CAP Reform Branch CAP Planning Division Welsh Government

First Floor, West Wing, CP2 Crown Buildings

Cathays

Cardiff, CF10 3NQ Dear Sir/Madam

# Proposals for the Basic Payment Scheme.

**Response by Cyfoeth Naturiol Cymru/Natural Resources Wales**

Thank you for consulting Natural Resources Wales (NRW) on the Welsh Government’s analysis of the various alternatives for the implementation of the Basic Payment Scheme (BPS).

NRW works as a regulator, partner and advisor to businesses, non-governmental organisations, Local Authorities and communities to help deliver Welsh Government and European Union policies and priorities. We take an ecosystem approach to promoting sustainable development that delivers social, economic and environmental benefits to the people of Wales.

The European Commission has stated that the purpose of the BPS is to provide basic income support to farmers alongside support for the basic public goods desired by European society. NRW is particularly concerned to ensure that the environmental risks inherent in moving to any new support system are identified, managed and mitigated as part of the change process. We consider that the environmental impacts of moving to area based payments are unpredictable and likely to vary from one part of Wales to another as well as from one farm to another. Even within those administrations that have already moved to an area based direct payment system, the environmental impacts resulting from such changes do not appear to have been well addressed at farm level. The forthcoming changes to the direct payment system may well necessitate alterations to the Wales RDP over the next few years. NRW would therefore be pleased to work with the Welsh Government in seeking to build the kind of evidence base that will be needed to underpin any such adjustments.

Whilst agreeing with the primary objectives of (i) meeting the requirements of EC Regulations and (ii) making BPS payments as soon as possible within the 2015 window, NRW believes that large and sudden income changes on individual holdings should be avoided as far as possible. Whilst some farmers will gain from the forthcoming changes, any large income losses could result in agricultural intensification with damaging impacts on sustainability. Other farmers may react to a reduced income by abandoning less productive areas of land. Reductions in habitat management are likely to be damaging in some areas, whilst in other locations there may be a net benefit - provided that any land released from agriculture can then be managed so as

to provide for alternative environmental, social and economic benefits.

Whilst we would have preferred to see the development of a BPS that takes more account of the characteristics of the different types of farmland within Wales, the move to a flat rate by 2019 (Option C) appears to be the most advantageous of the options now available. In maintaining the previous timetable it continues to send a clear signal to the industry. At the same time it should result in lower administrative costs whilst helping to support the longer term development of a system of Payments for Ecosystem Services or PES. This is because the necessary PES incentives would then have the same degree of traction with all farms, rather than just those who see a market advantage under their own particular levels of direct payment.

Alongside the tunnelling option, the move to a flat rate by 2019 appears likely to cause the least amount of disruption to the industry and so reduces the likelihood of adverse environmental impacts.

Our detailed response to each of the specific questions set out in the consultation document can be found in Annex 1.

Please do not hesitate to contact brian.pawson@naturalresourceswales.gov.uk

should you wish to discuss our response in more detail. Yours faithfully



# CERI DAVIES

Cyfarwyddwr Gweithredol Gwybodaeth, Strategaeth a Chynllunio, Cyfoeth Naturiol Cymru

Executive Director for Knowledge, Strategy & Planning, Natural Resources Wales

## ANNEX 1

***Question 1: Do you agree with the policy goals that we have selected and the prioritisation we have given them?***

Whilst broadly agreeing with the list of policy goals selected and the primacy of goals 1

& 2, we are not convinced that goals 3 - 7 inclusive are all of equal importance. From an environmental perspective, minimising disruption to individual claimants and to the farming industry as a whole are also very important goals. For instance, in our previous response to the Welsh Government on this issue we stated that: *“the introduction of area–based Direct Payments should seek to minimise the risk of perverse environmental, social and economic effects. Some farmers seem likely to gain from the forthcoming changes, but income losses elsewhere could result in agricultural intensification. This could have knock-on effects on sustainability in some locations. Other farmers may stop managing less productive areas of land or could go out of business entirely. The resulting environmental effects appear to be unpredictable. In some areas there could be a reduction in the capacity to manage existing habitats, whilst in others there might be a net benefit - provided any land released from agriculture was then capable of being managed to ensure the provision of a wide range of environmental, social and economic benefits”.*

We therefore suggest that minimising the number of **large** income changes on individual holdings (ideally in percentage terms rather than absolute amounts) should be a key secondary goal alongside moving to a common payment rate by 2019.

In terms of goal 3 (completing the movement of all claimants to a common payment rate by 2019) we believe that the stated rationale of aligning with the end of the next EU financial perspective may no longer be quite so critical. For example, some commentators are now suggesting that major changes to the CAP could well take place before 2019. At the same time, however, we still believe that 2019 represents a sensible target date for other reasons. In particular, movement to a common payment rate is likely to assist with the development of new models of payment for ecosystem services (PES). This is because the necessary incentives would then have the same degree of traction with all farms, rather than just those who see a market advantage under their own particular levels of direct payment.

## Question 2: Are there any other policy goals that you think we should seek to achieve? If so, please explain your reasons.

Reducing administrative complexity and the associated resource costs are not directly mentioned as one of the existing seven policy goals, although they are plainly implicit within goal 2. Despite this, goal 2 is concerned purely with the delivery of direct payments and makes no reference to the requirement to ensure that the Wales Rural Development Programme can also be delivered on schedule. Since staff within the Rural Payments Division are responsible for the delivery of both elements of the CAP,

we believe that the impacts of changing the approach to direct payments regime should be considered within a wider administrative context.

Since it no longer appears to be realistic to try to implement a Regional Payment Rate model (which had its own implications in that the RDP was originally aligned so as to provide additional support to upland farms) we believe that some acknowledgment of the wider impacts of moving to a new model for the delivery of direct payments should feature within the decision making process. Whilst this is alluded to within the Deputy Minister’s foreword to the consultation document, it would be helpful to see a more detailed analysis of the extent to which it will be necessary to develop an RDP support package targeted at those farms most likely to be adversely affected by whichever new system of direct payments is eventually chosen.

## Question 3: Which option do you prefer (tick one only)?

|  |  |
| --- | --- |
| A. Regional Payment Rates |  |
| B. Flat Rate from 2015 |  |
| C. Flat Rate by 2019 | √ |
| D. Tunnelling |  |

***Question 4: What are the reasons for your choice?***

Whilst we would have preferred to see the development of a system that takes more account of the characteristics of the different types of farmland within Wales, it is evident that the adoption of Option A will significantly increase the risk of failing to make payments during period 1st December 2015 - 30 June 2016. Owing to the impact on administrative resources, this option may also cause more disruption in terms of RDP delivery.

Option B would cause significant financial disruption to the industry. From an environmental point of view as well as from a social and a business perspective, we believe that this kind of situation needs to be avoided.

Option C will result in a greater number of **large** annual changes in income on individual holdings (e.g. those over €2000, albeit these have been expressed in absolute terms rather than a percentage impact) than is the case with Option D. However, this conclusion needs to be balanced against the specific advantages inherent in Option C. In particular, the move to a common payment rate under a 5 year time scale has been signalled in previous consultation documents and will support the longer-term development of a system based on Payments for Ecosystem Services (PES). Option C will also provide greater simplicity and by requiring fewer administrative resources should have less impact of the delivery of the RDP.

## Question 5: If we implement Option D (Tunnelling) do you think we should move all claimants to a single common payment rate by a specific date?

Yes. Perpetuating differential payments per hectare (beyond whatever end date is eventually chosen) will create additional administrative complexity and will undermine one of the fundamental objectives of the most recent round of CAP reform.

In the event that Option D is chosen, we agree with the proposal (as set out in paragraph 23 of the consultation document) for a seven year transition period.

## Question 6: Do you think we should use an ‘add-on’ option (tick which one/s)?

We do not support the use of any of the add-on options.

|  |  |
| --- | --- |
| E. Redistributive Payments |  |
| F. Adjustment of entitlementallocations by limiting entitlements |  |
| G. Adjustment of entitlementallocations by reduction coefficient |  |

## Question 7: What are your reasons for your choice?

Comparison of Tables 2, 3 and 4 suggests that the combination of Redistributive Payments with Option C will result in slightly more **large** income changes per annum

(e.g. those over €2000) than is the case with Option C alone. Since large income changes are more likely to drive unpredictable environmental change, we feel that there is no need to combine Option C with Option E.

The use of redistributive payments under Option E could result in a number of other impacts over and above smoothing the introduction of area-based payments. For instance, providing a higher payment on the first 54ha could result in the splitting of businesses in order to maximise the receipt of direct payments. Such a response by farmers could have both positive and negative impacts on a range of issues including future investment capacity as well as farm succession. Each of these would, in turn, have additional environmental impacts which might need to be addressed via the RDP.

In view of the fact that the adoption of Option E could add further unpredictability to an already unpredictable situation, we believe it should be rejected.

Option F (Limiting entitlements) will have an adverse impact on new entrants and could adversely affect the vision of “A more prosperous, resilient agriculture promoting

Wales’ present and future well-being”

Option G (Adjustment of entitlement allocations via a reduction co-efficient) will fail to meet the requirements of the relevant EC Regulations and will adversely impact on the Welsh Government’s ability to make BPS payments within the 2015 window.

## Question 8: If we use Option E (Redistributive Payments) what choices should we make in terms of how much land they apply to, how much of the budget is spent on them, and what should the level of payment be?

In the event that Option E is adopted, it would seem to make most sense to apply Redistributive Payments to the largest area of land permissible (54 hectares) whilst at the same time using the most money and the highest level of payment acceptable

under the Regulations. To do otherwise would reduce any of the benefits likely to arise from choosing this option in the first place.

## Question 9: If we use Option G (Adjustment of entitlement allocations by reduction coefficient) what choices should we make in terms of the size of the reduction and which land it should apply to?

Option G suffers from the same disadvantages as Option A. It appears to be impossible to determine with complete accuracy within the required timescale which areas of permanent grassland could be affected by the proposed reduction co-efficient. On the basis that Option G is likely to result in failure to meet the two most important policy goals, we believe that it should be rejected.

***Question 10: Is there any other option that you think we should consider? If so, please explain your reasons.***

No.

***Question 11: Are there any other comments you want to make?***

The absolute value of many farm receipts under the new Direct Payments system is set to decline over the period 2014-20. Using the new system of area payments to smooth the potential for substantial losses whilst reducing any ‘windfall’ gains, will ensure that more farmers are made aware of the need to adapt their businesses prior to 2020 - and the prospect of ongoing reductions in income support. Coupled with advice from Farming Connect, such an approach would also help to reduce the risk of unpredictable environmental, social and economic impacts.

***Responses to consultations are likely to be made public, on the internet or in a report. If you would prefer your response to remain anonymous, please tick here: □***