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IS AGRI-ENVIRONMENT SUPPORT
WELL DESIGNED AND MANAGED?



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(pursuant to Article 287(4), second subparagraph, TFEU)

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REPLY OF THE COMMISSION

GLOSSARY

Agri-environment payments: The financially largest measure for the implementation of the EU's rural development policy, first introduced into the CAP in 1987 on an optional basis and since 1992 as a compulsory measure for Member States. Currently governed by Article 39 of Council Regulation (EC) No 1698/2005.

Agri-environment sub-measure: An aid scheme used by Member States to implement agri-environment payments that is characterised by the practices that farmers are required to apply. A rural development programme includes several agri-environment sub-measures, typically around 10. Examples of agri-environment sub-measures are the extensification of farming systems, crop rotation and biodiversity conservation actions.

CAP: Common Agricultural Policy.

Common monitoring and evaluation framework: An approach developed by the Commission and the Member States designed to report on the financial execution, outputs, results and impacts of rural development programmes.

Community strategic guidelines: EU priorities for rural development for the 2007–13 programming period adopted by the Council (Decision 2006/144/EC).

Farming practice: Agricultural production method, which may have positive or negative effects on the environment.

High nature value farming: Types of farming and farmland with characteristics that mean that they can be expected to support high levels of biodiversity or species and habitats where there are conservation concerns.

Impact indicators: Used to measure longer term socioeconomic and environmental effects that can be observed after a certain period, for rural development established at programme level. The indicators relevant for agri-environment are: reversal in biodiversity decline, trends in farmland bird populations, maintenance of High nature value farmland and forestry, improvement in water quality and contribution to combating climatic change.

Integrated production: A farming system, without a uniform set of requirements at EU level, aimed at using natural resources and securing sustainable farming, in particular by minimising polluting inputs.

Member State: In the context of this audit, the authorities in charge of the management of agri-environment payments. Member States designate a Managing Authority for this. In regionalised Member States like Germany, Spain and Italy, each region has a separate programme and a separate Managing Authority.

Natura 2000 areas: An EU-wide network of nature protection areas established under the 1992 Habitats Directive (Council Directive 92/43/EEC).

Organic farming: A method for producing food products designed to minimise human impact on the environment. Since 1991, requirements have been set at EU level, including for production methods and inspection. Currently governed by Council Regulation (EC) No 834/2007.

Output indicators: Used to measure what has been accomplished with an intervention — for agri-environment, the number of farms/contracts and the area (number of hectares) or number of animals supported under the measure.

Physical area supported: Utilised agricultural area of farmers and other land managers which is subject to agri-environment commitments. If several commitments apply to the same area, the total area under commitments can only be counted once for this indicator.

Reference level: The situation against which it is measured that agri-environment payments only compensate farmers for practices which are more demanding than those required by law. An important element of the reference level is 'cross compliance', relating to the requirements listed in Annexes II and III of Council Regulation (EC) No 73/2009 in the area of public, animal and plant health, the environment, animal welfare and maintaining the land in good agricultural and environmental condition.

Result indicators: Used to measure the direct changes brought about by programme interventions — for axis 2 measures including agri-environment, the area (number of hectares) under successful land management contributing to a specific objective (e.g. improvement of water quality).

River basin: The area of land from which all surface run-off flows through a sequence of streams, rivers and, possibly, lakes into the sea at a single river mouth, estuary or delta (Article 2 of Directive 2000/60/EC establishing a framework for Community action in the field of water policy).

Rural development programme: Key programming document prepared by a Member State and approved by the Commission for the planning and implementation of the EU's rural development policy. It covers the period between 1 January 2007 and 31 December 2013 and may contain up to 40 measures, one of which is agri-environment payments.

EXECUTIVE SUMMARY

I.

Agri-environment is a key EU policy; it involves around 2,5 billion euro of EU funds per year and aims to respond to society's increasing demand for environmental services. Management of this policy is shared by the Commission and the Member States. Agri-environment payments are characterised by a wide diversity of farming practices in the Member States and by the fact that farmer participation is voluntary. Against this background, the Court's audit assessed whether this rural development measure is well designed and managed.

II.

The Court found that the objectives determined by the Member States are numerous and not specific enough for assessing whether or not they have been achieved. Although the environmental pressures are identified in rural development programmes, they cannot be easily used to provide a clear justification of agri-environment payments. The implementation of a common monitoring and evaluation framework represents progress in terms of monitoring systems, and pockets of good practice outside this framework were also identified. Nevertheless, considerable problems existed as regards the relevance and reliability of management information. In particular, very little information was available on the environmental benefits of agri-environment payments.

EXECUTIVE SUMMARY

III.

Farmers are crucial for the implementation of agri-environment payments, and it is important that they are well supported through guidance and that aid amounts provide them with the right incentive. The systems for providing guidance to farmers were generally well implemented. However, considerable problems were identified concerning the aid amounts, ranging from shortcomings in their calculation to a lack of differentiation according to regional or local site conditions.

IV.

Member States are required by EU law to make support available in accordance with specific needs. However, the audit found that most expenditure was made on horizontal sub-measures, without applying selection procedures. This was not supported by decisions about the desirable degree of targeting, on the basis of the costs involved. In addition, management decisions were not sufficiently evidence-based and did not focus payments at specific environmental problems.

V.

The Court recommends that:

- the Commission and the Member States should better clarify, justify and report on agri-environment sub-measures;
- the Commission should assess more rigorously key elements in rural development programmes before approving them;
- for the next programming period the Commission should consider whether:
 - agri-environment expenditure should be more precisely targeted;
 - there should be a higher rate of EU contribution for sub-measures with a higher environmental potential;
 - there should be a clear distinction between simple and more demanding agri-environment sub-measures; and
 - the Member States should be more proactive in managing agri-environment payments.

INTRODUCTION

AGRICULTURE AND ENVIRONMENT — AN AMBIVALENT PARTNERSHIP

1. Since the 1970s and 1980s there has been rising concern about the adverse effects of agriculture on the environment. These concern, inter alia, the increasing specialisation of farms, the use of fertilisers and pesticides, high stocking densities and, in particular in the southern Member States, the extension of irrigated areas. Price guarantees for agricultural products previously offered under the common agricultural policy have encouraged these intensive farming practices.

2. Certain types of extensive farming, on the other hand, can preserve the environmental assets of the countryside. The abandonment of extensive farms and their land is becoming an increasing problem in some regions of the European Union (EU), with negative impacts on biodiversity and landscape diversity, also leading to a higher risk of forest fires.

EU SUPPORT FOR AGRI-ENVIRONMENT PAYMENTS

3. Since 1987, the EU has co-financed the Member States' agri-environment payments in order to address the dual challenge of reducing the negative effects of intensive agriculture and maintaining the positive effects of extensive agriculture. The purpose of these payments is to 'further encourage farmers and other land managers to serve society as a whole by introducing or continuing to apply agricultural production methods compatible with the protection and improvement of the environment, the landscape and its features, natural resources, the soil and genetic diversity'¹.

EU funds allocated to agri-environment payments for 2007–13: 22,2 billion euro

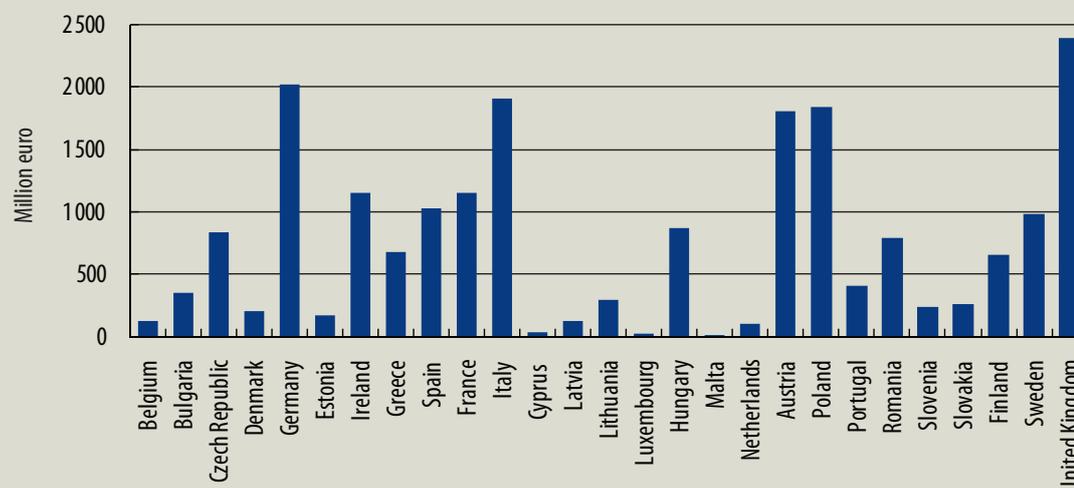
¹ Recital 35 of Council Regulation (EC) No 1698/2005 of 20 September 2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD) (OJ L 277, 21.10.2005, p. 1).

4. Since 2000, agri-environment payments have been part of the EU's rural development policy, which is implemented through rural development programmes prepared by the Member States for a period of seven years. It is mandatory for the Member States to include agri-environment payments in their programmes and, for the current period, covering 2007–13, Member States have allocated 22,2 billion euro in EU funds to them. **Figure 1** shows allocations by Member State. Actual EU expenditure for the financial year 2009 amounted to 2,5 billion euro, and to 7,7 billion euro for the first half of the programming period (1 January 2007–1 July 2010) ².

² The amounts of 2,5 and 7,7 billion euro represent a normal expenditure pattern. The initial allocation for agri-environment in 2007 (20,2 billion euro) was increased by 2 billion euro following the review of the CAP (in the context of the health check and the recovery package). In addition, expenditure in 2007 and 2008 was relatively low because the programmes were still being approved.

FIGURE 1

EU FUNDS ALLOCATED TO AGRI-ENVIRONMENT PAYMENTS (2007–13) (AS APPROVED IN RURAL DEVELOPMENT PROGRAMMES BY DECEMBER 2009)



Source: Agriculture and Rural Development DG: Rural Development in the European Union — Statistical and Economic Information — Report 2009, December 2009 (Section 4.1.1 EAFRD Overview of the Financial Plans).

5. Agri-environment payments are generally implemented through contracts between a public body in the Member States and a beneficiary (farmer or land manager). These contracts, which normally cover five to seven years, detail the commitments that the beneficiary is required to enter into. These commitments cover a wide range of farming practices which can be grouped as set out below.

Main groups of farming practices for agri-environment payments
○ Organic farming (see glossary)
○ Integrated production (see glossary)
○ Other extensification of farming systems: fertiliser reduction, pesticide reduction and extensification of livestock farming
○ Crop rotation, maintenance of set-aside areas
○ Action to prevent or reduce soil erosion
○ Genetic resources (local breeds in danger of being lost to farming, plants under threat of genetic erosion)
○ Biodiversity conservation and enhancement actions
○ Upkeep of the landscape including the conservation of historical features on agricultural land
○ Water-related actions (apart from nutrient management) such as buffer strips, field margins, wetland management.

6. A fundamental principle for agri-environment payments is that the decision to apply for and conclude a contract is voluntary for farmers. This means that the level of payments must be sufficiently attractive in relation to the commitments to be fulfilled and associated costs. Support paid to the beneficiaries must be based solely on additional costs and income foregone as the result of agri-environmental commitments; there is also the possibility to include transaction costs.
7. Agri-environment payments cannot compensate farmers for practices that have been made compulsory by law. The situation against which additional commitments are measured entails a 'baseline' or 'reference level'. The expected environmental benefits above this level can vary significantly, and depend principally on how demanding the farming practices concerned are. See **Figure 2** for further details.

8. Evaluations of agri-environment identify two possible approaches for implementing the measure which are referred to as 'broad and shallow' versus 'deep and narrow', 'entry-level schemes' versus 'higher-level schemes', or 'basic' versus 'more demanding'³. Such a distinction is based on the concept that the two approaches have a fundamentally different logic to implement agri-environment payments: the areas on which the sub-measures apply are different as are the number of beneficiaries concerned, the budgetary and administrative costs incurred, the applicable management rules and the expected effects. These well-established ways of analysing agri-environment sub-measures do not appear in the legislation, leaving the choice of which approach to use, depending on the context and the nature of the problems, to the responsible authorities. The Communication from the Commission⁴ launching the debate for the period post-2013 proposes as an option that simple, generalised agri-environmental actions will be part of direct payments.

Picture 1: Example of agri-environment in England showing, from left to right, a parcel with wheat, a strip of untreated 'headland' and a strip sown with a 'wild bird seed mix'.



© European Union, source: European Court of Auditors.

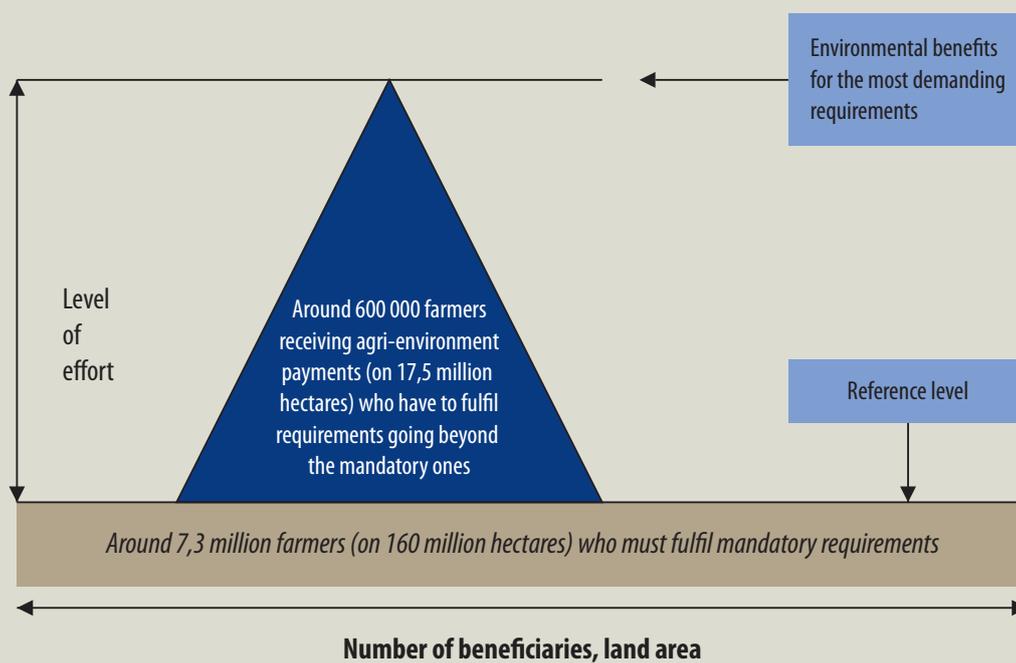
³ The Commission's 'Impact Assessment of rural development programmes in view of post-2006 rural development policy' (Agriculture and Rural Development DG, Final Report submitted by EPEC, November 2004) mentions on page 85 that 'this 'narrow and deep' or 'broad and shallow' debate has been prominent since the introduction of agri-environment policy, and both approaches are evident among current agri-environment programmes'. This distinction is included in various other evaluation reports for the European Commission, as early as 1998 (evaluation of Regulation (EEC) No 2078/92 (document Agriculture and Rural Development DG VI/7655/98).

⁴ 'The CAP towards 2020: Meeting the food, natural resources and territorial challenges of the future', COM(2010) 672 final of 18 November 2010.

9. Basic agri-environment sub-measures can be a cost-effective way of implementing agri-environment payments when it is necessary to take action over a wide area. These sub-measures are characterised by simple and generalised actions (e.g. maintenance of grassland, green cover of agricultural land) and a high number of beneficiaries. Because demands on farmers are limited the aid amounts are relatively low.

FIGURE 2

INTERVENTION LOGIC OF AGRICULTURE ENVIRONMENT PAYMENTS



- 10.** More demanding sub-measures, on the contrary, can be tailored to local circumstances and require more complex and demanding types of farm management. Member States generally implement these schemes in more limited geographical areas ⁵, involving smaller numbers of beneficiaries. Because more substantial demands are made of the farmers, causing higher costs and/or loss of income, the aid amounts are relatively high. Because of the higher requirements, tailored to specific areas, more demanding sub-measures have the potential to deliver greater environmental benefits per hectare supported, but at a higher cost.
- 11.** The Commission and Member States share the management of the agri-environment payments. The Commission appraises and approves the rural development programmes prepared and submitted by Member States. The Member States adopt all the legislative, statutory and administrative provisions required to ensure that funds are spent correctly. The farmers (or land managers) enter into a contract with the relevant Member State Managing Body and are responsible for actually applying the farming practices in accordance with the terms of this contract.

⁵ An exception is organic farming, which is one of the most demanding types of farm management, but is implemented over a large geographical area.

Agri-environment payments in brief
○ Encourage farmers to apply agricultural production methods compatible with the protection of the environment.
○ Key EU policy on which around 2,5 billion euro of EU funds per year is spent.
○ Mandatory for the Member States but voluntary for farmers.
○ Commitments must exceed a reference level.
○ Payments are based on additional costs and income foregone, with the possibility of including transaction costs. Incentives are forbidden.
○ Management responsibilities are shared between the Commission and the Member States.

PREVIOUS AUDITS OF THE COURT

- 12.** The Court has previously audited agri-environment payments and identified a number of weaknesses. The main ones are mentioned in **Annex I**.

AUDIT SCOPE AND APPROACH

13. The purpose of this audit is to determine whether agri-environment schemes are well designed and managed. More specifically, the audit aims to answer the following questions:

- is agri-environment policy designed and monitored so as to deliver tangible environmental benefits?
- are farmers well supported through appropriate guidance and correct aid amounts?
- does the management of agri-environment policy take account of specific environmental needs?

14. The Court established audit criteria concerning the design, implementation and monitoring/evaluation of agri-environment payments. These criteria were developed from legislation, Commission documents and publications and scientific studies (see *Annex II*). The Court consulted a panel of agri-environment experts ⁶ on the validity and feasibility of these audit criteria. It also identified, through a documentary review and after consultation of the panel of experts, a short list of best practices ⁷ considered in the scientific literature as being particularly suitable for contributing towards improving the effectiveness of agri-environment sub-measures. The Court carried out visits to England, the Rhineland-Palatinate in Germany, and the French 'Centre' region where examples of such practices could be observed.

15. The audit started with a documentary review of 203 agri-environment contracts selected randomly from the expenditure declared by the Member States to the Commission for the year 2008. The sample covered 48 rural development programmes in 21 Member States.

16. The Court then selected eight programmes for further detailed testing. The Member States (Regions) selected were Spain (Andalusia), Italy (Piedmont), Germany (Berlin and Brandenburg), Sweden, Austria, Hungary, Poland and France. In each Member State, audit evidence was collected for a number of agri-environmental sub-measures and examined by means of interviews and the analysis of documents and data. A number of farms were also visited in order to review the implementation of agri-environment payments at farm level with the farmers and the inspectors responsible for on-the-spot checks.

⁶ This panel consisted of nine experts: three from public research institutes (the French 'National Agronomic Research Institute', the German 'von Thünen Institute' and the Irish 'Teagasc Research Centre'), two from universities (of Copenhagen and Gloucestershire), two from European organisations (the European Environment Agency and the Joint Research Centre), one from an environmental NGO and one from an organisation representing farmers at EU level.

⁷ Such practices are, for instance, guidance provided to beneficiaries to help them implement the sub-measures, the design and monitoring of outcome-based sub-measures and the targeting of sub-measures to precisely identified needs.

OBSERVATIONS

IS AGRI-ENVIRONMENT POLICY DESIGNED AND MONITORED SO AS TO DELIVER TANGIBLE ENVIRONMENTAL BENEFITS?

- 17.** The legal basis contains several elements intended to ensure that agri-environment payments indeed yield environmental benefits. Member States must describe the current situation of the environment in their rural development programmes. They must also include a description and justification of the various types of commitment for agri-environment payments based on their expected environmental impact in relation to environmental needs and priorities ⁸.
- 18.** The principles of sound financial management set out in Article 27 of the Financial Regulation ⁹ require that policy objectives be formulated in a specific, measurable, achievable, relevant and timed manner. Each rural development programme must include information on the specific verifiable objectives of the measures and their progress and efficiency and effectiveness must be measured in relation to these objectives ⁸.
- 19.** The Court examined whether the objectives included in the rural development programmes for agri-environment payments were precise enough (specific, measurable and timed) to provide a sound basis for assessing whether they had been achieved. The Court also examined whether the rural development programmes provided a sound basis for justifying agri-environment payments in relation to the environmental pressures identified. As the availability of good quality data is a prerequisite for judging whether policies achieve their results, the Court assessed whether the monitoring systems produced reliable data which were relevant for assessing the environmental effects of agri-environment payments.

⁸ See in particular Articles 16(a),16(c), 81(1) of Council Regulation (EC) No 1698/2005 and annex II of Commission Regulation (EC) No 1974/2006 (OJ L 368, 23.12.2006, p. 15).

⁹ Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities (OJ L 248, 16.9.2002, p. 1).

THE OBJECTIVES OF AGRICULTURE-ENVIRONMENT PAYMENTS ARE NOT SUFFICIENTLY SPECIFIC TO ASSESS WHETHER THEY HAVE BEEN ACHIEVED

AGRICULTURE-ENVIRONMENT OBJECTIVES ARE DETERMINED AS PART OF THE OVERALL FRAMEWORK FOR RURAL DEVELOPMENT

- 20.** High-level legislation determines the legal framework for rural development in general, of which agriculture-environment payments are one element. The Council set out the EU's rural development priorities for the 2007–13 period in the Community strategic guidelines (see glossary). Agriculture-environment payments, together with other rural development measures, are expected to contribute towards 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.
- 21.** EU objectives, as set out in Regulation (EC) No 1698/2005, are fairly generic as befits the wording of high-level legislation. The Council regulation lays down the rural development policy objectives for coherent groups of measures (called 'axes'). The objective of the axis of which agriculture-environment payments are part, is to improve the environment and countryside by supporting land management.

NUMEROUS AND COMPLEX OBJECTIVES

- 22.** Each Member State must submit a national strategy plan indicating the priorities of the action of the European Agricultural Fund for Rural Development and the Member State concerned, taking into account the Community strategic guidelines, specific objectives for rural development and the financial resources available. Rural development programmes must ensure that EU support for rural development contributes towards achieving priorities and objectives defined in the Community strategic guidelines and the national strategy plans. They should include information on the axes and measures proposed for each axis, in particular the specific verifiable objectives that allow the programme's progress, efficiency and effectiveness to be measured.

The agri-environment measure for the Andalusian programme contains a very high number of objectives, making it difficult to measure the results

- 23.** The objectives assigned to agri-environment payments that are set out in the various programming documents often result in an overly complicated framework. This is illustrated by the example of Andalusia. The national strategy plan provides 20 environmental objectives. The rural development programme implements this structure by describing the agri-environment payments in a general section containing eight objectives, which are different from the 20 objectives laid out previously or have been rephrased in a more general manner.
- 24.** In addition, the rural development programme contains objectives for each of the 15 agri-environment sub-measures (in total 51), which are again sometimes partly or entirely different from the objectives set out in the general part. Taking the overall framework into account, including the strategic environmental assessment ¹⁰ and the ex ante evaluation ¹¹, the very high number of objectives makes it difficult to measure results.
- 25.** The Court found that the objectives included in rural development programmes were not set out in a specific, measurable and timed manner. Member States formulated objectives generally in non-specific terms like 'reduce', 'protect', 'contribute to', etc. When quantification was possible, this was not done in many cases (e.g. reduce by 20 %). For example, objectives used in Poland for agri-environment sub-measures such as 'adequate soil use and water protection' are not verifiable. In addition, the objectives do not include baseline levels describing what the situation was before the agri-environment payments were implemented and there are no time frames for their achievement. Such weaknesses, which were found in all Member States audited, make it difficult to judge whether or not objectives are achieved.

¹⁰ The strategic environmental assessment forms part of the ex ante evaluation (see footnote 11) and addresses the requirements of the environmental assessment provided for in Directive 2001/42/EC of the European Parliament and of the Council (OJ L 197, 21.7.2001, p. 30) (the 'Strategic Environmental Assessment Directive').

¹¹ The ex ante evaluation is part of the procedure for drawing up a rural development programme; its aim is to optimise the allocation of budgetary resources and improve programming quality.

26. Nevertheless, good examples of specific and measurable objectives were also identified. In Sweden, agri-environment objectives are embedded in a set of national environmental quality objectives which were adopted by the Swedish Parliament in 1999. The time horizon for these objectives is 2020, but interim targets relating to the situation in 2010 have been set for most of the objectives.
27. The best examples were found to be so-called 'outcome-oriented' sub-measures, the implementation of which leads to results that are directly observable on the ground. In Andalusia, Piedmont and France, these sub-measures concerned the protection of breeds in danger of being lost to farming (see **Picture 2**). The sub-measures in the Rhineland-Palatinate and France, which were audited in the context of best practices, concerned grassland management (see **Box 3**).

Picture 2: Example of agri-environment in France: protecting a breed of horses ('Ardennais') in danger of being lost to farming.



© European Union, source: European Court of Auditors.

**THE ENVIRONMENTAL PRESSURES CITED
DO NOT PROVIDE A CLEAR JUSTIFICATION
OF AGRI-ENVIRONMENT PAYMENTS**

**ENVIRONMENTAL PRESSURES ARE IDENTIFIED IN THE RURAL DEVELOPMENT
PROGRAMMES**

- 28.** All the rural development programmes audited identified the existing environmental pressures. These concerned, in particular, the loss of biodiversity, threats to water quality, soil erosion, air pollution and climate change. Identification of these pressures was largely based on the Community strategic guidelines in which the Council sets out the EU's priorities for the 2007–13 rural development programming period.
- 29.** Maps locating the identified environmental pressures are included in seven out of the eight rural development programmes audited. Member States could generally provide documents supporting their analysis of environmental pressures (e.g. by data and studies). As an illustration, the Piedmont rural development programme includes various maps showing existing soil threats (decrease in organic matter, compaction and contamination of soils, etc). The managing authority was also able to provide data classifying each of the 1 206 municipalities in the region (and specific parts of them) according to the risk of soil erosion, broken down into three classes (less than 3 tonnes per hectare and per year, between 3 and 15 tonnes, and more than 15 tonnes).
- 30.** However, in a number of programmes audited, the environmental issues were described in a general manner without providing a clear link with the agri-environment sub-measures. For example, in Spain, Italy and France, some of the environmental pressures identified in the rural development programmes were not addressed by agri-environment payments. Such cases were not explained in the programmes.

LINKS BETWEEN THE ENVIRONMENT AND FARMING PRACTICES ARE NUMEROUS AND DIFFICULT TO ESTABLISH WITH PRECISION

- 31.** An assessment of the extent to which agri-environment objectives have been achieved depends on the existence of a link between the agri-environment sub-measures and the environmental pressures. Agri-environment sub-measures may have a positive effect on several environmental pressures (water, soil, air, biodiversity, etc). Environmental pressures cannot be clearly prioritized or ranked as they concern elements which are all relevant, different in nature, and not comparable.
- 32.** As a consequence, the rural development programmes audited provide no or only limited information on the relative importance of the environmental pressures identified. In addition, they do not identify precise links to agri-environmental sub-measures proposed. This makes it difficult to assess to what extent the sub-measures have had an influence on the specific environmental pressure identified. Therefore, most Member States assess the achievement of the agri-environment objectives globally, considering all sub-measures together.
- 33.** The rural development programmes thus state that there are multiple relationships between the environmental pressures and the farming practices supported under agri-environment. To address this, in two out of eight programmes audited the links between environmental pressures and agri-environment sub-measures could be classified as direct or indirect. For instance, in Piedmont, one of the agri-environment sub-measures audited (support for integrated production, see glossary) was expected to contribute to four out of the five environmental objectives ¹², but only one was selected as a direct and principal objective (protection of water quality). This helps clarifying the contribution of the agri-environment payments towards the environmental objectives set out in the framework.
- 34.** Another example of a direct link between an agri-environment sub-measure and the pressures identified was in Poland. According to the Polish rural development programme, wind erosion is a threat for 28 % of the territory. Introducing a soil cover during the winter is a farming practice which limits soil erosion caused, inter alia, by the wind. This practice is supported by agri-environment payments included in the Polish rural development programme, as illustrated in **Picture 3**.

¹² Maintenance of biodiversity and high nature value areas, protection of water resources, reduction of greenhouse gases, maintenance of agricultural activity in areas at risk of land abandonment, protection of the territory.

Picture 3: Example of agri-environment in Poland showing, on the right side, an area without plant cover and soil subject to wind erosion, whereas the left side is covered by rye planted under an agri-environment sub-measure to protect the soil against erosion.



© European Union, source: European Court of Auditors.

EXAMPLES OF PRACTICES DESIGNED TO DELIVER TANGIBLE ENVIRONMENTAL BENEFITS

CLEAR RULES IN THE ALLOCATION OF RESOURCES

- 35.** When environmental pressures are identified, the allocation of resources should be justified in terms of their cost effectiveness in achieving environmental benefits in the areas concerned. In this regard, England, for example, which the Court visited to review best practice situations, implements an approach which separates entry and higher-level sub-measures. This has improved the clarity and visibility of results, as described in **Box 1**.

- 36.** Three of the Member States audited also use separate budget allocations for different types of sub-measures. In its rural development programme, Hungary states that it does not intend to spend more than 35 % of the allocated funds on sub-measures with lower environmental outputs. Poland allocated a specific budget to two of the nine sub-measures in its rural development programme. The budget allocated to one of them, concerning the protection of endangered bird species and natural habitats in Natura 2000 areas, represents 19 % of the total budget for agri-environment payments for the period 2007–13. France allocated 27 % of the 2007–13 budget to the targeted sub-measures described in **Box 5**.

ALTERNATIVE POLICIES TO AGRY-ENVIRONMENT PAYMENTS WERE GIVEN LITTLE CONSIDERATION

- 37.** Agri-environment payments are one of a number of policies used to protect and improve the environment. The Member States can, for instance, also act through regulatory provisions, specific taxes or enhanced training and advice. Considering such alternative policies would help demonstrate where the agri-environment payment approach is the best way to tackle the pressures identified.

BOX 1

ENTRY AND HIGHER-LEVEL SUB-MEASURES IN ENGLAND

In England the national authorities identified environmental pressures in different geographical areas. They analysed which type of sub-measure (in England split in entry and higher-level schemes) was more cost-effective in achieving environmental benefits. This resulted in a budget for entry-level schemes determined on the basis of a target to have 70 % of agricultural land under entry-level agri-environment contracts. The remaining budget is allocated to higher-level schemes and is split over nine regions based on their size and environmental features as well as past and predicted uptake figures.

In each region, so called 'target areas' have been identified, which are prioritised under the higher-level scheme on the basis of criteria such as relevance for biodiversity, landscape, natural resource protection (e.g. erosion), etc. For each target area, potential beneficiaries are informed on the land management activities adequate to the areas. Specific indicators are established to monitor the results obtained (see paragraph 51).

- 38.** The Court found only two cases (France, Sweden) where such alternative policies were explicitly considered in the rural development programmes. The Swedish rural development programme explains that the legislative provisions in place are among the most important alternative policy means for reducing the negative impact of the use of fertilisers and plant protection products. The programme provides a forecast for future prospects and envisages the redesign of agri-environment payments in the light of legislative changes. The French programme describes the synergy between national and EU policies and mentions agri-environment payments as one of the available tools (along with national regulations, tax policy, etc) for tackling certain issues (biodiversity, water, etc).
- 39.** In Poland and Germany (Berlin and Brandenburg), the rural development programmes did not explain why agri-environment payments were the most adequate way to address the environmental needs. For example, the Polish agri-environment sub-measure for buffer strips could also have been implemented through cross compliance, which is part of the reference level (see glossary). This was already pointed out in a previous report by the Court ¹³.

ACHIEVEMENTS OF AGRY-ENVIRONMENT POLICY CANNOT BE EASILY MONITORED

THE COMMON MONITORING AND EVALUATION FRAMEWORK REPRESENTS PROGRESS BUT DOES NOT PRODUCE SUFFICIENT, RELEVANT AND RELIABLE DATA

- 40.** The common monitoring and evaluation framework for the 2007–13 rural development programmes represents an improvement compared with the situation before 2007. Among other things, this framework provides for a set of common indicators which Member States must include in their programmes. Output and result indicators are reported annually to the Commission. The latter then checks the consistency and reliability of the indicators and the data reported. On the basis of these checks, the Commission identified numerous shortcomings, the main ones being missing or incorrect data, a lack of consistency between different tables and mistakes in reported expenditure.

¹³ Special Report No 8/2008: Is cross compliance an effective policy, paragraph 60 and Box 3.

- 41.** The Court's audit confirmed the shortcomings identified by the Commission and found that data from several Member States were not reliable. For instance, in Andalusia, the output and result indicators bore no relation to the agri-environment expenditure. In France, the Court found several weaknesses, including missing data in the tables sent to the Commission for the year 2008. In addition, the practice of continuing to include data after contracts have expired overstates the results of EU expenditure. All the finished schemes are considered to be continuing to provide the same effects until the end of the programming period ¹⁴.
- 42.** The common monitoring and evaluation framework includes output, result and impact indicators. Member States must send an annual progress report on the implementation of the programme to the Commission, including output and result indicators. Data reported by the eight Member States audited in their 2009 progress report is included as **Annex III**. The impact indicators measure broad phenomena which are affected by numerous other factors in addition to rural development programme support ¹⁵.
- 43.** The result indicator ('area under successful land management') is particularly unsatisfactory. It is in practice identical to the figure reported by the Member States as the output indicator 'area under agri-environment support'. This is because Member States do not distinguish between these two indicators and all areas under contract are considered to be 'successful'. Because of this, the environmental benefits are insufficiently monitored: the audit identified cases where the agri-environment contract was not successful, but was still included in the result indicator. The next section provides examples of how this could be improved (see paragraphs 48 to 51).

¹⁴ This is a simplification adopted under the common monitoring and evaluation framework. Some sub-measures bring their benefits as soon as they are implemented whereas some others start providing their benefits only at the end of the life cycle of the schemes. This led to the adoption of a single approach which assumes that the effects continue after the schemes are finished. This is not always true, for instance when a farmer paid for five years to convert to organic farming returns to conventional agriculture after the end of his contract.

¹⁵ The impact indicators are: reversal in biodiversity decline, maintenance of high nature farmland and forestry, improvement of water quality, and contribution to combating climatic change.

- 44.** As the common monitoring and evaluation framework is a standardised system, Article 81 of Regulation (EC) No 1698/2005 requires Member States to implement a limited number of additional specific indicators. Although all the Member States audited included additional indicators in their programmes, weaknesses were found for all of them. The main weaknesses were that, although specified in the rural development programmes, additional indicators were not reported, overlapped with existing common indicators or were insufficiently specific or even missing for the environmental pressures concerned. As an illustration of the latter weakness, Hungary has a number of agri-environment sub-measures addressing specific environmental issues such as the high risk of water and wind erosion and the conservation of endangered bird species. However, no additional indicators were established in the rural development programme to monitor the relevant effects.

THE COMMON MONITORING AND EVALUATION FRAMEWORK IS NOT GEARED TO ASSESS ENVIRONMENTAL EFFECTS

- 45.** The environmental benefits of agri-environment payments depend on the characteristics of the area where they are implemented. There are areas with specific environmental problems, such as those included under the framework's baseline indicators ¹⁶, and other areas without general environmental pressures. It is therefore relevant to monitor where funds are spent. Despite this need, Member States generally did not monitor how much money was spent in the relevant areas. For instance, in their rural development programmes, some Member States stated that the implementation of agri-environment policies in Natura 2000 areas was a priority. However, they were unable to provide information on how much was actually spent in such areas.

¹⁶ The common monitoring and evaluation framework includes the following baseline indicators relating to areas of specific environmental interest: high nature value farmland and forestry, areas polluted by nitrates and pesticides (vulnerable areas), areas at risk of soil erosion, less favoured areas, areas of extensive agriculture and Natura 2000 areas.

- 46.** The environmental effects of agri-environment sub-measures can vary significantly, depending on the level of requirements and type of area. However, the common monitoring and evaluation framework does not take this into account for reporting on outputs and results. All figures are added together, regardless of whether there are limited or more substantial effects. In particular, the figures for the sub-measures, which generally produce more limited effects but over a wider area, are added together with the figures for the sub-measures, which generally produce higher environmental benefits but in a specific area. This leads to a situation where reporting is heavily influenced by the sub-measures applied on a wider area, and where figures are not meaningful when aggregated at EU level, as is illustrated in **Box 2**.

BOX 2**EXAMPLE OF A NON-MEANINGFUL AGGREGATION OF FIGURES**

One of the 15 sub-measures in the Spanish region of Andalusia supports beekeeping, aiming to protect biodiversity and maintain flora and fauna outside agricultural areas. It is a basic sub-measure, for which beneficiaries are financially supported with an amount of 21,40 euro/hectare. In 2008, Andalusia reported EU expenditure of 7,9 million euro for 1 540 contracts implemented on 579 339 hectares. This sub-measure alone contributes to more than 3 % of the total figure¹⁷ reported by the Commission for agri-environment at the EU level.

Another sub-measure in Andalusia is organic farming. The aid rates per hectare are, depending on the crop, between 123,10 and 600 euro/hectare. Andalusia plans to support 4 000 farmers per year, which, with an average farm size of 15 hectares, will be reported as 60 000 hectares, 0,3 % of the total EU figure.

At EU level, the figures of 579 339 and 60 000 are added together, which is not meaningful. A typical contract for one beekeeper concerns 250 beehives and is reported as 500 hectares. To report a similar figure for organic farming requires more than 33 farmers implementing very demanding requirements.

¹⁷ Physical area supported under agri-environment payments (see glossary).

- 47.** The audit took place more than three years after the start of the programming period. The Commission and the Member States had very little information on the environmental benefits of agri-environment payments for the 2007–09 period. Member States generally agreed with the Court that the common monitoring and evaluation framework provided insufficient information in this respect. Some Member States and the Commission suggested that this would be part of the programme evaluations. However, information on environmental benefits is needed both for the management of agri-environment sub-measures and to provide a sound basis for the evaluators.

POCKETS OF GOOD MONITORING PRACTICE WERE FOUND OUTSIDE THE COMMON MONITORING AND EVALUATION FRAMEWORK

- 48.** In its three best practice visits, the Court identified good monitoring practices. Each of these cases concerned more demanding sub-measures where the environmental benefits were assessed and reported outside the common monitoring and evaluation framework. Generalising such practices in the context of a common monitoring and evaluation framework could be costly. However, there is no available estimate of these costs and the benefits provided.
- 49.** France implements a sub-measure dedicated to water protection which is tailored to specific geographical areas called 'river basins' (see glossary). The farms located in these areas are assessed by a consultant. This leads to the formulation of concrete actions to be implemented by the farmers, which are integrated in the monitoring arrangements. Each of the projects includes a monitoring plan which is assessed by the authorities before it starts. Specific polluting elements present in the water, such as phosphorus, are monitored through chemical analysis. The monitoring plan specifies the number and frequency of the analyses, the rivers concerned and the bodies responsible. These provisions allow a precise assessment of the environmental effects of the sub-measure.

50. The German region of Rhineland-Palatinate introduced two agri-environment sub-measures in 2007 that aimed to maintain high nature value grassland. The expected outcome is 'oriented' to the preservation of a number of plants and species on pastures. The monitoring of these sub-measures is done through a standardised data acquisition method (see **Box 3**).

BOX 3

EXAMPLE OF THE MONITORING OF AN 'OUTCOME-ORIENTED' SUB-MEASURE

The basic requirement is the documented existence of four to eight (depending on the sub-measure) indicator plants among a list of predetermined species. In addition to minimum management requirements, farmers are free to apply the farming practices they consider appropriate to achieve the required outcome. They must record the existence of the plants via specified methods. The number of indicator plants is counted within a corridor set along the longest diagonal over a width of two metres. This corridor is divided into three sectors, and all indicator plants occurring in each sector are recorded separately. The collection method is illustrated in the photo below.



Source: ©Landesamt für Umwelt, Wasserwirtschaft und Gewerbeaufsicht Rheinland-Pfalz: „PAULa - Vertragsnaturschutz Grünland - Kennarten“, Mainz 2008, S. 8.

- 51.** In England, for the higher-level sub-measures (see **Box 1**), the agreements with the farmers include 'indicators of success'. Their purpose is to ensure that the land manager and the public body's advisor can monitor whether the environmental outcomes have been achieved. These indicators are established for each individual farm and for each management option included in the agreement. They provide timed, specific and quantified elements against which performance can be improved by adjusting the management prescriptions. Examples of these indicators are, for the farming practices illustrated in **Picture 1** of keeping untreated 'headlands' or sowing strips with 'wild bird seed mix', that 'there should be between 5 % and 50 % cover of desirable broad-leaved plants with at least three target arable species present' and that 'the plots should provide sustained seed supply throughout the winter until 15 February'. The authorities assess the indicators of success for a number of agreements every year.

ARE FARMERS WELL SUPPORTED THROUGH APPROPRIATE GUIDANCE AND CORRECT AID AMOUNTS?

- 52.** Farmers need to be aware of environmental issues and need to understand what is expected of them and how to apply the requirements of agri-environment sub-measures. This awareness and understanding can be achieved by providing support to farmers. The Court examined whether and how support such as training, advice and information was provided and whether its effectiveness was assessed and enhanced by the dissemination of good practice.
- 53.** Agri-environment sub-measures are voluntary for farmers, which means that adequate financial support must be provided to make the sub-measures sufficiently attractive, while avoiding over-compensation. The Court examined whether aid amounts included in the programmes were correctly calculated, justified by relevant supporting elements, differentiated according to regional or local conditions and depended on environmental effects.

FARMERS ARE GENERALLY WELL SUPPORTED THROUGH APPROPRIATE GUIDANCE BUT DISSEMINATION OF GOOD PRACTICES CAN BE IMPROVED

- 54.** In all the Member States visited, the Court found that existing administrative networks were used to provide guidance, advice and training to the beneficiaries of the basic schemes. General information was provided through meetings, brochures and websites. More detailed information and guidance could also be provided through courses or technical assistance either by public bodies or by private consultants. All Member States visited have made or planned to make use of other rural development measures to support the implementation of agri-environment sub-measures, in most cases training and information actions. In Sweden, almost all holdings benefiting from agri-environment payments participated in such training actions.
- 55.** In addition, in most Member States, more specific guidance was provided to the beneficiaries of the more demanding schemes. This generally took the form of an environmental plan prepared by a consultant who, following a visit to the farm, identified the status of its environmental features (habitats, ponds, vulnerable soils, etc). This plan provides a guide to the most appropriate management options. For instance, in Sweden, Brandenburg, Poland and France, nature conservation plans, established on a case-by-case basis, are mandatory for sub-measures dealing with the protection of biodiversity in specific areas.

Little dissemination of good practice and feedback to farmers

- 56.** Dissemination of good practice is one way of providing guidance for administrators and beneficiaries alike. The Commission implemented structures such as the European Network for Rural Development, which aims to collect, disseminate and consolidate good rural development practice at EU level. However, this was limited in the field of agri-environment, as only a few concrete examples of good practice were identified by the existing structures.

- 57.** At Member State level, the audit revealed that the administrative authorities responsible rarely provided feedback to beneficiaries after a contract had been signed on the results achieved for agri-environment sub-measures. This was only the case for 2 % of the sample of 203 contracts audited. Providing feedback may help improve the farmers' awareness and understanding of the environmental effects of the sub-measures implemented, in particular where farmers have changed their practices.

WEAKNESSES IN ESTABLISHING AID AMOUNTS FOR AGRICULTURE-ENVIRONMENT PAYMENTS

EXISTING PROCEDURES DO NOT PREVENT MISTAKES AND SHORTCOMINGS IN THE CALCULATION OF AID AMOUNTS

- 58.** In their programmes, Member States are required to provide the methodology and agronomic assumptions for their calculations. However, they are not required to provide detailed figures and aid calculations, which are indeed not systematically included in the programmes. The programmes must also show that appropriate expertise was provided by bodies independent from those responsible for the calculations, which was, however, not systematically done. A good example is the Piedmont programme, which sets out in detail the expertise provided. The latter included checking the correctness of the calculations and concluding on whether the applicable legal requirements had been fulfilled. As part of its programme approval procedures, the Commission checked the aid amounts. However, these checks were limited to the 'plausibility' of the calculations.
- 59.** The above procedures did not prevent mistakes and shortcomings in the calculations of the aid amounts. Simple calculation mistakes of up to 8,5 % of the amounts were found in Andalusia, Piedmont and Sweden. Relevant factors, such as cost savings resulting from a lower fertiliser use, were not taken into account in the calculations as required. Finally, some Member States used outdated figures to calculate key elements of aid amounts, such as Poland which used figures from 2001–03 for income foregone despite significant increases since then.

- 61.** The most material shortcoming was found in France for the basic sub-measure aiming to maintain grassland areas in order to protect biodiversity. Around 770 million euro are to be spent on this during the 2007–13 period, of which 235 million euro in EU funds were already spent in 2007–09. The calculations used to justify the aid amounts are mainly based on a reduction of nitrate fertiliser. The parameters used for the calculation do not correspond to those actually applied in the areas where the sub-measure is implemented (see **Box 4**). This was not checked by the Commission when it approved the French programme.

BOX 4**CALCULATION OF AID AMOUNTS DISSOCIATED FROM EXISTING FARMING PRACTICES**

Around 90 % of the aid amount for the French sub-measure on maintaining grassland is based on the lower income resulting from a reduction of the level of fertilisation on grasslands from 180 kg of nitrate per hectare to 125 kg.

Estimates of data from a statistical source used by the national authorities in the calculations show that the levels of fertilisation actually employed are, on average, around 65 kg of nitrate per hectare and therefore well below the threshold of 125 kg per hectare. This was also confirmed by the three farmers visited by the Court, two of whom used an average of 15 kg of nitrate per hectare and one used 60 kg at the most. This shows that farmers are being compensated for practices that they were already implementing.

The French authorities explain that the threshold of 125 kg is a reference practice considered favourable for the environment even though it exceeds the levels of fertilisation actually employed by the farmers.

These explanations are not in line with the view expressed in a Commission document¹⁸ presented to the Member States, which drew attention to the risk of compensating 'farmers for whom (parts of) the obligations are normal practice or to base the calculations on figures which are not representative for a specific region. This risk becomes in particular evident if an aid is calculated as (e.g. nationwide) average without taking into account different agronomic and cost structures in the regions'.

¹⁸ Rural Development Committee, Working Document RD10/07/2006-final, Agri-environment commitments and their verifiability.

- 62.** The value of the parameters used to calculate the aid amounts changes over time with the result that certain sub-measures, like the ones aiming to diversify crop rotation, may become insufficiently attractive to potential beneficiaries in financial terms. This situation occurred for instance in France, where a sub-measure had to be closed for new beneficiaries during 2008 due to a lack of interest. However, most Member States kept aid amounts stable over the duration of the contract to provide some security to farmers and because the cost of adapting aid amounts to changing circumstances could prove higher than the benefit farmers would derive from such change. For the 203 contracts reviewed by the Court, a system of revision of prices existed in 10 % of the cases.

THE AID AMOUNTS ARE NOT DIFFERENTIATED ENOUGH ACCORDING TO REGIONAL OR LOCAL SITE CONDITIONS

- 63.** Agri-environment sub-measures can be implemented in areas with different characteristics (soil quality, rainfall, geography: plains, mountains, etc) which affect the costs and income of the farms. Article 53 of Regulation (EC) No 1974/2006 states that Member States shall ensure that financial support for agri-environment sub-measures is differentiated to take into account regional or local site conditions and actual land use as appropriate.
- 64.** When insufficiently differentiated average costs and incomes are used to calculate aid amounts for agri-environment, some farms are overcompensated, leading to an inefficient use of public funds, and some are undercompensated, risking that the participation rate may be too low to have an effect. As an illustration, 2006 data shows that yields in olive production in Andalusia varied between 0,48 tonnes/hectare in non-irrigated areas and 5,46 tonnes/hectare in irrigated areas. Despite these differences, an average of 3,5 tonnes/hectare was used for the aid calculation, without differentiating between irrigated and non-irrigated areas.
- 65.** The Court identified cases where differentiation would provide possible benefits to farmers but with a possible extra administrative cost in four Member States with national programmes (France, Poland, Hungary and Sweden).

- 66.** The French authorities decided to use national averages for the basic sub-measure described in **Box 4**, despite the need to differentiate aid amounts according to plain, mountain and less-favoured areas. If the French aid amounts had been differentiated, the amounts in the plains and less favoured areas could have been respectively 33 % and 20 % lower, representing around 8 million euro of EU funds in 2009. In Poland, the same amount for income foregone was used for more than 10 different sub-measures, despite the need to differentiate e.g. between arable crops and grassland. The aid amounts were also not differentiated for the various regions despite their very different characteristics.

PARTICIPATION RATE IN BASIC MEASURES

- 67.** For basic sub-measures, farmer participation must be high enough to provide effects in a given area. However, most Member States do not assess the minimum participation level needed to ensure that sub-measures provide the expected environmental effects and whether the aid amounts are adequate to reach this minimum level.
- 68.** In Poland, three basic sub-measures representing 75 % of the expenditure in 2008 were implemented on less than 1 % of the utilised agricultural areas of the regions visited by the Court. No data is available to demonstrate that such coverage is important enough to result in environmental effects. Despite the low coverage, the aid amounts for these sub-measures were kept significantly below (between 16 % and 44 %) the amounts calculated on the basis of additional costs and income foregone.
- 69.** In other cases, aid amounts were increased despite the fact that the participation rate already fulfilled the planned targets. This led to situations such as in Sweden, which increased threefold the aid amount of one sub-measure despite the fact that the participation target had been reached.

DOES THE MANAGEMENT OF AGRI-ENVIRONMENT POLICY TAKE ACCOUNT OF SPECIFIC ENVIRONMENTAL NEEDS?

- 70.** Article 39(1) of Regulation (EC) No 1698/2005 states that Member States should make support available for agri-environment payments throughout their territories **in accordance with their specific needs**. All rural development programmes audited show that the environmental pressures are more acute in some regions than in others.
- 71.** The Court reviewed to what extent agri-environmental aid takes account of environmental needs, whether available management tools such as geographical targeting and selection were used and also whether management was innovative and evidence-based. Finally, the Court reviewed whether the management of funds was focused on delivering environmental effects.

LIMITED USE OF TARGETING AND SELECTION PROCEDURES

ASSESSMENTS OF WHAT WOULD BE THE RIGHT LEVEL OF GEOGRAPHICAL TARGETING ARE NOT AVAILABLE

- 72.** Ensuring that funds are spent according to regional needs and priorities is of key importance for enhancing the environmental effects of agri-environment sub-measures. This can be achieved through targeting funds to geographical areas, types of farms or farming practices by setting appropriate eligibility criteria.
- 73.** Targeting of agri-environment payments has been a permanent issue over the last decade. In its special report from 2000 on 'Greening the CAP', the Court criticised the lack of targeting agri-environment schemes to environmental priorities (see **Annex I** for further details). Since then, several evaluations and studies ¹⁹ identified a need for improved targeting of agri-environment expenditure to identified needs. A recent report from the European Network for Rural Development ²⁰ identified targeting as one of the nine key criteria for the successful delivery of outcomes. In its recent communication 'The CAP towards 2020', the Commission advocates improved targeting of the measures under the rural development policy.

¹⁹ See for instance: (1) The evaluation study of November 2004, prepared as part of the Commission's Impact Assessment of Rural Development programmes in view of post-2006 rural development policy (which identified the improvement of targeting of agri-environment measures as one of the key themes in the improvement of the delivery of rural development policy in the Member States and regions) and (2) The research project on 'Integrated Tools to design and implement Agro Environmental Schemes', which was funded between 2004–06 under the sixth EU framework programme (which identified targeting as a key criterion for the environmental performance of agri-environment measures).

²⁰ Thematic working Group 3, Public goods and public intervention, final report, December 2010.

74. A relevant targeting approach can channel expenditure to areas where environmental problems are located. This can, for instance, be done by setting eligibility criteria which limit expenditure to precisely defined areas where changes in farming practices are necessary or where existing environmentally friendly farming practices would not be maintained without agri-environmental support. This is illustrated in **Figures 3 to 5**, which show the distribution of funds with and without geographical targeting. Local needs are better addressed in **Figure 5**. The same amount of money is used more effectively in **Figure 5** as compared to **Figure 4**, where funds are also spent in areas without environmental problems.

75. Member States can implement agri-environment sub-measures over a wide area and/or target them to local circumstances, according to the environmental needs identified. Overall, the audit established that most of the expenditure was made on 'horizontal' sub-measures which were implemented over the whole area of the rural development programme (see **Table 1**). Part of this expenditure is for maintaining existing favourable farming practices ²¹. This is in line with one of the objectives of the current legal framework (see paragraph 3). Currently there is no requirement to target expenditure to specific areas. However, geographical targeting can also be an effective tool, e.g. to prioritise areas where Member States have demonstrated that conversion to a less environmental friendly land use will occur without agri-environment support.

²¹ This is in particular the case in Austria, where the agri-environment sub-measures were designed above all to maintain the environmental situation all over the country, which is assessed as reasonably positive in the rural development programme. Austria therefore applies a preventive and horizontal approach where around 70% of farmers participate in agri-environment sub-measures, covering 93,5% of all farmland.

TABLE 1

AGRI-ENVIRONMENT EXPENDITURE IMPLEMENTED ON THE WHOLE AREA OF THE PROGRAMME

Rural development programme Member State/Region	% of expenditure implemented on the whole area of the programme
AT — Austria	90 %
DE — Brandenburg and Berlin	90 %
ES — Andalusia	50 %
FR — France	90 %
HU — Hungary	80 % ¹
IT — Piedmont	85 %
PL — Poland	100 % ²
SE — Sweden	60 %

¹ Estimation based on the areas under 'zonal' sub-measures.

² A budget of around 20% is planned for targeted sub-measures but is not yet implemented.

Source: European Court of Auditors, estimation of expenditure used for sub-measures without geographical limitation in 2009/2010.

FIGURE 3

CHARACTERISTICS OF THE AREA

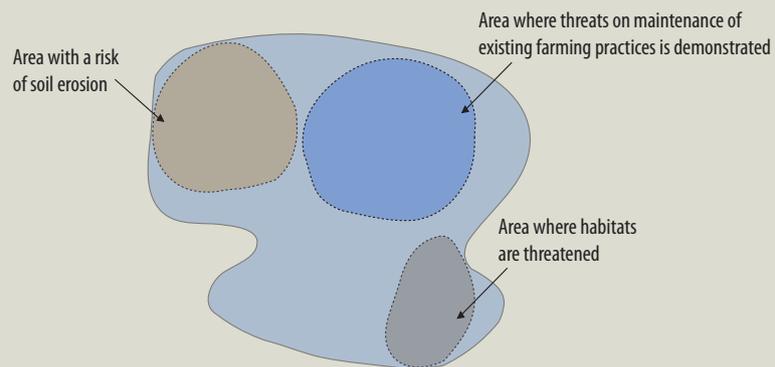


FIGURE 4

DISTRIBUTION OF FUNDS WITHOUT GEOGRAPHICAL TARGETING

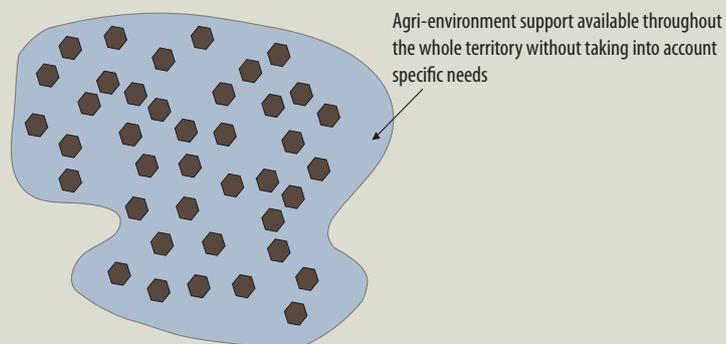
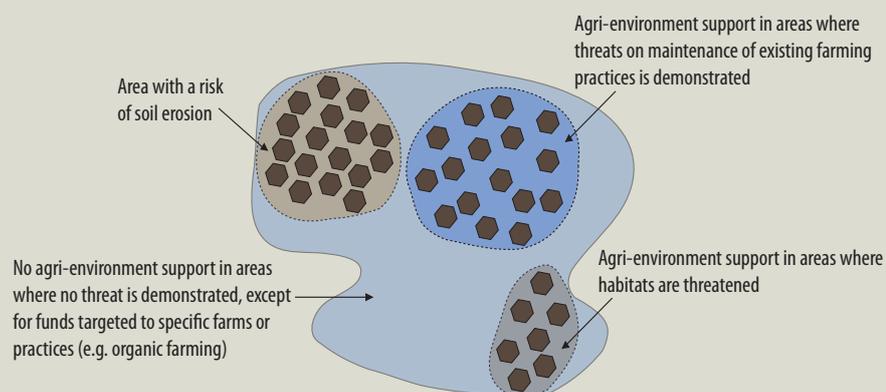


FIGURE 5

DISTRIBUTION OF FUNDS WITH GEOGRAPHICAL TARGETING



Source: Adapted from the work of Dr Pierre Dupraz, INRA, France, in particular 'Specific targeted research project n°SSPE-CT-2003-502070 Integrated Tools to design and implement Agro Environmental Schemes'.

- 76.** The Court found also some sub-measures which were targeted to specific local needs. Two successful examples of this are described in **Box 5**.
- 77.** Targeting, like certain of the management practices outlined in the following paragraphs, imposes additional administrative costs. It would be reasonable and desirable for the Commission to take cost-benefit considerations into account when proposing expenditure schemes, and for Member States to do so when deciding how to implement schemes.
- 78.** The Court's audit however indicated that Member States audited had not considered the desirable degree of targeting on the basis of an analysis of the costs and benefits involved.

BOX 5

SUCCESSFUL EXAMPLES OF GEOGRAPHICAL TARGETING

France targets agri-environment sub-measures at Natura 2000 areas or at areas affected by specific problems, mainly water pollution but also soil erosion. Areas where environmental problems exist are precisely delimited, and only those areas are eligible for the sub-measures concerned. Each project includes land management activities which are determined at the level of agricultural parcels among various existing options. Participation is still low in the sub-measures targeted at water pollution in intensive regions because they require changes in farming practices, in particular in the use of plant protection products.

Hungary uses geographical targeting for 12 of the 22 sub-measures included in the programme. This is done by designing specific sub-measures for and allocating 25 % of the agri-environment budget to the following five types of area:

- high nature value areas;
- areas affected by erosion on slopes;
- sand and loess soils exposed to wind erosion;
- protection zones of vulnerable water resources and flood areas;
- wetlands.

- 79.** The Polish programme, for instance, states that the environmental situation for issues such as high livestock densities affecting water quality, the sensitivity of different types of soil to erosion, etc are worse in some regions than in others. Instead of a zonal approach applied during the period 2004–06, Poland has implemented agri-environment sub-measures so far nationwide. The abandonment of the previous approach was not supported by a cost-benefit analysis. In Austria, only four out of the 28 sub-measures, representing around 10 % of the expenditure, are targeted to specific areas.

²² Articles 39(4) and 71(2).

AS BUDGET WAS SUFFICIENT, NO SPECIFIC SELECTION CRITERIA WERE APPLIED

- 80.** Selection procedures can ensure that those projects selected provide the best value for money. Regulation (EC) No 1698/2005 specifies that expenditure must be in accordance with the selection criteria fixed by the competent body and that, where appropriate, beneficiaries may be selected on the basis of calls for tender, applying criteria of economic and environmental efficiency ²². The Commission wrote to the Member States in 2008, reminding them of the applicable legal provisions and insisting on the fact that the purpose of selection criteria was to ‘allow spending the budget on those operations and projects that will contribute most to the objectives of the measure’. The Commission systematically checks that selection criteria are indeed established by the Member States for the agri-environment field.
- 81.** The Court found some cases where selection procedures were used to exclude contracts because they did not provide sufficient environmental value. France for instance uses a relevant procedure to select the projects implemented under ‘territorialised’ sub-measures, for which a specific committee ranks the projects according to environmental criteria such as their relevance and localisation. However, selection procedures were only used in a very limited number of cases. In practice, more than 90 % of the agri-environment budget is implemented on the basis of eligibility criteria only. None of the 203 contracts reviewed by the Court was selected on the basis of a call for tender.

82. All farmers signing up to a certain scheme have to fulfil the same eligibility criteria and requirements, which are supposed (by the Commission and the Member States) to provide the same environmental benefits. Provided that budgets are sufficient, the funds are used without assessing the environmental value of the various applications. For most of the time, the budget is sufficient, as the scarcity of funds only occurs when the budget for all axis 2 measures is exhausted. Only at this stage do selection criteria become mandatory. Thus, although five Member States established selection criteria ²³, they were not applied because budget resources were sufficient to date.

²³ Of the eight Member States audited, Poland did not establish any selection procedures, as was also pointed out by the Commission. Austria and Sweden established certain selective elements but only for small parts of the budget (7,5% of the expenditure for Austria and 12,5% for Sweden).

83. Selection criteria can also be applied to targets, e.g. the number of beneficiaries. In six of the eight Member States audited, the Court found sub-measures where the relevant figure for applications exceeded the targets planned, but where nevertheless all applications were funded. Member States accepted further applications because their targets were not set at a level where environmental problems were sufficiently addressed. It would be more efficient not to accept further applications where targets representing environmental levels have been achieved, thus releasing remaining financial resources for the achievement of the targets of other agri-environment sub-measures.

ALLOCATION OF FUNDS DOES NOT OPTIMISE VALUE FOR MONEY

MANAGEMENT NOT SUFFICIENTLY INNOVATIVE AND EVIDENCE-BASED

84. There are a number of elements which could be used in the management of agri-environment sub-measures to increase value for money. This section covers, in addition to the elements mentioned earlier in this report: differentiated EU contributions, collective contracts and a sound evidence basis.

- 85.** The EU contribution rate for rural development is set at the level of 'axes' (groups of coherent measures), and depends principally on whether expenditure is implemented in the regions eligible under the Convergence Objective or in other regions ²⁴. The EU contribution for agri-environment is thus the same as for many other rural development measures, with the following exception. Since 2009, the EU contribution may (within certain limits) be increased by 10 % for convergence and by 20 % for non-convergence regions for operations related to climate change, water management and biodiversity. Except for this differentiation, the EU contribution does not depend on environmental or other factors relevant for agri-environment, such as improved targeting or better focusing on EU priorities.
- 86.** Under the agri-environment policy, sub-measures are offered to farmers who take, on an individual basis, a decision on whether or not to sign a contract. In certain cases it may be necessary to have in a particular geographical area a minimum number of farmers signing a contract. Such cases can be to maintain/improve a typical local landscape, to reduce pollution in a river catchment area, or protecting certain species or habitats. Expenditure for a few individual contracts may not be effective in such cases (see also paragraph 67). One way to ensure that a sufficiently large group of farmers delivers the necessary environmental benefits is through collective approaches.
- 87.** The audit found, however, that such approaches are hardly used. Only one out of the 203 agri-environment contracts audited concerned a collective contract. The Leader approach to rural development can also be used to implement a collective approach. However, a recent audit by the Court ²⁵ found that Member States generally restricted the scope of Leader, in some cases even excluding agri-environment.
- 88.** In order to know whether agri-environment sub-measures are effective, a clear and demonstrated causal relationship between the agricultural practices and the environmental outcomes is required. This can be done by using test plots, case studies, quantified impact model, surveys, etc. Such 'hard' evidence is especially relevant for more demanding sub-measures as their effects depend on the specific requirements for the sub-measures and on the characteristics of the areas where they are implemented.

²⁴ Article 70 of Regulation (EC) No 1698/2005 specifies for agri-environment a minimum EU contribution of 20% of public expenditure, and maximum ones of 80% in convergence regions and 55% in other regions. The contribution is increased to 85% for programmes of the outermost regions and the smaller Aegean Islands.

²⁵ Special Report No 5/2010: Implementation of the Leader approach for rural development, paragraphs 84 and 85.

Anticipated environmental benefits are not demonstrated for 24 % of the contracts

- 89.** However, the audit found that specific quantified evidence was used only in a minority of cases to design and manage agri-environment sub-measures. For the 203 contracts reviewed by the Court, methods such as inquiries with beneficiaries, models/simulations or case studies were used respectively in only 11 %, 14 % and 30 % of the cases. For 24 % of the contracts reviewed, Member States reported that the causal relationship between the farming practices and the anticipated environmental benefits were not demonstrated. These results are consistent with recent research ²⁶ which concluded that 'More than half of the [agri-environment sub-measures] surveyed were based on 'common sense' impact models, and thus were based on general beliefs about how agricultural practices are linked to environmental changes, rather than on documented evidence.'
- 90.** For some sub-measures, the Court did find evidence that the farming practices were effective in achieving their environmental benefits. This is particularly the case for organic farming, for which the effects are well documented ²⁷. This is also the case for outcome-based sub-measures (see paragraph 27), for which the expected environmental benefits are directly linked to the farming practices implemented.

FAILURES TO FOCUS PAYMENTS ON SPECIFIC ENVIRONMENTAL PROBLEMS

- 91.** A rational way to implement agri-environment policy is, on the basis of clearly identified environmental problems, to determine the required targets for impacts and participation levels and on this basis to determine the necessary financial resources. Identifying environmental problems means that there must be an environmental threat justifying why farming practices must be maintained or changed. Failure to apply this logic leads to an insufficient focus on environmental effects. Thus, the audit found that in 39 % of the 203 contracts reviewed, there were no specific environmental pressures in the area where the contract was implemented, or such problems could not be identified by the Member States, as shown in **Table 2**.

²⁶ Primdahl, et al., Current use of impact models for agri-environment schemes and potential for improvements of policy design and assessment, *Journal of Environmental Management* (2010), doi:10.1016/j.jenvman.2009.12.012.

²⁷ The November 2005 evaluation of the agri-environment measures reviewed a total of 288 scientific studies of which a sample of around 30 studies were more specifically dedicated to organic farming. The evaluation concluded that organic farming achieved positive effects on biodiversity (increase in vegetal, animal, habitats diversity) and water and air pollution through a reduction in inputs. The Community strategic guidelines (see glossary) identified organic farming as a holistic approach to sustainable agriculture, which improves the environment and the countryside, and recommended that its contribution to environmental and animal welfare objectives should be consolidated and strengthened.

92. Budgets for agri-environment are based on past uptake rates and the targets set do not depend on environmental effects to be achieved, but on historical spending figures. Member States use data on participation levels for sub-measures for the day-to-day management but cannot analyse whether participation is adequate to produce the anticipated environmental effects. Participation is voluntary for farmers, meaning that sub-measures with less demanding requirements in relation to the aid amounts are easier to implement than those with higher requirements. Two examples of this were Piedmont and France, which used respectively around 75 % and 85 % of the expenditure for a single basic sub-measure, without sufficient analysis or justification for this in their rural development programmes.

TABLE 2

MAIN ENVIRONMENTAL PROBLEM(S) EXISTING WITHIN A RANGE OF 10 KILOMETRES AROUND THE FARM FOR A SAMPLE OF 203 CONTRACTS

Environmental problem	% of contracts ¹
There are no specific environmental problems in the area within a range of 10 kilometres around the farm which holds the contract or it is not possible to identify problems	39 %
Water pollution caused by farming	27 %
Marginalisation and abandonment of land	22 %
Threats to exceptional plant biodiversity (in areas of particular environmental importance — high nature value zones)	21 %
Soil degradation (caused by wind erosion, loss of organic matter, overexploitation, compaction, etc.)	18 %
Threats to animal populations in areas with normal biodiversity	18 %
Threats to exceptional animal biodiversity (in areas of particular environmental importance — high nature value zones)	18 %
Threats to plant communities in areas with normal biodiversity	18 %
Degradation of landscape	10 %
Other	11 %

¹ There can be more than one problem in the area where the contract is implemented.

- 93.** In all the Member States audited, the agri-environment budget was part of a single seven-year budget for all axis 2 measures. This improves flexibility in the management of the available financial resources, but leads to a situation where there is no analysis of what would be the appropriate funding to address environmental needs.
- 94.** The Court analysed whether Member States could justify that the money spent on agri-environment payments was in line with the main environmental pressures identified. This was indeed the case for two out of the eight Member States audited (Austria and Sweden). However, for the other Member States, it was not, either because the relevant information was not available or not provided (Poland, Hungary and Piedmont) or because expenditure was not in line with the main pressures identified (Andalusia, Berlin and Brandenburg, France). The latter case is described in **Box 6**.

BOX 6**ALLOCATION OF FUNDS FOR AGRI-ENVIRONMENT PAYMENTS IS NOT IN LINE WITH ENVIRONMENTAL CHALLENGES**

Regulation (EC) No 1974/2006 states that each rural development programme must justify the various types of agri-environment payment in relation to the environmental needs and priorities identified in the programme. The French programme establishes three main environmental challenges: biodiversity, water (quality and quantity) and climate change. The planned agri-environment budget for biodiversity amounts to around 1 billion euro, which represents around three times the agri-environment budget set aside for water quality. Although the French authorities consider that the most material sub-measure in the programme dealing with preservation of extensive pastures also prevents climate changes through the storage of carbon, no agri-environment expenditure is reported as tackling climate change. The programme does not justify the allocation of funds to the main challenges identified.

CONCLUSIONS AND RECOMMENDATIONS

- 95.** Agri-environment is a complex policy instrument: it aims to address a wide range of environmental issues (biodiversity, soil, water, air, landscape) in 27 Member States. Significant progress has been made in the little over 20 years since the policy was first introduced. A large number of farmers now implement more sustainable practices than they would otherwise have done without such support and the Court's audit identified a number of best practice examples in several areas.
- 96.** Nevertheless, the Court also found that the policy was not designed and monitored so as to deliver tangible environmental benefits. The objectives were overall too vague to be useful for assessing the extent to which they have been achieved. In a number of cases, agri-environment payments are not clearly justified by the environmental pressures which have been identified in the rural development programmes. The common monitoring and evaluation framework represents progress but produces little information on the environmental benefits achieved.

RECOMMENDATION 1

The Commission and the Member States should for each agri-environment sub-measure ensure that:

- clear objectives, which fit into the hierarchy of environmental objectives, are set in the rural development programmes;
- rural development programmes clearly justify the sub-measures which they include and the link between environmental pressures and agri-environment payments. In particular programmes should specify whether the relationship between environmental pressures and sub-measures is direct or indirect and assess whether agri-environment support is more appropriate than are available alternative policies.

The Member States should collect and report relevant and reliable data on environmental benefits and use it for monitoring purposes.

- 97.** Farmers are crucial to the success of agri-environment schemes, and without sufficient understanding and financial incentives, the policy will not be adequately implemented. The audit found that farmers were generally well supported through guidance, although dissemination of best practices and feedback on the results could be improved. The Court identified problems in the establishment of aid amounts. In addition, as aid amounts are not differentiated enough according to local conditions, and participation rates are not considered, the right incentives are not always given.

RECOMMENDATION 2

The Commission should ensure, before approving programmes, that:

- all relevant elements are included in the calculations;
- the main assumptions and parameters used are appropriate;
- reference levels always correspond to normal farming practices in the areas where the agri-environment sub-measures are implemented;
- aid amounts for sub-measures aimed at maintaining existing farming practices are based on realistic costs;
- aid amounts are differentiated in cases where this is justified.

- 98.** Member States are required to make support available in accordance with specific needs. They had not considered the desirable degree of targeting to their needs on the basis of an analysis of costs and benefits involved. Procedures to select projects which provide the best environmental value for money were only applied in a few cases because budget resources were sufficient. Other procedures, such as differentiated EU contributions, evidence based sub-measures and setting quantified targets for participation levels based on the required environmental effects were applied in only a minority of cases.

RECOMMENDATION 3

The audit identified that most agri-environment expenditure is made for a limited number of sub-measures implemented on the whole programme area. For the next programming period, the Commission should consider whether:

- expenditure should be more precisely targeted to specific environmental needs;
- the Commission and the Member States should be more proactive in their management of agri-environment payments, for example by:
 - o requiring Member States to better justify cases when the objective is to maintain environmentally friendly farming practices;
 - o assessing the potential benefits created by improved geographical targeting of agri-environment expenditure versus the increased administrative costs incurred;
 - o setting quantified targets for participation levels based on the required environmental effects and then determining the level of financial resources needed;
 - o examining further the usefulness of farm environmental plans, outcome based measures, calls for tenders and collective contracts;
- the EU contribution rate for agri-environment sub-measures should be differentiated so that those sub-measures with a higher potential to achieve lasting positive environmental effects receive a higher rate of EU contribution.

²⁸ Option 2 of the communication from the Commission 'The CAP towards 2020: Meeting the food, natural resources and territorial challenges of the future'.

- 99.** The large amounts of money spent on entry-level schemes, in contrast to the small amounts spent on higher-level schemes, were insufficiently justified in the rural development programmes concerning their environmental effects. This distinction is subject of discussions in the context of the Commission's proposal for the CAP after 2013, that simple, generalised actions could be part of direct payments ²⁸.

RECOMMENDATION 4

For the next programming period, the Commission should consider whether agri-environment payments should be split into simple, generalised agri-environmental actions with a relatively low rate of aid and more demanding actions attracting a higher rate of aid and targeted to EU-level priorities areas. Support for organic farming would constitute a third measure.

- 100.** Notwithstanding progress achieved to date, there remains considerable scope for increasing the effectiveness of EU agri-environment policy. There is still room for further improving the design of this EU rural development policy, and more information is necessary on the effects obtained. Although the audit identified good practices, the weaknesses found by the Court have hampered optimal achievement of the main objectives of agri-environment, namely contributing to EU-level priority areas (biodiversity, water, climate change) and improving the environment and the countryside.

This report was adopted by Chamber I, headed by Mr Olavi ALA-NISSILÄ, Member of the Court of Auditors, in Luxembourg at its meeting of 24 May 2011.

For the Court of Auditors



Vítor Manuel da SILVA CALDEIRA
President

MAIN FINDINGS FROM PREVIOUS COURT REPORTS ON AGRI-ENVIRONMENT

The report on 'Greening the CAP'¹ contained the following findings: agri-environment payments benefited the environment by helping maintain existing extensive practices but they failed to encourage converting environmentally damaging intensive agriculture to environmentally sound farming methods; the targeting of EU funds according to pre-established environmental priorities was limited, resulting in less environmental value for money than should have been achieved; in some cases, aid rates were too low to attract farmers to apply environmentally friendly farming techniques, whereas, in other cases, farmers received aid rates that were significantly in excess of their actual costs; finally the absence of quantitative objectives and environmental baselines made it difficult to monitor progress in achieving environmental goals.

The report on 'The Verification of Agri-Environment expenditure'² found that the Commission had only partially ensured verifiability before approving rural development programmes and had not sufficiently verified the correct functioning of agri-environment control systems in the Member States. The audit findings in the Member States concerned the timing of on-the-spot checks and the verifiability of certain key sub-measures. The audit concluded that the verification of the agri-environment measure posed particular problems and could rarely lead to even reasonable assurance at a reasonable cost. In this context, it was recommended that the Commission, Council and Parliament should consider how to take into account the principle whereby if a measure cannot be adequately checked, it should not receive public funds.

¹ Special Report No 14/2000.

² Special Report No 3/2005.

DESCRIPTION AND INDICATION OF THE ORIGIN OF THE AUDIT CRITERIA USED TO ANSWER THE AUDIT QUESTIONS

Audit question (see paragraph 13)	Audit criterion	Explanation of the audit criterion
<p>Is agri-environment policy designed and monitored so as to deliver tangible environmental benefits?</p>	<ol style="list-style-type: none"> 1. The agri-environment measures have precise (SMART) objectives, closely oriented to identified environmental benefits. 2. The nature of the environmental pressures in the territories is clearly identified, justified and prioritised. 3. The location of the environmental pressures in the territories is clearly identified, justified and prioritised. 4. Member States are able to justify the need for the agri-environment measures in relation to the environmental pressure. 5. Baseline levels and planned targets have been established which are quantified in line with the needs and within the budget. 6. The Member State implementation of the common monitoring and evaluation framework makes it possible to assess the environmental effects of the agri-environment schemes. 7. Additional indicators are implemented when necessary. 8. Information from the control and monitoring systems is used to identify improvements in the design, implementation and monitoring of the agri-environment measures. 	<ol style="list-style-type: none"> 1. Regulation (EC) No 1698/2005 states that each rural development programme must include information on the specific verifiable objectives of the measures and that their progress, efficiency and effectiveness must be measured in relation to these objectives (Articles 16(c), 81(1)). 2. and 3. Regulation (EC) No 1698/2005 and Regulation (EC) No 1974/2006 state that each rural development programme must describe the current situation of the environment and land management in the geographical area using quantified data, highlighting strengths and weaknesses, disparities, needs and gaps and the potential for rural development (Regulation (EC) No 1698/2005, Article 16(a) and Regulation (EC) No 1974/2006, Annex II). 4. Regulation (EC) No 1974/2006 states that each rural development programme must include a description of and justification for the different types of commitment of agri-environment payments based on their expected environmental impact in relation to environmental needs and priorities (Annex II). 5. Regulation (EC) No 1698/2005 states that the progress, efficiency and effectiveness of rural development programmes in relation to their objectives should be measured by means of indicators relating to the baseline situation (Article 81(1)). Regulation (EC) No 1974/2006 states that, to measure progress in meeting the objectives of the rural development programme, indicative targets for output, result and impact indicators must be set for the period of implementation of the programme (Article 62(2)). 6. The CMEF, implemented according to Article 80 of Regulation (EC) No 1698/2005, is drawn up in cooperation between the Commission and the Member States. One of the key objectives of this monitoring system is to measure the results of the programmes: the CMEF handbook states that 'indicators are used as tools to assess how far the expected objectives have been achieved by measures or whole programmes'. 7. Regulation (EC) No 1698/2005 states that each rural development programme must specify a limited number of additional indicators specific to that programme (Article 81(2)). 8. Regulation (EC) No 1698/2005 states that the Monitoring Committee may propose to the Managing Authority any adjustment or review of the programme aimed at achieving the objectives of the EAFRD or improving its management (Article 78(e)).

Audit question (see paragraph 13)	Audit criterion	Explanation of the audit criterion
Are farmers well supported through appropriate guidance and correct aid amounts?	<p>9. Guidance is provided to (potential) beneficiaries to help implementation or increases uptake rates.</p> <p>10. The Member State can demonstrate progress in the simplification of the system used to manage the agri-environment measures.</p> <p>11. The nature, timing and extent of the commitments and checks are clearly identified.</p> <p>12. The aid amounts are fully justified by data and studies from reliable sources.</p> <p>13. The aid amounts are correctly calculated and the calculation has been checked by an independent body from the Managing Authority.</p> <p>14. The aid amounts are differentiated according to regional or local site conditions.</p> <p>15. The aid amounts give the adequate incentive to expect an impact (result in the required uptake rates, avoid over-compensation).</p>	<p>9. Because agri-environment payments are voluntary for farmers, the latter need to be aware of environmental issues and how to apply the requirements of sub-measures they can implement. Upon signing a contract, farmers need to understand what is expected of them. Such awareness and understanding can be achieved by guidance, training and the dissemination of results. This criterion is based on a sound financial management principle.</p> <p>10. A common criticism of agri-environment policy is that 'the rules are complex'. In view of simplification, there is a need to assess whether there is actually evidence of unnecessary complexity. This criterion considers complexity with regard to the management system rather than at the level of the content of the agri-environment schemes themselves, since complex commitments may result in high environmental benefits. This criterion is based on a sound financial management principle.</p> <p>11. Regulation (EC) No 1975/2006 (OJ L 368, 23.12.2006, p. 74) states that the Member States must establish suitable methods and means for verifying the conditions for granting support for each support measure (Article 10(2)). On-the-spot checks must be spread over the year and must cover all the beneficiary commitments and obligations that can be checked at the time of the visit (Article 14).</p> <p>12. Regulation (EC) No 1974/2006 states that Member States must ensure that the calculations and the corresponding support (a) contain only elements that are verifiable, (b) are based on figures established by appropriate expertise and (c) indicate clearly the source of the figures (Article 53(2)).</p> <p>13. Regulation (EC) No 1974/2006 states that, in order to substantiate and confirm the adequacy and accuracy of the calculations of payments, Member States must ensure that appropriate expertise is provided by bodies or services functionally independent from those responsible for those calculations. The provision of such expertise must be evidenced in the rural development programme (Article 48(2)).</p> <p>14. Regulation (EC) No 1974/2006 states that Member States must ensure that the calculations and the corresponding support are differentiated to take into account regional or local site conditions and actual land use as appropriate (Article 53(2)(d)).</p> <p>15. Regulation (EC) No 1698/2005 states that the payments must cover additional costs and income foregone resulting from the commitment made (Article 39(4)). Aid amounts are also a key element for the participation of farmers in the measure. According to the principles of sound financial management, aid amounts should be set at an appropriate level to attract the required number of farmers while avoiding overcompensation.</p>

ANNEX II

Audit question (see paragraph 13)	Audit criterion	Explanation of the audit criterion
Does the management of agri-environment policy take account of specific environmental needs?	<p>16. The measures are targeted to the needs of the regions; and in particular to the needs located in specific areas.</p> <p>17. The selection procedures provide assurance that the budgets available are used to fund the projects with more environmental value.</p> <p>18. The Member States can demonstrate that the measures change or maintain beneficial farming practices (i.e. avoid deadweight).</p> <p>19. The Member States can demonstrate the validity of the cause-and-effect relationship between the farming practices envisaged and the environmental benefits expected.</p> <p>20. When weaknesses are identified, agri-environment measures are reviewed accordingly.</p>	<p>16. Regulation (EC) No 1698/2005 states that Member States must make support available throughout their territories, in accordance with their specific needs (Article 39(1)). The regulation does not aim at the complete territorialisation of agri-environment payments. However, if there are some specific needs/environmental pressures in certain regions, they should be addressed by specific and geographically targeted agri-environment measures.</p> <p>17. The principles of sound financial management require that the budgets available for agri-environment payments should be used in the most effective and efficient way. Procedures should guarantee that the available funds achieve the best results. A specific budget for each sub-measure should be determined on the basis of environmental criteria. The budget should be allocated to projects with most environmental value through selection procedures. Article 39(4) of Regulation (EC) No 1698/2005 provides that '... beneficiaries may be selected on the basis of calls for tender, applying criteria of economic and environmental efficiency.'</p> <p>18. Regulation (EC) No 1698/2005 states that agri-environment payments should further encourage farmers to introduce or continue to apply agricultural production methods compatible with the protection and improvement of the environment (whereas 35). However, support for existing practices only delivers value for money if it can be demonstrated that the alternative to support would be the discontinuation of such practices.</p> <p>19. Regulation (EC) No 1974/2006 states that each rural development programme must include a description and justification of the different types of commitment of agri-environment payments based on their expected environmental impact in relation to environmental needs and priorities (Annex II). If there is no sound relationship between the farming practices and environmental benefits the measure is not effective. Member States must be able to demonstrate a strong relationship.</p> <p>20. Identifying weaknesses is a precondition for adapting the agri-environment payments, in which case Member States must take adequate action to ensure that the weaknesses are corrected. Regulation (EC) No 1698/2005 includes provisions dealing with review of the rural development programmes (Article 19) and Article 86 provides for establishing a system of ongoing evaluation for each rural development programme.</p>

OUTPUT AND RESULT INDICATORS REPORTED BY THE EIGHT MEMBER STATES AUDITED

Type of indicator	Member State (Region)							
	AT Austria	DE Germany (Berlin and Branden- burg)	ES Spain (Andalusia)	FR France	HU Hungary ¹	IT Italy (Piedmont)	PL Poland	SE Sweden
Output								
o Number of farm holdings and holdings of other land managers receiving support	117 117	2 194	6 129	118 210	NA	7 776	21 766	52 762
o Total area under agri-environmental support (hectares)	4 152 476	233 428	945 890	8 100 734	NA	148 880	555 082	2 279 274
o Total number of contracts	370 209	2 657	5 380	118 210	NA	8 087	45 986	87 659
o Physical area under agri-environmental support (hectares)	2 202 586	213 308	0	4 013 123	NA	147 107	472 263	2 155 039
o Number of actions related to genetic resources	0	NP	NA	NP	NA	NP	NP	10
Result								
o Areas under successful land management contributing to (hectares):								
o improvement of biodiversity	2 990 783	229 596	1 382 843	7 601 652	NA	219 885	NA	2 021 000
o improvement of water quality	2 795 831	230 761	515 974	1 662 066	NA	204 845	NA	968 000
o mitigating climate change	2 643 665	216 090	424 156	0	NA	129 435	NA	0
o improvement of soil quality	3 466 550	87 157	515 974	427 192	NA	204 845	NA	887 000
o avoidance of marginalisation	2 618 816	110 472	776 900	0	NA	80 760	NA	1 583 000

NA: data not available.

NP: not planned in the rural development programme.

¹ Hungary has implemented the agri-environment measure only in 2009 (in order to avoid overlapping with the previous programming period). Hence data were not available at the time of the audit.

Source: 2009 progress reports as included in the database SFC per 1 December 2010.

REPLY OF THE COMMISSION

EXECUTIVE SUMMARY

I.

Agri-environment is a key element for the integration of environmental concerns into the common agricultural policy. Encouraging farmers to protect and enhance the environment on their farmland by rewarding them for the provision of environmental services, agri-environment plays a crucial role for meeting society's demand for environmental benefits and public goods provided by agriculture. Agri-environment is compatible with a wide diversity of farming practices and can address a broad number of challenges relevant to Member States and the EU as a whole. Its contribution to the improvement of the environment linked to agricultural areas is largely recognised.

II.

The agri-environment framework is structured hierarchically with different layers of objectives. Any aggregate figure of the different objectives is likely to overstate the complexity of the agri-environment framework if not put in the proper context. The Commission has verified that the measures and objectives are specific, measurable, achievable, realistic and timely to the extent possible during the procedure of the programmes' approval. While agri-environment sub-measures can also address environmental potentials and opportunities, and while environmental pressures can be addressed by agri-environment sub-measures and/or other rural development measures, there is a clear link between environmental pressures and agri-environment sub-measures. The actual environmental benefits of sub-measures can only be determined after a certain period of time of their implementation. The mid-term evaluation (MTE) reports, submitted at the end of 2010, provide the first opportunity for the impact of rural development programmes, including agri-environment schemes, to be assessed.

REPLY OF THE COMMISSION

III.

The Commission agrees that the success of agri-environment depends on the active involvement of farmers. Good practices are a focal point of all European Network for Rural Development (EN RD) actions and disseminated through the various publications issued and seminars organised. Member States can also disseminate best practices by training and farm advisory service measures. The calculation of aid amounts is the responsibility of the Member States and is certified by an independent body. In cases of doubts concerning aid amounts proposed, Member States were asked to provide detailed information on the underlying calculations and revise them, if necessary. Calculations of aid amounts may be differentiated 'as appropriate'.

IV.

The application of selection criteria is not the only means to ensure the most efficient and effective way of spending under agri-environment. Eligibility conditions and regional targeting can serve the same purpose. That being said, the Commission agrees that a further improvement regarding better targeting of agri-environment is necessary and is envisaged in the framework of the CAP post-2013. However, Member States must strike a balance between the cost of implementing this approach and the expected environmental benefits. Some rural development programmes (RDP) have actually considered the desirable degree of targeting on the basis of an analysis of the costs and benefits involved. Much environmental research and evidence is available to Member States, who take this into account when designing their programmes. Nevertheless, the Commission agrees that certain types of agri-environment operations would merit more research. The relative costs and benefits would have to be considered before undertaking such additional investigations specifically related to the implementation of particular agri-environment sub-measures. The purpose of agri-environment support is not only to address environmental problems but also to maintain and enhance environmental potentials and opportunities.

V. First indent

While the Commission agrees that agri-environment sub-measures must be clearly justified, the maintenance of environmental potentials and opportunities is also considered as a valid justification for agri-environment payments. The current legal framework already foresees considerable reporting obligations; further differentiation will be considered in the post-2013 reform while ensuring at the same time that this does not increase the complexity and administrative burden of agri-environment's management.

V. Second indent

The Commission considers that its assessment process is sufficiently rigorous with regard to agri-environment. However, it agrees that there is room for improvement with regard to some aspects, such as the link between the identified needs and the commitments of agri-environment.

Third indent — First sub-indent

The Commission agrees that there is a need for better targeting in agri-environment to ensure greater environmental benefits and to improve the effectiveness of the measures. However, targeting should not only be linked to specific environmental needs but also to the existing environmental potential and opportunities.

Third indent — Second sub-indent

Introducing differentiated co-financing rates at sub-measure level would lead to a considerable additional administrative burden and significantly increase the requirements related to the implementation of the respective programmes.

REPLY OF THE COMMISSION

INTRODUCTION

Third indent — Third sub-indent

The Commission considers that, in accordance with the principle of subsidiarity, the concrete agri-environmental operations should be defined at Member State and not at EU level. Simple sub-measures allow broader participation of farmers and territorial coverage, while more demanding sub-measures have a higher potential in cases where specific problems are to be addressed and specific environmental impacts are expected. It is not always easy to divide these two types of operations into two separate groups as the effectiveness of the simple operations can be of a significant environmental value.

Third indent — Fourth sub-indent

The Commission shares the Court's recommendation.

8.

The Commission considers that, while the Community legislation defines principles regarding agri-environment as a rural development measure, the definition and design of sub-measures should be left to the Member States. This distribution of responsibilities reflects the principle of subsidiarity.

Moreover, the Commission considers that basic and more demanding schemes complement each other. Such a complementarity provides for a broad participation and a wide territorial coverage and helps to address specific environmental problems.

9.

Basic sub-measures also aim at improving the environmental awareness among farmers and encouraging them to apply for more advanced sub-measures.

10.

Payments are calculated in relation to the cost incurred/income foregone linked to the management prescription, not in relation to the environmental benefits generated. Therefore, there is no direct relationship between more demanding, i.e. more expensive, sub-measures and greater environmental benefits.

REPLY OF THE COMMISSION

OBSERVATIONS

23–24.

While it is certainly complex, the Commission does not consider the agri-environment framework to be overly complicated.

Agri-environment is structured hierarchically and consists of different layers of objectives. Within this hierarchy, any objective can be viewed in the context of a broader objective(s) to which it contributes, and also to more specific objectives that contribute to it. The more general objective is gradually decomposed into more specific objectives. Any aggregate figure of the different objectives is likely to overstate the complexity of the agri-environment framework if it is not put in the proper context, since it obscures this hierarchical structure and the relations between different layers of objectives.

Moreover, not all environmental objectives need to be addressed by agri-environment. They can also be addressed by other alternative policies or other rural development measures¹. As regards the Court's observation that individual agri-environment sub-measures are linked to several objectives, this is due to the fact that, apart from their main objective, they usually also contribute to other environmental objectives².

However, the Commission acknowledges that the link between some objectives of different hierarchical levels (community, national, regional, per measure, per sub-measure) could be clarified in the case of Andalucía by harmonising the objectives' wording.

25.

The Commission has verified that the measure and objectives are specific, measurable, achievable, realistic and timely as well as verifiable to the extent possible during the procedure of the programmes' approval.

Moreover, objectives formulated in a general manner can very well provide a specific measurable outcome which can be assessed, if they are combined with specific targets (such as 'reduce by 20%')³. Such specific targets should be set by Member States whenever possible. Initially, some Member States had difficulties to establish baseline levels due to lack of adequate statistical data. However, the Commission together with Member States have undertaken steps to remedy the situation. With regard to time frames, agri-environment objectives are to be attained at the end of the measure's application (5- or 7-year period), unless specified otherwise.

¹ For instance, in the case of Andalucía, water scarcity is tackled by axis 1 measures and other funds; biodiversity and climate change are addressed by forestry measures of axis 2, agri-environment, axis 1 measures (training, investments), and other European and national funds.

² In the particular case of Andalucía, the hierarchy of environmental objectives is the following:

- (a) Council Decision 2006/144 identifies three environmental priorities at Community level: biodiversity and High Nature Value, water, and climate change.
- (b) On this basis, the Spanish National Strategy Plan (NSP) identifies five general objectives: biodiversity, water, climate change (reflecting the community priorities), soil erosion, and landscape maintenance (reflecting specific problems in Spain). The five general objectives are further developed into 19 objectives.
- (c) The 19 operational environmental objectives of the NSP are directly linked with objectives set out for different RDP measures, mostly from axis 2, but also from axes 1 and 3.
- (d) The agri-environment measure is implemented through 15 sub-measures. All the objectives defined for all sub-measures have a direct link with the objectives defined in the RDP and the NSP.

³ For example, the programme of Andalucía includes a sub-measure with an objective to maintain genetic resources. As the baseline situation (number of animals concerned certified by a relevant organism) is well described and targets for the programming period clearly set, the objectives are both clear and verifiable.

REPLY OF THE COMMISSION

As regards Poland, while it is true that the textual description of the objectives does not specifically refer to the baseline, each agri-environment package (sub-measure) has a quantified output indicator, including Package 8, 'Soil and water protection'. Additionally, the impact indicator defined for the measure as a whole, namely 'Improvement of water quality' defines a percentage change from the 2005 baseline⁴. With respect to time frame, the column containing the target is headed '2007–13' implying that the programming period is the time frame.

27.

Outcome-oriented sub-measures can offer a great degree of flexibility in designing and managing agri-environment. However, they can only be applied to certain types of agri-environment schemes where monitoring of their results is possible at farm level. In many cases, measuring outcomes of sub-measures addressing physically more diffuse problems at farm level would not be reliable (due to an interaction with activities of other farmers in the area).

30.

The Commission maintains that in the cited examples, the environmental pressures justify the agri-environment sub-measures.

Environmental pressures identified in rural development programmes (RDP) can be addressed by agri-environment sub-measures and/or other rural development measures. Thus, the fact that not all environmental pressures identified in RDP are addressed by agri-environment sub-measures does not support the conclusion that the environmental pressures did not clearly justify agri-environment sub-measures.

31–32.

The Commission is of the opinion that the evaluation of agri-environment's effectiveness should be performed, as is current practice, at the axis level in terms of results, and at programme level in terms of impacts. Attempting to assess the effectiveness at sub-measure level would create disproportionately high administrative costs and burden, and would not be likely to lead to conclusive findings.

Moreover, while some agri-environment sub-measures address potentials and opportunities, the Commission maintains that there is a clear link between environmental pressures and agri-environment sub-measures. For further details, see reply to point 30.

33.

As regards the general aspects of the Court's observation, please refer to the replies to points 30 and 31–32. The character of the link to the environmental pressures it responds to can usually be inferred from the sub-measure's content.

37.

Rural development programmes (RDP) must ensure the respect of the relevant legal obligations resulting from alternative policies. The relevant regulatory framework that constitutes a baseline for agri-environment operations is checked by the Commission when assessing agri-environment measures.

⁴ The impact indicators for reversal of biodiversity decline and prevention of climatic change also define changes from the 2005 baseline.

REPLY OF THE COMMISSION

While agri-environment and other policies and rural development instruments can complement each other in achieving environmental objectives, for reasons of subsidiarity, it should be left to the Member States to assess which policies to use for a given purpose. Training and advice are also complementary tools which can substantially improve the efficiency of agri-environment. The Commission is constantly encouraging Member States to make use of these instruments.

In the assessment of RDP, the Commission checked whether other policies had been used by Member States to achieve agri-environment objectives⁵. It was also assessed whether the demarcation line between these instruments and RDP was clearly defined.

39.

Where Member States justify the links between the measure proposed and the environmental needs identified in the rural development programme (RDP), and where the measure's commitments go beyond the reference level, agri-environment can be used as an instrument to address those needs and provide a remedy for them. The Commission ensures, through the rules on demarcation, that there is no overlap in payments between various EU funds and supports.

Please see also the reply to point 37.

40.

The Commission welcomes that the Court recognises the improvements brought about by the introduction of the Common Monitoring and Evaluation Framework (CMEF). There is a learning process with any new system, and it should take some time for all actors involved to become sufficiently familiar with the CMEF, to generate the required quality of data⁶.

41.

Monitoring tables contain data on operations included in declarations of expenditure already paid by the Commission, in order to ensure consistency with financial execution tables.

In Andalucía, due to delays in the presentation of the declarations of expenditure by the Paying Agency, certain amounts already paid to beneficiaries have not been declared yet to the Commission. Thus, output and result indicators included in the monitoring tables may not correspond to the amounts actually paid out to beneficiaries. Once these initial problems are solved, it is expected that the monitoring tables will provide more reliable data.

In the case of France, the indicators submitted in 2008 were incomplete (especially the result indicators). According to the French authorities, the implementation of some measures was not sufficiently advanced to allow the measurement of any results. The indicators submitted in 2009 are more comprehensive.

⁵ For example, baseline for agri-environment in form of cross-compliance, the use of Art. 68 of Reg. 73/2009, Common Market Organisation regime such as fruits and vegetables Operational Programmes. Member States were requested to provide information on the use of other policy tools in cases where an environmental priority was not clearly supported by the RDP proposed.

⁶ In the framework of a specific and exhaustive check of the rural development programme (RDP) targets in 2008, the Commission sent the Member States a list of comments (missing targets, wrong calculations ...) and invited the Managing Authorities (MA) to send a completed and improved set of baselines and targets (output, result and impacts) in 2009. The annual report indicators (output and result) are validated by the Commission. If anomalies are identified, a resubmission of the annual reports is requested. In addition, the screening of the tables across RDP is performed by the European Network for Rural Development (EN RD) contact point.

REPLY OF THE COMMISSION

As regards the Court's observation regarding overstatement of expenditures, both annual and cumulative expenditures are requested. Both sets of data are valuable for our analyses. Improvements to the monitoring system, to allow a closer link to implementation as well as correlation with reimbursements made to Member States are under consideration for the future programming period.

43.

The task of measuring the result indicators is the responsibility of the Member States. The Commission has reiterated at different occasions (evaluation expert committee, Rural Development Committee) that only the area under successful land management can be compiled and included in the indicator in question. The Commission agrees that there is a need to further improve the indicators' implementation by Member States. The revision of the post-2013 monitoring and evaluation system for rural development will address this question.

The situation found by the Court described in this paragraph is probably due to incorrect data compilation and presentation by Member States. There are two output indicators related to agri-environment (35 and 36): the first aggregates the area under contract (a hectare is counted twice if it is subject to two contracts), the second aggregates physical area (each hectare is counted only once). The result indicator 'area under successful land management' is subdivided into five sub-categories. Each activity funded under axis 2 can contribute to one or more of these. The result indicator is set at axis level, not at measure level, thus the contribution of agri-environment measures is aggregated with that of other axis 2 measures. Thus the figures recorded under result indicator 6 would not be expected to correspond directly to either output indicator 35 or 36.

44.

The implementation of the Common Monitoring and Evaluation Framework (CMEF) during the 2007–13 programming period represents a learning phase. Whilst a considerable improvement on the previous situation, the Commission services acknowledge that it could still be further improved. The post-2013 monitoring and evaluation system for rural development will take account of lessons learned.

In the Hungarian case, the issues of water and soil quality and biodiversity protection are already well covered by indicators related to axis 2, where Hungary has added 13 additional, baseline indicators with corresponding target figures, several of which concern the agri-environment measure (e.g. Protection of cultivated area jeopardised by soil loss (water and wind erosion)), which correspond to the five core objectives of the Hungarian agri-environment measure.

45.

The financial follow-up is organised at measure level. The Commission does not consider it feasible to ensure a financial follow-up at the level of sub-measures as this would produce a significant administrative burden which would neither be justified nor accepted by Member States. Furthermore, such an approach would not be consistent with and disproportionate in comparison to other shared management policies.

However, while Natura 2000 has not been foreseen as a specific category within the agri-environment measure since a separate measure is available, the monitoring tables do provide an area breakdown according to the different Less Favoured Area (LFA) categories.

REPLY OF THE COMMISSION

In the revision of the Common Monitoring and Evaluation Framework (CMEF) for the post-2013 period other geographical breakdowns will be considered.

46.

The output indicator 35 (total area under agri-environment support) is indeed subdivided according to 12 types of commitment, for example 'entry-level commitment', 'actions to conserve soil', etc., some of which are further divided into sub-categories (see Common Monitoring and Evaluation Framework (CMEF) Handbook Guidance Note H). Managing Authorities are expected to aggregate data on contracts according to these categories. This means that it is possible to distinguish between different types of schemes, for example light schemes (such as entry-level schemes) and more demanding commitments (such as organic farming). CMEF monitoring information can be extracted for agri-environment schemes as a whole, or for any specific sub-category.

As the monitoring framework does include a certain differentiation of the agri-environmental commitments' categories, Member States should make better use of such options in monitoring agri-environment. Any other differentiation post-2013 should not increase the complexity and administrative burden of agri-environment's management.

Box 2

The aggregation of total contracts/areas gives an overview of agri-environment commitments. The Common Monitoring and Evaluation Framework (CMEF) indicators also provide for sub-divisions related to the specific objectives of schemes, which allow more detailed examination/analysis of the situation. Both approaches are needed to provide a full picture of how rural development programmes support the rural environment.

Moreover, basic sub-measures do not per se deliver only limited environmental benefits. If well designed, with relevant requirements and correctly implemented in relevant areas, even if not very demanding, they can bring great environmental benefits spread throughout a wide area.

For the purpose of identifying the effectiveness of a measure, the evaluation may assess different agri-environment schemes separately, although environmental impacts are assessed at programme level, since they are the result of a complex mix of interventions and external factors.

47.

The expected environmental benefits of the programme and axes have been established in the rural development programmes (RDP), and validated through ex ante evaluation. Furthermore, the environment is a very complex system where most processes are very slow and environmental outcomes take time to develop. Thus, for many sub-measures the actual environmental benefits can only be determined after a certain period of time. The mid-term evaluation reports, submitted at the end of 2010, provide the first opportunity for the impact of RDP, including agri-environment schemes, to be assessed. However, the implementation and expected results of agri-environment schemes are monitored on a regular basis and reported to the Commission annually in the Annual Progress Reports.

REPLY OF THE COMMISSION

48.

Where appropriate, Member States are encouraged and expected to go beyond the Common Monitoring and Evaluation Framework (CMEF) and implement additional approaches and indicators to address programme-specific issues, such as those mentioned here. Best practice examples in this domain are shared via the evaluation expert network. Moreover, the Commission continuously strives to refine appropriate methodologies and approaches.

First and foremost, the CMEF needs to provide data that is standardised and comparable at EU level. While they can be very well suited to the conditions in individual Member States or regions, in many cases, if transferred to the EU level, specific monitoring practices would not deliver meaningful information.

49.

Please see replies to points 46 and 48.

50.

The Member States are indeed invited to measure and monitor additional indicators. Best practices in this domain are considered by the evaluation expert network.

The Common Monitoring and Evaluation Framework (CMEF) cannot incorporate indicators based on particular species due to the broad range of different ecosystems in the EU. For instance, a very important species in a given area (in terms of biodiversity, scarcity ...) might be either trivial or non-existent in another area.

Box 3

Please see the reply to point 27.

51.

The elements mentioned by the Court are part of the requirements/actions which farmers have committed to under a specific agri-environment scheme.

54.

A database collecting examples of interesting cases studies (rural development programme project database) developed jointly with the National Rural Networks will be published by the end of May 2011 on the European Network for Rural Development (EN RD) website. In addition, a new series of brochures with examples funded under European Agricultural Fund for Rural Development (EAFRD) has been launched (the first two are available from the EN RD).

56.

Good practices are a focal point of all European Network for Rural Development (EN RD) actions and disseminated through the various publications issued and seminars organised. There is no current specific activity on agri-environment measures (AEM) but several activities contain AEM case studies.

The most relevant activity is the analysis by the Thematic Working Group (TWG) 3 on Public Goods and Public Intervention, i.e. the context in which the AEM are implemented. A case study on AEM, from which lessons can be learned, has been conducted by the TWG 3 in consultation with the EN RD Coordination committee. A brochure will be produced. Case studies by the TWG 4 on Delivery Mechanisms are conducted on the level of rural development programmes (RDP) in order to assess the whole delivery system, but the identification of difficulties in the implementation of AEM has received particular attention.

REPLY OF THE COMMISSION

57.

The Commission will put even more emphasis on the need to establish a stronger link between the implementation of the rural development measures and provision of adequate training and advice to the beneficiaries to improve farmers' environmental awareness and their knowledge of agri-environment commitments needed for the better implementation of those commitments. Such training and advice should also be based on the experience gained from previous implementations of agri-environment operations.

58.

Although Member States are not required to provide detailed figures and aid calculations in their rural development programmes (RDP), most Member States, upon the Commission's request, delivered them to facilitate the assessment of the aid amounts proposed.

It is the responsibility of the Member States to ensure that appropriate expertise concerning the adequacy and accuracy of the calculations of payments is provided by independent services. The Commission relies on this kind of expertise, which is expected to take appropriate account of regional and local conditions. The Commission performs a general plausibility and consistency check of the calculation. However, it does not engage in a full-fledged recalculation, as such an exercise would require substantial resources and expertise, including detailed knowledge of the national and regional specificities of Member States, and would not be in line with the principle of subsidiarity.

59–60.

The calculation of aid amounts is the responsibility of the Member States and is certified by an independent body. The Commission does not undertake systematic controls (recalculation) of those calculations. However, in cases of doubts concerning aid amounts proposed, Member States were asked to provide detailed information on calculations and revise them if necessary.

In the case of Andalucía, arithmetic mistakes with no impact on the final value of the aid amount have already been corrected. The Commission has requested the Managing Authority to clarify, provide additional justifications for, and even consider the adjustment of the aid amount for some issues identified by the Court, including the consideration of cost savings linked to a lower use of fertilisers in the calculation of the aid amount; the reply is still pending.

The Commission services asked the Piemonte authorities to revise the calculation of aid amounts at several occasions end of 2010, and are awaiting submission of the revised calculation.

According to the Polish authorities, the 2001–03 figures were used because the most recent data was not available, due to a change of the methodology.

61.

The Commission checked the level of the established baseline, the reasoning and methodology or the calculation of the reduction of nitrogen fertilisation against the information provided by an independent body (Institut national de la recherche agronomique [INRA], Avignon) which certified the accuracy of the baseline (see reply to Box 4 and the rural development programme for France, version 5, pp. 199–200).

REPLY OF THE COMMISSION

The Commission has taken note of the Court's findings and will require the Member State to take the necessary measures to address the situation.

Box 4

Please see the reply to 61.

62.

According to Art. 39(4) of Regulation (EC) No 1698/2005, the payments shall be granted annually and shall cover additional costs and income foregone resulting from the commitment made.

If the basis for premium calculations changes after the original calculations have been made, premium adjustments are permitted and justified so as to allow minimising under- and overcompensation. Therefore, Member States have the possibility to adjust their agri-environment premiums.

As regards the case mentioned by the Court, the annual progress report for rural development of 2008 (pp. 33–34) states that the measure in question had only a moderate success among potentially interested farmers due to a global market particularly favourable to arable crops, which made the aid less attractive. So, in 2008, the measure was not renewed for new commitment.

However, the annual progress report for rural development of 2009 (p. 39) mentions that the measure was reopened in 2009 and 29 first-time applicants are committed.

In the modification of the French rural development programme (RDP), in May 2008, it was foreseen that the amounts of agri-environment premiums could be revised under the following conditions: the review of the calculation concerns all major elements of the premium calculation, the average figures of the two latest years are used, an account of the uptake of the measures in question should be provided, the Member State have to review the calculation elements every two years and notify the conclusions to the Commission. A review clause will be included both in all new contracts and in those ongoing contracts where the beneficiaries accept to benefit from the revised premiums.

63.

Art. 53 of Regulation (EC) No 1974/2006 stipulates that calculations are to be differentiated so as to take into account regional or local site conditions and actual land use 'as appropriate'. Member States are, however, requested to present in the calculations factors to differentiate the calculations' figures (e.g. according to homogenous agricultural regions).

The Commission agrees that in cases of significant differences between regions with regard to their characteristics (environmental, geographical, climatic) differentiation in aid amounts should be envisaged. However, this would certainly carry with it additional administrative burden. Therefore, Member States must take account of a trade-off between the benefits and costs related to aid amount differentiation.

REPLY OF THE COMMISSION

64.

As regards the case referred to by the Court, the Commission will ask the Managing Authority of the programme to modify the measure 'integrated production of olive trees' in order to reflect the differences between irrigated and non-irrigated areas. This differentiation is already well taken into account in newly proposed agri-environment sub-measures for Andalucía, such as 'Integrated production of sugar beet'.

See also the reply to point 63.

65–66.

France opted for using a unique aid amount based on the reference price of the fodder unit for the mountainous zones but also the lowest level of production in the different regions (data INRA, Avignon) namely 6tn DM. This choice was based on the fact that the majority of the committed surfaces are located in mountainous zones (Massif Central, Alps, Pyrenees, Jura) (mid-term evaluation (MTE), p. 93). Moreover, France also made this choice in order to increase the readability of the measure.

As regards the Polish case, the Commission services discussed this issue with the respective authorities who decided that it was not feasible to introduce differentiation in aid amounts due to the substantial extra costs involved. Therefore, while calculating the aid amounts for several sub-measures where the commitment covers both arable land and permanent pastures but the payment is only limited to arable land, an average Standard Gross Margin (SGM) was used. Polish authorities also pointed to difficulties in setting the borders of eligible areas benefiting from different aid amounts. See also the reply to point 79 on the negative experiences of the 2004–06 programming period.

67.

Aid levels cannot be fixed so as to achieve a certain participation target. Article 39 of Regulation (EC) No 1698/2005 stipulates that, as regards payment levels per hectare, agri-environment payments must be based on costs incurred and income foregone and do not allow for incentive elements. Those amounts are established by applying a standard cost approach, which is in line with the need to respect the proportionality of administrative efforts.

Agri-environment as a whole is expected to contribute, together with other measures, to the general environmental objectives set at programme level. Basic sub-measures are part of agri-environment. The effectiveness of agri-environment is assessed at measure and axis level.

68.

2008 was the first year of the implementation of agri-environment in the framework of the programming period 2007–13 in Poland, in which only the three simplest variants were in place. That year does not reflect the actual territorial coverage of the agri-environment measure.

The aid amounts are below the calculated ceiling of additional costs/income foregone as Polish authorities want to cover the maximum number of interested beneficiaries thus achieving the largest environmental impact.

REPLY OF THE COMMISSION

69.

Regarding the Swedish case mentioned by the Court, it is true that the aid rate for the sub-measure Riparian Strips was increased from 1 000 SEK/ha to 3 000 SEK/ha in the 6th modification of the Swedish rural development programme (RDP). In the 2000–06 period the aid rate had been set to 2 700 SEK/ha and the risk was high that the decreased rate would prevent farmers from continuing with this sub-measure. Recalculations also showed that there was a significant under compensation at the lower rate set in the beginning of the 2007–13 period. Therefore, the aid rate was increased along with the outcome indicators that were increased from 3 500 users to 4 500 users and from 7 000 ha to 9 000 ha. The revised aid rates are subject to a biannual review.

70.

Agri-environment is to provide support for introducing agricultural practices compatible with the environment but also to encourage the continuation of such practices where there is a risk of losing them. Excluding certain zones from the application of agri-environment, on the basis that the environmental pressures therein are less acute than in other areas, could lead to increasing the pressure on the environment in those zones.

72.

The Commission agrees that agri-environment should address the environmental problems and needs, but also the opportunities and potentials identified by Member States in their programmes. Insofar as these pressures have a regional character, they should be addressed by adequate schemes. However, this does not imply that schemes available throughout the territory cannot fulfil this function.

Measures are often applied to the whole rural development programme's territory without undermining agri-environment goals. Moreover, many Member States define eligibility criteria and commitments for agri-environment schemes in such a way that it narrows down the scope of potential applicants, and/or establish priority criteria for entering agri-environment which prioritise areas which primarily should be selected to attain the respective objectives.

73.

The Commission agrees that a further improvement regarding better targeting of agri-environment is necessary and is envisaged in the framework of the common agricultural policy post-2013. However, the current framework requires Member States to provide agri-environment throughout their territories in accordance with their specific needs. The needs can sometimes be widespread and not limited to certain areas only.

75.

The EU is characterised by a diversity of conditions and different solutions are appropriate in different regions. In some cases, it is appropriate to support particular management practices wherever they occur.

77.

The Commission agrees that targeting is an important element of agri-environment policy. The calculation of agri-environment payments can reflect regional specificities. However, it is evident that this is burdensome and causes higher administrative costs. Member States must strike a balance between the cost of implementation of this approach and the expected environmental benefits.

REPLY OF THE COMMISSION

78.

Some rural development programmes have considered the desirable degree of targeting on the basis of an analysis of the costs and benefits involved, although perhaps not those considered in this audit. Romania, for example, targets high nature value agri-environment payments on a geographical basis, and the eligible areas are established using macro-level data (land cover at commune level), since it would have been too costly in relation to the payments to be made, to determine eligibility at a smaller scale, although that would have been more precise.

79.

Certain sub-measures can be applied to the whole rural development programme area, but can still be targeted to specific regions within that area.

As regards the case of Poland, the zonal approach was abandoned due to the administrative costs it had incurred in the period 2004–06.

80.

All farmers signing up to a certain measure already fulfil the same eligibility criteria and requirements, which are supposed to provide equivalent environmental benefits/services. Thus the application of selection criteria is not necessary to ensure the most efficient and effective way of spending under agri-environment. Carefully defined eligibility conditions and, where appropriate, regional targeting can serve the same purpose, normally at much less cost, reducing administrative burden, increasing the speed of approval procedures and avoiding burden on potentially eligible but ultimately unsuccessful beneficiaries. Only if the number of applications exceeds the available budget, Member States have to apply additional mechanisms.

81.

Although many Member States establish priority criteria for entering agri-environment (e.g. privileging Natura 2000 areas) which prioritise areas to be primarily selected to attain the sub-measures' main objectives, carefully defined eligibility criteria can serve the same purpose as selection criteria.

See also the reply to 80.

82.

See the replies to points 80 and 81.

83.

Given that Member States establish preliminary targets at sub-measure level, exceeding the target of one sub-measure does not lead to failing to achieve the targets set for other sub-measures.

However, Member States are not required to set targets at sub-measure level. They report to the Commission only indicators and targets established at the measures' level. Therefore, sub-measures' targets are only indicative and can be subject to modification. The Commission believes that this kind of flexibility is needed to allow adapting sub-measure targets in case of a change of relevant circumstances. Modifications of the programmes serve the purpose of adapting the programmes' content to Member States' changing situations.

85.

The European Agricultural Fund for Rural Development (EAFRD) contribution rate is established at the level of each axis. The rate for axis 2, being higher than for other axes, reflects the importance of environmental matters. Moreover, according to the provisions concerning the minimum spending per axis, axis 2 must be allocated at least 25% of the EAFRD total contribution in each rural development programme.

REPLY OF THE COMMISSION

Linking the co-financing rate to the environmental potential of a sub-measure would introduce an element of subjective judgment concerning the assessment of each sub-measure's environmental potential. To prevent this, clear criteria would need to be established. Given the large number of sub-measures and the wide diversity of farming practices they refer to, this would create a considerable additional administrative burden and significantly increase the requirements related to the implementation of the respective programmes.

86–87.

The Commission is strongly in favour of collective approaches to agri-environment objectives and contracts. In particular with regard to some objectives, such as developing green infrastructure or building ecological corridors for connectivity purposes, collective actions of several farmers in relevant areas can yield greater environmental benefits than separate actions of individual farmers.

However, the collective approach is a relatively new approach in the implementation of agri-environment. It requires a certain structure, organisation, provisions of advice and is often linked to higher transaction costs. It may also be difficult to establish collective contracts under the current rules, since there has to be joint responsibility for respecting the rules. Therefore, the Commission intends to address these issues in the framework of the post-2013 rural development policy in order to further facilitate the implementation of the collective approach.

88.

The clear and well established intervention logic justifying the establishment of sub-measures and their inclusion in the programme as well as their proper implementation ensures the potential of the sub-measures to deliver the expected effects. Much environmental research and evidence is available to Member States, who take this into account when designing their programmes. Nevertheless, the Commission agrees that certain types of agri-environment operations would merit more research. The relative costs and benefits would have to be considered before undertaking such additional investigations specifically related to the implementation of particular agri-environment sub-measures.

The periodic external evaluations of rural development programmes include assessment of the environmental impact of the programmes, particularly, but not exclusively, in relation to the environmental impact indicators included in the Common Monitoring and Evaluation Framework (CMEF). The evaluators select methods appropriate to the measures and schemes implemented within the programme, taking into account cost-effectiveness.

89.

See reply to point 88.

91.

The purpose of agri-environment support is not only to address environmental pressures but also to maintain and enhance environmental potentials and opportunities.

REPLY OF THE COMMISSION

The finding of the Court regarding the absence of a link between the proposed sub-measures and environmental pressures might refer to situations where agri-environment is targeted at maintaining and enhancing existing environmental potentials and opportunities, such as the potential to maintain water quality in water catchment areas providing drinking water, or enhancing biodiversity status in areas where basic targets have been met.

See also the reply to point 70.

92.

Regulation (EC) No 1698/2005 does not set any obligations/rules for Member States with regard to the budget level for agri-environment. The budget should be adapted to the needs and objectives to be met. Member States, when planning their agri-environment measures and budgets allocated to them, refer to past experiences and performance as well as to the results they expect from the planned measures. If Member States conclude that sub-measures with less demanding requirements have proven their potential in delivering environmental benefits, then their contribution to achieving the environmental objectives justifies their continuation and extensive application.

Moreover, a longer period and continuation in the sub-measures' application is often a key factor in realising the expected environmental targets.

The Commission considers that it is not necessary to require a specific analysis of individual sub-measures and their link to the objectives to justify their application in the programmes. Such an analysis should be focused on the set of sub-measures foreseen in the programmes, which all together are expected to correspond to the objectives and contribute to their achievement.

France has chosen to target a large number of farmers through agri-environmental sub-measures with transversal objectives. At the same time, it has established targeted measures aiming at local issues⁷.

Regarding Piemonte, although in the rural development programme no financial breakdown (allocation) by sub-measure is established within agri-environment, less than 40% of the surface concerned by agri-environment should be subject to the integrated farming sub-measure (and more or less 50% of the agricultural holdings). In the context of intensive agriculture, integrated farming is a reasonable choice that can meet needs the best and bring the most environmental benefits.

93.

Member States present their financial plan broken down by axis as well as indicative budget breakdown by rural development measures for the total period. Agri-environment is part of this structure.

The analysis of the link between the environmental needs and funds necessary to address them is done at the stage of programmes' preparation and approval. However, Member States can modify their budget, also at measure level, to reflect new factors and changes to circumstances. Such modifications are subject to notification to the Commission. The latter assesses them against their compatibility with the National Strategy Plan (NSP) and legislation.

⁷ The rationality for the adoption of these choices is explained in the chapter on agro-environmental farming (chapter 5.3.2.1.4, pp. 189–196, PDRH, version 5, tome 2).

REPLY OF THE COMMISSION

94.

Member States are not required to present their agri-environment budget according to different environmental objectives and priorities. However, they do provide a justification for their agri-environment in relation to their environmental needs and priorities. Therefore, if the measures respond to the latter, then also the budget for agri-environment should be considered as being in line with those needs and pressures.

In the case of Andalucía, the Court's observations are based on figures from 2000–08⁸.

In the case of Brandenburg and Berlin, the main environmental pressures are described in the rural development programme (RDP) and correspond to the sub-measures implemented. The agri-environment sub-measures with the highest expenditures (extensive grassland management and organic farming) target several environmental objectives.

⁸ The alignment of the expenditure with the environmental pressures identified is foreseen in the relevant rural development regulations for the 2007–13 programming period, in which the strategic programming approach principle was put in place, but for the 2000–06 programming period, the link between the environmental pressures and the measures selected was not underlined. In addition, environmental pressures identified do not need to be addressed exclusively by AEM (e.g. water efficiency can be addressed via measure 121 and 125).

The rural development programme of the Hexagon is not supposed to address all the environmental pressures, given the limited financial resources allocated to it. It contains some multi-objective measures aiming at the biodiversity and water challenges as well as some specific ones in limited areas. However, this programme is not the only means of intervention because other environmental pressures are also addressed by national policies⁹ and/or through the complementarity with the first pillar of the common agricultural policy.

See also the Court's remarks in point 38.

Box 6

Please see the reply to point 94.

See also the Court's remarks in point 38.

⁹ Such as the climate plan, the energy performance plan, etc. described in the chapter 3.2.2.1., pp. 40–46 of the tome 1 of the Programme, version 5.

REPLY OF THE COMMISSION

CONCLUSIONS AND RECOMMENDATIONS

95.

The Commission welcomes the Court's acknowledgement that significant progress has been made since the introduction of agri-environment.

96.

The Commission has verified that the measure and objectives are specific, measurable, achievable, realistic and timely to the extent possible during the procedure of the programmes' approval.

While agri-environment sub-measures can also address environmental potentials and opportunities, and while environmental pressures can be addressed by agri-environment sub-measures and/or other rural development measures, there is a clear link between environmental pressures and agri-environment sub-measures.

The actual environmental benefits of sub-measures can only be determined after a certain period of time of their implementation. The mid-term evaluation (MTE) reports, submitted at the end of 2010, provide the first opportunity for the impact of rural development programmes (RDP), including agri-environment schemes, to be assessed. However, the implementation and expected results of axis 2 measures are monitored and reported to the Commission in the Annual Progress Reports.

See also the replies to points 47 and 91.

Recommendation 1 — First indent

The Commission will further underline the need for Member States to ensure consistency of the sub-measures' objectives with the general agri-environmental objectives.

Recommendation 1 — Second indent

The Commission agrees that the link between environmental pressures and agri-environment must be clearly established. Nevertheless, the maintenance of environmental potentials and opportunities is also considered as a valid justification for agri-environment payments.

The character of the link to the environmental pressures it responds to can usually be inferred from a sub-measure's content and thus need not be spelled out.

Other alternative policies complement agri-environment measures. In accordance with the principle of subsidiarity, Member States are free to decide whether to use agri-environment and/or other alternative policies to achieve the expected environmental results.

97.

The Commission agrees that the success of agri-environment depends on the active involvement of farmers.

Good practices are a focal point of all European Network for Rural Development (EN RD) actions and disseminated through the various publications issued and seminars organised. Member States can also disseminate best practices by training and farm advisory service measures.

The calculation of aid amounts is the responsibility of the Member States and is certified by an independent body. In cases of doubts concerning aid amounts proposed, Member States were asked to provide detailed information on the underlying calculations and revise them, if necessary. Calculations of aid amounts may be differentiated 'as appropriate'.

REPLY OF THE COMMISSION

Recommendation 2

The Commission agrees with this recommendation, as it reflects the current legal framework.

The Commission verifies whether all elements of the calculations as required by the legal framework are provided in the programmes and performs a plausibility check. In cases of doubt concerning aid amounts proposed, Member States are asked to provide detailed information on the underlying calculations and revise them, if necessary.

Calculations of aid amounts may be differentiated 'as appropriate' and often follow a standard cost approach.

98.

The Commission agrees that a further improvement regarding better targeting of agri-environment is necessary and is envisaged in the framework of the CAP post-2013. However, Member States must strike a balance between the costs of implementing this approach and the expected environmental benefits. Moreover, targeting is not the only valid approach to agri-environment. Some rural development programmes (RDP) have actually considered the desirable degree of targeting on the basis of an analysis of the costs and benefits involved.

The application of selection criteria is not necessary to ensure the most efficient and effective way of spending under agri-environment. Eligibility conditions and regional targeting can serve the same purpose.

Differentiated co-financing rates at sub-measure level are not foreseen under the current regulatory framework. Their introduction would lead to a considerable additional administrative burden and significantly increase the requirements related to the implementation of the respective programmes.

Member States determine participation levels (number of beneficiaries and area to be covered) in response to their environmental needs and objectives.

The Commission agrees that certain types of agri-environment operations would merit more research. The relative costs and benefits would have to be considered before undertaking such additional investigations specifically related to the implementation of particular agri-environment sub-measures.

Recommendation 3 — First indent

The Commission agrees that there is a need for better targeting in agri-environment to ensure greater environmental benefits and to improve the effectiveness of the measures. Targeting should not only be linked to specific environmental needs but also to the existing environmental potential and opportunities.

Recommendation 3 — Second indent — First sub-indent

When proposing their agri-environment sub-measures, Member States justify them by establishing a link between the sub-measures proposed and the identified needs (be it pressures or potentials). The latter can require the introduction of new farming methods or the maintenance of existing practices. Both cases have to be well justified.

Recommendation 3 — Second indent — Second sub-indent

The Commission agrees with the Court's recommendation.

Recommendation 3 — Second indent — Third sub-indent

Member States determine participation levels (number of beneficiaries and area to be covered) in response to their environmental needs and objectives.

REPLY OF THE COMMISSION

Recommendation 3 — Second indent 3 — Fourth sub-indent

The Commission agrees with the Court's recommendation.

Recommendation 3 — Third indent

Linking the co-financing rate to the environmental potential of a sub-measure would introduce an element of subjective judgment concerning the assessment of each sub-measure's environmental potential. To prevent this, clear criteria would need to be established. Given the large number of sub-measures and the wide diversity of farming practices they refer to, this would create a considerable additional administrative burden and significantly increase the requirements related to the implementation of the respective programmes.

99.

The specific environmental needs can be addressed by both types of schemes: basic and higher level. The Commission wants agri-environment in pillar 2 to continue to include both basic and higher-level schemes as such a mix allows to address a large number of needs and issues, and to cover a broad area. Basic schemes, if well designed and implemented, can offer significant environmental benefits at a relatively low cost.

Recommendation 4

The Commission considers that, in accordance with the principle of subsidiarity, agri-environmental operations should be defined at Member State and not EU level.

All three types of sub-measures mentioned by the Court are needed to attain the environmental objectives. All of them are also based on the principle that aid amounts are calculated on the basis of income foregone and cost incurred. This helps to prevent attributing values to specific actions in an arbitrary manner.

Simple sub-measures allow broader participation of farmers and territorial coverage, while more demanding sub-measures have a higher potential in cases where specific problems are to be addressed and specific environmental impacts are expected. It is not always easy to divide these two types of operations into two separate groups as the effectiveness of the simple operations can be of a significant environmental value.

With regard to organic farming, the Commission will take account of the Court's recommendation. Organic farming is a measure that requires very demanding management and is implemented across the whole territory of the EU without any specific targeting. Thus, it would constitute a separate measure if the division proposed by the Court were to be employed.

100.

The Commission agrees that there is scope for improving the effectiveness of agri-environment policy. The current legal framework already provides a good basis which will need to be reinforced at the programming level.

The effectiveness of agri-environment and the result of the policy can only be comprehensively assessed once the current programming period is over. Environmental impacts are the result of a combination of many factors and it is not always feasible to identify the precise contribution of specific individual actions. The strategic approach where measures are combined in a logical framework in order to support a desired outcome reflects this reality.

European Court of Auditors

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AGRI-ENVIRONMENT IS A KEY EU POLICY WHICH AIMS TO RESPOND TO SOCIETY'S INCREASING DEMAND FOR ENVIRONMENTAL SERVICES. THIS REPORT ASSESSES WHETHER THIS POLICY IS WELL DESIGNED AND MANAGED. THE COURT FOUND THAT THE CONDITIONS FOR ASSESSING WHETHER OR NOT THE OBJECTIVES OF THE POLICY HAVE BEEN ACHIEVED ARE NOT IN PLACE. THE SYSTEMS FOR PROVIDING GUIDANCE TO FARMERS WERE GENERALLY WELL IMPLEMENTED. HOWEVER, CONSIDERABLE PROBLEMS WERE IDENTIFIED CONCERNING THE AID AMOUNTS. MOST EXPENDITURE WAS MADE ON BASIC HORIZONTAL SCHEMES WITHOUT APPLYING SELECTION PROCEDURES AND WITHOUT CLEAR DECISIONS ABOUT THE DESIRABLE DEGREE OF TARGETING. ALTHOUGH THE AUDIT IDENTIFIED GOOD PRACTICES, THE WEAKNESSES FOUND BY THE COURT HAVE HAMPERED OPTIMAL ACHIEVEMENT OF THE MAIN OBJECTIVES OF AGRI-ENVIRONMENT, NAMELY CONTRIBUTING TO EU-LEVEL PRIORITY AREAS (BIODIVERSITY, WATER, CLIMATE CHANGE) AND IMPROVING THE ENVIRONMENT AND THE COUNTRYSIDE.



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