Agenda - Climate Change, Environment and Rural Affairs Committee

Meeting Venue:

Committee Room 3 - Senedd

Meeting date: 6 December 2018

Meeting time: 09.00

For further information contact:

Marc Wyn Jones

Committee Clerk

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1 Introductions, apologies, substitutions and declarations of interest

(09.00)

2 Motion under Standing Order 17.42 (vi) to resolve to exclude the public from items 3, 6 and 7 of today's meeting and for the meeting on 12 December 2018 to consider the draft report on the UK Agriculture Bill

(09.00)

3 Briefing on the Legislative Consent Memorandum for the UK Agriculture Bill

(09.00-09.30) (Pages 1 - 17)

Attached Documents:

LCM - Legal Advice Note

LCM - WTO Provisions

4 Consideration of the UK's Agriculture Bill: evidence session with the Cabinet Secretary for Energy, Planning and Rural Affairs

(09.30-10.30) (Pages 18 - 41)

Lesley Griffiths, Cabinet Secretary for Energy, Planning and Rural Affairs
Tim Render, Lead Director for the Environment and Rural Affairs, Welsh Government
Peter McDonald, Deputy Director, Land Management Reform Division, Welsh Government

Attached Documents:
Research Brief

5 Paper(s) to note

(10.30)

5.1 Correspondence from the Chair to the Llywydd regarding the Legislative Consent Memorandum for the UK Agriculture Bill

(Pages 42 - 44)

Attached Documents:
Letter from Chair - 18 November 2018

5.2 Correspondence from the Chair to the Cabinet Secretary for Energy, Planning and Rural Affairs regarding the Public Goods scheme

(Pages 45 - 52)

Attached Documents:
Letter from Chair - 27 November 2018

5.3 Correspondence from the Cabinet Secretary for Energy, Planning and Rural Affairs to the Chair following the evidence session with the Cabinet Secretary at the Committee meeting on 8 November 2018

(Pages 53 - 54)

Attached Documents:
Letter from Cabinet Secretary - 21 November 2018

5.4 Correspondence from the Cabinet Secretary for Energy, Planning and Rural Affairs to the Chair regarding the Climate Change (Wales) Regulations 2018

(Pages 55 - 62)

Attached Documents:

Letter from Cabinet Secretary - 20 November 2018

6 Forward work programme

(10.30-10.45) (Pages 63 - 70)

Attached Documents:

Forward Work Programme

7 Consideration of oral evidence

(10.45 - 11.15)

Agenda Item 3

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Cynulliad Cenedlaethol Cymru
Y Pwyllgor Newid Hinsawdd, Amgylchedd a Materion Gwledig

National Assembly for Wales
Climate Change, Environment and Rural Affairs Committee

Elin Jones AM
Llywydd

9 November 2018

Dear Llywydd

Legislative Consent Memorandum (LCM) for the UK Government's Agriculture Bill

On 7 October 2018, the Business Committee referred the LCM for the UK Government's Agriculture Bill to the Climate Change, Environment and Rural Affairs Committee (the Committee) for consideration. The Business Committee set a reporting deadline of 14 December 2018.

Given the historic significance of this Bill and the implications for the future of the agricultural sector in Wales, the Committee has been very keen to hear from the Cabinet Secretary about her intentions for the use of the provisions in the Bill, should the Assembly agree to give consent for the UK Parliament to legislate on its behalf.

The Cabinet Secretary is only available on the 6 December and then, only for one hour, to discuss the wide-ranging provisions. In order to meet the Business Committee's reporting deadline, the Committee will need to prepare, consider, and agree its report on the LCM within 6 working days of the Cabinet Secretary's attendance. The Committee has agreed to ask the Business Committee to extend the timetable for reporting on the LCM by 10 working days, to accommodate the Cabinet Secretary's availability and to give the Committee sufficient time to consider and agree its report and for it to be prepared for publication.

In anticipation of other substantial LCMs being laid in the Assembly, it would be timely to draw to the Business Committee's attention two broader matters in relation to the timetables for the consideration of LCMs.

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First, Standing Order 29.1 provides that a member of the government must lay an LCM normally no later than two weeks after a UK Government Bill has been introduced.

The LCM relating to the UK Agriculture Bill was laid more than three weeks after the Bill was introduced in Parliament. Similarly, the UK Fisheries Bill was introduced in Parliament on 25 October. By 8 November, no LCM had been laid in the Assembly, despite two weeks having elapsed since the UK Bill's introduction.

A delay in the laying of an LCM will inevitably mean that time available for Assembly scrutiny is reduced, given that the overall timetable is dictated by the UK Bill's passage through Parliament. It would be useful if the Business Committee could bear in mind compliance with Standing Order 29.1 when determining the timetable for Committee consideration of an LCM.

Of course, there may be exceptions when the two week rule cannot be met. In such cases, it would be useful if the Business Committee could ask the Welsh Government to explain the reasons. This information could help inform the Business Committee's decision on the timetable.

Second, if the Business Committee decides to refer an LCM to a Committee for detailed scrutiny, it would be useful if the Business Committee could seek confirmation that the relevant Cabinet Secretary or Minister are able to make themselves available to appear before the Committee during the reporting period. Preferably, this should occur sufficiently early during the reporting period to enable the Cabinet Secretary or Minister's evidence to inform the Committee's report.

I would be grateful if you could consider the Committee's request for an extension to its reporting deadline and the two broader issues highlighted by the Committee.

Yours sincerely,

Mike Hedges

Mike Hedges AM
Chair of Climate Change, Environment and Rural Affairs Committee

Agenda Item 5.2

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

27 November 2018

Dear Lesley

Following the publication of *Brexit and our land*, the Committee agreed to carry out a short piece of work to assess the risks and opportunities of an outcomes-based approach to the Public Goods scheme, as set out in the consultation.

In order to inform our work, we held evidence sessions with academics, representatives from NFU Cymru, FUW, RSPB, Wildlife Trust Wales, and those directly involved in delivering outcomes-based schemes.

The three key messages from our work can be summarised as –

- **Development of schemes** – the shift away from basic payments to the two proposed payment schemes, including a payment for public goods scheme, is the most significant change to how the agriculture sector is supported in over 40 years. The Public Goods scheme will need to be introduced on an unprecedented scale. This will require detailed modelling and pilot schemes and engagement with the industry to ensure the schemes are fit for purpose;
- **Implementation** – the timescale for beginning the transition to the new schemes (starting in 2020) is very short, against a backdrop of unprecedented uncertainty (some which will have direct impact on the agriculture sector, such as future trading arrangements); and
- **Funding** – there is a lack of clarity about how the proposed schemes will be funded after 2020.

As you know, the Committee has previously carried out an inquiry into the **Future of Land Management in Wales**, which considered future payment and support for Welsh farmers once the UK leaves the European Union ('EU'). In our report, we concluded that the Welsh Government should explore the potential for introducing support mechanisms that underpin high quality food production and achieve sustainable outcomes. We made a number of recommendations to that effect.

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Building on the report, we have set out the key issues raised in more detailed evidence on outcomes-based schemes which we would like to draw to your attention. We believe these issues require further exploration as part of the ongoing development of the proposed schemes.

Development of schemes

Modelling and pilot schemes

FUW raised serious concern that the proposals set out in the consultation document are, "untried, untested, unmodelled and unpiloted" and, as such, there is "no understanding" of the economic or environmental impacts. It explained that, in comparison, extensive modelling had been undertaken for previous Common Agricultural Policy (CAP) scheme proposals. This included an assessment of the impact on individual businesses and on different geographical locations. Findings had shown that "with most of the models, [there were] huge movements of money for certain areas, which would have had very catastrophic impacts for those areas".

There was consensus that pilot schemes should be established either before or during the transition period to help inform the development and implementation of the proposed scheme.

Can you provide information about the modelling that will be undertaken to inform the development of detailed proposals for the Public Goods scheme, including the timescales involved and resources available to support this work.

We would like you to clarify when you intend to establish pilot schemes, on what scale, and how they will be funded.

Can you explain why you haven't undertaken any assessment of the potential impact of your proposed schemes, before you undertook your consultation?

Engagement and collaboration

Witnesses agreed that engagement and collaboration in developing schemes will be central to their success. They emphasised the need for a "bottom-up approach", which relied on a high degree of farmer involvement and input from the wider rural community.

Witnesses emphasised that farmers have a wealth of knowledge and experience, and understand which outcomes can reasonably be delivered on their land. This should be harnessed when developing schemes and identifying appropriate outcomes.

An evaluation of Dartmoor Farming Futures found that farmer involvement in the design of schemes can lead to better ownership and understanding of their agreements, which, in turn, leads to better outcomes. This applies equally to farmer involvement in measuring and monitoring outcomes.

The schemes referred to in evidence including the Burren Programme, Dartmoor Farming Futures and North Yorkshire Results-based Agri-environmental Payment Scheme (RBAPS) have managed to successfully engage farmers and land managers in all stages of the development. However, these schemes tend to be small-scale. We believe that replicating this success on the scale required for a national scheme will be a challenge.

Can you provide information about how you propose to involve farmers and land managers in the development of schemes and, in particular, in the development of initial pilot schemes?

Access to schemes

Farming unions asserted that the proposed scheme will replace the Basic Payments Scheme as the main income stream for farmers. It must, therefore, be accessible to farmers across all agricultural sectors and geographical areas.

Witnesses emphasised the need to ensure that the proposed scheme does not disadvantage tenant farmers. In particular, it would be important to consider how best to reward farmers with short-term tenancies in delivering long-term outcomes.

We expect future modelling and pilot schemes to be used to assess the extent to which the proposed scheme is accessible to farmers across agricultural sectors and geographical areas.

Defining outcomes and indicators

RSPB emphasised the need to ensure that outcomes reflect commitments to international targets, for example, climate change, as well as local priorities. Where possible, outcomes should be developed and agreed in collaboration with local communities. RSPB cited the Sustainable Management Scheme as a positive example of collaborative working to deliver landscape-scale projects.

Similar views were expressed by Professor Christie who suggested that outcomes-based schemes provide an opportunity for greater localism, where decisions could be devolved, for example, to National Parks or local authorities, and informed by local communities.

There was strong consensus that outcomes should be clearly defined and easy to understand. Witnesses emphasised the importance of identifying appropriate and robust indicators to assess the impact of the scheme. Professor Christie explained that some indicators are easier to measure than others. For example, biodiversity indictors tend to be easier to measure than climate change mitigation or water quality indicators. Dr Hockley called for a clear regulatory baseline in order to reward land managers for additionality.

FUW raised concerns around a “postcode lottery” where there was a risk that some farmers could lose out due to ecological processes that are outside of their control. We heard that, for this reason, the number of birds on the land was not used as an indicator in the North

Yorkshire Results-based Agri-environmental Payment Scheme (RBAPS). Wildlife Trusts Wales highlighted the need to consider the whole catchment scale rather than being too definitive, looking at ecological processes and nature-based solutions on a landscape scale.

We expect indicators for outcomes to be clearly defined, easy to understand and fair. They should be developed and agreed in collaboration with local communities and land managers to ensure understanding and buy-in.

Can you clarify when you intend to bring forward proposals for a new regulatory baseline, and whether any new regulatory baseline will be in place before the Public Goods scheme is introduced.

Payment

One of the key concerns raised by farming unions was the impact of outcomes-based payments on farmers' income, and on their ability to plan and invest in their businesses.

FUW asserted that variable payments between years would be "inevitable" if payments were linked to the delivery of outcomes. It emphasised that the delivery of outcomes will depend on a number of external variables that are outside the control of farmers (for example, extreme weather conditions).

There was concern raised that the proposed scheme could effectively penalise farmers who have a long track record of delivering positive environmental outcomes through good land management practices. NFU Cymru emphasised the need to ensure that the proposed scheme will "reward what's already on the farm, what farmers have already done and what they're caring for." Similar views were expressed by Dr Hockley and RSPB.

Witnesses emphasised the need to provide fair reward to farmers, which would require a payment structure designed to incentivise farmers to take part in the proposed scheme.

Several witnesses highlighted potential difficulties associated with payments based on outcomes alone, given the time taken for changes in management practices to deliver outcomes. It would be important to identify how payments could be linked to results in the short term.

None of the schemes referred to in evidence based payments on outcomes alone. Professor Christie reported that most outcomes-based schemes are 'hybrid' models, where part of a payment is linked to delivering agreed outcomes and part for complying with a prescribed management regime. He explained that this reduces the risk for farmers and could encourage uptake. The level of payment is currently often based on income forgone, costs incurred and training undertaken. This was mainly attributed to European rules for payments.

Dr Hockley suggested that a hybrid model would be particularly important early in the schemes. This would allow payments for early actions to, for example, establish woodlands, and the schemes could phase into having more emphasis on outcomes-based payments as they move on and outcomes can be measured.

We would like to know what consideration you have given to introducing a 'hybrid model', which we heard may help mitigate the risks associated with an outcomes-based approach.

WTO Agreement on Agriculture

There were mixed views from witnesses about whether compliance with the World Trade Organisation ('WTO') Agreement on Agriculture would act as a barrier to the proposed scheme.

FUW stated that the Agreement on Agriculture was "fairly explicit in what it doesn't allow, which is payment above the income foregone measurement". It raised serious concern that the Welsh Government has yet to address the question of compliance and called for further action to be taken in this regard. FUW highlighted that without surety, there would be risk of future challenge, which could result in lengthy trade disputes.

Under the UK Agriculture Bill ('the UK Bill'), the UK Government will be responsible for ensuring that all UK domestic support policies are WTO compliant. It will also be responsible for setting financial ceilings in Wales (and the other devolved nations) in relation to agricultural support, and for establishing a decision-making process for classifying support in accordance with WTO criteria.

NFU Cymru explained that it was not clear how the UK Government will approach its responsibility to ensure compliance or what the implications of this will be for the delivery of the proposed scheme. NFU Cymru stated that, as the proposed scheme progresses, it will be "critical" to ensure that payments for outcomes are permissible above income foregone or costs incurred.

We are aware of your ongoing discussions with the UK Government about the WTO provisions within the UK Bill. These decisions will have significant implications for the proposed scheme and the approach to future payments. As such, we hope that an agreement is reached with the UK Government, as a matter of urgency.

We would like details of the work you have undertaken to satisfy yourself that the proposed scheme can be delivered successfully in accordance with the WTO Agreement on Agriculture.

Implementation

Timing

Farming unions raised concern about the proposed timescales for implementing the scheme, particularly given that detailed modelling and impact assessments had yet to be undertaken and pilot schemes had yet to be established. FUW explained that Tir Gofal, the previous agri-environmental scheme, had been piloted over a seven year period before full implementation. Similarly, NFU Cymru explained that previous CAP reforms had been implemented over a period of several years.

NFU Cymru suggested that the Welsh Government should consider extending existing Glastir contracts that are due to end in 2018 and 2019, which would provide more time for the proposed scheme to be developed and tested before implementation.

Wildlife Trusts Wales acknowledged the need for an appropriate transitional period. However, it raised concern about delaying implementation and reiterated the need for swift action to address the rapid decline in biodiversity.

Brexit and our land includes a proposed transition period from 2020 to 2025. The UK Government's timetable accompanying the Agriculture Bill suggests that transition in England will begin a year later in 2021, and that reform will be completed by 2027.

We would like you to explain why you are seeking to begin transition in 2020, and whether this is practicable, given your commitment that there will be "no changes until the new schemes are ready to be rolled out".

Capacity

Farming unions suggested that the extent of the challenge in transitioning to the proposed scheme should not be underestimated. They questioned whether there is sufficient administrative and advisory capacity to deliver the proposed scheme, particularly given the volume of applications that are anticipated and the timescales involved.

According to the farming unions, applications could reach up to 25,000 compared to the 16,000 to 17,000 claimants under the Basic Payments Scheme. They raised concern that insufficient capacity could result in delays for farmers in accessing the scheme, and in receiving payments. FUW referred to the difficulties in England of implementing the EU's Single Payment Scheme ('SPS'). Delays in administering payments had resulted in considerable financial penalties. According to a National Audit Office report, these difficulties has arisen, in part, because the Rural Payments Agency had underestimated the scale of the work needed to implement the SPS.

Dr Hockley stated that the proposed scheme was "not that radical a departure from Glastir" and allows for further reform over time. He suggested that the transition period would be useful to allow for any administrative adaptations and to address any capacity issues.

We would like details of any work undertaken to assess the potential increase in the number of applications under the proposed scheme. We would like further assurance that there is sufficient capacity within current advisory services and Rural Payments Wales to ensure a smooth transition to the proposed scheme.

Monitoring

As previously stated, witnesses emphasised the importance of involving farmers in monitoring outcomes. This enhances understanding of the scheme, fosters ownership and increases their commitment.

Evidence from the evaluation of existing schemes, including the Burren Programme, highlights the need for intensive training on outcomes monitoring for both advisors and farmers.

Professor Christie explained that in "a lot of pilot projects", most farmers are able to self-monitor after one year, with some requiring additional, short-term support. Refresher training is also available. Most schemes combine self-monitoring with second or third party assessment. This combined approach has been successfully adopted by Dartmoor Farming Futures where accuracy of self-assessment was around 70%.

RSPB highlighted the limitations of the current Glastir Monitoring and Evaluation Programme ('GMEP'), in particular the lack of appropriate indicators to effectively monitor changes in rare species.

We would like clarification on the role of farmers in monitoring outcomes under the proposed Public Goods scheme. We would also like details of any work undertaken, or planned, to assess the training requirements of farmers to enable them to carry out self-assessments, and any analysis of the associated training costs associated.

Funding

The uncertainty around future funding for land management was a key concern for representatives from both the agricultural and environmental sectors. They called for secure, long-term funding to provide confidence in futures schemes, certainty to farmers, and to ensure tangible environmental improvements.

Wildlife Trusts Wales raised concern that, under future funding arrangements, the proposed scheme will be competing for funding with other political and public priorities, such as health and education. Both Wildlife Trust Wales and RSPB emphasised the need for the schemes to demonstrate value for money and hold up to increased public scrutiny. They believed that an outcomes-based approach would help achieve this. Similar views were expressed by Professor Christie.

We welcome the UK Government's commitment to protect overall funding for UK farm support until the end of Parliament in 2022. Future funding arrangements in the short and longer term will depend on effective collaboration and joint working between the UK and Welsh Government. We have serious concerns, therefore, that the UK Government chose not to engage you fully before establishing the independent advisory panel to consider how this funding will be distributed.

We note the UK Government's offer for a Welsh representative to sit on the panel. We expect you to take advantage of this offer to maximise Wales' opportunity to ensure fair funding for agricultural support. It will be important to ensure that the Welsh Government's nomination has the confidence of the sector.

The adoption of the proposed Public Goods scheme would mean a significant change to the way that Welsh farmers are supported following the UK's departure from the EU, and the end of the CAP in Wales.

Our work has highlighted the scale of the challenge for the Welsh Government if it is to develop and implement a scheme capable of delivering the objectives set out in *Brexit and our land*, by the end of the reform period.

We would welcome a response to the matters raised in this letter no later than 31 January 2019.

You will be aware that we are in the process of considering the Welsh provisions within the UK Government's Agriculture Bill, including those that provide for the administration and implementation of the proposed Public Goods scheme. We will be reporting on the Bill in early January.

Yours sincerely,

Mike Hedges AM

Chair of Climate Change, Environment and Rural Affairs Committee

Lesley Griffiths AC/AM
Ysgrifennydd y Cabinet dros Ynni, Cynllunio a Materion Gwledig
Cabinet Secretary for Energy, Planning and Rural Affairs

Llywodraeth Cymru
Welsh Government

Mike Hedges AM
Chair
Climate Change, Rural Affairs and Environment Committee
National Assembly for Wales

21 November 2018

Dear Mike

Thank you for your letter of 9 November seeking further clarification following my attendance at the Committee session on the Welsh Government's draft budget report 2019-20 held on 8 November.

Please accept my apologies for the slight delay in responding. There was a need to conclude discussions with DEFRA on some of the queries you raised with regards to the UK Agriculture Bill.

Consideration of the Climate Change (Carbon Budget) (Wales) Regulations 2018

I have noted your intention to report on the regulations, in accordance with Standing Order 27.8.

Low Carbon Delivery Plan

A copy of the Delivery Plan will be made available to the Committee in week commencing 18 March 2019.

UK Agriculture Bill

I am confident the Bill does not constrain future policy. The Welsh provisions in the Bill provide broad, enabling powers which allow the flexibility for a wide range of possible payment schemes to be designed and implemented dependent on the nature of the UK's exit from the EU and the outcome of the consultation 'Brexit and our Land'.

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It is necessary to take these broad powers now so the Government can react appropriately once decisions are made. As I outlined in my letter of 30 October, I would like to reassure the Committee no policy decisions will be made before further consultation and the use of these powers will require separate secondary legislation to take effect, giving the Assembly opportunity for proper scrutiny. I also reconfirm my intention to bring forward an Agriculture (Wales) Bill to the Assembly once decisions have been made on future policy.

If the UK leaves the EU without a Brexit agreement, new regulations correcting deficiencies in the EU regulations (including the Common Agricultural Policy (CAP) Direct Payments regulation for scheme year 2020) will come into effect on 29 March 2019 under the UK Withdrawal Act. In this scenario, the Direct Payments regulation would apply up until claim year 2020 only. The provision to allow the making of Direct Payments beyond 2020 is therefore being taken under the UK Agriculture Bill.

In the event of an agreement on an Implementation Period running up until 31 December 2020, EU regulations would continue to apply until that date, with the exception of the CAP Direct Payments regulation which is not included in the current draft Withdrawal Agreement for scheme year 2020. As currently drafted, the Agriculture Bill does not include powers to make Direct Payments in 2020 in this scenario. The legislative mechanism to resolve this cannot be brought forward until Parliament has had a meaningful vote on the final Withdrawal Agreement. If agreement is reached we expect the provision to continue to make Direct Payments in claim year 2020 to be taken under UK legislation.

As you acknowledge, I was very clear to the Constitutional and Legislative Affairs Committee that the issue of the WTO rules is a red line for the Welsh Government and I would be unable to recommend the Assembly gives its consent to the Bill until this has been resolved. I have had recent positive discussions with the Secretary of State and officials are also making good progress in finding a solution. It may not be necessary to amend the Bill to achieve this and it could be possible to reach a satisfactory outcome through an agreement between governments as to how the existing provision should operate. I am hopeful our two governments will reach agreement and that I will be able to recommend the Assembly gives its consent in due course.

<u>UK Fisheries Bill</u>

Standing Order 29 requires the Welsh Government to table legislative consent memorandums normally within two weeks of a Bill's introduction and we always seek to comply with that deadline. This has not been possible in a few recent cases, but we have to recognise both the Fisheries Bill has significant consent issues to consider, being a UK Bill dealing with the implications of Brexit for important sectors for which responsibility is devolved. As a result, it has taken longer than normal to lay the memorandum which was laid on 15 November. On Assembly consent matters such as this, the Welsh Government is keen for there to be plenty of scrutiny time for Committees.

Regards

Lesley

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

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Ein cyf/Our ref: MA-L-LG-0747-18

Mike Hedges AM
Chair of the Climate Change, Environment and Rural Affairs Committee
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26 November 2018

Dear Mike

Thank you for your letter of 13 November in which you set out a number of questions regarding the Climate Change (Wales) Regulations 2018. I am pleased to provide the Climate Change, Environment and Rural Affairs Committee with the following information to inform your scrutiny of the Regulations.

Question 1: What will be the effect if the Assembly does not agree the Climate Change (Wales) Regulations 2018 in Plenary?

The Environment (Wales) Act 2016 was purposely designed to set the legislative pathway for emissions targets as soon as reasonably possible to drive action. If the Assembly does not agree, it would cause a significant delay. We would not be able to effectively develop and publish a Delivery Plan. This will cause uncertainty and clarity for others such as stakeholders who have been involved in the process, as well as diverting resources.

Although there would be no effect on the 2050 target as this is set out in the Act, sections 30 and 31 of the Act place a duty upon the Welsh Ministers to set interim targets for 2020, 2030 and 2040 and the first two carbon budgets in regulations before the end of 2018. In the event of the Assembly not approving the draft regulations setting interim targets and budgets 1 and 2, the Welsh Ministers would be in breach of the duties contained within those provisions.

Moreover, delay in setting the first carbon budget could lead to a delay in the publication of our report setting out the Welsh Ministers' policies and proposals to meet it. Section 39 of the Act requires a report is published as soon as reasonably practicable after the setting of the first carbon budget. Recognising stakeholders wanted action we have currently scheduled the plan for publication in March 2019.

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If the draft Regulations are not approved in Plenary, we may need to seek further advice from the Committee on Climate Change, causing further delays before returning to the Assembly. Our focus must now be on action.

Question 2: Can you confirm the levels of reductions that will be delivered by each of the four options contained in your Regulatory Impact Assessment, expressed as a percentage reduction below the baseline?

Accurately projecting future emission pathways and the impact of specific policies and proposals upon them is challenging and highly uncertain, especially for long-term projections out to 2050. There is a wide variety of approaches to constructing emissions projections and additional uncertainties are introduced when comparing and contrasting different models which are based on different assumptions and scenarios.

To test the recommendations of the CCC and to provide further detail to inform our RIA we developed a Wales-specific emissions projection tool (the Wales 2050 calculator). This is under continual development and refinement within government to ensure we have the best possible insight into future emissions pathways. Although it looks at emissions in a different way it has provided a valuable gauge against which to test the CCC's scenarios and has produced results which are broadly consistent with those produced directly by the CCC.

Within the RIA, Option 1 through the model (BAU baseline) achieves a 2050 reduction of 46% below 1990 levels and would clearly not deliver a reduction consistent with our statutory 2050 target. Options 2 to 4 achieve reductions in the order of 77-78% below 1990 levels and given the significant uncertainties highlighted, especially when translating between the different modelling approaches adopted by the CCC and the Welsh Government, are considered to be within a range which supports the expert analysis provided by the CCC in their advice.

On this basis we are confident legislating for the pathway recommended by the CCC provides the most achievable low-carbon transition pathway for Wales to meet its statutory obligations, providing the best balance between costs and our well-being goals and objectives.

Question 3: Are you content that your proposed approach strikes the right balance between achievability and ambition, given that it will not meet the aims of the Paris Agreement, according to the advice of the UK CCC?

The CCC suggests UK greenhouse gas emissions will need to reduce by 71-83% in 2050 for global average temperature rise to remain below 2°C. Although it is for the UK as a whole to contribute to meeting the aims of the Paris Agreement, we recognise Wales has a role and this is why we are putting in place legislative action.

The Regulations, are responding to the requirement in the Act for us to establish a pathway to reaching the 2050 target with our interim targets and carbon budgets. The Act already requires us to meet at least an 80% reduction in Wales by 2050 and was established in primary legislation in 2016. Therefore the 2050 target is not in scope.

Our proposed approach adopts the targets recommended by the CCC, who are required to consider international agreements relating to climate change when preparing their advice as well as a number of other areas such as the Well-being of Future Generations Wales Act. Wales' emissions profile is very different to the rest of the UK nearly 60% of our emissions come from heavy industry and electricity generation (referred to as the 'traded sector' under the EU Emissions Trading Scheme) compared to 36% for the UK as a whole.

The CCC suggests an 80% reduction for the UK implies a 76% reduction in Wales. By adopting a 2050 target of 'at least 80%' we are arguably making a proportionally greater contribution to the Paris Agreement than the UK as a whole. Accordingly our proposed approach provides the best balance between achievability and ambition, given Wales' emissions profile.

I have written to the UK Minister of State for Energy and Clean Growth to approve a joint commission for advice from the CCC in relation to how the evidence in the IPCC report might affect our long-term emissions reduction targets. Whilst our focus now is rightly on the action to deliver our low carbon objectives.

Question 4: Will you give a commitment to reconsider the 2050 target before setting future carbon budgets; that you will do so based on the advice of the UK CCC; and report back to the Assembly on your decision?

We expect to receive the CCC's advice on our long-term targets in April next year. We will consider this advice and its implications for our statutory framework and report back to the Assembly before setting the third carbon budget. We will also consider the other sources of evidence described in the Environment (Wales) Act 2016.

Question 5: What are your current projections for the level of emissions levels in 2020?

The CCC has undertaken in-depth pathways analysis to develop their recommendations on the appropriate level of targets and budgets. The CCC bases their 2020 pathway on the assumption it should be met through existing policies. Therefore, all three CCC pathways (76%, 80% and 85% in 2050) show the same emission reduction achievement to 2020 and the scenarios only start to diverge after this point dependent upon new policy introduction. We have tested the CCC's scenarios and sector implications with policy officials across Welsh Government and we are in agreement with the CCC's assessment. As such we believe current policy is sufficient to place emissions on a trajectory to deliver a 27% reduction against the 1990 baseyear by 2020.

However, Wales' emissions profile and the high contribution from energy-intensive industries covered by the EU-ETS makes Wales particularly susceptible to year-to-year volatility in emissions, which is shown by the recent 2016 emissions data. Changes in how much energy is used or productivity in industry, can affect our overall emissions. As such there is considerable uncertainty in projecting emissions for a single year in the future and, as recommended by the CCC, it is prudent to ensure we have sufficient flexibility mechanisms, such as international offsets, to account for unforeseen circumstances.

Question 6: What is your understanding of the timetable for the closure of Aberthaw power station, which will have a significant impact on your ability to meet the 2030 interim target?

As it is a private sector commercial enterprise, we do not have a firm date for any future closure of the Aberthaw power station. However, we are aware the current Capacity Market contract held by RWE ceases in 2021. We agree with the CCC's view that the site will be subject to the UK Government commitment to phase out unabated coal generation by 2025. We also agree the Industrial Emissions Directive (IED) requirements will influence overall emissions from Aberthaw over the period up to 2025. As such we are confident in the scenarios in which the cessation of unabated coal generation at Aberthaw contributes significantly to the delivery of our 2030 interim target.

Question 7: The difference between the estimated costs for the first two carbon budget periods is £12bn, which is made up almost entirely of costs incurred in the "Power" sector. This constitutes an increase in costs equivalent to £2.4bn a year over the budget period. Can you provide more details on your estimates for this cost?

The cost of emissions reduction measures is provided as an illustration only and is based on theoretically achievable options identified by the CCC to show a range of costing options. As highlighted in the RIA, the portfolio of policies to deliver the budgets is unknown at this stage and will be dependent on the actions taken in the budget period.

In the chosen scenario, the increase in costs in the power sector in the second budget period is attributed to the capital costs in the nuclear industry and to a lesser extent grid infrastructure.

Question 8: The estimated costs for the first Carbon Budget (2016-2020) are an additional £2 billion above the baseline (i.e. a "do nothing more" option, with no additional policy interventions). Can you explain how you expect additional costs of £2 billion to arise during the last two years of the budget period (i.e. 2018-2020)?

The cost of emissions reduction measures is provided as an illustration only and is based on theoretically achievable options identified by the CCC and will be dependent on the actions taken in the budget period.

The modelling used to undertake the costing is best suited to long term analysis of the energy system rather than policy implications over the 2010s and 2020s. The baseline was created using an extrapolation of the historic trend of Welsh emissions from 1990 to 2014. The start of the 2016-2020 period is where the model scenarios diverge from the baseline, therefore the additional £2 billion arises over the period 2016-2020 and not just in the last two years of the budget period.

In the chosen scenario, the costs in addition to the baseline in the first carbon budget come primarily in the power sector. Within this sector, capital costs in grid infrastructure is the largest contributor, followed by capital costs in both solar and offshore wind.

Question 9: Save for the increase in costs relating to the Power sector (£12bn), you expect minimal changes in costs relating to all other sectors between the first and second budget periods. Can you explain the rationale for this?

The cost of emissions reduction measures is provided as an illustration only and is based on theoretically achievable options identified by the CCC. The portfolio of policies to deliver the budgets is unknown at this stage.

In the chosen scenario the largest cost increases between the first and second budget fall in the power sector, accounting for approximately 75% of costs. This is not however surprising, given 70% of the costs over the whole of the scenario to 2050 are forecast to be in the power sector. These are attributed to capital investments. Similarly the sector with the second largest increase in costs between the first two budgets is transport, also the second largest when looking at costs over the whole scenario.

Question 10: What are the risks and benefits of the Welsh Government's decision to include international aviation and shipping in the Regulations?

Our decision to include emissions from international aviation and international shipping in the Net Welsh Emissions Account is the most transparent approach and is recommended by the CCC. We estimate these emissions accounted for around 2% of Welsh emissions in 2015 but this number will increase over time if they do not reduce in line with emissions from other sources. Counting these emissions is an important first step to spur action in these sectors.

The CCC advised against unilateral action to tackle these emissions. Instead it recommended action at an international level and we are therefore heavily reliant on the UK Government to lead the global effort to reduce these emissions.

There are encouraging signs around this area. In April 2018, the International Maritime Organisation (IMO) agreed an initial strategy to reduce emissions from international shipping, including a reduction objective of at least 50% by 2050, compared with 2008 levels. In June 2018, International Civil Aviation Organisation (ICAO) Council adopted standards and recommended practices as part of its carbon offsetting and reduction scheme for international aviation (CORSIA). CORSIA aims to stabilise international aviation emissions at 2020 levels.

Question 11: Given that there are two years remaining of the first carbon budget period, what are your current projections of the amount of carbon units you will need to use to meet the first carbon budget, expressed as a percentage of the first carbon budget?

Following the CCC's advice, we are not planning to use carbon units to meet the first carbon budget and so we do not have a projection of the amount of carbon units which may be required. We intend to meet the first carbon budget by delivering the actions in our forthcoming report and by the actions of the UK Government in non-devolved areas. However, carbon units are an important feature of our emissions reduction framework as they provide flexibility in the event of changes to the greenhouse gas inventory, increases in industrial emissions or a run of cold winters.

Question 12: What are the risks arising from the variability of the price of offset credits? How can those risks be mitigated?

Predicting the future costs of offset credits is very difficult and therefore the RIA provides a range of possible costs. As offset credits are a global trade, the cost to the Welsh Government of any purchase would be subject to changes in the international market are outside of our control. We anticipate an increase in the price of offsets after 2020. We are required to set an offset limit for each carbon budget and the future price of offsets will inform these decisions as financial considerations are a factor in determining the split between domestic and international action.

Offset credits do not have an expiry date so one possible mitigation strategy would be to buy them while they are cheap. However, we are not planning to use offset credits to meet the first carbon budget and we are not necessarily in a position to spend several million pounds on something we might not need. There is nevertheless a question about balancing the need to secure value for money for the taxpayer, with the need to build confidence in the Welsh Government's intention to reduce emissions in Wales. We also need to recognise we are reliant on others such as the UK Government to act because of our emissions profile.

Question 13: What are the risks for the first and second budgets if emitters cannot continue to trade under the EU-ETS?

First Budget: 2016 – 2020
The trajectory of emissions reduction set for participants in Phase III of the EU ETS based in Wales will remain exactly the same to the end of 2020 irrespective of the outcome of the EU exit negotiations. In the event of an orderly transition period, we anticipate UK based participants will remain in the EU ETS until the end of Phase III. Phase III covers emissions generated from 01 January 2013 until 31 December 2020.

In the event of a disorderly exit, the UK Government has indicated it will initially meet its existing carbon pricing commitments via the tax system, taking effect in 2019. The Budget 2018 announcement stated, in the event the UK leaves the EU without an agreement in March 2019, a new Carbon Emissions Tax would be introduced from 1 April 2019 on emissions of carbon dioxide (and other greenhouse gases on a carbon equivalent basis) from UK stationary installations currently in the EU ETS. The aviation sector would not be subject to the Carbon Emissions Tax. This system, which does not pre-judge other long-term future carbon pricing options, would provide certainty and continuity in the short term and would maintain similar arrangements for industrial installations deemed to be exposed to significant risk of carbon leakage, to support their competitiveness. A regime of Monitoring, Reporting and Verification of emissions will continue after exit day.

The decision of the UK Government to take a unilateral decision in an area of devolved competence was regrettable. Welsh Ministers should have been involved in a joint decision with other UK administrations to ensure specific Welsh interests were taken into account. We are now pressing for a joint Ministerial forum to determine future policy in order to deliver the best scheme for the whole of the UK.

Wales does not have active participants in the aviation EU ETS, therefore, policy impact on emissions from this sector are unaffected. There is a short gap between the end of the Phase III reporting year at 31 December 2019 and the commencement of the new tax at 1 April 2019. However, the risk of installations generating disproportionately higher emissions during the period is relatively low.

Second Budget: 2021-2025
We are confident our highest emitters will continue to be incentivised to decarbonise through the second budget period and beyond.

Welsh Government officials participate in a Working Group with officials from the UK Government and the Devolved Administrations to develop options on the long-term policy alternatives. There is common interest in continuing a carbon pricing policy to stimulate emissions reduction and it is encouraging the UK Government has indicated it has aspirations for future policy to be at least as ambitious as the current regime. However, there are a number of options for the detailed policy to meet this outcome. Given the policy area is devolved, Welsh and Scottish Ministers have jointly written to the UK Government to stress the need for joint decision making on a future scheme.

There are a number of potential options over the long term, which will be influenced by the shape of any future economic partnership. These include remaining in the EU ETS, establishing a UK ETS either on a stand-alone basis or linked to the EU system or another global trading scheme. Given the devolved policy area, there are also options for standalone Welsh policies.

We are keen to provide opportunities for interested parties to input into our thinking, including via a formal public consultation. We will also seek advice from the CCC ahead of setting a future policy. When we understand the constraints of any trade deal with the EU we will be able to explore how we might optimise the effectiveness of a future scheme. It is worth noting the UK encouraged the higher ambition of Phase IV of the EU ETS compared to previous phases.

We must also consider the wider suite of policies which enable decarbonisation including investment in research and development, support for innovation and cross-sector working to develop new low carbon solutions. Many of these initiatives have been supported by European funding and we are pressing the UK Government to ensure alternative sources of funding exist for Welsh businesses to access post EU exit.

Regards

Lesley

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