

## **Common Agriculture Policy Task and Finish Group CAP 15 – Environment Agency Wales**

### **NATIONAL ASSEMBLY FOR WALES ENVIRONMENT AND SUSTAINABILITY COMMITTEE: COMMON AGRICULTURAL POLICY TASK AND FINISH GROUP INQUIRY INTO THE REFORM OF THE COMMON AGRICULTURAL POLICY.**

#### **SUBMISSION BY ENVIRONMENT AGENCY WALES**

#### **SUMMARY**

- The Environment Agency is the principal environmental regulator in England and Wales, with responsibilities for the protection of soil, air and water. We also have important duties to maintain, improve and safeguard water-related biodiversity and fisheries in Wales.
- Welsh farming provides significant social, economic and environmental goods and services and is largely responsible for creating and maintaining landscapes that benefit a range of ecosystem services including the Welsh tourist industry
- We work to improve the environmental performance of agriculture through an integrated policy approach, including advice, voluntary initiatives, codes of practice and regulation.
- The European Water Framework Directive (WFD) sets new and tougher standards for rivers and other water bodies. We need to ensure that Wales is on track to meet these requirements and further improve the quality of groundwater, rivers, lakes and coastal waters.
- Under these tougher standards 67% of water bodies in Wales are failing to reach EU WFD 'good' ecological status. In Wales, farming contributes 60% of nitrates, 25% of phosphorus and 70% of sediments to the nation's waters. Reducing these figures would make a significant contribution to meeting our European requirements.
- Support for the delivery of WFD outcomes could be identified as a key CAP Reform priority. The CAP Pillar 1 "greening component" should complement the environmental benefits delivered through CAP Pillar 2 measures and the CAP cross compliance regime.
- CAP Reform should seek to include measures that support delivery of WFD including measures that;
  - tackle soil poaching and riverbank erosion by livestock.
  - deliver improvements in farmyard management and infrastructure such as improved slurry stores and dirty water separation
  - require nutrient management planning as standard.
- The removal of the Rural Development axes under CAP Pillar 2 will help the Pillar deliver environmental improvements in a more integrated manner.
- The perceived movement to an area based Single Payment Scheme (SPS) in Wales will result in a re-distribution of payments amongst the Welsh farming industry which might have negative consequences for the environment.
- We are particularly concerned for the future of the dairy sector that is already struggling with low margins and confidence to invest in improved slurry and manure infrastructure which are at present a major contributor to poor water quality

#### **1.0 Introduction**

- 1.1 The Environment Agency is the principal environmental regulator in England and Wales, with responsibilities for the protection of soil, air and water. It also has important duties to maintain, improve and safeguard water-related biodiversity and fisheries in Wales. We work to improve the environmental performance of agriculture through an integrated policy approach, including advice, voluntary initiatives, codes of practice and regulation. We welcome the opportunity to give written evidence to the National Assembly for Wales' Environment and Sustainability Committee inquiry into the Reform of the Common Agricultural Policy (CAP).
- 1.2 Farming provides significant social, economic and environmental goods and services and is largely responsible for creating and maintaining landscapes that benefit a range of ecosystem

services including the Welsh tourist industry. However, farming can also have environmental impacts. These impacts can be significantly reduced by relatively simple, often low cost, solutions which can also provide cost savings for farmers<sup>1</sup>. The Environment Agency is working with land managers and the wider food industry to improve the environmental performance and often the competitiveness of Welsh agriculture.

- 1.3 The accumulation of a range of problems from well over 30,000 holdings adds up to a significant environmental impact. Tackling these issues requires a spectrum of solutions, from advice and working in partnership to regulation and the purchasing of public goods. We seek to influence all of these issues to improve environmental outcomes. We believe that tackling the source of the issue, such as ensuring that manure and slurry management is carried out in line with best practice, can be more successful than “end of pipe” type solutions.
- 1.4 Water pollution ranks as one of the principal environmental concerns amongst the public in the UK and across the EU, second only after climate change in the last Special Eurobarometer on Environment in March 2008. In 2010, assessment of EU MS draft River Basin Management Plans (dRBMP)<sup>2</sup> concluded that the agricultural sector places significant quality and quantity pressures on both surface waters and ground waters. Results showed that diffuse or point source nitrogen pollution was reported in 91% of the dRBMPs, phosphorus pollution in 90% of the cases and pesticide pollution in 69% of the dRBMPs.

## **2.0 Common Agricultural Policy Reform (CAP) – EA Wales position.**

- 2.1 The Environment Agency is a member of the Land Use Policy Group (LUPG), which represents UK statutory environmental and conservation agencies. The LUPG CAP Reform vision advocates a movement away from production subsidy towards the direct purchase of environmental services from land managers. The suggestion would be for CAP to focus on achieving food and environmental security through support for the provision of environmental services<sup>3</sup>.
- 2.2 The current CAP accounts for 40% (equivalent to €60billion) of the EU budget. CAP is of significant importance to Wales as it receives approx €330 million under the CAP Pillar 1<sup>4</sup> annually and has received €376.7 million under CAP Pillar 2 for the Welsh Rural Development Plan<sup>5</sup> 2007 – 2013. Evidence from the annual Farm Business Survey (FBS<sup>6</sup>) shows that holdings in Wales remain heavily dependent upon subsidy payments to support the farming business.
- 2.3 Under a reformed CAP, we would welcome agriculture being viewed in the wider context of delivering a range of ecosystem services that help tackle environmental, social and biodiversity concerns. EAW has long advocated this viewpoint as highlighted in oral and written evidence submitted to previous NAW CAP Reform inquiries as well as related inquiries notably Land Management Actions under Axis 2 of the WRDP, Rural Land Use Management and Carbon Reduction, the Future of the Welsh Uplands.

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<sup>1</sup> Withers P, Royle S, Tucker M, Watson R, Scott P, Silcock P, Smith G & Dwyer J (2003) Field development of grant aid proposals for the control of diffuse agricultural pollution. Produced on behalf of the Environment Agency & English Nature. An Environment Agency R&D Technical Report P2-261/09/TR.

<sup>2</sup> Ecologic, 2010. Assessment of agriculture measures included in the draft River Basin Management Plans <http://ec.europa.eu/environment/water/quantity/pdf/summary050510.pdf>

<sup>3</sup> Environmental services arise from the management of ecosystems goods and services (or EGS - see Box 1) by farmers, foresters and others.

Certain aspects of EGS can arise independently of human intervention. Environmental services describe those elements of EGS which are delivered by land managers acting over and above the requirements of regulation and where no market exists to reward the public benefits that have been provided.

<sup>4</sup> Figure based on the exchange of the Welsh Government’s estimation of total amount of Single Payment received in Wales annually (approximately £292 million) at euro exchange rate of €1.14 to £1 on 11 February 2010.

<sup>5</sup> European Commission Press Release, Rural Development Plan for Wales, 20 February 2008 [Accessed 11 February 2010]

<sup>6</sup> The Farm Business Survey is a survey of 550 farming businesses from the main farm types in Wales. Only those farms with a Standard Labour Requirement (SLR) of more than 0.5 are included in the sample, the survey is therefore considered to be representative of commercial farming businesses.

2.4 In Wales, farming is not the sole cause of water pollution but does contribute 60% of nitrates, 25% of phosphorus and 70% of sediments to the nation's waters amongst other pollutants<sup>7</sup>. With approximately 67% of water bodies in Wales failing to meet EU WFD good ecological status we believe a focus on WFD should be a key priority for CAP. Environment Agency research on Reasons For Failure under WFD indicates that agricultural land use is a principal contributor to failing status for many water bodies in Wales. We suggest that by explicitly incorporating WFD objectives, CAP Reform will more efficiently help achieve good chemical and ecological status and prevent deterioration in all water bodies (including Protected Areas), promote the sustainable use of water and help reduce the negative impacts of floods and droughts. Given that the WFD status of a water body is determined principally by physical and biological processes acting at the landscape scale, environmentally sensitive land use will contribute to all of these related goals. Pillar 2 land management schemes and the Welsh Rural Development Plan (WRDP) could fund activities that:

- minimize the impacts of fertilizer and farm waste on water courses and groundwater;
- restore natural 'flow paths' to slow the passage of water and maximise the filtration function of natural vegetation;
- provide storage for water
- restore connectivity between channels and flood plains to provide areas for water storage and filtration, and reduce flood risk to population centres;
- restore coastal wetlands to reduce flood risk associated with high tides;
- protect and restore riparian zone vegetation to filter surface water, enhance aquatic habitat and mitigate the impacts of climate change through shading

2.5 We also believe that CAP has an important role in climate change mitigation and the delivery of multiple benefits. Both CAP Pillars could support measures which help mitigate the impacts of climate change, for example:

- Protecting water and soils with winter cover, buffer strips and in-field grass areas;
- Protecting carbon stored in soils and vegetation;
- Managing land to reduce surface run-off
- Increasing tree cover to capture carbon, provide shade and shelter for livestock, and habitat for wildlife.

### 3.0 RESPONSES TO CONSULTATION QUESTIONS

Our responses to specific questions / points in the consultation are as follows;

#### Q1. What could the European Commission's (EC) proposals mean for Wales?

3.1 We note that the EC proposes a new partnership between Member States (MS) and its farmers to meet the challenges of food security, sustainable use of natural resources and growth. We welcome this proposal as Welsh Government (WG) will be able to consider how best to deploy EU funding under the RDP, Structural Funds and the European Fisheries Fund to deliver the aspirations of the European 2020 strategy.

3.2 Under Article 93 of the CAP Horizontal Regulation it states that;

*"Directive 2000/60/EC of 23 October 2000 establishing a framework for Community action in the field of water policy will be considered as being part of Annex II once this Directive is implemented by all Member States and the obligations directly applicable to farmers have been identified.*

We welcome the EC's desire to include WFD within the remit of cross compliance in Jan 2013 (article 11.7 of the WFD) and the acknowledgement of WFD as a key legislative driver for

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<sup>7</sup> Welsh Government (2011) Consultation on the compulsory Good Agricultural Environmental Condition (GAEC) standard to introduce buffer zones alongside water courses to tackle water pollution from agriculture

protecting and enhancing the environment. As the Directive sets challenging objectives for the water environment based on protecting ecological health, it is of critical importance that future land management practices embrace these objectives and assist the industry in meeting environmental challenges.

### **Cross compliance changes.**

3.3 We have worked closely with WG in its endeavours to streamline and reduce the administrative burden placed upon the farming industry. Whilst we welcome the CAP Reform proposals to streamline the cross compliance regime we believe the remaining cross compliance requirements could be modified and strengthened to ensure that WFD is a key feature of cross compliance notably:

- Providing adequate slurry and silage storage facilities to prevent pollution incidents;
- Keeping soil, the most important farming asset, in fields and out of watercourses;
- Tackling soil poaching and riverbank erosion– managing livestock access to water through the adoption of ecologically functional buffer strips. Fencing off of watercourses can provide significant water quality improvements.

3.4 Whilst there is a desire within the CAP Reform proposals to protect wetland and carbon rich soils including a ban on ploughing, we also believe there is merit in extending Good Agricultural and Environmental Condition (GAEC) measures to include compliance with key elements of the Water Resources (Control Pollution) Silage Slurry and Agricultural Fuel Oil (Wales) Regulations, also known as the “SSAFO” regulations. We believe that inclusion of these key elements will strengthen the protection of water courses from significant sources of farm based nutrient rich organic pollution. The key elements of the regulations that could be included within a revised cross compliance regime are:

- all storage facilities are hydrologically isolated and located at least 10 meters from a water courses,
- slurry storage facilities must effectively contain all of the slurry produced on the farm and are not leaking or in danger of over flowing,
- all silage storage facilities must have an effluent collection and containment system that is not allowed to overflow.

3.5 These measures are required in order to ensure that high nutrient material is kept out of water courses. Recent WFD investigations have shown that there is poor compliance with key elements of the SSAFO regulations in tandem with severe incidences of livestock poaching. We would be concerned if inspection and monitoring in Wales were further weakened as this would seriously inhibit WG’s ability to meet national and international biodiversity targets

### **CAP “Greening” component.**

3.6 We note the EC’s proposals to introduce a CAP Pillar 1 “greening component”. The 3 measures foreseen are:

- maintaining permanent pasture (Article 31);
- crop diversification – where the area of arable aland exceeds 3 ha, at least three different crops must be grown, with a minimum of 5% and maximum of 70% of eligible area in the case of each crop (Article 30); and
- maintaining an “ecological focus area” of at least 7% of farmland (excluding permanent grassland) – i.e. field margins, hedges, trees, fallow land, landscape features, biotopes, buffer strips, afforested area (Article 32).

3.7 We believe it important to ensure that the distinction between the CAP Pillar 1 ‘greening’ component and cross compliance, including GAEC, is recognised and that implementation of the “greening” component is carefully considered.

3.8 EAW acknowledges that livestock need access to drinking water, but unchecked access to rivers can lead to poaching and erosion of riverbanks and the bed of the water course. Simple and well established methods to control stock access to water courses can provide significant

water quality and physical habitat improvements. Parallels could be made with the General Binding Rules (GBRs) concept in Scotland and their Diffuse Pollution GBR 19: Keeping livestock<sup>8</sup> leaflet. Under a streamlined cross compliance regime or through the CAP Pillar 1 “greening” proposal we would like to see the above poor practices urgently addressed.

- 3.9 We also highlight the importance of the CAP Pillar 1 ‘greening’ component (in tandem with CAP Pillar 2 measures) in the delivery of WFD requirements. Whilst sustainable land management schemes (such as Glastir) are imperative in helping the industry meet WFD requirements, they are voluntary and not implemented nationwide. Given the extensive geographical nature of water body failures in Wales, CAP Pillar 2 measures alone will not deliver the levels of improvements required. CAP Pillar 1 “greening” measures will therefore have an equally important role in WFD delivery.

### **Removal of Pillar 2 Axes measures**

- 3.10 Under the current CAP reform proposals, it is also envisaged that Rural Development Plan (RDP) arrangements 2013- 2020 will be revised with the removal of the four axes structure to better meet the objectives of the Europe 2020 strategy for smart, sustainable and inclusive growth. We believe this is a positive development and could help deliver environmental improvements in a more integrated manner. Having said this we acknowledge that the long term RD objectives for the sustainable management of natural resources, balanced territorial development and competitiveness will still need to be addressed but achieved by following six clearly defined EU priorities notably;

- Enhancing competitiveness of all types of agriculture
- Preserving and enhancing ecosystems dependent on agriculture and forestry
- Promoting resource efficiency and low carbon economy transition
- Promoting food chain organisation and risk management in agriculture
- Fostering knowledge transfer in agriculture and forestry
- Realising employment potential and development of rural areas

- 3.11 This will provide an opportunity to outline a clear theme or vision for the Welsh environment. Driven by WG with Natural Environmental Framework (NEF) identified as clear guiding principles, the Welsh RDP post 2013 has the potential to champion a vibrant agricultural industry and a sustainable environment where the delivery of environmental goods and services play a central role. Examples could include the promotion of “food quality/farm assurance” schemes that require a strong environmental focus. Further improvements could be made in supply chain efficiency, supporting local businesses and wider rural economy interests through CAP and RDP funding. WG promotion of such schemes would be seen as a further opportunity for the farming sector to improve economic returns, reducing food miles, whilst also delivering the wider environmental goods and services that society demands.

- 3.12 We believe mechanisms should be developed that help create a viable market for the agricultural products produced through such schemes. Emphasis here would be placed on consumers, as well as the commercial and public sectors, to reduce food miles by procuring produce locally (Value Wales). Food procurement strategies should be promoted (with the greater use of Environmental Management Systems) that assess the environmental footprint of all resources brought into an enterprise, including food. Parallels could be drawn with the Green Dragon Environmental Management System, which promotes good business practice whilst delivering both environmental and economic benefits. Led by WG this market could actively acknowledge and promote the important public and environmental benefits that land managers will deliver in the future. It would also help promote the aspirations of the “Green Jobs Strategy for Wales”, where “greening” the economy not only makes good environmental sense but offers considerable opportunities for businesses across Wales<sup>9</sup>.

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<sup>8</sup> Scottish Government /SEARS Natural Scotland : Reducing the risk of water pollution – Diffuse Pollution GBR 19 : Keeping livestock

<sup>9</sup> Ieuan Wyn Jones Announcement on the launch of the draft “Green Jobs Strategy for Wales”, 18 Nov 2008

- 3.13 Better integration of RDP measures could be achieved in ways that minimise bureaucracy, whilst ensuring that future projects are accountable for delivering against key EU objectives. Welsh agriculture currently delivers a diverse range of ecosystem services, some of which attract public funding. We need to see the true value of what Welsh agriculture could deliver to society acknowledged through CAP. There is great potential for Welsh agriculture to become a world leader - delivering real tangible benefits that will be good for farmers and good for the environment.

**Q2. What should the Welsh Government's (WG's) priorities be in its negotiations on CAP Reform to ensure a beneficial outcome for Wales?**

- 3.14 In its negotiations on CAP Reform WG needs to identify WFD compliance as a key CAP priority. As the Directive sets challenging objectives for the water environment based on protecting ecological health, it is of critical importance that future land management practices embrace these objectives and assist the industry in meeting environmental challenges notably NEF aspirations.
- 3.15 The deadline for the submission of the WFD RBMPs and Programme of Measures (PoM's) was December 2009. MS have 3 years (until 2012) to make operational the PoMs in order to achieve environmental objectives in 2015. Also in 2015, MS have to update the RBMPs and PoMs. This timescale and the fact that a reformed CAP will be implemented from 2014 onwards provide a unique opportunity to establish a coherent and strong link between WFD implementation and Single Payment Scheme (SPS) cross compliance.

**Single Payment Scheme.**

- 3.16 The future method by which the SPS will be administered continues to dominate discussions in Wales. Opportunities and threats remain with either a historic or area based payment system. Adopting a historic approach in Wales, to date, has been administratively simpler to implement compared with a flat rate area approach and it has reduced the risk of sudden structural change in the industry.
- 3.17 For the majority of Welsh farmers the CAP continues to account for the largest proportion of farm profitability<sup>10</sup>. On average, the SPS represents 80% of Farm Business Income to Welsh farmers. However with the movement to an area based method of payment now inevitable, it is widely acknowledged that there will be a considerable re-distribution of payments which could have serious implications for farm businesses and agricultural production in Wales. There are concerns about the impact that movement to an area based method of payment will have on the traditional family farms of Wales. Modelling undertaken to date has indicated that there will be a significant re-distribution of payments within the farming sector in Wales. Under a simple flat rate payment it is envisaged there will be a considerable shift in payment receipts away from the lowlands to the uplands with significant subsequent social, economic and environmental ramifications.
- 3.18 Under the latest CAP Reform proposals it is proposed that there will be a 40% area payment - 60% historic payment split in Year One. This will greatly affect Wales which currently operates the historic SPS method. This could impact on the future of the dairy sector which is the largest source of Category 1 and 2 water pollution incidents. The dairy industry is currently struggling with low margins but could also lose out under the "greening" proposals as they will be restricted by the acreage of a feed crop they can grow. The financial losses envisaged could be particularly acute in a period when the dairy industry needs to improve its environmental performance by investing in improved manure and slurry storage. Given that all MS are obliged to move towards a uniform area payment by Jan 2019 it will be imperative that transitional arrangements could be considered to allow the farming industry, in particular the dairy industry to adjust.
- 3.19 We are aware that compulsory EU modulation may end under current CAP proposals. However we note the EC has introduced flexibility between Pillars allowing the MS the option of moving

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<sup>10</sup> Welsh Assembly Government, *Farming, Food and Countryside: Building a secure future Annex1: Industry Challenges*, May 2009 [Accessed 10 February 2010]

up to 10% of national ceiling funds from Pillar 1 to support Pillar 2 measures. We also note that MS will also have the flexibility to move up to 5% from Pillar 2 in support of Pillar 1 measures. We recognise that, to date, modulation has been an important funding mechanism that has supported Tir Gofal and now Glastir. It is important that adequate funding is secured for the future to support sustainable land management practices which are critical to WFD and NEF delivery.

### **Q3. How can Wales ensure that its views inform the negotiation process?**

- 3.20 Given the challenges facing Welsh agriculture and the economic and environmental importance of CAP payments to land managers in Wales, it is essential that WG influences the European Parliament and EC to deliver the best CAP outcomes for Wales. WG needs to work closely with the UK Government and the other devolved governments to shape the UK's negotiating position. It is also important that WG engages with stakeholders in Wales as it prepares its position on CAP Reform.
- 3.21 Wales is not alone in facing CAP Reform. England, Germany and Finland have already changed their payment system from an historic to an area based model. Other devolved UK administrations are also in the same situation. The Scottish Government (SG) have also undertaken Inquiries into how financial support to agriculture and rural development could be tailored to deliver SG's aspirations. The "Pack Inquiry" which published its final report in November 2010 examined an area basis for direct payments but flagged up the considerable financial redistribution between farms of the same type and between regions that would occur under a move from historic to area based payment. It confirmed that intensive livestock farms would be the hardest hit. Parallels could be drawn with Wales with the high dependency on beef, dairy and sheep as well as the climate and Less Favoured Area (LFA) status similarities.

### **4.0 CONCLUSION.**

- 4.1 Major changes have occurred in Welsh farming policy in recent years. Change will continue and pressures from UK Treasury, the European Commission and global institutions are likely to force even greater shifts in EU food/farming policy and markets. This coupled with the need to respond to climate change will accelerate the restructuring of the agricultural sector that has already begun.
- 4.2 Agriculture can have a major impact on the environment, particularly to key resources essential to society (e.g. drinking water, soil quality, bathing/shellfish waters, flood risk management and biodiversity). To ensure these resources are protected, CAP could focus on reducing these impacts and promoting sustainable growth in the future.
- 4.3 We believe that the next CAP programme should include support to deliver WFD outcomes and to recognise the role that it can play in climate change adaptation and mitigation. Key features of the existing scheme should be protected where they deliver important environmental outcomes and the 'greening' component should complement, rather than dilute these benefits.
- 4.4 Cross Compliance could be strengthened to achieve broad implementation of basic standards with additional targeted action needed to improve the environment.
- 4.5 To deliver WFD outcomes, future CAP Reform and Rural Development funding needs to continue to champion sustainable agricultural practice and highlight the fundamental need for all farm sectors to improve their environmental performance. The promotion of sustainable development and the integration of environmental concerns should remain key principles.