

NFFN Cymru Briefing: Potential Economic Effects of the Sustainable Farming Scheme

The Welsh Government commissioned independent research to estimate the [potential economic effects of elements of the proposed Sustainable Farming Scheme](#) (SFS) across Wales.

This briefing provides a summary of the report along with NFFN Cymru's thoughts and observations.

Research Parameters

- The research only looks at the potential effects of the SFS Universal Actions. Future Optional and Collaborative SFS elements are not modelled.
- The modelling estimates the upper-bound effects of the SFS, which assumes a 100% uptake in the SFS Universal Actions (regardless of payment rates). As such, estimated impacts on farm output and income are indicative of worst-case outcomes.
- Results are purely illustrative and look to inform policy decisions that have yet to be taken.

Payment Rates

The following payment rate combinations are being considered for the SFS Universal Actions.

- £91/ha for semi-natural habitats, £93/ha for woodland, and £28/ha for other¹
- £222/ha for semi-natural habitats, £283/ha for woodland, and £42/ha for other
- £91/ha for semi-natural habitats, £420/ha for woodland, and £28/ha for other
- £91/ha for semi-natural habitats, £283/ha for woodland, and £42/ha for other

For each of these payment rate combinations the research estimates the effect on agricultural land and labour use, farm output and farm incomes.

Habitat Creation

The research estimates the amount of semi-natural and woodland area created under the SFS Universal Layer.

- Semi natural habitat created: **25,700ha**
- Woodland created: **28,200ha**

Impacts of this vary across individual farms depending on their starting position e.g. existing habitat and tree cover as well as financial performance. Upland grazing farms in general require less additional semi-natural habitat to be created compared to lowland farms.

Livestock Units

Welsh livestock units will reduce by 122,200 (10.8% reduction)

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| - Dairy Lowland: 22,000 | - Lowland grazing: 10,900 |
| - Dairy LFA 22,500 | - Specialist Beef SDA: 4,200 |
| - Specialist Sheep: 31,300 | - Mixed/ other: 2,800 |
| - Mixed grazing: 27,200 | - Arable: 8,000 |

¹ "Other" includes actions such as planning, data gathering and reporting.

Agricultural Output

Agriculture output will reduce by £125.3m

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| - Dairy Lowland: £40.1m | - Lowland grazing: £7.7m |
| - Dairy LFA: £38m | - Specialist Beef SDA: £2.6m |
| - Specialist Sheep: £16.3m | - Mixed/ other: £2.4m |
| - Mixed grazing: £17.3m | - Arable: £1m |

Farm Business Income

Farm business income will reduce by £199 under the SFS Universal Action payments. Coupled with stability payments (valued at £117.3m) this is reduced to £81.6m.

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| - Dairy Lowland: £24.1m | - Lowland grazing: £6m |
| - Dairy LFA: £22.5m | - Specialist Beef SDA: £1.9m |
| - Specialist Sheep: £11.6m | - Mixed/ other: £1.7m |
| - Mixed grazing: £12.8m | - Arable: £1m |

Standard Labour Requirement

Standard labour requirement on Welsh farms will reduce by 11%

This largely reflects displaced livestock numbers. However, the research doesn't necessarily imply an actual reduction in on-farm labour since agricultural hours worked often exceed the nominal 1900-hour year.

Equally, non-agricultural tasks may increase e.g. tree/ hedgerow planting, management and subsequent harvesting as well as elsewhere in the supply-chain. The number of hours worked and/or nature of tasks undertaken are not necessarily indicative of likely changes in the number of farm-based workers and should be viewed alongside income/livelihood indicators.

NFFN Cymru Response

Understandably, farmers will be extremely concerned by these figures which paint a potentially bleak picture of the future. As modelled, farmers are being asked to deliver more (e.g. in terms of environmental delivery) for approximately the same level of support funding. The SFS is clearly under-budgeted. The overall costs of meeting environmental priorities through land management in Wales are estimated at over [£500m per annum](#). The SFS funding and associated payment rates must therefore reflect the scale of the challenge which is why we need a proper funding package for nature-friendly farming.

The estimated impacts fail to consider the optional and collaborative actions, which will form an important component of the SFS. This is why we're calling for the WG to introduce these additional SFS elements by 2026 at the latest, particularly as higher agri-environment payments are linked with [increased income stability and raised farm income](#).

We also challenge some of the assumptions made in the modelling.

Firstly, less output doesn't necessarily mean losses at the farm business level. The NFFN's [Nature Means Business in Wales](#) and [Farming at the Sweet Spot](#) reports present evidence of an average increase in farm profitability of 45% when farms actively work with the natural environment to manage production sustainably, restore nature and cut input costs.

Secondly, the modelling also fails to consider emerging evidence that working with natural processes, such as [increasing species diversity](#) and [effective grazing management](#), can [increase productivity](#) and profitability while maintaining or increasing levels of output. The [wider economic benefit of nature friendly farming](#) must also be considered.

Thirdly, we challenge the notion that habitat management assumes an automatic reduction in livestock numbers. Traditional approaches to agri-environment schemes based on income forgone payments has resulted in farmers being paid to reduce their livestock numbers, particularly on upland land parcels. In many instances this has led to habitat restoration on previously overgrazed land. However, many areas which haven't suffered from historic overgrazing are now *undergrazed*, leading to a deterioration in habitat quality and species populations. We mustn't repeat past mistakes - blanket policy approaches must be replaced by more well-thought out and strategic interventions.

To avoid these potential devastating impacts and to realise a more positive vision for the future, the Welsh Government must properly invest in schemes that support an ambitious farming transition in Wales that delivers for food, farmers, nature and climate.