation, improved water and air quality and resilient habitats.

The Welsh Government maintains food production is not a public good in and of itself. This is because there is a functioning market for food. However, reflecting on the consultation responses, we have found the production of food and the production of public goods can be mutually reinforcing, not mutually exclusive. This is consistent with the principle of sustainable land management described above.

There is significant overlap between appropriate sustainable farming practices and the delivery of public goods outcomes. The same action, done in the right way, can contribute both to the production of food and the production of public goods outcomes. The Welsh Government wants to pay for these outcomes.

For example, a more targeted approach to nutrient application would prevent excess fertilisers leaching into the environment, thus providing advantages to our soil, water and air quality. This approach to nutrient management would also provide better value for money to the farmer through a reduction in fertiliser costs. Supporting farmers to embed these changes into everyday farm management would therefore benefit both the environmental and economic position of farms.

By ensuring public goods can be delivered through farming, we can ensure all types of farm have the potential to enter the scheme if they desire. It will be a question for the farmer to decide which public goods opportunities they wish to take and thus what changes they may need to undertake to deliver them. There will need to be a wide set of public goods opportunities available to ensure there are

sufficient options for all types of farms in Wales. In particular, lowland and upland farms must both have fair access.

By focusing on outcomes, our ambition is to be less prescriptive than previous agri-environment schemes. There will be a range of potential actions a farmer may choose to undertake to contribute to the delivery of an outcome. All outcomes must be sufficiently tangible and fair, reflecting what is genuinely within the farmer's control.

The forthcoming consultation will propose a set of outcomes for the Welsh Government to target.

In many cases, single outcomes may be delivered through a number of different actions. Similarly, individual actions may positively impact a number of outcomes. The table illustrates this for the example outcome of improved air quality.

Target Outcome	Potential Actions	Additional Outcomes	Benefits
Improved air quality	Nutrient and soil management practices	Improved productivity	To the farm business
		Improved animal health and welfare	
	Manure and slurry management practices	Reduced public health risk	To the wider public
		Animal management practices	Improved water quality
	Woodland management, for interception of pollutants	Functioning habitats	To the farm, through the sustainable farming payment
		Decarbonisation	

By implementing the actions most appropriate to the farm's circumstances, the farmer can provide a range of benefits, not only to his or her own business but to wider society as well.

The forthcoming consultation and stakeholder co-design process (see below) will be used to help determine the specific actions on farms which best deliver the outcomes we are seeking to achieve.

In all of this, it is important to ensure sustainable farming payments can meaningfully contribute to net farm business income. This reflects the fact many farmers may rely on support payments to make a profit, just as they currently do with the BPS.

Business development

The proposed sustainable farm payments should enhance the farm business by providing a stable income stream. The actions will be consistent with making sustainable use of the farm's natural resources. In doing so, the proposals seek to enhance the farm's overall resilience.

In addition, the Welsh Government intends to use the new scheme to provide support for farm business development. This is no different from how the Welsh Government supports businesses in other sectors of the economy. This is especially relevant given it is likely to be more difficult for Welsh farms to compete after Brexit.

Capital funding and other types of one-off support will be considered for interventions which contribute to business improvement, with the aim of increasing profit margins and improving a farm's financial position. This would be assessed within the context of the farm's overall sustainability.

We intend to take an evidence based approach to business improvement. This reflects strong evidence that the economic sustainability of farm businesses depends on their capacity to plan effectively, set market-led goals and monitor performance.

The behaviours and skills of farmers and their employees are crucial elements in long-term competitiveness. Our first step would therefore be to provide comprehensive business support and skills training for farmers where needed. This would ensure they have the ability to react to a changing trading environment and to take advantage of any opportunities to improve their competitiveness.

Following this, we intend to further support farmers by aligning financial investment to their business goals. Investments would aim to boost business resilience, whether the farm is seeking to further improve productivity through new technology or infrastructure, or seeking to start up a new enterprise to diversify their income. Each investment would be dependent on a business case to demonstrate how the project will enhance the profitability of the farm business.

Responding to farmers' concerns

The well-being goals discussion demonstrates the benefits which flow from sustainable land management and hence sustainable farms. Sustainable farms can be resilient to reasonable volatility, enhance the environment and ensure the long-term capacity of our land to produce food.

The revised policy proposals are designed to address many of the concerns expressed about moving away from the BPS (as described in the BPS annex to Miller Research's summary of responses document).

Farmers told us they did not want their farms artificially split between "food-producing" land and "public goods" land. Our over-arching response to these concerns is to bring together the environmental and economic aspects of the *Brexit and our Land* proposals. By combining the schemes, we allow for an in-the-round assessment of each farm's economic, environmental and social potential.

Farmers expressed concerns about how they would be able to compete internationally without the BPS. After Brexit, the UK will be more open to trade and this brings both new prospects and new risks.

While there will be opportunities for high-performing farms, it will be harder to be resilient. We therefore propose to provide support for business improvement to increase margins, and to design the sustainable farming payments to be a component part of a farm's net income.

This links closely to volatility – we were told farm support must help farmers manage the inevitable ups and downs involved in primary production. The Welsh Government believes this is doubly important as farmers' exposure to market volatility is likely to increase after the UK leaves the European Union. It is proposed sustainable farming payments will be set at a level which can contribute positively to farm net profits. It is further proposed the level of annual payments will be set in multi-year contracts with farmers. Critically, this will be a stable income stream as it is not linked to commodity prices, is unaffected by the exchange rate and Welsh public goods outcomes cannot be substituted with cheaper imports.

The consultation responses told us we need to more clearly address the importance of food production. We now consider there are significant public goods outcomes which can arise from sustainable food production. We propose to support these with an income stream. Further, we are committed to working with the development of the Welsh food and drink brand to explore opportunities for using the scheme to support Brand Wales. There is a strong market proposition for Welsh primary produce which has delivered public goods for Welsh society through its production.

Finally, there was strong feedback on the importance of protecting the active farmer and ensuring fair access for tenant farmers. It is therefore proposed the new scheme will pay for outcomes which can only be achieved through ongoing farming or land

management. The scheme must reward those who do the work – we are proposing to pay for farming or land management which yields outcomes, not for the ownership of land.

As such, there will always be a need for appropriate activity on the land. The Welsh Government's position is statutory tenants should not be disadvantaged in their access to farm support simply because they are a tenant and not an owner. To that end, we are consulting in parallel with the UK Government on potential changes to tenancy legislation. If appropriate, such provision may be included in the forthcoming Agriculture (Wales) Bill.

Enabling policies

While a sustainable farming scheme stands to be the Welsh Government's biggest tool for delivering its sustainable land management objective, there are other levers which it is important to consider in parallel – regulation, advice and support to the broader industry. Each of these will be discussed in the forthcoming consultation document.

First, the scheme should be considered in the context of the regulatory framework within which farmers and other land managers have to work. The Welsh Government proposes that payments provided by the scheme should be in return for outcomes over and above the minimum standard prescribed by regulation. It is therefore important to reflect on the level of regulation at the same time as payment rates. As we do this, there is an opportunity to simplify and streamline the requirements placed on farmers. It will also be important to consider how compliance with regulations is monitored and enforced.

Second, practical and impartial advice should be available to farmers to help them determine how to make their farms more sustainable after Brexit, and in particular to discuss the full range of public goods opportunities on their farm. The Welsh Government believes this will lead to better outcomes on farms.

Finally, we need to consider the success and sustainability of the broader agricultural industry and its supply chains. We cannot deliver our objectives for farms without this. This is why the proposal for an Economic Resilience Scheme in *Brexit and our Land* covered both farms and their supply chains. The farm-side elements of the Economic Resilience Scheme are now contained within the proposed new farm sustainability scheme. However, there remains a good case for supporting the broader industry if it helps deliver the sustainable land management objective.

Transition and next steps

Brexit and our Land consulted on an ambitious timetable to complete reform by 2025. The Welsh Government has subsequently confirmed BPS will be paid in 2020.

Since July last year, the scale of uncertainty surrounding Brexit has only increased. This affects the manner of our withdrawal from the European Union, the nature of our future trading relationship and the funding which will be available to support farms. We cannot make decisions on the timetable for reform without first knowing more.

We are also clear we cannot make changes until we can demonstrate a new system is adequately designed, we have undertaken the relevant impact assessments and we are confident it is administratively practicable. This reflects what the consultation responses tell us about the role the BPS currently plays and its wider impact.

We do not underestimate the challenge and this will take time to get right. Further, stakeholder bodies of all views have demonstrated they are willing to work closely with the Welsh Government to help design the practical elements of the new system of support.

Reflecting this, following the publication of the next consultation, the Welsh Government intends to launch a process of co-design involving farmers, foresters, advisers, academics, and stakeholder

bodies in the autumn. The forthcoming consultation will set out the parameters for the proposed new scheme, so we can go on to work with stakeholders to consider the practical aspects.

In terms of legislation, the Agriculture Bill 2019 is currently within its Parliamentary passage. Once law, it will include powers and duties for the Welsh Ministers to use until an Agriculture (Wales) Bill is brought to the Assembly. The timing for the Agriculture (Wales) Bill will be determined in the context of decisions on the legislative programme.

Impact assessment

The Welsh Government remains committed to undertaking the necessary modelling and impact assessments before finalising proposals.

The evidence pack, *'Agriculture in Wales'*, published today is the first step in this task. It sets out information relevant to the BPS to allow for the impact of new policy to be assessed relative to the current position.

The evidence pack notes the Welsh Government's intention to construct a series of representative farm models to estimate the range of financial and economic impacts of our proposals on farms of different types, sizes and locations in Wales. This will be an iterative process and this work will contribute to a broader range of impact assessments which will be undertaken in due course.

There are two important precursors to progressing this work. First, we need an agreed budget. While the UK Government has pledged to maintain cash levels of agricultural funding until 2022, there is no certainty on what happens thereafter or how funding will be repatriated to Wales. Second, we need to carry out further consultation on our proposals and undertake stakeholder co-design to determine the specific actions on farms which best deliver the outcomes we are seeking to achieve.

Once these are known, we will be able to use this information to assess the impact on different farm types across Wales.

Conclusion

We welcome the debate we have had through the *Brexit and our Land* consultation and future policy will be better for it. Sustainability is now at the core of the Welsh Government's proposals for reform. The forthcoming consultation will set out and seek views on what this means for future farm support in further detail. This will be a genuine consultation. No final decisions have been made about any aspect of the future system of support. We will work with farmers and others on the proposals and we will not introduce any changes until impact assessments have been completed and operations are ready.



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