



**Paper 3: Developing a More Comprehensive
Rationale for EU Funding for the
Environment**

Paper prepared by IEEP for the Land Use Policy Group

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EXECUTIVE SUMMARY

Society faces an unprecedented environmental challenge, the causes and consequences of which are simultaneously global, transnational and local in nature. At the European scale, this challenge is both significant and increasing over time, and despite some progress over the last ten years, in many areas, the state of the EU's environment continues to deteriorate. Not only is there a moral imperative to respond to this challenge, failure to act carries significant welfare consequences, as exemplified by the work of Stern (2006) and TEEB (Ten Brink, *et al.*, 2009) on the costs of climate change and biodiversity loss.

This paper explores the reasons why public intervention is necessary to meet the EU's environmental targets, goals and aspirations, drawing on theories of market failure with respect to the under-provision of environmental goods and services, alongside evidence for the magnitude of the environmental challenge, the scale of public demand, and the implications of a failure to act. This economic rationale for public intervention does not provide a *de facto* case for government intervention at any given level and the aim of the paper is to explore the case specifically for *EU level* intervention in the environment. It does so through a critical examination of the rationale for intervening through a wide range of instruments and funding mechanisms that comprise the 'edifice' of EU environmental policy.

Before focusing on the theoretical arguments advanced in support of the rationale for EU intervention in the environment, the paper considers the drivers for the transfer of responsibility for environmental policy from national governments to the EU and the evolution of EU environmental policy in practice. At its founding in 1957, the EU had no environmental policy and the few pieces of environmental law that were agreed in the 1960s were prompted primarily by concerns to avoid distortions to competition arising from different national environmental standards. In the first instance, therefore, EU environmental policy was predicated less on an *a priori* and strong rationale for intervening at the EU level and more by the imperative to ensure the efficient functioning of the common market. After 50 years, however, the EU now has some of the most progressive environmental policies in the world.

In elaborating the case for EU intervention in the environment, a distinction should be made between intervening via an EU policy framework, and the case for the prescribed actions to be funded through an EU funding programme, as opposed to through national funds. This distinction is important because the arguments for a common policy framework do not – *de facto* – justify a common budget, and a separate justification therefore renders the case for a common framework and a common budget more convincing.

The case for an EU policy framework rests customarily on a number of arguments, including:

- Legal obligations to take action on the environment, as articulated in the Treaty, as well as an inherent commitment to act emerging from the EU's status as signatory to international environmental agreements.
- Competence for policies concerned with food, agriculture, environment and trade are long-established principles and functions of the EU. As such, there is a strong case for common EU action on related aspects of land management.
- There is political support for EU action and whilst there is room for improvement in policy effectiveness and efficiency, past successes have reinforced this model, providing a convincing case in support of the EU's ongoing intervention in this field.

- Although a pressing environmental challenge remains in the EU, the gap between the level of environmental improvement as stipulated in political targets and policy goals and current levels of environmental delivery is likely to have been greater in the absence of existing EU legislation and other policy tools.

The argument for a common budget to support the implementation of this common policy framework rests on a number of additional arguments:

- Given that Member States have a legal commitment to adopt, implement and enforce EU legislation, the existence of a common fund is likely to facilitate greater support at national level for such a legislative framework, if it corresponds to national needs.
- The beneficial environmental outcomes achieved through EU funding instruments forms part of the case for their continued maintenance, and a centralised budget can provide a more cost effective means of meeting common objectives, through the exploitation of efficiencies and economies of scale.
- EU funds have been shown to exert significant leverage in attracting additional forms of financing from national sources and private investment.
- A common framework of rules and procedures for the administration of funds and payments, as well as for the auditing of expenditure, may contribute to higher level of budgetary accountability.
- Current levels of spending on the environment through funding instruments such as the CAP, LIFE+ and the Structural Funds, are insufficient to meet EU and national environmental goals and targets, leading to a considerable resource gap. Given that there are clear disparities in national priorities with respect to the environment, it is likely that the repatriation of funding to the national level would reduce the total amount of money available for the environment, rather than increase it, resulting in a failure to meet EU as well as national objectives.

Whilst many of these arguments carry some legitimacy, implicit in several is that the case for EU level intervention rests on the fact that the very existence of a comprehensive EU policy framework and an accompanying EU Budget provides a reason for ongoing EU level intervention. A more comprehensive rationale certainly needs to comprise an assessment of the relevance, effectiveness and efficiency of existing EU level interventions, as well as ensuring that any interventions are justifiable, accountable and credible in the eyes of EU citizens. The case for intervention at the EU level may be further strengthened if EU policies and expenditure contribute to supporting environmental goods and services which are global, transnational or transboundary in nature, and to delivering EU 'added value'.

- Many of the environmental challenges we face – such as climate change and biodiversity decline – are global in nature. These issues cannot be tackled effectively by Member States acting individually, because it is likely that a degree of 'free-rider' behaviour would occur. Benefits arise from co-operation between countries and are a clear example of where multilateral/ EU solutions should be sought, or at least considered.
- EU added value – there is no agreed definition of this term. Arguably, it can be measured in terms of the effectiveness and/or efficiency of a policy, and arises when EU level action achieves greater progress against its stated objectives, or a better result per unit of cost, compared to interventions at other levels. EU 'added value' can also be said to arise when in addition to achievements against the stated objectives of a policy a number of spill-over benefits are generated, such as:

- Providing a level playing field
- Meeting common objectives and achieving synergies with other policies
- Promoting mutual learning
- Promoting financial solidarity in support of cohesion objectives.

The paper proceeds to assess the case for using the CAP to achieve environmental objectives against the whole range of arguments presented that in combination, constitute a robust case for intervention at the EU level. Where possible, those arguments and evidence most strongly supporting a common policy framework are distinguished from those supporting the need for a common budget. The focus is on environmental interventions – and specifically using Pillar 2 measures under the European Agriculture Fund for Rural Development (EAFRD) and environmental cross compliance, which operates primarily under Pillar One.

There is now a growing body of evidence collected in line with the reporting requirements under EAFRD which is based on applying the Common Monitoring and Evaluation Framework (CMEF) indicators as part of ex-ante, mid-term and ex-post evaluations and national annual progress reports to demonstrate the impacts of various rural development measures and programmes. However, the evidence with respect to more complex issues, such as the generation of ‘EU added value’, is rather patchy, reflecting the difficulty of measuring progress in this area. Given that the concept of EU added value features prominently in the stated case for intervention under EAFRD, and is increasingly likely to form part of a more robust rationale for intervention at the EU level, there is a pressing need to improve existing evaluation tools to assess whether requirements are being met.

The paper concludes by considering how best to strengthen the case for EU wide intervention via the CAP bearing in mind the scrutiny inevitably arising as part of the EU Budget Review. Shifting the focus of the CAP to improve the delivery of environmental and social objectives would provide a more legitimate justification for public expenditure. However, a more robust rationale for intervention would be predicated on the extent to which this rationale is most effectively met through EU level action, rather than through the repatriation of support. A number of arguments can be advanced for continuing to pursue a European common agricultural policy rather than reverting to a nationally determined approach.

- Since the EU continues to have competence for trade policy and hence for setting the broader conditions for agriculture, arguments for a European policy continue to have force. Import tariffs, export subsidies and the overall level of domestic support in different WTO categories are determined at the EU level and need to be supported by a coherent internal EU policy to deliver obligations agreed internationally. This argument points to a common framework but not necessarily common expenditure.
- Unfair competition between producers arising from Member States support directed at national producers needs to be constrained, if not eliminated, within an EU framework. Ideally, support should be available to all producers on a similar or equivalent basis wherever they are in the Union. There will be distortions to competition if payments for a particular activity in one Member State are more generous than in another, creating an income benefit. Even if funding levels are the same, however, it does not imply that they should be financed from a common budget rather than nationally.
- The legal framework within which land managers in the EU provide public goods, including many of the formal objectives, such as preventing the loss of biodiversity, is set largely at the EU level. Obligations to reduce greenhouse gas emissions are shared

at a European level between Member States, even where there are differences in national targets. In the realm of water quality, there is the common goal of restoring fresh water to good ecological condition, as laid down in the Water Framework Directive, while providing for differences between catchments. Some of the objectives pursued for example, for biodiversity and climate change, have a strong transboundary character so that the goals cannot be reached by atomised action in different Member States and regions.

- These shared goals and obligations point to a coordinated response within a framework that pursues European as well as more local goals and which seeks progress at a continental scale. A centrally organised budget supporting the attainment of predominantly EU targets has clear advantages.
- With a shift in focus to the provision of public goods there are strong arguments for pooling financial support so that goals can be pursued efficiently at a European scale. The distribution of suppliers will not be uniform in Europe and in effect, there will be some areas and some farmers who “over supply” these goods in the sense that they contribute more than their share. If the budget for public goods is artificially segmented into fixed shares for individual regions, and determined in advance, the capacity to target those areas with the necessary resources and potential to supply goods and resources for European benefit will be lost. The budget should match the distribution of supply and allow the pursuit of options which are cost efficient as well as effective at a European scale. This is the strongest argument for a centralised EU budget for a new CAP. It does, however, assume a different distribution of expenditure compared to today.
- Distributional issues cannot be ignored in any consideration of a future CAP budget. Whilst the current distribution is difficult to defend on grounds of cohesion objectives, a new budget allocation would need a strong rationale in order to persuade Member States that are current winners to abandon the status quo. The public goods agenda, which is indifferent to national interests, provides the opportunity to create such a rationale and to move beyond the unsatisfactory historic distribution of expenditure. Whilst there are difficulties with measurement and valuation, there is a coherent rationale for distributing expenditure according to the contribution made to the provision of public benefit within Europe. It is also likely that a public goods based distribution would match cohesion criteria more closely than the current CAP.

1. INTRODUCTION

This paper explores the reasons for why public intervention is necessary to address the growing environmental challenge faced in the EU, drawing on theories of market failure with respect to the under-provision of environmental goods and services, alongside evidence for the magnitude of the challenge, the scale of public demand, and the implications of a failure to act. This economic rationale for public intervention does not provide a *de facto* case for government intervention at any given level – whether that be local action, or that of governments acting collectively at the international scale – and thus the primary aim of the paper is to explore the specific case for *EU level* intervention in the environment. It does this through a critical examination of the rationale for intervening through a wide range of instruments and funding mechanisms that comprise what we term the ‘edifice of EU environmental policy’, before focusing on the CAP, both present and future. It concludes by reflecting on the character of a future CAP targeted at supporting the provision of environmental goods and services and for which the underlying rationale for EU intervention is considerably more robust than at the present time.

The focus on the EU as an appropriate level at which to intervene in the environment, coupled with a focus on the CAP – an instrument which exerts a significant influence on the management of vast swathes of the EU territory and therefore on the extent to which a key suite of environmental goals and targets can be met through agriculture – is particularly timely in the context of the forthcoming negotiations on the 2014 – 2020 Financial Perspective, and the growing number of demands on the EU Budget. Almost all commentators agree that the CAP Budget is likely to be cut, but the scale of these cuts will – to a certain extent – depend on the legitimacy of the policy; whether there is a strong logic of intervention with respect to broader societal demands; the effectiveness and efficiency of the policy in meeting its objectives; its complementarity with broader EU objectives, and the use of robust estimates of the likely costs of meeting existing environmental targets through sustainable land management.

This paper aims to bridge the divide between the academic debate, in which a number of theoretical arguments and legal principles are advanced in support of the rationale for EU level intervention in the environment, and the ‘*real politik*’ of the negotiations on the EU Budget and the CAP reform process. It does so by providing an insight into the extent to which the positions of Member States are based both on rational argumentation and on self interest and entrenched political standpoints. Whilst the final outcome will emerge from a complex series of interlocking deals and political compromises, a clear understanding of what constitutes a robust rationale for EU intervention in the environment becomes even more important as a counterpoint to the inevitable political horse-trading that characterises EU budgetary negotiations.

2. THE ENVIRONMENTAL CHALLENGE

Over the past 50 years, humans have changed ecosystems more rapidly and extensively than in any comparable period of time in human history, largely to meet growing demands for food, fresh water, timber, fibre and fuel. The UN Millennium Ecosystem Assessment (2005) concludes that 60 per cent of global ecosystem services are being degraded or used unsustainably, that “more dramatic negative impacts on the capacity of the ecosystem to provide future services” are in the offing, and that it is therefore “essential that proper measures be undertaken in the present time.” In other words, we face an unprecedented environmental challenge (OECD, 2008; PBL, 2005, Millennium Ecosystem Assessment,

2005), the causes and consequences of which are simultaneously global, transnational and local in nature.

Focusing at the European scale, the environmental challenge is both significant and increasing over time. Despite some progress over the last ten years - such as reductions in European greenhouse gas emissions, significant improvements in air and water quality, recent positive trends in waste management, and a growing share of energy from renewable sources - the state of the EU's environment continues to deteriorate in many areas.

Climate change is the most urgent of these challenges but many others remain, including in the fields of sustainable consumption and production; waste and recycling; industrial pollution, transport and air quality and sustainable land management and resource use. The target of halting biodiversity loss in Europe by 2010, for example, has not been reached. Although significant areas across Europe have been designated as protected areas, a large proportion of these are in an unfavourable conservation status. The EU's overarching target to limit climate change to temperature increases below 2°C globally during this century is projected not to be met despite previous achievements and predicted rates of reduction in greenhouse gas emissions. High rates of soil erosion by water and wind, and a depletion in soil organic matter are documented in many regions of the EU (EEA, 2007; OECD, 2008). Many water bodies in the EU are in 'poor ecological status' resulting from nitrate and phosphate contamination with unsustainable levels of water abstraction particularly in water stressed areas (EEA, 2009a), and the character of many of Europe's valued cultural landscapes is threatened by a loss of landscape elements, simplification and reduced management.

Both the European Commission in its 2008 Annual Environment Policy Review (EC, 2009) and the EEA, in its 2005 State of the Environment report, have concluded that the magnitude of many of the challenges is increasing although it is acknowledged that environmental considerations are being taken into account in other domains.

“Over the past 30 years, *much has been done* to improve Europe's environment. [...] But major *challenges remain* for the future.”

(EEA, 2005)

Not only is there a moral imperative to act to address these environmental challenges, the depletion of our natural capital also carries significant welfare consequences, impacting on the well-being of current and future generations of Europe's citizens. Increasingly, economists are developing conceptual tools and methodologies to derive figures of the value of ecosystem services (see, for example, Constanza *et al.*, 1997; Ten Brink, *et al.*, 2009), as well as estimates of the size of the welfare losses associated with environmental degradation and the costs of policy inaction, as one way of stimulating a political response and government action.

Estimates of the Costs of Policy Inaction (COPI) associated with a failure to meet the global 2010 biodiversity target indicate that the loss of biodiversity from terrestrial ecosystems is valued in the order of €50 billion per year, or just under 1 per cent of global GDP. This rises to €14 trillion or 7 per cent of estimated global GDP by 2050 if current rates of biodiversity loss continue to occur (Braat and Ten Brink, 2008). The Stern Review on the economics of climate change (2006) concludes that limiting temperature rises to safe levels would cost approximately 1 per cent of global GDP, while the cost to the global economy of a 'business as usual' approach would be up to five times as much. It argues that climate change “is the greatest and widest-ranging market failure ever seen ... and that policy must promote sound market signals, overcome market failures and have equity and risk mitigation at its core”.

3. PUBLIC CONCERN FOR THE ENVIRONMENT

The imperative to act - propelled by the scale of the environmental challenge and the resulting social and economic costs to society - has strong public support. A recent Eurobarometer State of the Environment survey conducted in 2009 indicates that public support for environmental protection is high across the EU. 82 per cent of respondents agree that environmental legislation is necessary for protecting the environment, whilst 78 per cent believe that the EU should allocate more money to environmental protection. Most agree that this is a policy area better addressed jointly by the EU than by Member States acting alone (DG Communication, 2009). These opinions are underpinned by a growth in support for green political parties both nationally and at the EU level (for example, 55 Green MEPs were returned in the 2009 elections of the European Parliament), and in the membership of environmental NGOs, which are the largest voluntary, subscription-paying organisations in civil society in some Member States.

A strong environmental sensibility forms a fundamental part of the value framework of Europe's citizens. A large proportion (64 per cent) of respondents from all 27 EU Member States indicate that protecting the environment is very important to them personally, with this figure rising to 79 and 89 per cent in countries such as France and Sweden, respectively (DG Communication, 2009). As Europe has become more prosperous and basic requirements for food, housing, education and health are satisfied, more disposable income is often available for enjoyment of the countryside, in turn increasing direct exposure to the natural environment. Concern for the environment has been reinforced in the eyes of the public by improved scientific understanding of the causality between anthropogenic activities and their environmental impacts, and the campaigns of NGOs have served to raise the profile of environmental issues still further.

4. THE CASE FOR INTERVENTION IN THE ENVIRONMENT

It is now widely acknowledged that the scale of environmental degradation is set to increase if society continues to ignore the value of our natural capital and decision making is biased in favour of short term economic benefits (Harman, 2009). A fundamental rethink of our economic model is required to face today's environmental challenges. That said, 'greening' the economy alone will not be sufficient as the under-provision of environmental goods and services is a classic and pervasive case of market failure which is unlikely to be addressed even within the framework of a 'greener' economic model. As such, a more environmentally sustainable model of economic development needs to be coupled with collective action at all scales, ranging from local communities to national governments acting together through global institutions to drive an effective, efficient and equitable responses to the environmental challenge on the scale required.

Box 1 **Market Failure and the Theory of Public Goods**

Environmental policies are needed to address **market failures**, by controlling pollution, regulating resource use and protecting and managing the natural environment (IVM *et al.*, 2009).

Market failure exists when the production or use of goods and services by the market is not efficient. It occurs as the goods being produced are of a nature that the market would under-provide, over-provide or even fail to provide, resulting in an inefficient allocation of society's resources, in the absence of government intervention. The most important manifestations of market failure are set out below (Mankiw, 2006).

1. **Public goods** - are goods that are non-rival and non-excludable, which means that individuals cannot exclude others from enjoying them, and that in enjoying them, their supply is not depleted. Examples include biodiversity, a stable climate and clean water. On account of these defining characteristics, markets cannot function to coordinate supply and demand, because consumers have no incentive to pay for them. In the scientific literature, Samuelson (1954; 1955) and others (Peston, 1972; Cornes and Sandler, 1996; Baumol and Oates, 1998; Tietenberg and Lewis, 2009) have argued that a shortfall in the provision of public goods, compared to the scale of public demand, underpins the case for public intervention, and that securing the provision of public goods is a valid reason for public intervention. This rationale for public intervention underpins a number of sectors or realms of public policy. The economic theory of public goods provides a robust rationale for public intervention in securing environmental outcomes by setting out which functions are performed by the market or through collective action. It does not, however, identify which types of government or institution should perform this collective action, or the level at which this action is most appropriate.
2. **Externalities** - are by-products of an economic activity or production process that affect third parties. The classic example of a negative externality is pollution.
3. **Asymmetric information** - limited access to information by businesses or households about the benefits arising from environmental interventions may undermine the realisation of 'win-win' solutions.
4. **Monopoly power** - monopoly buyers and sellers of certain goods or services can lead to a reduction in the opportunities to realise both economic and environmental benefits.

By influencing the use of resources, environmental policy affects the way in which economic activity evolves. It encourages the more efficient use of energy and materials, as well as the development of new, cleaner products and services, while discouraging activities that are environmentally damaging (IVM *et al.*, 2009). In doing so, it spurs innovation and influences the allocation of labour, capital, land and raw materials, either through direct regulation or through the pricing mechanism.

5. THE ORIGINS AND EVOLUTION OF EU ENVIRONMENTAL POLICY

Before focusing on the theoretical arguments and legal principles advanced in support of the rationale for EU intervention in the environment, it is helpful to consider the drivers for the growth in EU competency and the evolution of EU environmental policy in practice. Indeed, the EU has not always acted collectively on the environment. At its founding in 1957, the EU had no environmental policy and the few pieces of environmental law that were agreed in the 1960s were prompted primarily by concerns over the extent to which different national environmental standards were distorting competition and undermining progress on the common market. By the early 1970s, however, the edifice of EU environmental legislation and policy began to be put in place as a response by the Commission, the European Council, and the European Parliament to growing public concern over environmental degradation. As a result, the improvement of environmental quality was pushed up the agenda of the European project.

The European Economic Community's (EEC) environmental policy originated in 1973 with the publication of the first Environmental Action Programme (EAP) which spelled out action to reduce pollution and nuisances; improve the natural and urban environments; address environmental problems caused by the depletion of certain natural resources; and to promote environmental awareness and education. Since then, five successive Programmes have followed which have increasingly emphasised the importance of environmental protection as an essential part of 'harmonious and balanced' economic growth, rather than simply regarding the environmental protection as secondary objectives to the goal of building a single market.

In 1986, the 'Environment Title' was added to the Treaty of Rome under the Single European Act which came into effect on 1 July 1987. For the first time, this afforded a clear legal basis to the Community's environmental policy. During the 1990s, attention turned to tackling the underlying causes or drivers of environmental damage, particularly in key economic sectors such as agriculture, transport and energy. This shift in focus is reflected in the principle of integration as set out in Article 6 of the Treaty of Amsterdam, which states that 'Environmental protection requirements must be integrated into the definition and implementation of the (other) Community policies ...'. As such, environmental policy is no longer the exclusive responsibility of EU Environment Ministers or the Commission's Directorate-General (DG) for the Environment, and is shared with other Ministerial Councils and Commission DGs (in particular, DG Agriculture, DG Climate and DG Regio).

Article 6 of the Treaty of Amsterdam also gave rise to the EU Sustainable Development Strategy (SDS) first adopted in 2001 and renewed in 2006 (Council of the European Union, 2006), which stipulates that no economic development should take place without careful consideration of its potential impact on the environment. The renewed SDS aimed to form the 'overall framework within which the Lisbon Strategy ... provides the motor for a more dynamic economy' thus confirming that these are separate but complementary strategies which together contribute to the EU objective of promoting economic and social progress and achieving sustainable development. In July 2002, the sixth Environmental Action Plan was adopted, setting out the framework for environmental policy-making in the European Union for the period 2002 – 2012. It promotes full integration of environmental protection requirements into all Community policies and outlines actions that need to be taken within four priority areas: climate change; nature and biodiversity; environment and health; and natural resources and waste.

The EU now has some of the most progressive environmental policies in the world and has embraced a growing leadership role in global environmental governance, exemplified by the part it played in securing the ratification and entry into force of the Kyoto Protocol in the face of US opposition. The particular structure of environmental policy-making in the EU, with the power of initiative strongly concentrated in the hands of a politically empowered executive which is responsible for a large portion of international negotiations on technical issues, reinforces its ability to move forward on a policy agenda with much less exposure to political and budgetary shocks than routinely experienced by most national governments. This provides suitable conditions for adopting the kind of longer term view so critical in environmental policy.

This condensed history serves to illustrate the way in which the gradual transfer of responsibility for environmental policy from national governments to the EU has occurred in practice. In the first instance, this was prompted less by the formulation of an *a priori* and explicit rationale for intervening at the EU level, and more by the imperative to ensure the effective and efficient functioning of the common market. With growing competence and experience in this field on the part of the Commission, EU policy has successfully reduced some pressures on the environment and secured improvements in habitat and species protection, air and water quality and waste management where purely national action would have been insufficient. There is an immense amount still to do, however, both to meet existing EU targets and aspirations and to agree new targets and actions that will improve both the environment and the overall quality of life in Europe.

6. THE ARCHITECTURE OF THE EU'S INTERVENTIONS IN THE ENVIRONMENT

Action to mitigate the diverse threats to the environment in the EU, as well as to promote beneficial environmental practices, can be achieved in a variety of ways and through a range of instruments. Before investigating and evaluating the case for intervening through the CAP to meet environmental objectives, the section that follows presents an overview of the EU's environmental policy framework and the range of policy approaches available (see Figure 1). This analysis serves to situate the CAP within a broader framework, such that it is no longer viewed as a separate sectoral edifice, but as part of a complementary set of instruments to be deployed in pursuit of common strategic and overarching objectives.

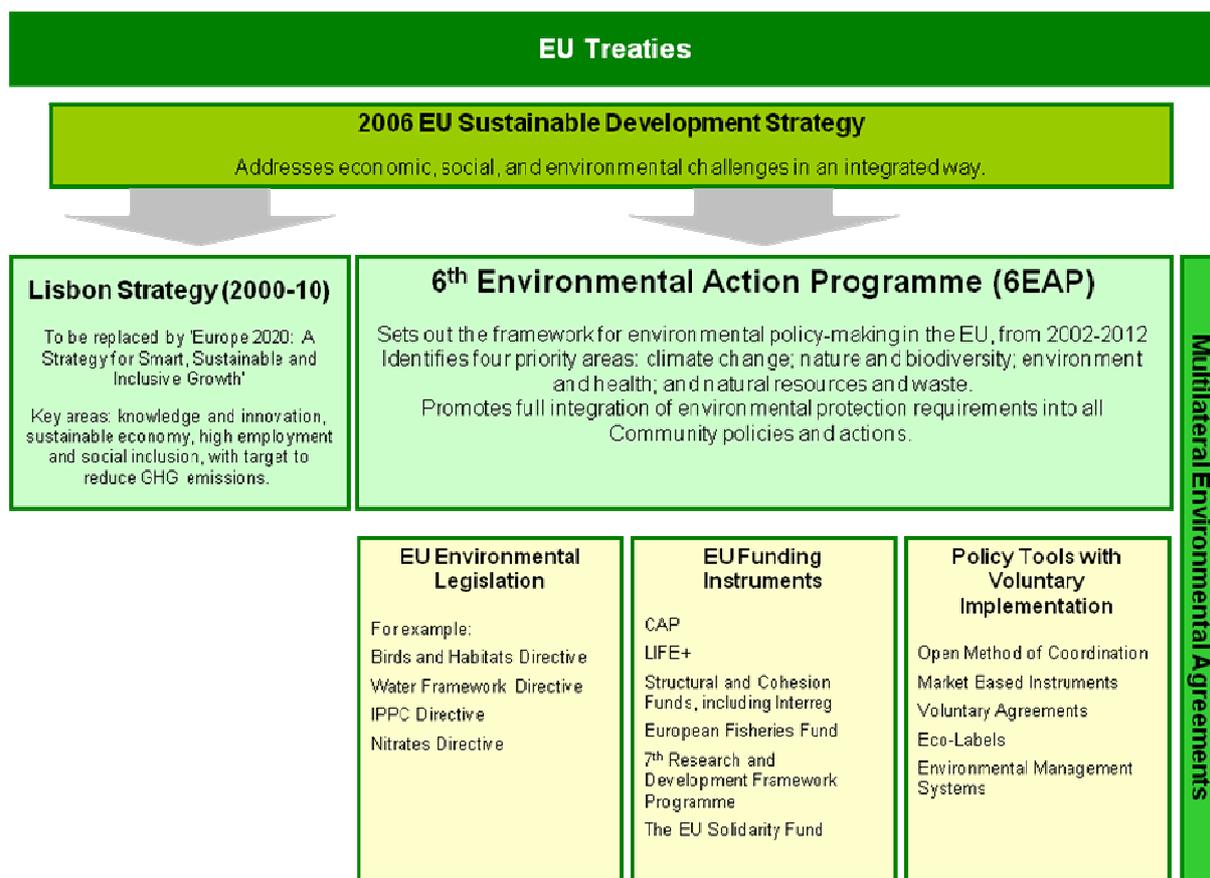


Figure 1 A schematic overview of the architecture of the EU’s interventions in the environment

EU interventions in the environment are set within a suite of common and overarching objectives, the legal basis of which is articulated in Article 191 of the Treaty on the Functioning of the European Union (TFEU), adopted in December 2009. It sets out four overarching environmental objectives which are operationalised through a number of high level strategies, including the EU Sustainable Development Strategy and the sixth Environmental Action Programme (see Box 2).

Box 2 The EU’s Overarching Environmental Objectives

The objectives as set out in the TFEU are to:

- Preserve, protect and improve the quality of the environment;
- Contribute towards protecting human health;
- Ensure a prudent and rational utilisation of natural resources; and
- Promote measures at international level to deal with regional or worldwide environmental problems, and in particular combating climate change.

The EU’s objective relating to environmental protection, as articulated in the 2006 EU Sustainable Development Strategy is to:

“Safeguard the earth’s capacity to support life in all its diversity, respect the limits of the planet’s natural resources and ensure a high level of protection and improvement

of the quality of the environment. Prevent and reduce environmental pollution and promote sustainable consumption and production to break the link between economic growth and environmental degradation”.

The objectives of the 6th Environmental Action Programme are as follows:

“The Programme aims at a high level of protection of the environment and human health and at a general improvement in the environment and quality of life” (*preamble, paragraph 7*). The Programme establishes environmental priorities for the EU focusing on:

- Climate change
- Nature and biodiversity
- Environment and health and quality of life
- Natural resources and waste.

Article 4 of the TFEU sets out the areas in which the EU’s competence to act is shared with the Member States, including in the field of the environment. In such areas, the scope of the EU’s intervention is governed by two guiding principles - those of subsidiarity and proportionality - which indicate the most appropriate level of action (see Box 3).

Box 3 Principles guiding the scope of the EU’s interventions in the environment

The Principle of Subsidiarity

The EU’s proposals and legislative initiatives must comply with the ‘*principle of subsidiarity*’ which is set out in Article 3b of the Treaty on European Union (also known as the Maastricht Treaty) which entered into force in November 1993:

“Under the principle of subsidiarity, in all areas which do not fall within its exclusive competence, the Union shall act only if and insofar as the objectives of the proposed action cannot be sufficiently achieved by the Member States, either at central level or at regional or local level, but can rather by reason of the scale or effects of the proposed action, be better achieved at Union level.

“The institutions of the Union shall apply the principle of subsidiarity as laid down in the Protocol on the application of the principle of subsidiarity. National Parliaments ensure compliance with the principle of subsidiarity in accordance with the procedure set out in that Protocol.”

The principle justifies EU action where the objectives of a proposed action cannot be sufficiently achieved by the Member States acting independently, but then only to the extent necessary to meet EU objectives. Whilst the principle is neutral regarding the optimal degree of centralisation, when applied in conjunction with the principle of proportionality (see below), it implies that lower-level tiers of government are generally in a better position to intervene efficiently (Ecorys *et al.*, 2008).

The subsidiarity principle does not provide a definitive template to establish when EU level action is warranted, with Protocol 30 ‘On the application of the principles of

subsidiarity and proportionality' noting that subsidiarity is a *dynamic concept* which allows the expansion or contraction of EU action in response to new policy challenges.

Proportionality Principle

The '*proportionality principle*' requires that any action by the EU should be limited to what is necessary to achieve the objectives of the Treaties. It is derived from German law, was first used in EU law in 1970, and was incorporated in the Treaty of Amsterdam, which entered into force in 1999.

Like the principle of subsidiarity, the principle of proportionality regulates the exercise of powers by the EU, seeking to set within specified bounds the action capable of being taken by EU institutions. When various forms of intervention are available to the EU, it must, where the effect of each is likely to be the same, opt for the approach leaving the greatest freedom to the Member States and individuals.

Principle of Fiscal Equivalence

Developed by Olson (1969), the '*principle of fiscal equivalence*' sets out the divisions of responsibility between different layers of government. It is a general principle about public expenditure and differs from the other two in that it has not been incorporated into the EU Treaties. It stipulates that the most appropriate level of government action is that which is closest to the beneficiaries.

When a specific environmental good or service is only available within a given local area and the beneficiaries are largely local, according to this Principle, actions should be undertaken at the local administrative scale. In addressing those environmental challenges that are more global in nature, such as biodiversity and a stable climate, action at the local level alone will be insufficient and need to be supported by activities at the supranational and global scales.

The principle of fiscal equivalence may be overridden if 'option values' are taken into account. Even if the immediate beneficiaries of an environmental good or service are local, the effects may be valued by people far-removed, and action at a higher administrative scale may be most appropriate in order to meet common objectives.

6.1. Environmental Legislation

Despite the emphasis in the Commission's White Paper on Governance (COM(2001)428) on the use of 'new modes of governance' to address environmental issues, the EU is first and foremost a legislator in this field. During the fifty year period from 1959 – 2009, there has been an unprecedented growth in environmental legislation, with the adoption of a total of 1348 environment related laws, rising from 1 item in 1959, to a peak of 118 in 2001 (IEEP, 2010). In the UK, for example, it is estimated that over 80 per cent of environmental legislation now originates from the EU.

Whilst significant challenges remain, it is widely acknowledged that EU environmental legislation has successfully reduced some pressures on the environment. EU waste policy has resulted in higher levels of recycling and reuse; water policy has improved the quality of our drinking and bathing water; and the regulation of industrial processes has improved air quality. These achievements are particularly significant if compared to what might have

happened in the absence of intervention at the EU level. Indeed, it is widely acknowledged that Member States have higher environmental standards than they would have had if environmental policy was purely a national measure. National environmental legislation in countries such as Spain and Portugal, for example, which had done relatively little on the environment prior to joining the Community in 1986, is now almost entirely driven by the requirements of EU law (IEEP, 2010).

There are a number of clear rationales for regulatory intervention at the EU level. There is a clear case for EU level intervention with regard to environmental standards in various products, such as batteries and end of life vehicles, for example, in order to harmonise standards and contribute to the efficient running of the Single Market. EU legislation deals with a number of important transboundary environmental issues, such as the conservation of migratory birds and the protection of the marine environment. It also extends to other environmental issues which although more localised in nature - such as the use of waste for landfill - can be regarded as a common good. In such cases, EU legislation serves to prevent those Member States who may have avoided introducing national legislation from gaining an unfair competitive advantage.

Whilst the EU occupies a pivotal position in the process of initiating and agreeing environmental legislation, implementation, delivery and enforcement remain largely in the hands of the Member States, Regions and more local authorities. Member States' record in implementing EU environmental legislation has traditionally been poor, as indicated by the high number of complaints and infringement procedures instigated in the European Court. Only by ensuring correct implementation of the *Acquis*¹ will it be possible to realise environmental objectives and to fully respond to the environmental challenge faced in the EU.

To improve its enforcement work, the Commission is focusing on fundamental or systematic breaches, including major defects in national implementing rules, tolerance of illegal landfills, serious gaps in permits for industries and failure to designate key natural sites. Permanent implementation networks involving Commission and Member State staff will be created. The aim of this new approach to implementation and enforcement is to use a broad set of tools to prevent breaches of the law, including enhanced pre-accession support for Candidate countries.

6.2. EU Spending on the Environment

The EU's budget for 2009 was €133.6 billion, with a total allocation of €864 billion for the period from 2007 – 2013 (CEC, 2009). While the EU budget appears quite large in absolute terms, it is relatively small compared to overall public expenditure across the EU-27, amounting to some 2.5 per cent of total public spending and around 1 per cent of total Gross National Income (GNI) in the EU (CEC, 2009). After the failure in the early 1990s to

¹ The *Acquis communautaire* - or Community *Acquis* is the body of common rights and obligations which bind all the Member States together within the European Union. It is constantly evolving and comprises: the content, principles and political objectives of the Treaties; the legislation adopted in application of the treaties and the case law of the Court of Justice; the declarations and resolutions adopted by the Union; measures relating to the common foreign and security policy; measures relating to justice and home affairs; international agreements concluded by the Community and those concluded by the Member States between themselves in the field of the Union's activities. Thus the Community *Acquis* comprises not only Community law in the strict sense, but also all acts adopted under the second and third pillars of the European Union and the common objectives laid down in the Treaties. The Union has committed itself to maintaining the Community *Acquis* in its entirety and developing it further.

establish a sizable, separate Environmental Fund, most environmental spending was 'mainstreamed' into other funds, notably through the CAP and the Structural Funds. Together these account for around 76 per cent of the EU budget, although a large proportion of this money is not currently targeted at the environment. Furthermore, some of the measures supported by these funds have negative environmental impacts.

EU funding instruments play an important role in facilitating environmental action across Member States. Typically they provide much needed incentives for investments in environmental infrastructure, as well as supporting those actions that deliver a level of environmental performance that goes beyond that required through regulation. These investments are essential in many cases to support the implementation of requirements set out under pieces of EU legislation, for example, the Water Framework Directive (2000/60/EC) and the Habitats Directive (Council Directive 92/43/EEC) and the Birds Directive (2009/147/EC).

The main EU funds with potential to support the environment are LIFE+, the CAP and the Structural and Cohesion funds, each of which briefly discussed below.

6.3. LIFE+

Life+ is the EU's only dedicated environment fund with a budget of €2.14 billion for the period 2007 – 2013. In the preamble to the LIFE+ Regulation (EC/614/2007), it states that environmental protection is one of the key dimensions of sustainable development within the European Union. It is a priority for Community co-financing and should be funded primarily through the Community's horizontal financial instruments. It is recognised, however, that these instruments do not cover all environmental priorities.

“There is therefore a need for a Financial Instrument for the Environment (LIFE+) to provide specific support for developing and implementing Community environmental policy and legislation, in particular, the objectives of the sixth Community Environment Action Programme ... and including the integration of the environment into other policies”.

(Preamble EC/ 614/2007, paragraph 3).

An ex post evaluation of the 2000 – 2006 LIFE III programme (COWI, 2009) concluded that the LIFE Nature component had been effective in helping to implement the Birds and Habitats Directives; in raising awareness about biodiversity; in building capacity amongst environmental NGOs to assist in applying the EU's *Acquis* and in the implementation of EU environmental policy. Evaluation of the LIFE Environment component was more problematic since it differed from LIFE Nature with a diffuse programming strategy that did not couple specific environmental priorities with selection criteria. Not all projects were found to be innovative, whilst a “bottom-up” programming strategy meant that the most important or urgent environmental problems from a Community perspective were sometimes not addressed. In addition, it was found that the demonstration potential was often not fully realised because the necessary dissemination of activities and results did not take place, or at least only to a limited extent. Thus progress against the stated rationales and objectives of the policy might be described as patchy.

The current LIFE+ programme has significantly changed by comparison with its predecessor. There is a strong rationale for EU level intervention through LIFE+ given the focus on supporting the delivery of EU environmental policy, including support for the management of the Natura 2000 network of protected sites. Sharing the knowledge required to do so is achieved through the dissemination of best practice techniques, know-how or

technologies, awareness-raising, information and communication. The Regulation also mentions that projects should secure European added value and that the eligibility criteria – as well as networking and dissemination activities – should be applied in such a way as to achieve this.

6.4. Environmental Mainstreaming in the CAP

The CAP is one of the oldest policies of the European Union, and one that is strongly rooted in the European integration project. The CAP's original objectives, as set out in the 1957 Treaty of Rome, have remained unchanged, with an emphasis on encouraging increased agricultural productivity to ensure that consumers have a stable supply of affordable food. Over time and as sustainability has become an overall objective of the EU, the weight given to each of the policy's objectives has changed considerably, and there has been a substantial change in the instruments of the CAP, with the emphasis shifting first from market intervention to product support and then to direct support of producers.

Support for environmentally sustainable land management has increasingly become integrated within the framework of the CAP and in its logic of intervention. The 1992 MacSharry reforms signalled the start of a significant effort to integrate environmental considerations into the CAP, making it obligatory for all Member States to introduce agri-environment schemes to incentivise 'ways of using agricultural land which are compatible with protection and improvement of the environment, the countryside, the landscape, natural resources, the soil and genetic diversity' (Article 1c of Council Regulation (EEC) No 2078/92). 'Agenda 2000' then introduced an EU Rural Development Policy, whilst the 2003 'Mid Term Review' presaged the partial introduction of decoupled direct payments. These were linked, through cross compliance, to mandatory adherence to a range of environmental, food safety, animal welfare and plant health standards that were implemented from 2005.

During the current programming period (2007 – 2013), the second Pillar of the CAP - through the European Agricultural Fund for Rural Development (EAFRD) - provides support to farmers, foresters and the wider rural community for rural development within an EU wide policy framework. In relation to the environment, the Community Strategic Guidelines highlight three priority areas for action: 'biodiversity and the preservation and development of high nature value farming and forestry systems and traditional agricultural landscapes; water; and climate change'. The impacts arising from all rural development measures as well as the overarching programmes are monitored through a Common Monitoring and Evaluation Framework (CMEF). Support for the environment has been further strengthened with the requirement, following the 2008 CAP 'Health Check', that resources generated by the application of additional rates of modulation should be focused on the 'new challenges' of climate change, renewable energy, water management and biodiversity and support for the dairy sector.

Total expenditure on the CAP is €375 billion for the period 2007 – 2013, equivalent to approximately 40 per cent of the total EU budget. Of this, €282 billion is allocated to Pillar 1 measures under the European Agricultural Guarantee Fund, and €93 billion to Pillar 2 (post the CAP 'Health Check' agreement, and without taking account of national co-financing). Although an increasing proportion of CAP expenditure is directed at measures supporting the environment (for example, Axis 2 accounts for approximately 45 per cent of expenditure under Pillar 2 across the EU-27) the largest CAP expenditures are not targeted at the areas of greatest environmental or biodiversity need (EEA, 2009b; Farmer *et al.*, 2008).

6.5. Environmental Mainstreaming in the Structural and Cohesion Funds

The principal rationale for the Structural and Cohesion Funds is to promote the economic and social development of disadvantaged regions, sectors and social groups by reducing disparities in economic performance between different parts of the EU. These funds comprise the EU's main financial instruments of Cohesion policy, with a budget of €347 billion for the 2007 – 2013 period, equivalent to one third of total EU expenditure.

In the past, the use of Structural and Cohesion Funds to support large infrastructure projects has been criticised for its environmental insensitivity. Over time, however, a number of measures have been introduced to strengthen the environmental dimension of the EU's Cohesion Policy, including better monitoring of its environmental effects, and the use of sanctions against Member States for failure to apply environmental safeguards.

Council Decision 2006/702/EC issued, for the first time, legally binding 'Community Strategic Guidelines' which refer to a number of environment-related projects that Member States are encouraged to develop. These include:

- Environmental infrastructure to comply with EU legislation in the fields of water, waste, air and nature protection;
- Waste prevention and recycling;
- Promotion of environmental management systems and clean technologies among small and medium enterprises;
- Rehabilitation of the physical environment, including natural and cultural assets, as attractive industrial locations;
- Energy efficiency initiatives;
- Support for energy conservation and the development of renewable energy;
- Support for better programme and policy design.

During the 2007 - 2013 programming period, it has been estimated that €105 billion (30 per cent of the total Cohesion Policy budget) will be spent on the environment – twice as much as during the period from 2000 - 2006 (COM(2009) 400 final). A majority of these investments directly support infrastructure related to water and waste treatment, renewal of contaminated sites and pollution reduction, as well as providing support for nature protection and risk minimisation.

Environmental investments are increasingly recognised as playing a key role in Cohesion Policy, through addressing the barriers to economic development caused by poor environmental quality, providing the environmental infrastructure needed to achieve sustainable growth, and helping cohesion regions to respond to the opportunities that the environment provides for economic development. This includes, for example, tourism related infrastructure and improving the attractiveness of places for investors, workers and businesses (GHK *et al.*, 2007). Cohesion Policy can also support indirect environmental investments that help to 'green' energy, transport and production systems thereby contributing to competitiveness, new markets and business niches, economic growth, employment and a better quality of life. That said a number of external evaluations point to the low level of expenditure on broader EU environmental objectives such as combating climate change as well as highlighting the potential contribution of projects funded through these instruments to rising greenhouse gas emissions (FOEE and CEE Bankwatch Network, 2007).

6.6. The Seventh Research and Technological Development Framework Programme (FP7)

Spending on research and development in the EU mainly, but not exclusively under FP7, can have significant environmental impacts. Investment in this area has traditionally involved a smaller share of the EU budget than funding for the CAP or Structural Funds. However, research funding is now increasing as a proportion of the EU budget and beginning to focus more on environmental issues. The current FP7 provides €50.5 billion (2007 - 2013) to finance selected research projects compared to around €17.9 billion in the previous Financial Perspective. The theme of 'Environment and climate change' has been allocated €1.8 billion with its main objective being to advance knowledge of the interactions between climate, the biosphere and ecosystems, and human activities, as well as to develop new technologies, tools and services for the sustainable development of the environment and its resources.

7. THE CASE FOR INTERVENTION AT THE EU LEVEL

In elaborating the case for EU intervention in the environment, a distinction should be made between intervening via an EU policy framework, comprising common objectives and policy instruments, and the case for the prescribed actions to be funded through an EU funding programme, as opposed to through national funds. This distinction is important because the arguments for a common policy framework do not – *de facto* – justify a common budget, and a separate justification therefore renders the case for establishing both a common framework and a common budget more convincing.

The case for a common EU policy framework customarily rests on a number of arguments, including:

- Legal obligations to take action on the environment, as articulated in the Treaty of the Functioning of the European Union, as well as an inherent commitment emerging from its status as signatory to various international agreements on the environment, for example, through the Convention on Biological Diversity and the Kyoto Protocol.
- Competence for policies concerned with food, agriculture, environment and trade are long-established principles and functions of the EU. As such, there is a strong case for common EU action on related aspects of land management.
- There is political support for EU action and whilst there is room for improvement in policy effectiveness and efficiency, past successes have reinforced this model, providing a convincing case in support of the EU's ongoing intervention in this field.
- Although a pressing environmental challenge remains in the EU, the gap between the level of environmental improvement as stipulated in political targets and policy goals and current levels of environmental delivery is likely to have been greater in the absence of existing EU legislation and other policy tools.

The argument for a common budget to support the implementation of a common policy framework rests on a number of additional arguments:

- Given that Member States have a legal commitment to adopt, implement and enforce EU legislation, the existence of a common fund is likely to facilitate or incentivise

greater support at national level for such a legislative framework, if it corresponds to national needs.

- The beneficial environmental outcomes achieved through EU funding instruments form part of the case for their ongoing maintenance, and a centralised budget can provide a more cost effective means of meeting common objectives, through the exploitation of efficiencies and economies of scale.
- A common budget for the CAP – for example, creates opportunities for political negotiation in other areas of expenditure or other policy spheres.
- A common framework of rules and procedures for the administration of funds and payments, as well as for the auditing of expenditure, may contribute to higher levels of budgetary accountability and helps to avoid mis-use of funds.
- Current levels of spending on the environment through EU funding instruments such as the CAP, LIFE+ and the Structural Funds, are not sufficient to meet EU and national environmental goals and targets, leading to a considerable funding gap (Cao *et al.*, 2009). Estimates, for example, of the costs of managing Natura 2000 sites across the EU-25 Member States indicate that at least €2 billion per year would be needed to manage agricultural land within Natura 2000 sites to achieve favourable conservation status, approximately half the annual agri-environment budget. In the Netherlands, recent estimates have shown that European funds will only be sufficient to cover five per cent of the funding needed to meet agreed conservation objectives for biodiversity, with substantial budgetary deficiencies apparent in other Member States, such as the UK (Cao *et al.*, 2009). Preliminary estimates suggest that current levels of expenditure on soil conservation and to meet the objectives of the Water Framework Directive, are insufficient to achieve these goals, suggesting that the money available under EAFRD and other funding instruments is insufficient.

Given that there are clear disparities in national priorities with respect to the environment, as demonstrated by differences in the proportion of EAFRD funds allocated to Axis 2 – ‘maintaining the countryside and the environment’, for example (ranging from just over 25 per cent of the total rural development budget in Romania and Bulgaria, to over 75 per cent in Austria, Finland and Ireland²), it is likely that the repatriation of EU funding to the national level would reduce the total amount of money available for the environment, rather than increase it, resulting in a failure to meet EU as well as national objectives.

8. TOWARDS A MORE COMPREHENSIVE RATIONALE FOR INTERVENTION AT THE EU LEVEL

Whilst most of these arguments have some legitimacy, some demonstrate a degree of circularity in the line of argumentation. Implicit in many is that the case for EU level intervention rests on the current existence of a comprehensive EU policy framework and an accompanying EU Budget. As a result, there is a growing pressure from certain quarters to

² These figures are based on IEEP calculations of programmed expenditure within individual RDPs, for the period 2007 – 2013, pre Health Check.

augment these existing arguments with a more comprehensive rationale for EU level intervention and funding, particularly in light of growing pressures on the EU Budget and the need to demonstrate that scarce public resources are being allocated to effective and efficient policies.

In his political guidelines for the 2010 – 2014 Commission College, Commission President Barroso noted that the EU should:

“Develop a much clearer doctrine of how to decide when action needs to be taken at EU level, where the balance should lie between EU-level tools and national level tools, and what expectations should be placed on Member States implementing EU policy in their own countries.”

(Barroso, 2009, pp 39).

With respect to EU spending he argued:

“The EU budget must focus on activities which produce genuine European added value. Beyond political considerations, efficiency criteria must help prioritise EU spending activities in terms of their added value (for instance on the basis of cross-border effects, economies of scale, or resolving market failures).”

(Barroso, 2009, pp 36).

A more comprehensive rationale certainly needs to comprise an assessment of the relevance, effectiveness and efficiency of existing EU level interventions, as well as ensuring that any interventions are justifiable, accountable and credible in the eyes of EU citizens. The case for intervention at the EU level may be further strengthened if EU policies and expenditure contribute to supporting environmental goods and services which are global, transnational or transboundary in nature, and to delivering EU ‘added value’. This serves to afford greater coherence to the sometimes rather unstructured debate about whether intervention should be at the EU level rather than at the national level.

8.1. The Global, Transnational and Transboundary Nature of Environmental Issues

Many of the environmental challenges we face are global by nature. A stable climate is the ultimate global public good. Biodiversity - because of its intricate web of links between species and ecosystems - is also inherently global. Water basins often span national borders, and certain environmental problems – such as air and water pollution – are not limited by national frontiers.

These issues cannot be tackled effectively by a single Member State acting alone, because it is likely that a degree of ‘free-rider’ behaviour would occur. They therefore benefit from cooperation between countries and are a clear example of where a multilateral or EU solution should be sought or at least considered. In practice, the levels of governance are not usually mutually exclusive and a combination of complementary actions at different levels of government may be the most effective course of action (Adelle *et al.*, 2009).

8.2. EU Added Value

A more comprehensive rationale for EU intervention rests on the extent to which interventions contribute to the delivery of EU added value. There is, however, no agreed

definition of this term. Arguably, it can be measured in terms of the effectiveness and/or efficiency of a policy, and arises when EU level action achieves greater progress against its stated objectives, or a better result per unit of cost, compared to interventions at other levels.

EU value added does not only apply in an economic sense, but may also relate to more intangible expressions of value. The European Parliament has voiced its concern over “excessively economic interpretations” of the concept, saying that “the concept of ‘European added value’ must not be limited to advanced co-operation between Member States but should also contain a ‘visionary’ aspect”.

EU ‘added value’ can also be said to arise when in addition to achievements against its stated a number of spill-over benefits are generated, such as:

- Providing a level playing field
- Meeting common objectives and achieving synergies with other policies
- Promoting mutual learning
- Promoting financial solidarity in support of cohesion objectives.

Providing a Level Playing Field

Much of the EU’s early activity on environmental policy was driven by the pressures of the internal market, with a focus on harmonising environmental regulation as part of removing obstacles to trade. Recently, the pressure to harmonise has come more from the need to build political consensus among the Member States, as well as from the ‘leaders’ in environmental policy seeking to ensure a level playing field with the ‘laggards’ (Haas, 1993)³.

With respect to agricultural policy, an EU-wide approach is designed to provide a level playing field for farmers competing in the internal market with a common set of objectives, principles and rules, including mandatory cross compliance standards. Furthermore, and given that most agricultural practices result in the provision of non-marketable environmental and social public goods alongside agricultural products, there is a need for a common agricultural policy to be complemented with a set of common policies supporting the delivery of land-based public goods. The absence of these could result in a “race to the bottom” whereby Member States seek to maximise their agricultural market share at the expense of the provision of public goods.

Meeting Common Objectives and Achieving Synergies with Other Policies

Shared European policy objectives and goals, such as those under the Sustainable Development Strategy, the Sixth Environmental Action Plan, Rural Development policy and Cohesion policy, suggest the need for a co-ordinated response and a common approach, albeit one with sufficient flexibility and a differentiated mix of policies capable of accommodating the diverse range of local conditions across the EU. The synergies between cohesion, rural development and environmental policy, for example, are much in evidence. Environmental policy has a clear role to play in furthering the promotion of economic and social cohesion, given that poor environmental quality is recognised as a barrier to development and hence cohesion.

³ ‘Leader’ countries are those with more ambitious environmental policy goals and public pressure to encourage others to aspire to similar goals. ‘Laggards’ are those with weaker environmental measures and which are more reluctant to accept stronger standards (Haas, 1993).

Promoting Mutual Learning

Within the frame of a common set of environmental objectives and policy instruments, the sharing of knowledge, expertise and best practice can lead to greater effectiveness and improved results in the delivery of environmental policy. Knowledge transfer and co-operation between Member States is facilitated through, for example, IMPEL (the implementation network), the Environmental Policy Review Group of National Environment Directors. In addition, the European Network for Rural Development, as established under Council Regulation 1698/2005, aims to promote the sharing of a significant capital of expertise on rural development policy throughout the EU.

Promoting Financial Solidarity in Support of Cohesion Objectives

As has been discussed in Section 6, the case for a common EU policy framework is not synonymous with that for a common budget. In addition to the arguments presented previously, the added value of expenditure at the EU level is predicated on arguments of financial solidarity in support of the principles of social and economic cohesion.

There are strong arguments for pooling financial support across Member States in order to meet common environmental objectives. Given that environmental resources are not uniformly distributed across the EU, a common budget affords a mechanism for ensuring a more equitable distribution of the costs of meeting common objectives and means that funds can be targeted at areas of greatest need. It also provides a mechanism for the transfer of funds to less wealthy regions.

9. THE STATED CASE FOR EU INTERVENTION IN THE ENVIRONMENT VIA THE CAP

In the section that follows, we assess the case for using the CAP to intervene in the environment against the whole range of arguments discussed in the paper. Our focus is on environmental interventions under the CAP, specifically EAFRD measures designed to meet environmental objectives, and on cross compliance, the key instrument for securing positive environmental outcomes under Pillar 1.

After considering the stated case for intervention, we review the effectiveness and efficiency of these instruments in meeting environmental objectives. We then consider the extent to which they meet a number of other criteria such as addressing market failure, supporting the provision of public goods, and generating EU added value, both from an economic perspective and through the generation of second order benefits such as providing a level playing field; generating coherence and synergies with other EU policies in the pursuit of common objectives; delivering financial solidarity and promoting mutual learning. In all cases, the results achieved should be greater than they would have been through interventions at other levels. These aspects are notoriously difficult to measure, and the availability of evidence at the present time renders any judgment inherently qualitative and discursive in nature. Where possible, we identify where the evidence most strongly supports a common policy framework, and where the rationale for a common budget is also most compelling.

The CAP is one of the oldest policies of the European Union, and is strongly rooted in the European integration project. Its founding objectives were embodied in the 1957 Treaty of Rome with EU wide intervention in agricultural markets regarded as an effective means of achieving these. A common external tariff on imports led to a single market for the main

food products and, coupled with Community competence for trade policy, a more harmonised set of interventions in agriculture was considered necessary to avoid distortions to competition arising from variations in national support for production.

Over time, there has been an expansion in the objectives of the CAP to meet rural development and environmental goals, and the gradual integration of support for environmentally sustainable land management. This evolution has reflected changes in societal expectations, growing concern over the damaging environmental impact of certain forms of agriculture, and a demand for public payments to be targeted at the provision of environmental and social public goods.

9.1. Cross Compliance: The Case for EU Level Intervention

Cross compliance does not represent an environmental funding scheme in itself but requires that farmers in receipt of certain payments (those under the Single Payment Scheme and some of the Axis 2 payments under EAFRD) to respect certain rules (Council Regulation (EC) No 1782/2003). These cross compliance requirements reflect existing elements of EU legislation (referred to as Statutory Management Requirements or SMRs) as well as a number of basic good farming standards (known as Good Agricultural and Environmental Condition standards or GAEC) covering a range of environmental, food safety and animal welfare issues. Cross compliance came into force on 1 January 2005 in the old Member States, while many provisions are yet to come into force in the new Member States.

The Statutory Management Requirements (SMRs) consist of elements of 18 EU Directives and Regulations encompassing environmental protection, animal identification and registration, plant, animal and public health, and animal welfare. Implementation of this aspect of cross compliance depends on the transposition of these pieces of EU legislation into national and regional law. GAEC consists of 15 standards listed in Annex III to Council Regulation EC 73/2009. These standards cover environmental issues grouped into 5 areas: soil erosion; soil organic matter; soil structure; minimum level of maintenance; and the protection and management of water. Unlike SMRs, GAEC standards have been introduced through the cross compliance system and are not based on other EU legislative requirements. Those GAEC standards that specify actions to maintain landscape features, habitats and deliver improvements in water quality, contribute to a basic level of public goods provision and may help to address information failures by specifying appropriate management practices (for example, in relation to good soil management) although this depends on the nature of the standards set at the national level.

A common EU level framework has helped to reduce concerns that farmers across the Union would be treated differently in terms of the standards they would need to meet and with respect to the penalty they would face if identified as non-compliant, thus tempering arguments put forward by some Member States that their competitive position in the EU would be undermined as a result of the introduction of cross compliance.

It is more challenging to assess the performance and impact of cross compliance than many other policies within the CAP. At the political level it has led to a greater focus on implementing EU legislation at farm level by both governments and farmers but it is difficult to appraise the impact of this. Many farmers have become more aware of their environmental obligations than previously and are concerned to avoid penalties which are subject to discussion in the press, for example (Alliance Environnement, 2007).

The lack of formal assessment, reporting or monitoring requirements however is a significant weakness of the system. While GAEC standards can be tailored to local circumstances,

priorities and needs, the Commission has provided only limited guidance for Member States on the SMR element of cross compliance. No guidance documents have been provided on the development or implementation of GAEC standards. The lack of guidance, the absence of any formal requirement for such standards to be based on an assessment of needs, together with the lack of checks by the Commission on the quality or appropriateness of the standards introduced by Member States, has led to a mixed pattern of implementation with some Member States taking limited measures.

The form of cross compliance introduced into the EU in 2005 demonstrates a form of environmental conditionality that is likely to be more successful than its predecessors in improving the management of agricultural land from an environmental perspective (albeit with some variation between Member States and sectors). This will be achieved partly as a result of increasing rates of compliance with existing legislation. As a sanctioning mechanism, it operates without imposing significant additional costs on farmers over and above those they were not already obliged to find. It provides an incentive for both governments and farmers to pay greater attention to the implementation of standards, some of which have not been widely adhered to. The significant benefits for the environment that the introduction of GAEC standards has the potential to deliver, however, are yet to be realised in most Member States. Significant efforts continue to be needed to improve the design and delivery of cross compliance if its potential for integrating environmental concerns within agricultural policy is to be maximised.

9.2. Rural Development: The Stated Case for Intervention at the EU Level

The need for rural development policy to contribute to and link with other EU policy objectives, including for agriculture, cohesion and sustainable development, is prominent in the introductory text of the EAFRD Regulation (Council Regulation (EC) No 1698/2005), which states that it should:

- *Accompany and complement the market and income support policies of the CAP and thus contribute to the achievement of that policy's objectives as laid down in the Treaty.*
- *Take into account the general objectives for economic and social cohesion policy set out in the Treaty and contribute to their achievement, while integrating other major policy priorities as spelled out in the conclusions of the Lisbon and Göteborg European Councils for competitiveness and sustainable development.*

Moreover the text claims that the objective of rural development can be better achieved through Community financing, noting that it:

“Cannot be achieved sufficiently by the Member States given the links between it and the other instruments of the common agricultural policy, the extent of the disparities between the various rural areas and the limits on the financial resources of the Member States in an enlarged Union, and can therefore be better achieved at Community level through the multiannual guarantee of Community finance.

Further arguments are set out by the European Commission in its website, in a section entitled “Why have a *common* rural development policy⁴”. Drawing on the transboundary

⁴ http://ec.europa.eu/agriculture/rurdev/index_en.htm

nature of environmental issues, and in order to promote cohesion and financial solidarity, it is argued that:

“Theoretically, individual EU Member States could decide and operate completely independent rural development policies. However, this approach would work poorly in practice. Not all countries in the EU would be able to afford the policy which they needed. Moreover, many of the issues addressed through rural development policy do not divide up neatly at national or regional boundaries, but affect people further afield (for example, pollution crosses borders all too easily; and more generally, environmental sustainability has become a European and international concern). Also, rural development policy has links to a number of other policies set at EU level. Therefore, the EU has a common rural development policy, which nonetheless places considerable control in the hands of individual Member States and regions”.

The Community Strategic Guidelines for rural development (2006/144/EC) aim to play a key role in this respect, stating that they will help to:

- Identify and agree the areas where the use of EU support for rural development creates the most value added at EU level;
- Make the link with the main EU priorities (Lisbon, Göteborg) and translate them into rural development policy;
- Ensure consistency with other EU policies, in particular in the fields of cohesion and environment;
- Accompany the implementation of the new market-oriented common agricultural policy (CAP) and the necessary restructuring it will entail in the old and new Member States.

The Guidelines state that rural development policy needs to help rural areas contribute to the common interests and objectives of the Lisbon agenda:

“Rural development policy must help rural areas meet these objectives in the period 2007 to 2013. This requires a more strategic approach to competitiveness, job creation and innovation in rural areas and improved governance in the delivery of programmes. There must be an increased focus on forward-looking investments in people, know-how and capital in the farm and forestry sectors, on new ways of delivering win-win environmental services and on creating more and better jobs through diversification, particularly for women and young people. By helping the EU’s rural areas to fulfil their potential as attractive places in which to invest, work and live, rural development policy can play its part in the sustainable development of Europe’s territory”.

With regard to the environment, the Guidelines state that:

“To protect and enhance the EU’s natural resources and landscapes in rural areas, the resources devoted to axis 2 should contribute to three EU-level priority areas: biodiversity and the preservation and development of high nature value farming and forestry systems and traditional agricultural landscapes; water; and climate change”.

Not all these identified EU priority areas have strong transboundary elements, however. While biodiversity, climate and parts of the water system cross Member State boundaries, traditional agricultural landscapes might be seen as being of more local interest.

On coherence, the Guidelines state that:

“The synergy between structural, employment and rural development policies needs to be encouraged. In this context, Member States should ensure complementarity and coherence between actions to be financed by the European Regional Development Fund, the Cohesion Fund, the European Social Fund, the European Fisheries Fund and the EAFRD on a given territory and in a given field of activity. The main guiding principles as regards the demarcation line and the coordination mechanisms between actions supported by the different funds should be defined in the national strategic reference framework and the national strategy plan”.

It is interesting to note the onus put on the Member States to ensure complementarity and coherence, which does not strengthen the case for EU level intervention. Indeed, it could be argued that many of the common objectives and transnational issues identified in support of a common rural development policy are potentially weakened by the decentralised and flexible approach to programming which *“allows rural development programmes that are tailor made to the situation of a specific area or country”*. The stated case for a common budget is perhaps weaker, although it is supported by arguments for financial solidarity.

EAFRD also makes efforts to add value at the EU level through mutual learning, establishing the European network for rural development which groups national networks, organisations and administrations active in the field of rural development. The aims of the Network are to:

- Collect, analyse and disseminate information on Community rural development measures;
- Collect, disseminate and consolidate at Community level good rural development practice;
- Provide information on developments in the Community's rural areas and in third countries;
- Organise meetings and seminars at Community level for those actively involved in rural development;
- Set up and run expert networks with a view to facilitating an exchange of expertise and supporting implementation and evaluation of the rural development policy;
- Support the national networks and trans-national cooperation initiatives.

EU rural development policy suggests that EU funding for the environment is based on a series of arguments relating to:

- Addressing transboundary environmental issues
- Delivery of environmental public goods
- Contributing to common goals, notably as set out in the Lisbon and Gothenburg agendas
- Achieving coherence with other EU policies
- Contributing to economic and social cohesion
- Supporting mutual learning across the EU.

9.3. The Case for EU Level Intervention in the Environment via the CAP: Evaluating the Evidence in Practice

Some evidence of the actual delivery of rural development programmes with regard to these stated rationales for intervention can be gained through examination of evaluation evidence. That said, whilst there is a growing body of evidence collected in line with the reporting requirements under EAFRD (using the CMEF indicators, the ex-ante, mid-term and ex-post evaluations and national annual progress reports) on the impacts of rural development

measures and programmes, the quality of the evaluation evidence available with respect to these more complex issues, such as the generation of 'added value', is patchy, reflecting the difficulty of measuring progress against them. There is a pressing need to develop evaluation tools and operational criteria to assess whether they are being met, with a greater focus on using these criteria as part of both monitoring and evaluation in the future.

For example, a synthesis of 94 ex ante evaluations of programmes currently being funded by EAFRD (Methis and AEIDL, 2008) found that:

- Most programmes considered coherence with broader EU objectives, especially with regard to the Göteborg and Lisbon agendas, with stronger links made to Göteborg, although much of the emphasis on the latter is on environmental goals rather than integration of economic and social objectives. Promoting coherence with other EU policy agendas and contributing to common goals and strategies do not necessarily require an EU funded programme but they are likely to be greatly facilitated by one.
- With regard to coherence between different policy instruments, there was generally stronger evidence of efforts to achieve complementarity (i.e. avoiding overlaps and conflicts) than synergy (promoting positive added value through links between programmes). Some evidence of synergies was found in certain areas, especially in smaller Member States and regions, but administrative complexities meant that they were less likely to be actively pursued. It was recommended that ways of creating synergies between different funds (for example, through local implementing agencies) should be better explored by the Member States.
- The formation of a European Evaluation Network was generally welcomed and seen to offer the potential to add value to the evaluation process. Mutual learning could be promoted by an EU network, irrespective of whether there was an EU wide rural development programme, and thus whether establishing such a network actually adds value clearly depends on the outcomes of these networking activities relative to the resources expended.
- The principle of EU added value has generally been taken into account in the programmes and ex-ante evaluations, but detailed descriptions of the governance structures and practical procedures for achieving it are less frequently available.

Focusing specifically on the Agri-Environment measure, given that it is the most important EU policy measure for securing environmental outcomes through the CAP, and for which there is a large body of evidence evaluating its impacts and effectiveness, there is some debate as to whether all of the actions currently funded justify EU level intervention.

As previously discussed, the effectiveness of a given measure in meeting its objectives, and its legitimacy with respect to societal expectations, forms a significant part of the case for intervention. There has, however, been some debate about the effectiveness of agri-environment schemes arising from the difficulties inherent in quantifying the environmental benefits achieved (for example, ECA 2005; Kleijn *et al.*, 2006; CSL and CCRI, 2008). In general, evaluations of the agri-environment measure have shown that its implementation has achieved benefits for biodiversity largely due to the focus of many schemes on the maintenance of existing low intensity systems, extensifying production and on reducing agrochemical inputs (EPEC, 2004; Oréade-Brèche, 2005; Kleijn *et al.*, 2006; CSL and CCRI, 2008).

In contrast, there is much less evaluation literature available on how effective these schemes have been in achieving landscape objectives. However, more recent work (Oréade-Brèche, 2005), backed up by evaluations of agri-environment schemes in the UK (Natural England, 2009) and elsewhere, showed that the measure has had a generally beneficial impact upon maintaining landscape patterns, particularly through the maintenance, restoration and

recreation of landscape features, the maintenance of habitat mosaics, the reversion of arable land to grassland, the maintenance of extensive grassland, and the prevention of land abandonment in some cases. Limited information exists on the impacts of agri-environment schemes with respect to securing beneficial soil management (EPEC, 2004) and improvements in water quality, although evaluations from the previous programming period suggest the main benefits for water quality, were delivered through actions requiring reductions in inputs, the use of cover crops, appropriate arable rotations and arable reversion to grassland (Primdahl *et al.*, 2003; EPEC, 2004; Agra CEAS, 2005).

Certain commentators (Swinbank and Zahrnt, 2009) have argued that the EU should limit its funding to support for the delivery of those environmental public goods whose effects spill across borders. This would significantly reduce the scope and targeting of an EU level agri-environment programme which is arguably not desirable given the scale of the environmental challenge. Furthermore, a reduction in scope is likely to undermine the stated rationale of promoting cohesion which would not be achieved by measures funded and operating at national or regional levels. The relative weight attached to the various aspects of EU added value, and the importance attached to supporting the delivery of transboundary public goods rather than the pursuit of common objectives, clearly influences the extent to which a case can be made for an EU wide agri-environment measure. Focusing on transboundary environmental public goods, for example, would imply a much smaller and more targeted programme of activity than one based on the wider rationales of coherence, cohesion and meeting common goals.

10. A POST-2013 CAP: TOWARDS A MORE ROBUST RATIONALE

In the final section of this paper, we consider how best to strengthen the case for EU level intervention in the environment via the CAP, and whether it would be enhanced if a future policy was more focused on the provision of environmental public goods and services. Such a model would be in line with a range of proposals from the key stakeholders in the CAP reform debate (see, for example, LUPG, 2009; Hart *et al.*, 2010; and Annex 1 for an overview of the contributions of the key stakeholders to the discussions on the rationale and objectives for a future CAP).

It is widely anticipated that the forthcoming reform of the CAP will be significant, with considerable scrutiny of both the rationale and the scale of expenditure on agriculture, prompted in part by the EU Budget Review. As the rationale for the CAP is progressively called into question, and questions are raised over the justification for supporting one specific sector within a market economy, a growing coalition of stakeholders and Member States are arguing that the policy will only be sustainable and publicly accountable in the long-term if it supports the provision of environmental and social public goods. This sentiment was articulated in a recent announcement on the CAP by Jan Potocnik, the EU's Environment Commissioner:

"The European public is increasingly concerned about how we spend the European budget and also about the environment in general; and in particular they also worry about the impact of agriculture on the environment ... What does this mean? It means that the CAP needs to be able to provide environmental public goods and services. We need to put forward the proposals to make this happen and let CAP deliver them to the European public. This means digging deep into the substance of the CAP – we need much more than just green window dressing".

Commissioner Potocnik, 16 March, 2010

The rationale for EU intervention and spending on the environment via the CAP would certainly be strengthened if the policy can be shown to respond to society's expectations with regard to the environment in an effective and efficient way. A policy whose central rationale was to support the provision of environmental and social public goods would go some way to responding to this. The CAP's current environmental record is patchy and part of a more robust rationale for intervention should help to improve the policy's impacts in this regard, whilst at the same time securing the viability of those farming systems which deliver a wide range of public benefits.

Furthermore, the legitimacy of the CAP would be further strengthened if it demonstrated the following characteristics:

- The use of public money to support public goods – with quantifiable and measurable results assessed against robust baselines;
- A contractual base – with a clear agreement made between the beneficiary and society, spelling out the outcomes beneficiaries are expected to deliver in exchange for payments;
- Delivered according to a strategic programming approach with Commission approval procedures used to secure consistent implementation across the EU;
- Equipped with a sound system of monitoring and evaluation, used to assess performance and guide future policy design;
- Transparent and accountable expenditure – on the part of beneficiaries, and also responsible spending authorities, who are accountable for the achievement of agreed EU objectives.

The case for shifting the focus of the CAP to meet environmental and social objectives is strong on the grounds of establishing a legitimate justification for public expenditure. However, this does not necessarily justify delivery of funding at the EU level and it remains essential to consider how far policy should be advanced through an EU process and central budget by comparison with the extent to which this should take place through national or regional levels. Different formulations of expenditure can be envisaged within a single policy, although shared objectives, rules and constraints may point to certain budgetary principles. Arguments in favour of a reorientation of CAP support towards the environment (rather than its repatriation to Member States) therefore need to be based not only on a clear rationale for intervention, but also on evidence that this rationale can most effectively be met through EU level action.

11. CONCLUSIONS

In conclusion, a number of arguments can be advanced for continuing to pursue a European common agricultural policy rather than reverting to a nationally determined approach.

- Since the EU continues to have competence for trade policy and hence for setting the broader conditions for agriculture, arguments in favour of a European level policy continue to have force. Import tariffs, export subsidies and the overall levels of domestic support permitted under different WTO categories are determined at the EU level. These need to be supported by a coherent internal EU policy capable of delivering those obligations agreed internationally. The EU is subject to a ceiling on amber box subsidies for example, and an agreed framework is required to ensure individual Member States are prevented from unilaterally taking more than their "share" of this support. This argument suggests that a common framework is needed, but not necessarily common expenditure.

- Unfair competition between producers (arising from Member States supporting their own producers) needs to be constrained, if not eliminated, within an EU framework. The pursuit of the “level playing field” results in the need for rules on national subsidies (state aids) and the clarification of what constitutes a legitimate form of support. Ideally, support should be available to all producers on a similar or equivalent basis wherever they are in the EU. There will be distortions to competition if payments for a particular commodity in one Member State are more generous than in another, creating an income benefit. Even where funding levels are the same, however, this does not imply that they should be financed from a common budget rather than nationally.
- The legal framework within which land managers in the EU provide public goods, (including many of the formal objectives, such as preventing the loss of biodiversity) is set largely at the EU level. Obligations to reduce greenhouse gas emissions are shared between Member States, even where there are differences in national targets. In the realm of water quality, there is a common goal of restoring fresh water to good ecological condition, as laid down in the Water Framework Directive, whilst allowing for providing for differences between catchments. Some of the objectives set in relation to biodiversity and climate change, for example, have a strong transboundary character so that the overall goal at EU level is highly unlikely to be reached as a result of disparate action in different Member States and regions.
 - These shared goals and obligations highlight the need for a co-ordinated response within a framework that pursues European as well as more local goals and which seeks progress at a continental scale. Where targets are not being met, this can be identified and an appropriate level of response initiated. Additional resources can be mobilised if necessary. The resources required, such as the CAP budget, do not have to be distributed exclusively at the European level, but such an approach brings advantages in co-ordination and the ability to target funding where it is most required. A centrally organised budget supporting the attainment of predominantly EU targets has clear advantages in terms of ensuring that all Member States are supported in contributing to the overall goal.
- With a progressive shift in focus to supporting the provision of public goods there are strong arguments for pooling financial support so that goals can be pursued more efficiently at a European scale. The distribution of suppliers will not be uniform in Europe and in effect, there will be some areas and some farmers who “over supply” these goods in the sense that they contribute more than their share. The distribution of HNV farmland, for example, is far from uniform and the flexibility is required to target resources at those areas which are critical to supply, such as parts of Romania, Scotland and Spain. If the budget for public goods is artificially segmented into fixed shares for individual regions, the capacity to target those areas with the necessary resources and potential to supply goods and resources for European benefit will be lost. The budget should match the distribution of supply and allow the pursuit of options which are cost efficient as well as effective at a European scale. This is the strongest argument for a centralised EU budget for a new CAP. It does, however, assume a different distribution of expenditure compared to today.
- Distributional issues cannot be ignored in any consideration of a future CAP budget. Whilst the current distribution is difficult to defend on grounds of cohesion objectives (Shucksmith *et al.*, 2005), a new budget allocation would need a strong rationale in order to persuade those Member States that currently emerge as “winners” to abandon the status quo. The public goods agenda, which is indifferent to national interests, provides the opportunity to create such a rationale and to move beyond the currently

unsatisfactory approach based on the historic distribution of expenditure. Whilst there are difficulties with measurement and valuation, there is a coherent rationale for distributing expenditure according to the contribution made to the provision of public benefit within Europe. It is also likely that a public goods based distribution would match cohesion criteria more closely than the current CAP. Many of the beneficiaries would be in those countries and regions with less intensive land use and lower farm and regional incomes. This would reinforce the case for a public goods approach and match public expectations of a fair budget more closely than the present approach.

Although there exists a lively academic debate on the case for EU level intervention, the future of the CAP in the short term is much more likely to be shaped by political drivers, such as national self interest and whether a given Member State is a net contributor or a beneficiary of the EU budget (see Annex 2). Indeed, the objectives of a future policy, its logic of intervention and the size of its budget, will ultimately not result from a rational process of evaluation and critical review; rather the final outcome will reflect a complex series of interlocking deals and political compromises. Instead of undermining efforts to develop a robust set of arguments for EU level intervention, this serves to emphasise the importance of doing so as soon as possible, as a way of tempering the inevitable political horse-trading that characterises all major EU policy reforms.

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ANNEX 1 THE POSITIONS OF KEY STAKEHOLDERS IN THE DEBATE ON A FUTURE CAP

Annex Table 1 Summary of stakeholder positions

| Organisation | Position |
|--|---|
| EU Institutions | |
| DG Agriculture Discussion Paper | <i>“Why do we need a CAP?” (2009)</i> : This document presents a rationale for a CAP that aims to enhance competitiveness, ensure an efficient and secure food supply, preserve the environment and provide a fair standard of living for the agricultural community. The added value of a CAP as a coherent policy targeted towards European objectives is highlighted. The merits of a CAP that supports common action needed to address cross-border environmental problems are discussed, coupled with a view that a renationalisation of the CAP would have detrimental results. As such, the paper stresses the need for agricultural policies that go beyond market mechanisms to support farmers and ensure the provision of the many services that agriculture provides. |
| European Parliament Papers | <i>Report on EU Agriculture and Climate Change (2009)</i> : In his draft report on EU agriculture and climate change, MEP Mr Le Foll, calls for financial incentives for EU farmers to implement adaptation measures such as: optimising water resource management, practicing crop rotation, soil protection and controlling insects and disease. He stresses that the ‘new challenge’ of climate change should be addressed through all CAP instruments and not just Pillar 2 measures, and that there should be a strengthening of risk and crisis management instruments. |
| | <i>Report on the Future of the Common Agricultural Policy after 2013 (2009)</i> : MEP Mr Lyon stresses the need for a strong CAP to address the key issues of food security, sustainability, green growth, biodiversity and nature protection. The report states that agriculture should have a leading role to play in tackling climate change and that the CAP could be ‘greened’ by incentivising farmers to increase the delivery of ecosystem services. However this should not be achieved through renationalisation as he believes that core support should continue to be financed through the EU budget. Overall, Lyon highlights the fact that agriculture needs to demonstrate that it is well placed to make a major contribution to delivering EU2020 priorities. |
| Socialist and Democrats Group | <i>A New CAP Beyond 2013 and for a Longer View (2010)</i> : The Socialist and Democrats Group argue for the abolishment of the 2 Pillars of the CAP and the consolidation of payments into a single structured framework of European rules that will better address ‘new challenges’. While they are against the renationalisation of the CAP, they advocate the linking of aid grants and job creation in rural areas. Emphasis is placed on a fairer allocation of resources between Member States, as the group argue that apart from the LFA measure, the CAP has never managed to reduce disparities in line with cohesion principles. |
| The European Economic and Social Committee | <i>Opinion of the European Economic and Social Committee on the Reform of the Common Agricultural Policy in 2013 (2010)</i> : The paper calls for an end to the race for higher price productivity so as to ensure a sustainable farming sector. The Committee advocate a move away from the current system of non-uniform support to an income based system with sufficient flexibility to respond to ever increasing price fluctuations. Arguments are based on the inequality in the levels of support between the EU-15 and the EU-12. |

| Farmers' Organisations | |
|---|---|
| COPA- COGECA | <i>Visions for the Future of Agricultural Policy in Europe (2008)</i> : A future CAP should contribute to the reinforcement of the EU and provide the financial solidarity necessary to ensure "greater economic and social cohesion". COPA argue that future agricultural policy should develop agriculture's full potential through measures to encourage increased productivity and competitiveness. In particular, COPA stress the need to remunerate farmers for the public services they provide, help them adapt to and mitigate climate change, optimise agriculture's contribution to the rural economy and employment in rural areas and to ensure a fair standard of living for EU agricultural producers. |
| Federation of Swedish Farmers (LRF) | <i>The Future CAP (2009)</i> : The Federation of Swedish Farmers argue that the CAP should continue as a common policy: one that is legitimate and sustainable with a clear market orientation. They call for decoupled aid that levels out over time, with a corresponding leveling out of the SFP even at the national level. Additionally, there should be a better integration between the 2 Pillars of the CAP and all land based payments should be coordinated. |
| The Société des Agriculteurs de France | Proposes that payments move towards a remuneration for the provision of environmental services, even though some other payments should play the role currently played by the SPS, in particular, to stabilise incomes. Payments should be proportional to the scale of the public good provided. |
| ELO | The ELO highlights two key challenges for EU agriculture in the future - food and environmental security. For these challenges to be met, farm businesses need to be profitable and sustainable with the capacity to adapt to market pressures, and public payments should reflect the value of public goods and services delivered. The ELO argue that the CAP is an EU responsibility due to the long history of EU intervention via the CAP; the transboundary nature of the environmental, social and economic services provided by agriculture; the existence of Common European goals. In addition, because they are jointly produced with agricultural products there are strong Competition reasons to ensure they are dealt with in an even handed way across the EU. EU policy can contribute to Cohesion, and the EU has Competence for food, agriculture and the environment. |
| Environmental NGOs | |
| BirdLife International | <i>New Challenges, New CAP (2007)</i> : BirdLife advocates a new sustainable land management and rural policy for Europe that is targeted at the environment. Funding should be based on the principle of 'public money for public goods' which would see the phasing out of Pillar 1 and a transfer of funds to Rural Development. In particular, support would be focused on agri-environment schemes, Natura 2000 areas, HNV farming and policies that help mitigate and adaptation to climate change. BirdLife make the case for the continuation of a common policy as they believe a further renationalisation of the CAP could endanger policy and incentives for sustainable land management. |
| 5 NGO Vision (BirdLife, EEB, IFOAM, EFNCP, WWF) | <i>Proposal for a new EU CAP (2009)</i> : The NGO coalition calls for a reformed policy that fully rewards farmers and land managers for the delivery of public goods. Within this new CAP, support would be focused on those farming practices capable of producing food, fibre and energy as well as biodiversity, climate adaptation and mitigation as well as other public goods. The Coalition stress that the review of the EU budget gives "an opportunity to present a legitimate policy that provides solutions to environmental problems and helps achieve key EU objectives". |
| WWF | <i>Common Environmental and Rural Policy (CERP) (2008)</i> : WWF present a Vision for a CERP which makes full use of existing measures to achieve better rural management and introduces the idea of public payments for public goods. It is proposed that payments are split across two levels. The first level would include basic area payments coupled with specific Rural Development assistance. The second level would consist of targeted support for achieving more complex |

| | |
|----------------------------------|--|
| | environmental outcomes. It is envisioned that Rural Development investment may be provided in future through a greater use of Cohesion Funds. |
| EEB | <i>EEB's Vision for European Agriculture 2008-2020 (2008)</i> : The EEB advocate the adoption of four policy measures within the CAP, including the targeting of payments towards public goods, the development of a sustainability criteria labelling system, the creation of permanent set aside and the setting up of a system to help level off extremes by buying and selling strategic stocks at market prices. These measures are in addition to calls for an increase in modulation rates and a strengthening of cross compliance to include water management. |
| WCL | <i>Beyond the Pillars: Wildlife and Countryside Link's policy perspective on the future of the CAP (2008)</i> : WCL seek a re-orientation of land management policies towards a more environmentally sustainable CAP with an emphasis on water and soil resources. They propose a single European Sustainable Land Management Policy which would be used to support positive land management activities. This policy would also seek to end "the damaging division that has existed between the EU's agricultural and environmental policies reflected in the allocation of financial resources". The WCL make a case for intervention at the EU level to secure public goods and address other market failures as well as improving competitiveness, addressing peripherality, securing structural change, cohesion objectives and income support where farming communities are vulnerable. |
| ELO - BirdLife | <i>Proposals for the Future CAP (2010)</i> : This joint position paper recognises the food and environmental challenges facing the EU and in particular the need to ensure the maintenance of HNV farming systems and for an increased emphasis on Rural Development and agri-environment. The position makes a strong case for intervention at the EU level, highlighting the transboundary nature of environmental problems and the commitments made by the EU as a signatory of international agreements on biodiversity and climate. It is further argued that common objectives of a single market cannot be achieved without a common framework, although a certain amount of flexibility should be allowed for Member States to tailor their own responses. |
| Government Agencies | |
| LUPG | <i>Securing our Common Future through Environmentally Sustainable Land Management (2009)</i> : This Vision calls for a refocusing of the CAP to more clearly reward those environmental services arising from land management. It also makes an argument for a 'new contract' to be made between taxpayers and rural land managers and a transfer of funds from income support to the direct purchase of environmental services. In order to strengthen the rationale for the CAP, the paper suggests adding two new objectives: 1) to provide environmental security through the management of natural resources and 2) to achieve a sustainable farming and forestry sector that has the capacity to deliver long-term food and timber security. |
| Academics and Think Tanks | |
| Heißenhuber et al., (2008) | This paper proposes a gradual move of the SPS toward a differentiated regional and agricultural policy in addition to the continuation of a basic direct payment. The basic payment aims to compensate farmers for specific demands from European citizens (animal welfare, health and hygiene standards) and work as a shock absorber of price fluctuations. This payment would be much lower than the current SFP and SAPS, and would be completely funded by the EU. Voluntary measures would deliver payments for environmental and other public goods, but with a more top down approach than the current agri-environmental schemes. |
| Hofreiter et al., (2009) | <i>Declaration by a Group of Leading Agricultural Economists: A Common Agricultural Policy for European Public Goods (2009)</i> : This paper argues that the future role of the CAP should be to support farmers in the delivery of public goods. It calls for the abolishment of Pillar 1 and the continuation only of those Pillar 2 |

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| | schemes which genuinely support public goods. It is further argued that the new policy should only focus on areas where EU action creates the greatest value. |
| SIEPS (2009) | <i>The CAP and Future Challenges (2009)</i> : The paper argues that redistributive rather than growth and efficiency enhancing programmes dominate CAP spending. In particular the authors raise questions as to whether or not the CAP would pass the subsidiarity test and argue that analysis based on fiscal federalism would dictate that expenditure focuses on funding European public goods that would be “underprovided if left to national governments and where EU intervention would create additional value”. However, the paper does also concede that cohesion may constitute a public good as it contributes to social stability vital for economic prosperity. |
| Notre Europe (2008) | <i>CAP Reform beyond 2013: An idea for a longer view (2008)</i> : This paper believes that certain shortcomings of the CAP call for the design of a new conceptual framework focusing on market failures and the political goal of Cohesion together with ethics that rationalise a European dimension to the policy. The authors argue that in its current incarnation, Pillar 1 does not contribute much to cohesion objectives and instead propose an extension of the co-financing rule to all direct payments and the inclusion of local governments to “increase (the) accountability and legitimacy in the use of public funds”. Overall the paper recognises that the challenge is both to simplify the management of funds at an EU level and to help organise demand at the local level involving all users of the countryside. |
| ECIPE (2009) | <i>Public Money for Public Goods: Winners and Losers from CAP Reform (2009)</i> : This paper envisages a complete phasing out of the SFP and a replacement of the current two pillar CAP with pillars that 1) promote public goods by preserving all current efficient policies and 2) a discretionary Pillar with the phasing out of inefficient policies over time. The author believes these ambitious changes to the CAP “would strengthen the case for focusing European solidarity transfers on poor Member States, ending the inefficient web of cross-subsidies characteristic of current structural and cohesion policies”. |
| Bureau et al (2010) | <i>The Single Payment Scheme after 2013: New Approach – New Targets (2010)</i> : This paper calls for a gradual reorientation of direct payments from income support to remuneration for the provision of public goods which the author highlights is the only uncontested reason why society should subsidise farmers in the long run. The interconnectedness between the CAP and other high level EU policies such as cohesion are acknowledged, although it is pointed out that Pillar 1 budgets do not contribute much to cohesion objectives due to their uneven benefits. |
| Buckwell (2009) | <i>The Future of the CAP 2013 (2009)</i> : A clear message within this paper is the need for debate to first agree on what the policy objectives for a new CAP are before an assignment of resources can occur. The Vision for a future CAP in this paper is also centred on the twin objectives of food and environmental security. Overall it calls for measures in the future to be delivered through structures of the character of the present Pillar 2. |

ANNEX 2 THE ‘REAL POLITIK’ OF REFORM

Theoretical discussions on the case for intervention should not be viewed in a vacuum, and it is informative to consider the views being advanced by Member States in papers published on the future CAP alongside the role of a given Member State as either a net contributor to or net beneficiary of the EU budget. Key issues examined include the degree to which greater levels of subsidiarity are applied in a future CAP, the approach to co-financing, and the strength of the arguments for the continuation of a strong common policy, supported by a budget commensurate with its objectives. Where an explicit case for EU level intervention is made, for the most part, reference is made to public goods, EU added value and the principles of financial solidarity and cohesion.

Annex Table 2 A synoptic overview of the positions of Member States with respect to a future CAP

| | Member State | General position on rationale for future CAP and size of budget |
|--------------------------------|---------------------|---|
| Reduce funding | United Kingdom | Full decoupling of direct payments in the short term, and in the longer term, a considerable reduction in agricultural spending. A significant amount of agricultural expenditure lacks a credible rationale. The UK paper states that spending should only occur where there is clear <u>added value</u> . |
| | Denmark | Direct payments should be phased out completely. Limited amount of funds currently allocated under Pillar One should be transferred to Pillar Two, to support the delivery of public goods such as the environment, food safety standards, animal welfare, and broader rural development. Funds should be contingent on proof of <u>added value</u> . |
| | Sweden | Far-reaching reform of the CAP is needed, leading to substantially lower levels of expenditure. Identifies a lack of EU added value in Pillar One support. |
| Co-financing | Netherlands | Payments should be restricted to supporting the provision of services, beyond a transition phase The CAP should remain an EU policy, but with some renationalisation of agricultural support, or at least some co-financing. Non-agricultural activities that contribute to the quality of life in rural areas or to the rural economy should no longer be supported through the CAP, but included in Cohesion policy. The rationale for spending should be on <u>EU added value and solidarity</u> . |
| | Italy | Maintain the CAP as a value added EU policy. Introduce co-financing within Pillar One similar to RDP. The EU budget, as a general rule, should favour the provision of “public goods”, and contribute to the competitiveness of EU agriculture. |
| Maintain CAP but reform | Czech Republic | Gradual reduction in the level of expenditure, particularly under Pillar One. No national co-financing of direct payments. Harmonisation of payment levels throughout the EU. |
| | Germany | Maintain CAP but further simplify and harmonise its instruments. The paper notes the difficulty in using ‘value added’ as a precise or measurable aim of EU policy. |
| | Portugal | Maintain CAP and continue reform process. Spending however should be subject to an assessment of its <u>added value</u> . |
| | Spain | Maintain CAP and continue reform process. |
| | Luxembourg | Maintain CAP but continue reform process. No re-nationalisation |
| | Malta | Maintain CAP but continue reform process (strengthen Pillar Two) |
| | Belgium | Maintain CAP but continue reform process. Maintain Pillar One measures. No co-financing. |

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| | Bulgaria | Maintain 'the right balance' between funding under Cohesion policy and the CAP. Spending should adhere to the principles of <u>solidarity and added value</u> and strike a balance between EU and national expenditure. |
| | Cyprus | Maintain CAP but seek to enhance efficiency and effectiveness. |
| Maintain CAP no renationalisation | Ireland | Committed to maintaining a strong and effective CAP. The need for continued food security and safety warrants only gradual changes to the CAP. |
| | Latvia | Maintain the CAP. Supports equal eligibility conditions and support levels for all Member States. Spending should adhere to the principles of <u>EU added value and solidarity</u> . |
| | France | Pillar 1 payments should be maintained in order to preserve the agricultural population and production potential. Direct payments are legitimate as they help compensate farmers for distortions of competition with imported products, and are contingent on recipients adhering to cross-compliance standards. Strong opposition to re-nationalisation and the extension of co-financing. France believes that <u>EU added value</u> should be tested against the actual implementation of the expenditure. |
| | Finland | The CAP should still have a role in market intervention. Both Pillar 1 and Pillar 2 have positive externalities - Pillar 1 also reduces pressures to migrate to urban areas and contributes to cohesion both within and between regions. Rural development funding should be increased substantially. |
| | Austria | Increased financial contribution from the EU to the development of rural areas. No further modulation. All financing obligations must be in accordance with the principle of <u>EU added value</u> . |
| | Greece | Maintain the CAP. CAP funding should remain at the present level. No co-financing that would lead to partial or overall renationalisation of CAP. Greece does not feel that the added value of community funding should be questioned over actions deriving from the implementation of community priorities. Cohesion and competitiveness are listed as two main priorities. |
| | Estonia | Maintain the CAP. CAP has to remain strictly a common policy – no national co-financing. Supports the harmonisation of the distribution of direct payments between Member States. |
| | Hungary | Maintain the CAP. Agricultural policy should remain an exclusive EU competence and Hungary firmly opposes the renationalisation of the CAP. The CAP creates added value through the production of European public goods such as food safety, landscape, safeguarding rural communities, animal welfare, reducing air pollution, etc. Any reform of the CAP should be based on the principles of <u>solidarity and equal treatment</u> . |
| | Lithuania | The CAP should remain a common EU policy financed from the EU budget and not subject to renationalisation. In addition, EU expenditure should concentrate on generating the <u>highest EU added value, uphold the principle of coherence among EU policies and promote cohesion and solidarity within the EU</u> . |
| | Poland | Harmonisation of payment levels throughout the EU. Opposed to renationalisation of the CAP as co-financing of direct payments from national budgets is likely to threaten the delivery of European value added. Attached to <u>financial solidarity</u> . |
| Romania | A future CAP should maintain direct payments without any reduction in real terms. Harmonisation of payment levels throughout the EU. Preserve "a substantial CAP budget", even though it should be managed with more subsidiarity. Recognition that agriculture delivers a wide range of important public goods. | |

Source: The material in this table has been compiled through an analysis of the submissions of all 27 national governments to the EU Budget review consultation.

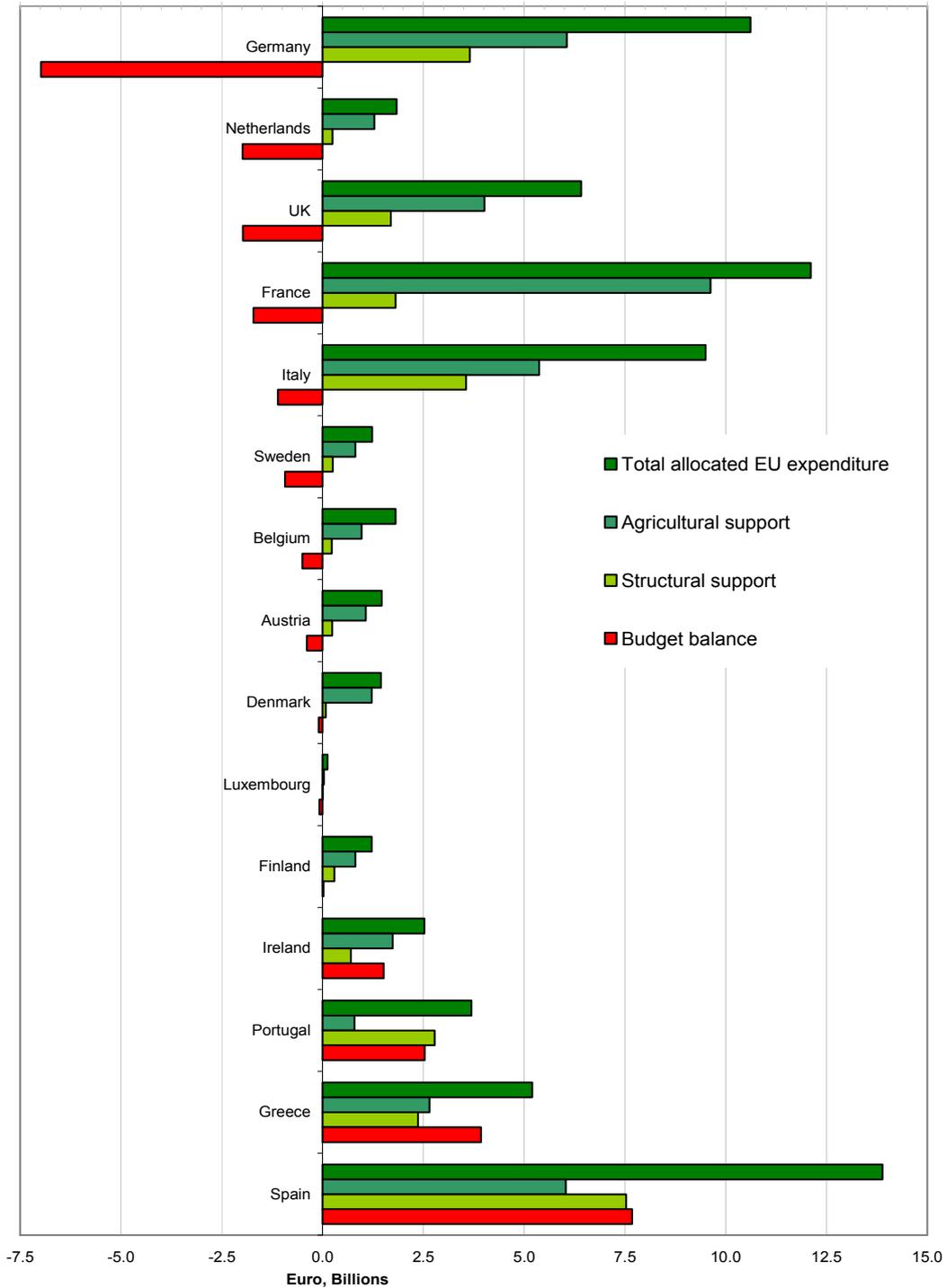
Annex Table 3

A synoptic overview of the positions of coalitions of Member States with respect to a future CAP

| Coalition Positions on the CAP | Paper | Supporting Member States | Summary of Paper Position and Rationale |
|--------------------------------|-------------------------------------|--|--|
| | Paris Declaration | All except the UK, DK, SE, NL and MT. | The French position paper calls for a CAP that addresses environmental challenges while assuring European food supplies and farmers incomes, advocating the use of a regulatory framework capable of addressing situations of crisis and extreme market volatility. The paper argues that agriculture is vital to core issues of food security, the preservation of natural resources, provision of public goods, creation of jobs and economic vitality. |
| | Warsaw Declaration | BG, CY, EE, LV, LT, HU, PL, RO and SK. | The Warsaw Declaration calls for a departure from the historical allocation criteria, but a continuation of direct payments, with further compensation based on objective criteria. Funding should respect the principle of EU solidarity, especially in the financial dimension to support EU agriculture contributing to food security, competitiveness and the sustainable development of rural areas. |
| | Spanish Paper on Market Instruments | | The paper argues that there is a need to discuss new measures to deal with issues such as price volatility and market transparency in the post 2013 period. Some of the new instruments considered include: setting up income insurance schemes, strengthening the relationship between producer organisations and other operators along the supply chain, and establishing a crisis fund. The paper stresses that a community-wide agricultural market of this type would undoubtedly provide added value for the EU. |

It is informative to compare these positions on the future CAP against the funding and budgetary balances by Member State.

Annex Figure 1 EU-15 funding and budgetary balances by Member State



The figures indicate annual averages for the period 2000 – 2003.
 Source: European Commission (2004), data cited by Gros (2008).