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Court of Auditors

2000/C 353/01

Special Report No 14/2000 on "Greening the CAP"
together with the Commission's replies

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(Information)

COURT OF AUDITORS

SPECIAL REPORT No 14/2000

on 'Greening the CAP' together with the Commission's replies

*(pursuant to Article 248(4), second subparagraph of the EC Treaty)**(2000/C 353/01)*

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SUMMARY

The intensification of agricultural production, encouraged partly by high support under the common agricultural policy (CAP) and partly by agronomic trends, has created environmental problems which give cause for concern. The European Environment Agency's report 'Environment in the European Union at the turn of the century' which was recently published, gives a detailed analysis of the environmental damage caused by certain agricultural practices. The Court's present report deals with environmental shortcomings of changes made to the common organisations of the markets (COMs) for arable crops and livestock by the 1992 reform of the CAP. Furthermore it considers problems encountered in achieving the environmental benefits which the new 'accompanying measures' (agri-environmental (AE) Council Regulation (EEC) No 2078/92 and afforestation (AF) Council Regulation (EEC) No 2080/92) were designed to bring about.

Among other policy objectives, the environmental aim of reducing institutional prices for arable crops (see paragraphs 10 to 16) was to reduce the incentive for intensifying production. However, area aid payments which compensate farmers for income losses due to price reductions, the devaluation of some national currencies against the ecu, high prices on the world market in the years following the reform, all diminished the intended reduction of incentives for more intensive production methods.

In the livestock sector (see paragraphs 19 to 26), the reform introduced a premium per animal linked to stocking density limits, but the aim of extensifying production was not achieved. While limiting their aid claims to the eligible number, farmers continued to keep as many animals as they wished. In addition, lower feed prices due to lower cereal prices have encouraged intensive raising of livestock indoors. The reform also did not address the serious nitrate pollution problems in regions of intensive pig and poultry production due to inadequate waste disposals. The problems are aggravated by the unsatisfactory application of the Community's Nitrates Directive by Member States.

Furthermore Community aid continued to support certain forms of agricultural production which have environmentally negative side-effects: for example the production of tobacco, sugar beet, milk, wine, fruit and vegetables, fibre flax and artificially dried fodder (see paragraphs 27 to 30).

The 'accompanying measures' to the changes made by the 1992 reform to the COMs, included: an agri-environment measure, which aimed at compensating farmers for using environmentally beneficial but costly farming techniques; and an afforestation measure, which aimed at compensating farmers for relevant expenses and loss of agricultural income resulting from planting trees on their farmland. These measures introduced explicit environmental objectives to the CAP: i.e. to reduce the polluting effects of agriculture, to favour an environmentally beneficial extensification of farming, to contribute to a countryside management compatible with environmental balance and to combat the greenhouse effect.

However, neither the Community nor the Member States targeted the use of Community funds according to pre-established environmental priorities (see paragraphs 37 to 69). In approving programmes the Commission has deployed insufficient resources causing shortcomings in some approvals and in programme management. In consequence funds were not allocated to the zones with the greatest agri-environmental problems and/or potential. Detailed implementing regulations were introduced only after four years in the case of AE, and not at all in the case of AF.

The effectiveness of some programmes is hampered by inadequacies in programme design. In some cases aid rates are too low to attract farmers to environmentally friendly farming techniques; in other cases, because aid rates are based on the average cost to farmers of compliance with programme requirements, farmers received rates of aid significantly in excess of their actual costs (see paragraphs 54 to 60). Aid should only be given if the farmer's commitments go beyond levels marked by the Nitrate Directive and good farming practice. The

Member States' failure to fully implement the Nitrate Directive and the absence of adequate 'Codes of Good Agricultural Practice' for much of Europe's farmland, create a risk of widespread local incompatibility of AE measures with the EC Treaty's 'polluter pays principle': i.e., the European taxpayer is meeting some costs which should properly be borne by farmers. There is also poor coordination between the various Community schemes which have an impact on the environmental performance of agriculture (see paragraphs 61 to 70).

With respect to the implementation and control of programmes (see paragraphs 71 to 81), the AE measure in particular is very demanding of European and national administrative infrastructures. Control problems stem from weaknesses in the coordination of AE measures with the integrated administrative and control system (IACS) and from failures to address the specific control risks generated by the AE and AF measures. For example it is very difficult to verify that farmers are respecting limits on their use of fertiliser, in most programmes one of the necessary conditions to receive aid.

On evaluation (see paragraphs 82 to 89), the failure to set quantitative objectives and the widespread lack of baseline surveys of the pre-programme environmental state both at Community level and Member State level, makes it difficult to monitor progress in achieving environmental goals against harmonised, measurable criteria since the programmes started.

In terms of conclusions and recommendations (see paragraphs 90 to 102) the Community has not yet succeeded in significantly 'greening' agriculture. In view of the most recent Agenda 2000 changes to the CAP, which continue the trend towards prioritising the environment within agriculture policy, the Court holds the view that the existing optional 'eco-conditionality' rules should have been made mandatory throughout the European Union.

Improvements are needed from Member States in the design, implementation, control, monitoring and evaluation of programmes. The Commission must improve programme approval and follow-up on the spot by ensuring it has sufficient staff with the right skills, in order to properly discharge its responsibilities. A thorough review of all environmentally relevant measures which impact on agriculture should be conducted so as to secure better coordination between the various Community initiatives. The targeting of EU aid to priority zones and to combat damaging activities should be improved.

INTRODUCTION

1. The Treaty of Rome stipulates at Article 33 (ex Article 39(1)(a)) ⁽¹⁾ that the CAP should ensure '... the optimum utilisation of the factors of production, in particular labour'. Due to the increasing cost of labour and rising land prices due to urbanisation, employment in agriculture decreased and production methods became more intensive. Up to the 1980s high price support and other production-related aids reinforced these trends and gave strong incentives for mechanisation and the abundant use of agro-chemicals (nitrate and phosphate fertilisers, herbicides, insecticides and fungicides). It is true that nowadays less than 5 % of the EU population feeds the rest. The price, however, is the concentration of intensive agriculture in zones of comparative advantages (e.g. good soil fertility, favourable climatic conditions, close proximity to sources of inputs and markets) and a tendency for abandoning agriculture on marginal land and/or in

remote regions. Both tendencies give cause for environmental concern.

2. Concentration and intensification of agriculture have led to a situation where the average use of nitrogenous fertilisers reaches 34 tonnes per square mile in Germany and the United Kingdom compared to 7,6 tonnes in the United States of America ⁽²⁾, although the use of nitrogen fertilisers significantly declined between 1988 and 1992 (see Table 1). Large quantities of nitrates are absorbed into the soil in cases of high use of fertilisers and heavy application of animal manure. These nitrates, due to natural rainfall and increased irrigation, enter both the surface and underground water systems causing eutrophication which endangers aquatic life. The accumulation of nitrates above the 50 ml per litre limit set by the Community's Drinking Water Directive means that such water should not be used for human consumption, since higher levels can endanger human health. Water pollution is a serious environmental concern particularly in regions of water shortage.

Table 1

Artificial fertiliser consumption
(i.e. nitrogen, phosphate and potassium-based), 1988 to 1997.

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Belgo-Luxembourg Economic Union	416	412	396	373	347	326	320	315	325	297
Denmark	610	632	642	607	543	496	476	442	437	396
F. R. of Germany (including ex-GDR from 1991)	3 108	2 972	3 073	3 120	2 906	2 758	2 789	2 862	2 814	2 733
Greece	628	668	686	668	638	575	530	540	539	485
Spain	2 057	2 073	2 014	1 929	1 726	1 742	1 917	1 868	1 867	1 816
France	5 909	6 052	5 893	5 623	5 047	4 571	4 661	4 813	4 841	4 369
Ireland	680	698	699	682	669	688	730	747	756	761
Italy	2 198	1 952	1 879	1 964	1 952	1 911	1 896	1 887	1 883	1 884
Netherlands	641	617	573	560	550	532	530	517	508	496
Austria	328	315	305	300	282	264	258	247	253	234
Portugal	289	284	276	265	246	245	249	253	253	243
Finland	498	494	479	387	339	346	365	364	325	312
Sweden	391	372	345	297	286	321	326	318	302	307
United Kingdom	2 450	2 476	2 453	2 274	2 088	2 043	2 153	2 242	2 193	2 096
European Union (15 countries)	20 203	20 017	19 713	19 048	17 618	16 815	17 200	17 414	17 298	16 385

Source: Eurostat New Cronos database; statistics on agricultural inputs.

⁽¹⁾ In the original Treaty, the relevant Article is 31(1)(a); in the Treaty of Rome as amended by the Treaty of Amsterdam, the relevant Article is 33.

⁽²⁾ Agra Europe, 'Agriculture and the Environment: Development of EU Agri-Environment policy', prepared by B. Gardner, EPA Associates, Brussels, 1999, p. 24.

3. Due to overcultivation, use of heavy machinery, etc. in certain regions, land has suffered a loss of organic content and valuable trace elements, in some cases to such an extent that this process risks becoming irreversible. The Community's European Environment Agency (EEA) states that 'there is widespread concern that levels will fall to below those needed to support a stable fertile and healthy soil although the evidence for such critical levels is equivocal' ⁽¹⁾. The quality of the soil is further deteriorated by increased irrigation causing soil erosion. Furthermore, agricultural products themselves absorb toxic elements coming mainly from pesticides but also from fertilisers which could put at risk human health and wildlife. It is worthwhile noting that traces of DDT, use of which has been forbidden for 30 years now, are still found in the environment, in animal products and in humans.

4. The Treaty on European Union recognises both 'agriculture' and 'environment' as policy domains of Community competence and requires that environmental priorities be incorporated into the Community's other policies. In 1992, the Treaty's requirements were translated into specific policy objectives by the Community's fifth environmental action programme (5EAP), entitled 'Towards sustainability'. The 5EAP provided a detailed analysis of the environmental challenges facing the European Union, concentrating on five target sectors of Community policy, one of which was agriculture. The Treaty's requirement that environmental concerns be accommodated in all Community activities presented a major challenge to CAP policy-makers, who have traditionally focused on the economic objectives of the CAP. However, as the 5EAP makes clear, 'Policies which are designed to promote economic development are doomed to eventual failure if they do not include the environmental dimension as an integral component... Planet Earth requires certain types of "investments" in order to maintain itself as a healthy ecosystem and to ensure long-term, sustainable, economic growth' ⁽²⁾.

5. The 5EAP set out a comprehensive indictment of contemporary agricultural practices, and concluded that 'farming practices in many regions of the Community have led to over exploitation and degradation of the natural resources on which agriculture itself ultimately depends: soil, water and air... Given all of these circumstances, it is not only environmentally desirable, but it also makes sound agricultural and economic sense to seek to strike a more sustainable balance between agricultural activity and the natural resources of the environment.' ⁽³⁾ To achieve this, the 5EAP set out a range of medium-term and long-term goals for

Community policy, and identified how and by whom these were to be achieved (see Annex I). The 5EAP therefore provides a benchmark against which to measure subsequent Community performance.

6. At the same time as the 5EAP was being agreed, a major reform of the CAP was being implemented under the chairmanship of the then EU Agriculture Commissioner, Ray Mac Sharry. The reform, although primarily prompted by overproduction and an increasing burden of expenditure, was expected, together with the Nitrates Directive of 1991, to remedy some of the environmental problems created by inappropriate intensification of agricultural production. It made two groups of changes to the CAP which were of environmental significance: firstly, price support was lowered in the common organisations of the market (COMs) for arable crops and livestock; and secondly, new environment-oriented 'accompanying measures' were introduced.

7. The more recent Agenda 2000 reform has introduced yet further changes to the CAP which have continued this trend towards prioritising the environment within agriculture policy. As the Berlin European Council of 24 and 25 March 1999 concluded, 'the content of this reform will ensure that agriculture is multifunctional, sustainable, competitive and spread throughout Europe, including regions with specific problems, that it is capable for maintaining the countryside, conserving nature and making a key contribution to the vitality of rural life, and that it responds to consumer concerns and demands as regards food quality and safety, environmental protection and the safeguarding of animal welfare' ⁽⁴⁾. The EEA commented that 'Agenda 2000 reforms promise to further the current progress in this area... Overall, progress towards internalisation in agriculture is moving in the right direction by reducing environmentally damaging subsidies and introducing economic instruments, but at a slow pace' ⁽⁵⁾. However, the Agency also states: 'the agricultural sector is still rich in market distortions which encourage harmful agricultural practices integration with a real and large scale effect on the environment has yet still to be realised' ⁽⁶⁾ (see Annex II for excerpts from the Agency's report on the state of the European environment).

8. This report analyses the environmental significance of the policy changes made to the COMs by the 1992 reform of the CAP (see paragraphs 10 to 31). It also analyses the significance of the

⁽¹⁾ European Environment Agency, 'Europe's Environment: the Second Assessment', Copenhagen, 1998, p. 242.

⁽²⁾ Council Resolution (93/C 138/01) (OJ C 138, 17.5.1993, p. 96).

⁽³⁾ Ibid. pp.15 and 37.

⁽⁴⁾ Presidency conclusions, Berlin European Council, 24 and 25 March 1999, paragraph 20, quoted in 'Bulletin Quotidien Europe', 27.3.1999.

⁽⁵⁾ European Environment Agency, 'Environment in the EU at the turn of the century', Copenhagen, 1999, p. 407.

⁽⁶⁾ European Environment Agency, 'Environment in the EU at the turn of the century', Copenhagen, 1999, pp. 406 and 407.

problems encountered in achieving the environmental benefits which the accompanying measures were designed to bring about (paragraphs 32 to 89). For this audit, the Court, supported by external specialists, examined Member States' programmes and evaluations, specialist research literature, reports produced by the Community's European Environment Agency (EEA), works of the international Organisation for Economic Cooperation and Development (OECD), reports of the Commission, and studies by external environmental experts conducted on behalf of the Commission, as well as the results of the Court's own previous sound financial management and Statement of Assurance audits. In terms of fieldwork, a series of audit visits to the Commission, EEA, OECD, Germany, Spain, France, Italy, Portugal, Austria and Finland were undertaken in order to verify the implementation of the accompanying measures on the spot and to cross-check information gathered from other sources. In addition, the results of

parallel audits by the National Audit Institutions of Denmark, Finland, Netherlands, Sweden and the United Kingdom were taken into account.

9. An analysis of EAGGF Guarantee expenditure is shown at Table 2. This analysis reveals a steady increase, in both absolute and relative terms, of the budget share for the environment-oriented accompanying measures. Five years after the reform and the 5EAP, they represent 4,5 % of total EAGGF-Guarantee expenditure, notwithstanding the co-financing burden on the Member States, which can be up to 50 % of total expenditure. Further EU resources within the main COMs, the Structural Funds and other Community initiatives also affect the environmental performance of agriculture but their cost cannot be quantified since the part devoted to agri-environment is not identified as such in the Commission's various management accounting systems.

Table 2
Analysis of EAGGF expenditure by sector, 1993 to 1997 ⁽¹⁾

Sector or action type	1993 ⁽²⁾	1994 ⁽²⁾	1995	1996	1997 ⁽²⁾
Arable crops	10 610,7	12 652,3	15 017,3	16 372,3	17 414,0
Sugar	2 188,6	2 061,5	1 831,0	1 711,3	1 607,8
Olive oil	2 468,1	1 819,5	812,5	2 007,7	2 196,0
Dried fodder and pulses	532,0	378,4	342,0	365,2	367,4
Fibre plants and silkworms	860,6	863,5	876,1	831,6	906,9
Fruits and vegetables	1 663,9	1 556,8	1 833,4	1 589,3	1 569,0
Wine	1 509,6	1 176,2	857,5	782,2	1 030,1
Tobacco	1 165,1	1 057,4	993,0	1 025,6	998,0
Other vegetable products	259,5	287,1	395,6	294,9	274,4
Milk products	5 211,3	4 248,8	4 028,7	3 582,0	3 101,2
Beef meat	3 986,3	3 466,6	4 021,1	6 687,0	6 580,4
Sheep and goat meat	1 800,4	1 279,8	1 780,9	1 321,2	1 424,9
Pig meat	200,9	416,3	143,3	124,4	478,8
Eggs and poultry	290,9	239,6	200,5	138,7	78,7
Other actions in favour of animal products	134,8	117,3	114,7	116,1	94,4
Fisheries	32,4	35,5	39,4	34,1	33,5
Other measures ⁽³⁾	1 838,5	1 557,2	1 727,6	1 614,7	1 305,3
Agri-environment and afforestation measures	221,7	321,3	633,9	1 632,2	1 829,9
Agri-environment and afforestation measures	0,6 %	1,0 %	1,8 %	4,2 %	4,5 %
Total agricultural expenditure	34 975,3	33 582,4	35 648,5	40 230,4	41 290,7
Clearance of previous year's accounts	- 384,8	- 612,0	- 1146,7	- 1122,7	- 867,6
Total EAGGF Guarantee	34 590,5	32 983,1	34 501,8	39 107,7	40 423,1

⁽¹⁾ Expenditure figures taken from declarations made by Member States under the system of advance payments charged by financial year under Article 100 of the Financial Regulation. Expenditure entered between 16 October and 15 October of the following year.

⁽²⁾ Excluding expenditure against carry-overs from the previous financial year.

⁽³⁾ Includes expenditure on 'early retirement' (Regulation (EEC) No 2079/92) and 'former systems' accompanying measures, with exception of 1993.

Source: Financial reports EAGGF, 1993 to 1997.

THE POST-1992 ENVIRONMENTAL IMPACT OF THE COMMON ORGANISATIONS OF MARKETS

Arable crops

10. Although Council Regulation (EEC) No 1765/92 Article 10(5) requires that, 'Member States shall take the necessary measures to remind applicants of the need to respect existing environmental legislation', the Commission has not followed up this requirement in order to ensure its application by Member States. In practice Italy has taken no such measures, and Belgium and Portugal have not disclosed to the Court how this requirement of Community legislation is implemented.

11. For arable crops, the reform reduced institutional prices and introduced area-based direct payments, with the environmental aim of reducing the incentive given through CAP measures for

intensive production using large amounts of agro-chemicals ⁽¹⁾. However, these were counterbalanced by other factors. The anticipated effect of institutional price reductions on internal market prices was undermined by an unexpected rise in the world market prices of cereals. In some Member States, the green ecu-exchange rates fixed within the agrimonetary system reinforced the upholding of prices. Farmers in Greece, Spain, Italy and the United Kingdom consequently experienced notable real increases in prices between 1992 and 1995, leaving aside any increase in costs of imported inputs (see *Table 3*). The Community's failure to counteract this evolution meant the reform did not have a sustained, significant impact on farmers' use of artificial fertilisers, as the Commission has since noted: 'a closer look at the data shows that although nitrogen fertiliser use decreased between 1985 and 1995 in the EU-15, both in terms of volume and in application rate (kilograms per hectare), the major decrease in application rate occurred between 1989 and 1992' ⁽²⁾. Since then, the quantity used has remained rather stable (see *Table 1*). In its report the EEA even identifies a gradual increase in nitrogenous fertiliser usage after 1992 ⁽³⁾.

Table 3

Trends in market prices for arable crops in selected Member States, 1992 to 1995

The table below demonstrates that in some Member States, market prices for arable crops increased between 1992 and 1995.

The figures shown are market values per tonne, expressed in the national currencies of Greece (drachma), Spain (peseta), Ireland (pound), Italy (lira) and the United Kingdom (pound sterling).

In some cases, market prices continued to rise after 1995; for example in Greece the price of barley increased to GRD 52 680 in 1996 and GRD 52 970 in 1997.

		1992	1993	1994	1995	Increase (%) 1992 to 1995
Barley	Greece	41 370	42 430	42 510	49 740	20
	Spain	22 430	22 080	22 050	24 820	11
	Ireland	108	101	90	112	4
	Italy	282 000	310 000	307 000	342 000	21
	United Kingdom	117	121	114	120	3
Soft wheat	Greece	42 490	43 880	46 710	53 000	25
	Spain	26 750	26 770	26 870	28 320	6
	Ireland	109	109	92	115	6
	Italy	308 000	336 000	315 000	354 000	15
Durum wheat	Greece	47 010	43 330	38 860	52 460	12
	Spain	28 600	21 270	25 820	29 280	2
	Italy	379 000	398 000	317 000	380 000	0
Rye	Greece	39 620	39 000	38 100	42 210	7
	Spain	23 920	22 850	22 730	24 180	1
	Italy	267 000	295 000	280 000	300 000	12
	United Kingdom	118	114	106	106	-10
Oats	Greece	47 710	50 000	70 490	57 110	20
	Spain	23 330	23 650	22 210	26 010	11
	Ireland	110	110	83	99	-10
	Italy	355 000	390 000	360 000	390 000	10
	United Kingdom	118	129	106	101	-14
Maize	Greece	43 220	44 120	40 740	52 890	22
	Spain	26 130	29 070	26 870	27 930	7
	Italy	305 000	318 000	304 000	360 000	18

Source : Eurostat data.

⁽¹⁾ European Commission, COM(91) 258, 11.7.1991, p. 15.

⁽²⁾ Eurostat and European Commission, 'Agriculture, Environment, Rural Development: Facts and Figures — A challenge for Agriculture', July 1999, Chapter 'Nitrogen in agriculture', p. 3 of 7.

⁽³⁾ European Environment Agency, 'Environment in the EU at the turn of the century', Copenhagen, 1999, p. 57.

12. Similarly, the total weight of pesticides used in the European Union declined steadily until 1995, but it increased again in 1996. Indeed, where significant local reductions have been achieved, it often appears due to autonomous initiatives taken by Member States. Denmark's Pesticide Action Programme, introduced in 1987 and concentrating on training of farmers in the proper use of pesticides ⁽¹⁾, is an example of such an initiative. Similar programmes operate in Finland, the Netherlands, and in Sweden. Furthermore, in these Member States the introduction of pesticide taxes has dramatically reduced consumption.

13. Because higher compensatory payments were paid for irrigated farmland than for non-irrigated farmland, farmers were given an incentive to use water. The irrigated area of the European Union rose by 123 000 ha per annum in the 1990s ⁽²⁾. The EEA has noted that 'Agriculture is the largest consumer of water in southern Europe, and this is increasing' ⁽³⁾. It also states that overall water abstraction in the European Union is, on average, 21 % of renewable water resources and declares this as a sustainable level. In many locations in southern Europe, water use by agriculture is unsustainably high: for example, in certain regions of Spain 'irrigation and water management constitute one of the greatest threats to nature conservation' ⁽⁴⁾. Furthermore, irrigation is often accompanied by intensification i.e. higher use of fertilisers and pesticides ⁽⁵⁾. Maize production, encouraged by higher compensatory payments than is paid for other cereals, is also often environmentally negative, since it requires more water and agro-chemicals than the cereals it replaces. Maize production is concentrated in the south of Europe, where water resources are scarce and nitrate pollution problems are growing, albeit they are still below the EU average.

14. The reform also introduced high aid rates for sunflowers and durum wheat, which has encouraged production of these crops. However, sunflower cultivation causes nitrate leaching problems, because the soil is left bare for much of the season — 250 days per annum, compared with the average of 144 days per annum for other crops ⁽⁶⁾. With regard to durum wheat, the high rate of support paid for cultivation, and the continuous expansion of the

zones designated for payment of this aid, have resulted in the loss of rare dry shrub steppes in Spain, to the detriment of wildlife ⁽⁷⁾.

15. Moreover, it was foreseen that aid would only be paid for land which had normally been used for arable crops before the reform. This was intended both to place a ceiling on Community expenditure and to protect environmentally valuable extensive pastures from conversion to arable crops. However, much grassland has been classified as eligible for arable aid, on the grounds that it has traditionally been used to grow arable crops within long rotations. In Sweden, an official evaluation observed that the introduction of arable aid has favoured production of cereals more than pasture, which has had a negative environmental impact ⁽⁸⁾. Similar results have been observed in Spain. The environmental consequences of land use conversion from pasture to arable is generally negative since growing cereals involves greater use of pesticides and generates more plant-nutrient leaching than pasture-growing.

16. An unfavourable environmental effect of the new regime stems from the fact that support allocation favours high yield regions and disfavors low yield regions. The pre-reform high yields were achieved by certain intensive practices now formally recognised by the 5EAP as unsustainable. By contrast the disfavoured low yield regions are often of high environmental value due to extensive farming, which provides greater biodiversity than would exist if the land were to be abandoned. In such regions, low rates of area aid perpetuate the poor long-term viability of farming. This puts the environmentally beneficial effects of certain farming systems at risk, where the marginalisation or abandonment of land is a concern. For example, within the region of Campania (Italy), rates of arable aid vary from ECU 446/ha in the fertile district of Napoli Pianura, to ECU 88/ha in the poor district of Salerno Montagna Interna (1995/1996).

Set-aside

17. The reform introduced a set-aside requirement obliging arable farmers to withdraw a proportion of their land from production. Set-aside has high environmental potential ⁽⁹⁾.

⁽¹⁾ See in particular A. J. Oskam, R. Vijftigschild and C. Graveland, 'Additional EU Policy Instruments for Plant Protection Products', Wageningen Pers Wageningen, 1998.

⁽²⁾ Eurostat and European Commission, 'Agriculture, Environment, Rural Development: Facts and Figures — A Challenge for Agriculture', July 1999, chapter 'Water and agriculture: contribution to an analysis of a critical but difficult relationship', p. 4 of 9.

⁽³⁾ European Environment Agency, 'Environment in the EU, at the turn of the century', Copenhagen 1999, p. 407.

⁽⁴⁾ BirdLife International, 'Economic appraisal and EU funds', Sandy, Bedfordshire, UK, 1994, p. 3.

⁽⁵⁾ G. Tucker, 'Priorities for bird conservation in Europe: the importance of the farmed landscape', quoted in 'Farming and birds in Europe', 1997, p. 105.

⁽⁶⁾ Institut français de l'environnement, 'Indicateurs sur les relations entre agriculture et environnement au niveau national', Paris, 1996, p. 2.

⁽⁷⁾ Study by F. Suárez and J. Oñate, 1994, quoted in Tucker, 'Farming and birds in Europe', 1997, p. 102.

⁽⁸⁾ Swedish Board of Agriculture, 'Proposals for a programme for monitoring and evaluating the environmental effects of the Common Agricultural Policy', 1997, p. 15. For Spain, see Tucker, p. 102.

⁽⁹⁾ See in particular, Institute of Terrestrial Ecology, 'Managing set-aside land for wildlife', Huntingdon, 1993. Conversely, set-aside can present environmental risks as noted by the OECD, 'The environmental effects of agricultural land diversion schemes', Paris, 1997.

18. Council Regulation (EEC) No 2293/92 requires Member States to 'apply appropriate measures which correspond to the specific situation of the land set aside from the outset so as to ensure the protection of the environment' ⁽¹⁾. The Commission should have followed up this requirement in order to ensure its application by Member States. However, whereas some Member States have realised the environmental potential of set-aside, others have not (see Table 4). For example, whereas Denmark has introduced detailed and comprehensive prescriptions for the care

of set-aside, in France environmental considerations 'have not yet been of great concern' ⁽²⁾. For example, nitrate leaching is often a problem if soil is left bare, but the initial French prescription permitted set-aside to be maintained as bare soil, and even when revised, the prescription did not require a green cover to be in place before 1 May, although nitrate leaching is most significant during the winter months. In Spain, farmers are required to regularly either plough or spray their land, practices which can contribute to soil erosion and pesticide pollution.

Table 4

Specification and enforcement by Member States of prescriptions on care of set-aside land

	Are prescriptions specified on care of set-aside land? (Regulation (EC) No 762/94, Article 3(3))	If prescriptions not obeyed, how often have penalties been applied/what is their monetary value? (1994 to 1998)
Belgium	No Reply from Member State	Not known
Denmark	Yes	27 cases / ECU 11 000
Germany	Yes	Never / Nil
Greece	Yes	No data available
Spain	Yes	No data available
France	Yes	No data available
Ireland	Yes	Four cases/ECU 4 522 in 1997
Italy	Yes	No data available
Luxembourg	Yes	Four cases / ECU 27 684
Netherlands	Yes	'Few' cases / ECU 11 000
Austria	Yes	No data available
Portugal	No Reply from Member State	Not known
Finland	Yes	42 cases / ECU 7 357
Sweden	Yes	98 cases / ECU 71 000
United Kingdom	Yes	233 cases / ECU 81 215

Source: Data obtained by ECA from Member States.

⁽¹⁾ Council Regulation (EEC) No 2293/92, Article 3(3) (OJ L 221, 6.8.1992, p. 19).

⁽²⁾ D. J. Ansell and S. A. Vincent, 'An evaluation of set-aside management in the European Union with special reference to Denmark, France, Germany and the UK', Centre for Agricultural Strategy, University of Reading, Reading, 1994, p. 79.

Livestock

19. Reform in the beef sector aimed at 'the encouragement of extensive production through increased premia but with the introduction of strict stocking limits' ⁽¹⁾. The Community aimed both to place a ceiling on expenditure, and to combat 'the rising trend towards intensification' ⁽²⁾, by limiting the number of animals per hectare for which the basic animal premiums are paid ⁽³⁾. The farmer is paid on a per animal basis up to a maximum stocking density per hectare of 2 livestock units (LU); an additional 'extensification premium' is paid when the stocking density is less than 1,4 LU/ha.

20. However, in practice Community rules allow a farmer to keep as many animals as he wishes, provided he limits his claim to the eligible number. Producers' organisations were quick to identify this weakness: one advised its members, 'Having done your sums, if you discover that your CAP stocking rate is just over 1,4 LU/hectare, it may pay you not to claim on a few animals, in order to qualify for the bonus on all the rest' ⁽⁴⁾.

21. With regard to small producers, Council Regulation (EEC) No 2066/92 specifies that 'a producer shall be exempt from the application of the stocking density if the number of animals held on his holding and to be taken into account for determining the stocking density is not more than 15 LUs' ⁽⁵⁾. This concession undermines the impact of the measure: for example, in Portugal, 90 % of cattle holdings are exempt ⁽⁶⁾. Furthermore, although this concession was intended by the Council to benefit small producers, Commission rules permit large and intensive producers to benefit from it ⁽⁷⁾: every producer, regardless of size, can receive premiums on his first 15 LUs, even if he has no pasture or forage area.

22. Thus, the practical impact of the stocking density restrictions has been generally limited; for example, a study in the United Kingdom found that only 20 % of beef farmers, when surveyed,

anticipated a change in management practices in response to these rules ⁽⁸⁾. Furthermore, the stocking density rules have had some negative environmental consequences. In the Ebro Valley in Aragon (Spain) where cattle fattening units are concentrated and stocking rates clearly exceed 2 LUs/ha, producers have nevertheless benefited from beef premiums by renting pasture in the nearby Pyrenees. The environment has suffered thereby not only from the continued intensification of production in the Ebro Valley, but also through the effective abandonment of mountain pasture zones ⁽⁹⁾.

23. In the sheep and goat sector the establishment of the COM in 1980 led to a substantial increase in livestock numbers: from 81 million in 1970 to 113 million in the EU-12 of 1990. The introduction of individual farmer quota restrictions in 1991 stabilised the size of flocks, but at levels which are unsustainable in some localities ⁽¹⁰⁾. The consequence is overgrazing — i.e. uprooting and destruction of vegetation — which results in loss of biodiversity and soil erosion. Overgrazing is still problematic in parts of Greece, Ireland and the United Kingdom ⁽¹¹⁾.

24. Regulations in both the beef and veal and sheep and goats COMs permit Member States to apply 'eco-conditionality' rules, i.e. to impose appropriate COM-relevant environmental protection restrictions on farmers, and to withhold Community aid from farmers who do not conform to such measures. However, these measures have not had a great impact ⁽¹²⁾. To date only Greece and the United Kingdom have introduced such measures (see *Tables 5 and 6*.)

⁽¹⁾ European Commission, COM(91) 258, p. 27.

⁽²⁾ Preamble to Council Regulation (EEC) No 2066/92 (OJ L 215, 30.7.1992, p. 49).

⁽³⁾ European Commission, 'CAP Working Notes: Agriculture and Environment', 1997, p. 22: 'In the beef sector, in order to encourage extensive rearing, the total number of animals qualifying for ... premium is limited by a stocking density factor'.

⁽⁴⁾ Advice of the UK National Farmers' Union, quoted in M. Winter, 'Rural politics: policies for agriculture, forestry and the environment', London, 1996, p. 255.

⁽⁵⁾ Council Regulation (EEC) No 2066/92, Article 4g(1).

⁽⁶⁾ J. C. Caldes, in chapter on Portugal in F. Brouwer and P. Lowe (eds.) 'CAP and the Rural Environment in Transition', Wageningen, 1998, pp. 285 to 301.

⁽⁷⁾ Commission working document PDW/601.

⁽⁸⁾ M. Winter and Gaskell, 'The effects of the 1992 reform of the CAP on the countryside of Great Britain', 1997.

⁽⁹⁾ C. Varela-Ortega and J. M. Sumpsi, chapter on Spain in 'CAP and the Rural Environment in Transition', Wageningen, 1998, pp 201 to 239.

⁽¹⁰⁾ V. Clements, Macaulay Land Use Institute, 'Sheep Economy: Rethinking the subsidy system', in *Reforestation Scotland*, No 15, 1996, p. 27.

⁽¹¹⁾ In Ireland, 'There is now widespread evidence that considerable damage has been done to large areas of hill and mountain ... due to overgrazing by sheep following the dramatic expansion in sheep numbers since 1980. Such areas have been degraded through erosion with severe devegetation and the resulting loss of characteristic fauna and flora, with damaging consequences also for water quality, fisheries and tourism' (B. Kearney, G. Boyle, J. Walsh, 'Final Report on Evaluation of the Compensatory Allowances Scheme in Ireland', Dublin, 1995, p. 109).

⁽¹²⁾ For beef and veal see OJ L 328, 29.12.1993, p. 7, Council Regulation (EC) No 3611/93, Article 1(3). For sheepmeat and goatmeat see OJ L 30, 3.2.1994, p. 9, Council Regulation (EC) No 233/94, Article 1(3).

Table 5

Eco-conditionality rules in the beef and veal CMO

	Have eco-conditionality rules been introduced by national authorities ? (Regulation (EC) No 3611/93 Article 1(3))	If eco-conditionality rules introduced, how often have penalties been applied/what is their monetary value ?
Belgium	No reply from Member State	Not known
Denmark	No	Not applicable
Germany	No	Not applicable
Greece	No	Not applicable
Spain	No	Not applicable
France	No	Not applicable
Ireland	No	Not applicable
Italy	No	Not applicable
Luxembourg	No	Not applicable
Netherlands	No	Not applicable
Austria	No	Not applicable
Portugal	No reply from Member State	Not known
Finland	No	Not applicable
Sweden	No	Not applicable
United Kingdom	Yes	10 to 15 cases / value not known

Source: Data obtained by ECA from Member States.

Table 6

Eco-conditionality rules in the sheep and goats CMO

	Have eco-conditionality rules been introduced by national authorities ? (Regulation (EC) No 233/94 Article 1(3))	If eco-conditionality rules introduced, how often have penalties been applied/what is their monetary value ?
Belgium	No reply from Member State	Not applicable
Denmark	No	Not applicable
Germany	No	Not applicable
Greece	Yes	14 cases / ECU 41 517
Spain	No	Not applicable
France	No	Not applicable
Ireland	No: foreseen to be introduced late 1999	Not applicable
Italy	No	Not applicable
Luxembourg	No	Not applicable
Netherlands	No	Not applicable
Austria	No	Not applicable
Portugal	No reply from Member State	Not applicable
Finland	No	Not applicable
Sweden	No	Not applicable
United Kingdom	Yes	10 to 15 cases / value not known

Source: Data obtained by ECA from Member States.

25. The encouragement of forage maize production by high levels of Community support, and the lowering of feed prices due to lower cereal prices since 1992, has provided an advantage for intensive raising of livestock indoors, compared to feeding livestock on pasture. The Commission and Eurostat, the European Communities' statistical office, have acknowledged that some 'elements of the 1992 reform had a negative effect on the environment... A good example ... was the extension of cereal aid to silage maize ... This gave an added comparative advantage to intensive cattle rearing, particularly dairy cows, to the detriment of extensive livestock rearing' ⁽¹⁾.

26. Furthermore, it is a major weakness of post-reform Community policy that it has not addressed the serious environmental problems arising from intensive livestock production in Europe. It has been estimated that 'a modern (relatively small) farm of 40 hectares with a dairy herd of 50 cows and a 50-sow-pig herd has a potential pollution load equivalent to that of a village of 1 000 inhabitants' ⁽²⁾. The Community taxpayer meets the cost of the 'export refund' (export subsidy) regime, which in its present form indirectly encourages intensive pig production in large-scale indoor confinement operations containing thousands of animals ⁽³⁾. These production methods can generate serious problems of nitrate pollution from animal waste ⁽⁴⁾ and can have serious animal health implications — the 'potential for effective disease control is likely to get worse unless the whole question is addressed' ⁽⁵⁾. Such pollution is particularly problematic throughout the Netherlands and Belgium, and in France (Brittany), Germany (North Rhine-Westphalia), and Italy (Lombardy) ⁽⁶⁾.

COMs unreformed by 'Mac Sharry'

27. With regard to those COMs not included in 'Mac Sharry', several have since recently been reformed, but the future environmental impact of regime changes will depend on their prompt, comprehensive and rigorous implementation by the Member

States. Tobacco production, concentrated in southern Europe, is damaging due to its high demand for pesticides and fertilisers. Environmental considerations are integrated in neither the milk regime where intensive production contributes substantially to nitrate and other farm waste pollution problems, nor in the sugar regime, where production of sugar beet requires high amounts of water and herbicides. Pesticide use is high in areas of intensive horticulture, and also in some wine growing regions ⁽⁷⁾. The Court previously noted cases of groundwater pollution resulting from the destruction by burial of large volumes of fruit, withdrawn from the market and paid for by Community support ⁽⁸⁾.

28. Even recent developments in some COMs have failed to take adequate account of environmental concerns. For example, Community support paid for the uprooting of vines, a measure designed to eliminate overproduction of wine, is conditional on environmental considerations only if the Member State so chooses. Any failure to establish such rules would be an important weakness, because uprooting generates 'increasing vulnerability to soil erosion ... In Greece, 80 % of uprooted vineyards concern traditional vine regions on Crete, and the Peloponnese, which as a result, are affected by erosion, land abandonment and fires' ⁽⁹⁾. Grubbing-up has had negative impact in Spain, and in Sicily (Italy), where since 1992 over 15 000 hectares of vines have been uprooted at a cost to the Community of ECU 111 million.

29. The COM for fibre flax is clearly responsible for localised environmental damage. The COM pays aid on an area basis; but unlike arable aid, Community support is paid even if the land was not previously used to grow fibre flax. Farmers can therefore qualify for aid by planting flax even on agronomically-poor but environmentally-rich land, such as meadows and extensive pasture land. Indeed, the exclusion of fibre flax from the arable aid scheme is a positive inducement to grow it on previously uncultivated land. In the United Kingdom, several officially-designated sites of special scientific interest have been damaged or destroyed by farmers growing fibre flax.

30. The limited extent to which environmental considerations have been integrated into parts of the CAP can perhaps best be illustrated by reference to the unreformed regime which supports

⁽¹⁾ Eurostat and European Commission, 'Agriculture, Environment, rural Development: Facts and Figures — A Challenge for Agriculture', July 1999, chapter 'A dynamic European agricultural and agri-foodstuffs sector', p. 5 of 7.

⁽²⁾ Quoted in Agra Europe, 'Agriculture and the environment: development of European Union agri-environment policy', prepared by B. Gardner, EPA Associates, Brussels, 1999, p. 2 (Reference is to UK Royal Commission on Environmental Pollution, 'Agriculture and Pollution', Seventh report, Command Paper 7644, HMSO, London, 1979).

⁽³⁾ In 1998 such export refunds totalled ECU 70 million (source DG VI).

⁽⁴⁾ European Commission, 'Progress report from the Commission on the implementation of the European Community programme of policy and action in relation to the environment and sustainable development — Towards Sustainability', COM(95) 624 final p. 35.

⁽⁵⁾ Finding of Commission-funded study, quoted in 'Agra Europe', 7.8.1998, London p. EP/5.

⁽⁶⁾ Findings of Commission-funded study, detailed in Agra Europe, 7.8.1998, p. EP/5.

⁽⁷⁾ See Brouwer, Terluin and Godeschal, 'Pesticides in the EC', 1994, pp.15 and 16.

⁽⁸⁾ The Court of Auditors' Annual Report concerning the financial year 1994, paragraphs 2.118 to 120 (OJ C 303, 14.11.1995).

⁽⁹⁾ Louloudis and Beopoulos, 'Agriculture, environment and the European Common Market', Nea Ecologia, 1995, in D. Papaioannou, 'Environment and Agriculture: Assessment of the Environmental Impact of the CAP in southern European Member States', Athens 1996, p. 29 (unpublished).

the production of dried fodder. The scheme provides for two rates of aid: a low rate for fodder dried naturally by the sun and a high rate for machine-dried fodder, to compensate for the extra fuel costs. Such energy subsidies are inconsistent with Community energy policy ⁽¹⁾. The differentiation in aid rates has had a big impact on how fodder is dried. At the time of Spain's accession to the Community in 1986, only 61 000 tonnes of fodder was dried artificially each year: in 1996/1997, 1 414 000 tonnes was dried in this way as producers found the higher rate of aid more profitable. The annual energy consumption of this regime in Spain alone is sufficient to meet the annual electricity needs of a town the size of Alicante (285 000 citizens). More than 200 000 hectares of forest are needed to absorb the additional carbon dioxide produced by the drying process.

31. As a report has summed up, 'despite the frequent claims that the CAP has been "reformed", the whole edifice of European agriculture is still based on a high-price/high-subsidy foundation which positively encourages maximum output... The 1992 reform of the CAP, to only a modest extent, took into account environmental concerns. The reduction of prices for some major products is claimed by the European Commission to have diminished the pressure of agricultural activities on the environment. In particular, it was expected to have led to a less intensive use of pesticides and nutrients in the crop sector, and a reduction of emissions (methane, ammonia, nitrates) especially from animal farming. In the event, it made little difference' ⁽²⁾.

THE ENVIRONMENTAL IMPACT OF THE ACCOMPANYING MEASURES

32. The accompanying measures, i.e. Council Regulations (EEC) No 2078/92, (EEC) No 2079/92 and (EEC) No 2080/92 of 30 June 1992, introduced aid for 'adoption of environment-friendly farming practices', 'early retirement of farmers' and 'afforestation of agricultural land' respectively ⁽³⁾. In practice, the 'early retirement' measure has had insignificant environmental impact — although Article 2 of Regulation (EEC) No 2079/92 permits Member States to establish 'ecological reserves' with land withdrawn from production, to date only Ireland has made use of this possibility, reserving a total of 54 hectares for ecological purposes at an annual cost to the EU budget of ECU 54 000. Given its very limited environmental impact the 'early retirement' measure will not be analysed further in this Report.

⁽¹⁾ See 5EAP, p. 33.

⁽²⁾ Agra Europe, 'Agriculture and the Environment: Development of European Union Agri-Environment policy' prepared by Brian Gardner of EPA Associates, Brussels, 1999, pp. 24 and 49.

⁽³⁾ OJ L 215, 30.7.1992, pp. 85, 91 and 96 respectively.

33. The comprehensive aims of Regulation (EEC) No 2078/92, commonly referred to as the 'agri-environmental' Regulation, are: to accompany the changes to be introduced under the market organisation rules; to contribute to the achievement of the Community's policy objectives regarding agriculture and the environment; to contribute to providing an appropriate income for farmers. The aims of the 'afforestation' Regulation (EEC) No 2080/92 are: to accompany the changes to be introduced under the market organisation rules; to contribute towards an eventual improvement in forest resources; to contribute towards forms of countryside management more compatible with environmental balance; to combat the greenhouse effect and absorb carbon dioxide ⁽⁴⁾.

34. These measures were innovative within the EAGGF-Guarantee Fund, in giving a significant role for Member States in Community policy development as well as implementation, in accordance with the principle of subsidiarity, as established in the Treaty of Maastricht. The 'agri-environmental' Regulation requires Member States to draft concrete programmes which are tailored to suit their specific agricultural and environmental situations. These drafts are then submitted to the Commission, for examination and eventual approval in the form of a Decision. A unit within the Commission's Directorate-General for Agriculture is responsible for detailed examination; other DGs, including DG-Environment and DG-Financial Control are also consulted during the approval process. Programmes are then submitted to a vote in the 'STAR-Committee' ⁽⁵⁾, prior to formal approval by the Commissioner for Agriculture. Farmers adhere to the programmes by concluding five-year contracts with national administrations for all or part of their holdings. Farmers commit themselves to adopting the farm practices defined in the contracts. However, while Member States have a large role in developing and implementing programmes, nevertheless, in accordance with the Community's Financial Regulation, ultimate responsibility for the sound financial management of Community funds remains with the Commission.

35. Aid is provided in the form of premiums calculated either per hectare (ha) or per livestock unit (LU). The aid is designed to compensate farmers for extra costs incurred in consequence of programme participation, and/or for yield lost. Programme administration and control is performed by national administrations. Aid expenditure is co-financed by the Community and Member States, in proportions of 75 %/25 % respectively in poor regions of the European Union (Objective 1 regions), and 50 %/50 % in more prosperous regions. By October 1998, 158 AE programmes had been approved, on the basis of which, contracts were signed covering around 23 million ha, representing 17 % of total EU farmland. The participation target set by 5EAP, i.e. that 15 % of European farmland should be covered by AE measures by 2000, has therefore been achieved ahead of schedule. However, high participation rates may be considered as a first step towards

⁽⁴⁾ Article 1 of Regulation (EEC) No 2078/92, Article 1 of Regulation (EEC) No 2080/92.

⁽⁵⁾ A body comprised of Member State representatives chaired by an official of the Commission.

programme success; they are not a guarantee, in themselves, of significant environmental impact. Even if one hectare in seven is being farmed 'sustainably', if the remaining six hectares are farmed using unsustainable practices, then it will not be possible to achieve the other targets set by 5EAP.

36. Forestry policy as such falls within the Member State policy domain. However, the afforestation of agricultural land falls within the Community policy domain and the AF Regulation works on a similar basis as the AE Regulation. The Community co-finances tree plantation costs, plantation maintenance costs for five years, and compensation to farmers for a period of 20 years for their loss of agricultural income due to the conversion of agricultural land to afforested land. Currently there are 43 programmes in operation across the European Union. On the basis of these programmes 700 000 hectares have been afforested.

Planning

Commission planning

37. Targeting of scarce resources is essential to apply them with greatest impact. However, the Commission did not carry out a

comprehensive analysis on EU level of where and how EU funds could best be spent to maximise environmental impact. The same remark is valid for AF. In consequence, the main factor determining the absorption of EU funds has been the willingness of Member States to provide co-financing. In regions where environmental concerns are prioritised and local funding is available, EU expenditure has been relatively high; in poorer regions, and/or where AE and AF concerns are perceived as less important, EU expenditure has been low.

38. The result was a heavily askew distribution of EU funds, as shown in *Tables 7 and 8*. When analysing the differences between Austria and Greece or Germany and Spain, for example, it becomes evident that both sets of countries have approximately the same agricultural surface but receive significantly different amounts for environmental programmes. While Spain and Greece have well evidenced and pressing problems such as water pollution, overgrazing and soil erosion, a lot more money is spent in Germany and Austria mainly on measures applied on a large scale which do not require big changes in established agricultural practices. Prior to its accession in 1995, Austria's environmental protection legislation was already long-established; consumption of fertiliser was below the EU-12 average, and the intensity of livestock production at 0,7 LU/ha was barely half that of the EU-12 average of 1,3 LU/ha. Despite representing only 2 % of European farmland, Austria has absorbed 21 % of total AE spending in the European Union.

Table 7
Expenditure on agri-environmental measures, 1993 to 1997

Member State	Utilised agricultural area, as at 1995 (1 000 ha)	Utilised agricultural area, as a percentage of EU total	million ECU					Expenditure, 1996 to 1997 million Ecu	Total expenditure 1993 to 1997 million Ecu	Expenditure as a percentage of EU total, 1993 to 1997	Expenditure as a percentage of EU total, 1996 to 1997	AE aid in ECU/hectare, 1993 to 1997
			1993	1994	1995	1996	1997					
Belgium	1 337	1	0	0	0	2	1	3	3	0	0	2
Denmark	2 727	2	0	2	3	6	5	11	16	0	0	6
Germany	17 157	13	37	123	223	232	263	495	877	23	17	51
Greece	3 465	3	0	0	0	2	9	10	10	0	0	3
Spain	25 230	20	8	14	16	33	39	72	110	3	2	4
France	28 267	22	67	73	106	119	148	267	513	14	9	18
Ireland	4 325	3	0	0	19	43	98	141	160	4	5	37
Italy	14 685	11	0	0	54	42	369	410	464	12	14	32
Luxembourg	127	0	0	0	0	0	4	4	4	0	0	33
Netherlands	1 999	2	1	1	4	8	12	20	26	1	1	13
Portugal	3 925	3	0	12	39	40	49	89	140	4	3	36
United Kingdom	16 449	13	10	7	20	26	37	63	100	3	2	6
EU-12	119 694	93	123	231	485	550	1 034	1 584	2 422	65	55	20
Austria	3 425	3	0	0	0	541	260	801	801	21	28	234
Finland	2 192	2	0	0	0	257	135	391	391	10	13	179
Sweden	3 060	2	0	0	0	43	83	126	126	3	4	41
EU-3	8 677	7	0	0	0	841	477	1 318	1 318	35	45	152
EU-15	128 370	100	123	231	485	1 391	1 511	2 902	3 740	100	100	29

Source: EAGGF Financial Reports, 1993 to 1997.

Table 8
EAGGF expenditure on afforestation measures, 1993 to 1997

Member State	1993	1994	1995	1996	1997	Total	Percentage
Belgium	—	0,0	0,0	0,0	0,0	0,0	0,0
Denmark	—	2,4	2,0	2,1	3,1	9,6	1,2
Germany	—	19,8	15,7	18,0	13,3	66,8	8,4
Greece	—	5,8	8,6	11,3	14,0	39,7	5,0
Spain	—	14,8	60,8	88,8	157,5	321,9	40,3
France	—	0,2	1,3	2,5	3,4	7,5	0,9
Ireland	—	29,9	31,0	33,3	33,9	128,1	16,0
Italy	—	0,0	9,8	25,9	35,2	70,9	8,9
Luxembourg	—	0,0	0,0	0,0	0,0	0,0	0,0
Netherlands	—	0,4	2,7	2,8	1,6	7,5	0,9
Portugal	—	2,0	12,4	26,1	31,5	72,0	9,0
United Kingdom	—	15,0	3,0	21,1	14,9	54,1	6,8
EU-12	—	90,3	147,3	231,9	308,4	778,1	97,3
Austria	—	0,0	2,1	3,7	4,1	9,9	1,2
Finland	—	0,0	0,0	5,4	6,2	11,6	1,5
Sweden	—	0,0	0,0	0,0	0,0	0,0	0,0
EU-3	0,0	0,0	2,1	9,1	10,3	21,5	2,7
EU-15	0,2	90,3	149,4	241,0	318,7	799,6	100,0

Source: Twenty seventh EAGGF Financial report.

39. It follows that maintaining existing practices has become the main target of Community AE expenditure, rather than ameliorating environmentally damaging intensive practices. Although this constitutes a legal and regular use of funds under the AE Regulation, support for existing practices only delivers value for money if it can be demonstrated that the alternative to support would be discontinuation of such practices, i.e., abandonment of agricultural land or intensification. The Commission, however, approved programmes without demanding from Member States appropriate evidence of the existence of such risks.

40. Given the importance which the 5EAP gave to combating the damages inflicted by intensive farming practices, the allocation of Community resources upon the basis of the ability and/or willingness of Member States to provide co-financing, rather than on the basis of an objective assessment of need, represents a fundamentally inefficient approach to aid distribution. The Commission has since acknowledged (within the context of demanding improved evaluation of AE programmes) that what is required is 'a more effective realisation of the goal of applying agri-environmental programmes throughout the territory of the European Union according to needs' ⁽¹⁾. The principle of subsidiarity which is integral to Council Regulations (EEC) No 2078/92 and

(EEC) No 2080/92 should not hinder the Commission to better coordinate Member State and Community efforts on the basis of agri-environmental and afforestation priorities identified at European level.

41. Meanwhile, the Commission has noted that, 'only five Member States account for 86 % of the expenditure. Uptake of programmes is generally low in highly productive and intensive agricultural areas. Biodiversity in these areas may come under increasing pressure' ⁽²⁾. The new Regulation on rural development (Council Regulation (EC) No 1257/1999) is more precise on programme justification and on building strategies to cope with environmental problems caused by agriculture ⁽³⁾.

42. Weaknesses in targeting have not only been geographical; the important environmental problem of agriculture-generated atmospheric pollution has not been tackled effectively. Agriculture accounts for 9 % of total greenhouse gas emissions in Europe; it is the main source of methane (48 %) and nitrous oxide (52 %) emissions in the European Union ⁽⁴⁾. Agriculture also accounts

⁽¹⁾ Eurostat and European Commission, 'Agriculture, Environment, Rural Development: Facts and Figures — A Challenge for Agriculture', July 1999, chapter 'Impact of agri-environment measures', p. 8 of 8.

⁽²⁾ European Commission, COM(1999) 22 final, 27.1.1999, p. 16.

⁽³⁾ OJ L 160, 26.6.1999, pp. 80 to 101.

⁽⁴⁾ Eurostat and European Commission, 'Agriculture, Environment, Rural Development: Facts and Figures — A Challenge for Agriculture', July 1999, chapter 'Agriculture and climate change', pp. 1 and 2 of 7.

for 95 % of ammonia emissions in Europe, which contributes towards acidification ⁽¹⁾. The 5EAP set aims for reducing this pollution, but Community action to achieve these is still pending. The Commission has noted, 'while the agricultural contribution to air pollution is understood, no particular agri-environmental strategy has been established to counter the effect' ⁽²⁾.

43. The effects of the Commission's failure to conduct an analysis of the European Union's most important environmental needs before launching implementation of the accompanying measures could have been partially corrected had the Commission given detailed guidance to Member States for designing their programmes. The Commission's failure to emphasise the environmental aspect of AF policy has permitted some Member States to submit programmes which overemphasise commercial considerations.

44. The lack of priority given to environmental needs could also have been partially corrected had the Commission linked the approval of the programmes to the achievement of specific and substantial environmental benefits. The Commission evaluation report for AE acknowledges weakness: 'In many programmes, the identification of objectives needs to be more specific' ⁽³⁾. The Commission, instead, initially approved AE programmes which did not adequately prioritise the environment. This is evident from the Commission's approval of the French 'prime à l'herbe' measure in 1993 ⁽⁴⁾, which was given despite reservations expressed by Commission services because of the weak evidence justifying the measure ⁽⁵⁾. However, certain weaknesses in this measure were addressed by a programme amendment in 1998. Another example is the Finnish AF programme. Although it was not demonstrated how it could contribute to the achievement of environmental benefit, it was nevertheless approved conditional on relevant explanation by the national authorities. Although the latter failed to respect this requirement, the Commission has taken no remedial action to secure compliance.

45. A reason for the above weaknesses, which also negatively affected the performance of monitoring and controlling of the measures, is the AE unit's inadequacy in human resources, both in quantitative and qualitative terms. The Commission failed to deploy enough of its staff to this area. These problems were aggravated by the fact that the number of programmes to be dealt

with turned out to be much higher than expected and that the programmes are very heterogeneous in terms of aims, administrative mechanisms, farming practices funded and costs. For example, some Member States' programmes cover the entire national territory (e.g. Sweden), others cover administrative regions (e.g. Italy) or topographical zones such as individual river valleys (e.g. the United Kingdom). The high number and diversity of programmes should have been anticipated by the Commission: the Council, in approving Regulation (EEC) No 2078/92, enacted a very flexible policy instrument, permitting Member States a high degree of autonomy to design programmes which are adaptable to the unique structure, systems and environmental conditions found at national, regional and local levels within each Member State.

46. Regulations (EEC) No 2078/92 and (EEC) No 2080/92 both anticipate that the Commission establish detailed implementing rules for agri-environment and afforestation. Rules to assist Commission budgetary forecasting were established, but detailed rules for Member States, covering programme design, implementation, control and evaluation, were not introduced promptly by the Commission. The implementing regulation concerning agri-environment was not adopted until four years after the entry into force of the basic Council Regulation, by which time most Member State programmes had already been adopted and started to be implemented ⁽⁶⁾.

47. In respect of afforestation, no implementing rules have so far been adopted by the Commission. It should be mentioned that detailed requirements have been developed by the Commission, but these lack legislative force. This difference in Commission approach between AE and AF has created inconsistencies in Community policy implementation. For example, in respect of AE, Member States must provide detailed evidence to support proposed programme aid rates; these specific rates are then approved by the Commission. By contrast, in respect of AF, such information is not demanded of national authorities; the Commission approves aid rate maxima, within which Member States are free to set aid rates, without need for Commission approval.

48. With respect to staff requirements, the Commission underestimated the workload which the accompanying measures would generate for its own staff. In particular, the staffing of the unit responsible for AE was based on the assumption that most Member States would submit only one draft programme for approval. In fact most Member States proposed several zonal programmes, as well as 'horizontal' measures covering the entire national territory. Many of these draft programmes were amended in response to Commission input and some were rejected as unsuitable for Community co-financing. For example, a proposal from Belgium to compensate farmers for using less fertiliser in order to reduce nitrates pollution was rejected, because of that Member State's

⁽¹⁾ Eurostat and European Commission, 'Agriculture, Environment, Rural Development: Facts and Figures — A Challenge for Agriculture', July 1999, chapter 'Agriculture and acidification', p. 2 of 5.

⁽²⁾ European Commission, COM(1999) 22 final, Brussels, 27.1.1999, p. 13.

⁽³⁾ European Commission (DG VI. F. II.1), 'State of application of Regulation (EEC) No 2078/92; Evaluation of Agri-environment Programmes', Working Document VI/7655/98, 25.11.1998, p. 9.

⁽⁴⁾ The main AE measure in France, 'prime au maintien des systèmes d'élevage extensifs', absorbing over 75 % of AE expenditure in this Member State.

⁽⁵⁾ Letter from DG XI (Environment) to DG VI(Agriculture), 13.5.1993.

⁽⁶⁾ Commission Regulation (EC) No 746/96 (OJ L 102, 25.4.1996, p. 19).

failure to implement the Nitrates Directive. By late 1998 the Commission had approved a total of 158 programmes and more than 270 programme amendments, representing a total of over 2 500 distinct and in many cases complex measures.

49. Furthermore, the Commission did not revise unit staffing even when its underestimate of the workload became apparent. In 1998, only 4,75 full-time-equivalent A-grade staff were deployed to manage expenditure of over ECU 1 500 million per annum. The problem of insufficient staffing has been exacerbated by the failure to fill vacancies promptly and to ensure adequate continuity of staff. Of the 12 staff in the unit in October 1994 (working on a range of measures, as well as AE), only one remained by June 1996, and most of the replacement personnel have in their turn since been replaced. Even the post of Head of Unit remained vacant between September 1997 and May 1998. Furthermore, a lack of C and B grade staff means that A grade staff spend time undertaking clerical duties.

50. There are also 'qualitative' weaknesses. Only one of the unit's officials has any professional training in agronomy, and none is trained in environmental matters. It is over 12 years since a specialist recruitment exercise for agronomists was undertaken by

the Commission, and the unit has no access to specialist environmental expert recruitment. It was not until 1997 that any consultancy resources were formally allocated to the unit; and the only relevant specialist training given to unit staff over the past five years has been two half-day courses in analytical techniques. The implementation of the new Rural Development Regulation constitutes a yet further substantial increase in the Commission's responsibilities; the resources needed to address this new workload have to be adequately quantified by the Commission.

Member State planning

51. The failure at Community level to allocate funds on the basis of environmental priorities has been widely replicated at national and regional levels within Member States. As the Commission has realised, the AE programmes have had 'a notable lack of impact on intensive areas' ⁽¹⁾. Generally, funding is targeted neither to the zones of greatest environmental priority, nor to the agricultural activities which are most damaging to the environment. This is problematic in Germany, France, Italy, Finland, Portugal, Austria, Sweden and the United Kingdom (see Text box 1).

⁽¹⁾ European Commission (DG VI. F. II.1), 'State of application of Regulation (EEC) No 2078/92; Evaluation of Agri-environment Programmes', Working Document VI/7655/98, 25.11.1998, p. 125.

Text box 1

In Germany, the national environment ministry recognises that the *Land* of North Rhine Westphalia, which accounts for 9 % of Germany's farmland, has urgent AE needs because of intensive farm practices: but only 0,7 % of EU-AE funding paid in Germany is allocated to this region. In Saxony, intensive farming is responsible for nitrate pollution and soil erosion, but few measures address the most polluting sector of Saxon agriculture, that is the large intensive livestock farms established by the former German Democratic Republic. In Bavaria, the Court's auditors found that only a few farmers participating in the KULAP programme changed their practices in order to satisfy programme eligibility criteria. The others were supported for their normal, existing extensive and environmentally beneficial farming practices. The aid could be justified only if these practices were threatened by discontinuation (i.e. either intensification or abandonment). However most farmers audited declared they would continue with these same practices, even if aid were discontinued. Furthermore, the official Bavarian evaluation found that most participants in some measures were farmers already practising these methods, and that there was minimal difference in the environmental performance of participating and non-participating farmers. In Baden-Württemberg (Germany), the MEKA programme does not adequately address some severe local environmental problems caused by intensive practices, for example pesticide and fertiliser pollution in Kaiserstuhl, Kraichgau and south of Stuttgart.

In France, the allocation of funds between regions was based on purely agronomic criteria, i.e. the number of farmers and hectareage of each region, with no reference to environmental problems or risks. In consequence, areas with pressing environmental needs, such as Brittany, which suffers from high nitrate pollution due to intensive pig farming, were not given due priority.

In Italy, although environmental priorities were initially important in the regional allocation of funds, this approach was subsequently abandoned in favour of a demand-led approach, i.e. the regions which spent most received the greatest budget in the following year.

In Sicily, although the regional programme identifies the localities of highest environmental priority, aid distribution is indiscriminate across the region. Furthermore, the main AE problems relate to water management and soil erosion; but instead of addressing these problems directly, the programme encourages organic production, for which there is no outlet, and reduction of chemical inputs.

In Finland, although the main agricultural pollution problems identified by the programme are concentrated in the south-west of Finland, only 20 % of total expenditure is devoted to this region. Furthermore, the Finnish programme even allowed farmers in certain circumstances to apply more fertiliser than the economic optimum.

In Portugal, a key national problem is salinisation of fresh groundwater reserves. Ingress of seawater occurs because too much groundwater is being extracted for use by agriculture. This problem is not addressed by the programme. Furthermore, only farmers with less than 50 ha and/or 50 LUs are eligible for AE aid. This reduces by half the hectareage which could be covered by the scheme, and undermines the environmental potential of the programme.

In Spain, the national measure combating soil erosion, one of Spain's two biggest AE problem, was not implemented during the first two years of programme operation, due to a lack of national funds available for co-financing.

In Austria, there was a provincial allocation of funds but the national authorities could not provide the Court with evidence to support it. In addition, the Court's auditors found that livestock density supported by AE aid remained too high to deliver significant ecological benefit to pasture land, in terms of greater bio-diversity i.e., variety and quantity of wild plant and animal life. Indeed, the high density allowed by the programme motivated existing extensive producers to intensify their production in order to exhaust the possibility for aid. AE measures have thus only slightly reduced the Austrian stock numbers (0,1 %). Moreover, in this Member State only a limited number of farmers had to change their normal practices to satisfy the programme.

In Sweden, the National Audit Office concluded in its report that 'the environmental effects of the grants are much smaller than they would have been if there had been a greater focus on, for example, the counties of Skåne or Halland where there is extensive nitrogen leakage'.

In the United Kingdom, the National Audit Office pointed out that there is better scope for targeting of aids within programme zones and for giving a higher priority to the support of environmentally friendly arable techniques.

52. The failure to prioritise environmental needs also characterises the management of AF measures. The EEA has noted in respect of AF, that 'in many cases, fast-growing species, including exotic species, have been used, often at the expense of habitats of high biodiversity value' ⁽¹⁾. An Irish study found that 'It is generally thought that planting trees is good for the environment... . However, in Ireland, where planting consists of predominantly

commercial forests, 80 % of which are non-indigenous conifers, there is considerable concern regarding the external costs of afforestation (costs which are borne by people other than the forest owner). Of particular concern are the potential negative effects of forestry on landscape, water and wildlife' ⁽²⁾. Poor prioritisation of environmental needs is also evident in Spain, Austria, Germany, Portugal and Italy (see Text box 2).

Text box 2

In Spain, the national AF programme identifies among its primary objectives the combating of soil erosion and desertification, but the criteria for regional and local distribution of funds give priority to agricultural and commercial factors rather than environmental requirements.

The Court's auditors found evidence at one beneficiary of inadequate concern by the agricultural authorities for environmental needs. While environment agency officials recommended a mixed plantation of different varieties of oak trees (95 % *quercus rotundifolia*, with only 5 % *quercus suber*), the agricultural authorities approved a single-variety plantation with 100 % *quercus suber*.

In Austria, the Commission-approved programme foresees that 70 % of the total aid paid for 'afforestation', is actually paid to support the construction of forest tracks; ECU 37 million from a budget of ECU 53 million for 1995 to 1997 ⁽³⁾. Although forest track building has been defended by the Member State authorities on grounds that it allows better care of woodland and environment-friendly felling and removal of trees, the proportion of the AF budget spent on this activity is high. Furthermore the EEA notes that even narrow non-asphalted service tracks may lead to fragmentation of habitats and easier access to previously remote areas, with long-term implications for the integrity of the ecosystems ⁽⁴⁾.

In Germany (Bavaria), the Court's auditors found that track construction had increased the accessibility of hitherto-remote high alpine forest.

In Portugal, some beneficiaries visited by the Court's auditors were found to have uprooted mature trees, in order to qualify for new plantation aid. This caused soil erosion, a problem exacerbated by excessive soil disturbance during the planting of the new trees.

In Italy, at regional level only 0,001 % of Emilia-Romagna's farmland has been afforested, and this with tree species chosen for their commercial rather than environmental value.

53. Moreover, the means specified in the programmes to achieve environmental objectives sometimes raise doubts about their efficiency. In Castile-La Mancha (Spain), where the programme aims to reduce water use, the use of water was already restricted by national law before the introduction of AE measures, whereby large farms got less access rights to water per hectare than small farms. The AE programme introduced the regional average pre-programme water consumption per hectare as a baseline for measuring the individual reduction in water consumption. Farmers

are compensated if they commit themselves to using 50 %, 70 % or 100 % less water than the regional average consumption of water per hectare in the pre-programme period. In addition, they are exempted from the water-use restrictions under national law.

⁽¹⁾ European Environment Agency, 'Environment in the European Union at the turn of the century', Copenhagen, 1999, p. 286.

⁽²⁾ See P. Clinch, Environmental Institute — University College Dublin, 'Irish Forestry Policy: A Cost-Benefit Analysis', in *Irish Banking Review*, spring 1998, pp. 35 and 36.

⁽³⁾ Commission Document 3634, 18.1.1995, paragraph 3; in thousand ecus, the respective figures are 36 882 and 53 141.

⁽⁴⁾ EEA, 'Europe's Environment: The Second Assessment', Office for Official Publications of the European Communities, Luxembourg, 1998, p. 148.

54. Such a programme is attractive to farmers whose water consumption and/or access rights are already lower than the regional averages. These farmers can qualify for the 50 %, 70 % or 100 % reduction schemes even though they reduce their actual water consumption by less than 50 %, 70 % or 100 % respectively. Indeed, farmers whose previous water consumption/rights were below the 50 % or 70 % of the regional average are even able to increase their actual water consumption, and get aid as well. The scheme is also attractive to farmers who have no water or access rights at all. A local study in Castile-La Mancha found the perverse situation that most of the 570 holdings in receipt of AE aid for agreeing to use no irrigation had no access to irrigation in any event. In the opposite case, small farmers with substantial access rights and correspondingly high water consumption already, would find the AE scheme unattractive, because the aid is insufficient to compensate them for lost yield.

55. A further problem was noted by the Court in Castile-La Mancha. Aid is being paid in respect of set-aside land, even though programme conditions regarding set-aside land are no more onerous than those already required by the arable crops scheme. It follows from Commission Regulation (EC) No 746/96, Article 10(1) that payment of AE aid in such circumstances is irregular. Given that set-aside constitutes around 30 % of programme hectareage, this represents a grave waste of Community funds. A more thorough examination of programme documentation prior to approval could have prevented this problem from arising.

56. The effectiveness of programmes depends also on the correct calculation of aid rates. Regulation (EEC) No 2078/92 specifies that AE aid is paid to compensate farmers for obeying specific restrictions on their farm practice, restrictions which result in a loss of net income. If aid rates are set too low, then few farmers will participate and programmes will have little environmental impact. If aid rates are set too high, then programme costs will be higher than necessary.

57. The Court's auditors found widespread discrepancies between aid rates derived from zonal averages of participation costs and the real costs of participation. An official evaluation in Finland found that in 1997 the gross cost to Finnish farmers of programme participation totalled FIM 773 million (ECU 110 million); but the aid paid totalled FIM 1 372 million (ECU 195 million), an excess over the total participation costs to Finnish farmers of almost FIM 600 million (ECU 85 million) ⁽¹⁾. For the period 1995 to 1997, the Court estimates that the gap between calculated total costs incurred by farmers and total aid paid to farmers in Finland amounted to ECU 422 million. In Sweden, the National Audit Office concluded that the rate of AE support paid for the measure concerning perennial ley farming was significantly in excess of Swedish farmers' actual costs of participation ⁽²⁾. The UK National Audit Office found that aid rates for some measures were higher than the average participation costs to farmers, but in respect of most measures, aid rates are set lower than farmers average participation costs. Similar problems were identified in Germany, Austria, Portugal and Spain (see Text box 3).

Text box 3

In Germany, an official evaluation of the federal programme found that aid rates were insufficient to compensate the farmers for their conversion costs. In Baden-Württemberg (Germany), the official MEKA evaluation concluded that aid rates were excessive for some measures, for example grassland protection aid.

In Austria, in contrast with all other measures set out in the national programme, the aid rate for the *Elementarförderung* lacks quantified justification. This aid rate was subsequently acknowledged as excessive by the national authorities and reduced. The rates for several further measures, for example those in support of crop rotations and for cessation of maize production, are excessive on the basis of available evidence. By contrast, farmers participating in counter-erosion measures are undercompensated.

In Portugal, aid rates undercompensate farmers by more than a quarter of their real costs.

In Spain, the Court's auditors identified an increase in aid rates by the Spanish authorities which lacked any supporting evidence.

⁽¹⁾ Finnish Ministry of Agriculture, 'Final report of the follow-up group', Report No 1998/5 — Helsinki 1998, p. 73.

⁽²⁾ Riksrevisionsverket (Swedish National Audit Office) 'Jordbrukets miljöstödd — minskning av kväveläckage och bevarande av biologisk mångfald', Stockholm, 1998, pp. 9 to 11.

58. AE aid rates might also be inaccurate if the programme zone is not agronomically and environmentally homogenous, as required by Article 3(2) of Regulation (EEC) No 2078/92. If zones are not homogenous, then aid rates based on average yield foregone will significantly overcompensate farmers in low-yield localities, and undercompensate farmers in high-yield localities. The Court has found that many programme zones are neither agronomically nor environmentally homogenous. For example, in Baden-Württemberg (Germany), the *Marktentlastungs- und Kulturlandschaftsausgleichsprogramm* (MEKA) programme zone covers

the entire region. But the region varies from the fertile, intensively managed arable fields of the Rhine valley, to the extensive, sub-alpine pasture land of the Black Forest. On poor land the programme is adopted by farmers in order to generate income, while on good land only environmentally committed farmers participate. In consequence, participation in MEKA is more substantial in extensively-farmed areas, and less substantial in the polluted, intensively-farmed areas of the region. The Court identified similar weaknesses in France (concerning the general measure 'prime à l'herbe') and Bavaria (see Text box 4).

Text box 4

In France with regard to the national 'prime à l'herbe' measure, as DG-Environment warned during the programme approval procedure, the premium is too low to preserve poor pasture from abandonment, and in respect of rich pasture it is simply an income aid for farmers.

In Bavaria (Germany), land quality varies greatly (rental prices range from DEM 206 to DEM 874 per hectare). Participation is high in poor areas, but low in rich areas, which are often the most intensively farmed and environmentally problematic.

59. The problem is known to the Commission: 'Evaluation and research have shown that basing zoning on the administrative region might result in inconsistencies between programmes within one Member State. One example is the implementation of the measures of reduction in chemical use in Italian regional programmes... Some studies show that the blanket application has reduced the efficiency of measures, with some overpayment in areas where the measures represent less effort on the part of the farmer and underpayment in more profitable areas, with a correspondingly lower take up' ⁽¹⁾.

France but has taken no remedial action. At regional level, the Court found discrepancies in Extremadura (Spain) between the authorised aid rates and the real costs incurred by farmers, for example one farmer was reimbursed ESP 185 per sapling, although the plants had cost him less than ESP 60 each.

60. Similar observations arise concerning AF. In Spain, the official calculation to establish aid rates for reimbursement of plantation costs, maintenance costs and agricultural income foregone were performed by an advisory scientific committee. However, no documentary record of the committee's deliberations or of the evidence on which it based aid rates was available for examination by the Court. This makes it practically impossible to verify the accuracy of aid rates. In Portugal, no justification could be found for plantation costs per hectare increasing with farm size. The Commission has identified similar problems in Italy and

61. At the planning stage, programmes should be coordinated with other relevant Community initiatives and vice versa, in order to ensure a comprehensive response to environmental needs and to avoid duplication of effort and waste. The Structural Funds provide aid for agri-environmental capital investment on farms, and the LIFE and LEADER programmes support local environmental projects in the countryside. The Commission has itself observed that 'case studies demonstrate a lack of coordination between accompanying measures and between those and rural development policies' ⁽²⁾. The Court has identified numerous cases of poor practical coordination.

62. For example, in Spain AF support is paid for the conversion of agricultural land into forest while reforestation aid is payable from the Structural Funds for planting trees on land which is non-agricultural. However, the national authorities have not adequately defined 'agricultural land'. The adopted definition, 'land having a

⁽¹⁾ European Commission (DG VI. F. II.1), 'State of application of Regulation (EEC) No 2078/92; Evaluation of Agri-environment Programmes', Working Document VI/7655/98, 25.11.1998, pp. 89 and 92.

⁽²⁾ European Commission (DG VI. F. II.1), 'State of application of Regulation (EEC) No 2078/92; evaluation of agri-environment programmes', Working Document VI/7655/98, 25.11.1998, p. 117.

production function resulting in an income for a farmer', is not practicable, because even the poorest land (which qualifies for Structural Funds' reforestation aid) may be used for a few days' rough grazing each year. There is consequently a significant potential overlap between the two Community programmes, creating a risk of double payments. The same problem exists in Portugal.

63. There is also a lack of coordination between separate AE programmes within or among Member States. In Bavaria, the Ministry of Agriculture and the Ministry of Environment each independently operates its own programme: respectively, *Kulturlandschaftsprogramm* (KULAP) and *Vertragsnaturschutz-programm* (VNP). These address the same problems in the same localities, and are in some instances in competition (e.g. measures to support environmentally friendly vineyard cultivation). Following the

Court's audit, the Bavarian authorities, on request of the Commission, have since harmonised procedures to assure coherence between AE measures.

64. In Italy the catchment area of the River Po has common environmental problems, but each of the administrative regions through which the river flows has developed its own programme. Similarly, Luxembourg and Germany both support environment-friendly farming in vineyards on opposing banks of the Moselle; but even though the agri-environmental conditions are similar, the programmes are different.

65. A similar problem was identified with regard to organic production. Some Member States only support conversion from conventional to organic methods while others also support post-conversion maintenance of organic methods (see Text box 5).

Text box 5

There is inconsistency between Member States in the criteria governing payment of AE aid to encourage organic plant production. In France, Greece, Portugal and the United Kingdom, agri-environmental support is paid only for conversion from conventional to organic production. Existing organic producers are not supported in these Member States. By contrast, the following Member States support the continuation of organic production, as well as conversion Austria, Finland, Italy and Germany. This means that existing organic producers in Greece, France, Portugal and the United Kingdom are disadvantaged compared with farmers in other Member States. The above situation may distort internal competition within the Community.

66. Lack of coordination is also found between AE and AF measures. For example, in Bavaria, in the mixed pasture/woodland sub-alpine region, ecologically valuable extensive pasture qualifying for AE aid has been afforested with AF support. Planting trees

in such landscapes, to 'fill in' gaps in the forest, is detrimental to biodiversity. Similar practices occur in France, Portugal, Finland and Austria (see Text box 6).

Text box 6

In France, the Court's examination of the local measure for Millevaches in the Limousin found that pastures on the high plateau eligible for AE aid had also been scheduled for afforestation with AF support.

In Portugal, AE measures in the uplands have low rates of participation, because AF support is financially much more attractive.

In Finland, there are serious doubts over the environmental desirability of afforesting agricultural land. The Ministry of Environment considers that no agricultural parcel should be afforested; in order to maximise biodiversity, the priority should be to maintain open farmed spaces.

In Austria, the situation is similar: since Austria has a large forest cover, there is no environmental need to afforest farmland.

67. In addition, there is a lack of coordination between AE/AF support and arable scheme aid. The EEA has referred to competition of AE measures 'with mainstream production support payments (such as the maize premium)' ⁽¹⁾. In Sweden, the National

Audit Office (SNAO) found that 'the environmental grants for perennial ley farming are in danger of taking second place to the higher arable area payments' ⁽²⁾. Similar problems were identified in Portugal and Spain (see Text box 7).

Text box 7

In Portugal, some of the AE measures have to remedy the damaging effects of the CAP: AE aid is given in respect of local fruit trees that would otherwise tend to be replaced by new varieties with higher yields, better rewarded within the fruit and vegetable COM, but with higher use of agrochemicals. AE aid is also given to support extensive livestock production which is endangered by the high livestock premiums provided by the 1992 CAP reform. Other AE measures designed to preserve temporary grasslands and pastures, must compete with the higher arable aid for which the land is eligible.

In Spain, AE aid is paid to reduce water consumption; but the arable aid regime pays a higher rate of support for irrigated land than for non-irrigated land, and this encourages farmers to irrigate. In consequence, AE aid rates have been raised in order to increase programme attractiveness to arable farmers.

The Commission in its Agenda 2000 proposals has underlined that 'the scale of support still provided through prices and crop specific payments (e.g. silage, maize and flax) may discourage farmers from committing themselves to more extensive practices or dedicating land to environmental purposes' (in COM(2000) 97 final, p. 24).

68. There are also unjustified differences in the prescriptions for set-aside. In the United Kingdom, farmers sow and maintain a green cover on set-aside land in order to qualify for set-aside payments, under the arable crops scheme, whereas in Saxony the authorities allow set-aside land to be eligible for AE support in addition to the arable set-aside payments, if a green cover is sown and maintained.

69. Lack of coordination is also apparent between AE support and the Community's environmental protection regime. For example, a significant proportion of AE aid is spent on compensating farmers for using less fertiliser, to combat nitrate pollution. Meanwhile, 12 Member States currently face proceedings in the European Court of Justice, because of non-transposition and/or the incorrect application of the Community's Nitrates Directive: This Directive anticipates that farmers should limit their use of

fertiliser, without compensation (B, D, EL, E, F, IRL, I, L, NL, A, P, and UK). A recent study has concluded that largely because of agricultural effluent, 'it is estimated that 5 % to 6 % of the European population is now being supplied with drinking water which contains more nitrate than the permitted EU maximum of 50 mg/litre and 25 % of the population is using water with a level greater than the optimum of 25mg/litre' ⁽³⁾. With regard to the Nitrates Directive, the poor implementation of which was the subject of a previous report by the Court ⁽⁴⁾, not one Member State has a fully satisfactory transposition record (see Table 9). Implementation by Member States of the countryside-related nature-protection Wild Birds and Habitats Directives has also been problematic. As the EEA has concluded, 'until now, at EU level, the link between "Nature" legislation and the CAP has remained inadequate' ⁽⁵⁾.

⁽¹⁾ European Environment Agency, 'Environment in the European Union at the turn of the century', Copenhagen, 1999, p. 306.

⁽²⁾ SNAO, op. cit., pp. 9 to 11.

⁽³⁾ Agra Europe, 'Agriculture and the Environment: Development of European Union Agri-Environment Policy' prepared by Brian Gardner of EPA Associates, Brussels, 1999, p. 3.

⁽⁴⁾ Special Report No 3/98 of the Court of Auditors (OJ C 191, 18.6.1998).

⁽⁵⁾ European Environment Agency, 'Environment in the European Union at the turn of the century', Copenhagen, 1999, p. 303.

Table 9
Implementation by Member States of the Nitrates Directive

Implementation of specific requirements of the Nitrates Directive (a) satisfactory (b) completed on time			B		DK		D		EL		E		F		IRL		I		L		NL		A		P		FIN		S		UK	
			a	b	a	b	a	b	a	b	a	b	a	b	a	b	a	b	a	b	a	b	a	b	a	b	a	b	a	b	a	b
Requirement	Relevant Directive Article	Stipulated completion date																														
Transposition into national law	12	20.12.1993 ⁽¹⁾	NO	C	YES	YES	YES	C	YES	C	YES	YES	YES	YES	NO	C	NO	C	YES	C	YES	C	NO	NO	YES	C	YES	C	YES	C	YES	C
Monitoring	5(6) ⁽²⁾ , or 6	20.12.1993 ⁽¹⁾	NO	C	YES	—	YES	—	NO	C	YES	C	YES	YES	NO	NO	NO	NO	NO	—	YES	—	YES	—	YES	C	YES	—	NO	NO	NO	NO
Designation of vulnerable zones	3	20.12.1993 ⁽¹⁾	NO	NO	YES	YES	YES	C	NO	NO	NO	NO	NO	NO	NO	YES	NO	C	YES	C	YES	C	YES	C	YES	C	YES	C	NO	NO		
Establishment of Code of Good Agricultural Practice	4	20.12.1993 ⁽¹⁾	NO	C	YES	YES	YES	C	YES	C	NO	NO	YES	C	YES	C	YES	C	NO	C	YES	C	YES	C	YES	YES	YES	C	YES	C	YES	C
Establishment of First Four-Year Action Programme	5	20.12.1995 ⁽¹⁾	NO	NO	YES	C	NO	C	NO	NO	NO	NO	YES	C	NO	NO	NO	NO	NO	YES	NO	C	NO	NO	NO	C	NO	C	NO	C	NO	NO
Submission of Summary Report to Commission	10	20.6.1996 ⁽¹⁾	NO	C	YES	C	YES	C	YES	C	YES	C	YES	C	YES	YES	NO	C	NO	C	YES	C	YES	C	YES	C	YES	C	YES	NO	YES	NO
Completion of the Review of Designations	3	21.12.1997 ⁽¹⁾	NO	NO	—	—	—	—	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	—	—	—	—	—	—	NO	NO	—	—	YES	YES	NO	NO
Start of the year during which maximum of 210 kg N ha may be applied	5	20.12.1998 ⁽¹⁾	NO	NO	YES	YES	YES	YES	NO	NO	NO	NO	YES	YES	NO	NO	NO	NO	YES	YES	NO	NO	NO	NO	NO	NO	YES	YES	YES	YES	YES	YES
Has Member State performance been sufficient to avoid formal infringement proceedings to date?	EC Treaty Article 226		NO		YES		NO		NO		NO		NO		NO		NO		NO		NO		NO		YES		YES		NO			

⁽¹⁾ Completion date for Austria, Finland, Sweden was 1.1.1995.

⁽²⁾ There is no specific completion date for monitoring under Article 5(6) second subparagraph.

— = Not relevant for the Member State in question.

C = Completed but not on time.

Source: European Commission, letter reference 28.6.1999/XI/008234.

70. Furthermore, there is inconsistency between European and national policies concerning agriculture and the environment. The EEA has noted that some Member States, particularly in the south, subsidise water use by farmers; at the same time, EU funds are being used to pay farmers to use less water. 'At the national level, perhaps the most obvious subsidies with an environmental effect are to irrigated agriculture in southern Europe. Municipalities supplying water to agricultural units in the Po Basin in Italy are required to charge prices based on cost recovery but in practice numerous exemptions are granted. In Spain, agricultural abstraction is subject to a levy which is not related to volume of water used, but to area of land, and there is a shortfall between recovered costs and the costs of supply. In other countries, subsidies may take the form of exemption from taxes: this is so in Portugal where irrigation water is exempted from a new tax introduced in 1995 and in the Netherlands where farmers are exempt from the groundwater extraction tax' (1).

Implementation and control

Commission implementation and control

71. The implementation of some AE measures may be incompatible with the EU Treaty's 'polluter pays principle' (2). While this principle requires that the polluter has to pay for avoiding or repairing the environmental costs of any economic activity, the AE policy apparently transfers the environmental costs of agriculture from farmers to taxpayers. The agri-environmental approach is only compatible with the polluter pays principle provided that farmers are paid to deliver a standard of environmental performance which exceeds 'good agricultural practice'. However, across much of Europe, standards of normal performance, such as 'codes of good agricultural practice', are either non-existent or underdeveloped. It is therefore often not feasible in practice for the Commission to ensure that EU aid is securing real improvements in farmers' environmental performance, rather than simply benefiting farmers' incomes.

72. With respect to control, the Commission does not routinely visit Member States to verify the data or analyses submitted by Member States in support of draft programmes; nor do AE-unit or AF-unit personnel routinely conduct missions to verify that programmes are in practice providing good environmental value for money. Commission inspectors do visit on the spot to verify the legality and regularity of payments; but the role of these personnel does not include evaluating the environmental effectiveness of AE or AF measures. The current 'Brussels-based' approach

to programme management is not consistent with effective, practical control. The Commission's inactivity in this respect is disconcerting, since it is well aware of the validity of the Court's criticisms: as the Commission's own evaluation report notes, 'with diverse measures, control difficulties are evident' (3).

Member State implementation and control

73. The AE policy in particular is very demanding of Member States' administrative infrastructures. Specifically, Member States need to deploy agronomists and environmental experts to identify AE problems and to propose practical solutions to these. Administrators are needed to convert the scientists' theoretical considerations into detailed programme requirements. Inspectors are needed to verify beneficiary compliance. Skilled personnel is required to monitor and evaluate programme impacts.

74. The work of the National Audit Office (NAO) in the United Kingdom has determined that the ratio of administrative costs to farmers' grants is very high (4). The NAO found that for the biggest AE programme in the United Kingdom, total administrative costs during the early phase of implementation in 1995 to 1996 were ECU 13 million, equivalent in value to 46 % of the grants paid to farmers (see Figure 1). The scheme is complex, and its administration involves many different processes. Annual scheme management costs total ECU 8 million, and environmental monitoring and research cost ECU 5 million (see Figure 2). If such high costs are necessary for the proper management and control of programmes, then the annual collective cost to Member States of AE policy implementation would be ECU 700 million. Another detailed examination of Member State administrations' activities even reached the conclusion, that the total EU-wide direct implementation cost of Regulation (EEC) No 2078/92 (not including costs of environmental monitoring), must have amounted to between ECU 1 000 and 2 000 million in the period 1992 to 1996 (5). In spite of such high cost the EEA has noted, there is 'insufficient administrative capacity and experience in many regions to handle this new policy' (6).

(1) European Environment Agency, 'Environment in the European Union at the turn of the century', Copenhagen, 1999, p. 409.

(2) EC Treaty, Article 174 (Formerly 130r) paragraph 2.

(3) European Commission, (DG VI. F. II.1), 'State of application of Regulation (EEC) No 2078/92'; Working Document VI/7655/98, 25.11.1999, p. 8.

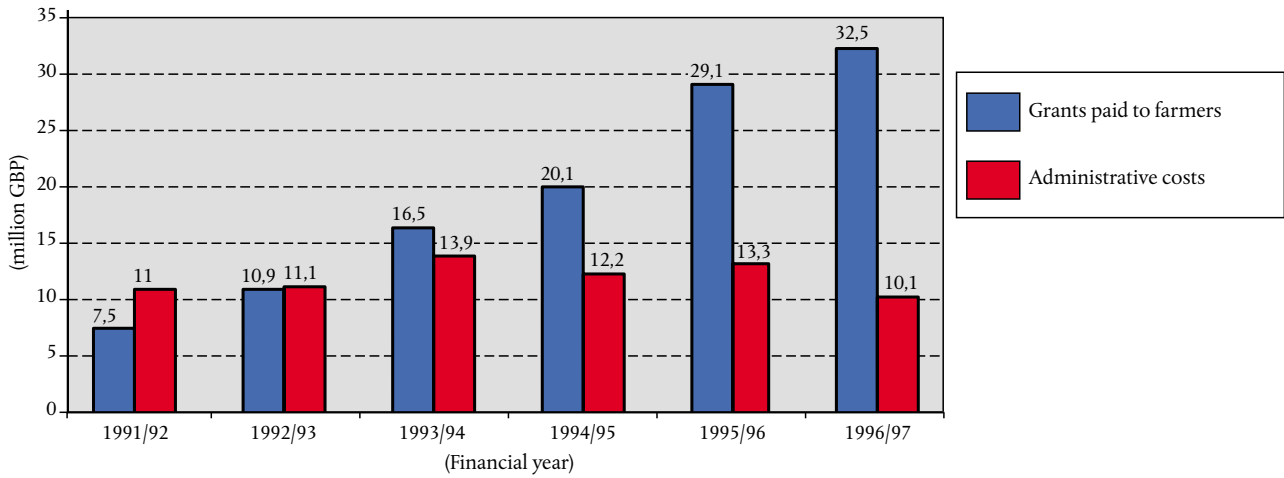
(4) Report by the Comptroller and Auditor General, 'Protecting environmentally sensitive areas', HC 120 session 1997 to 1998, London, 23.7.1997.

(5) K. Falconer and M. Whitby, Research report of the Centre for Rural Economy 'Transaction and Administrative Costs in Countryside Stewardship Policies', University of Newcastle upon Tyne, 1999.

(6) European Environment Agency, 'Environment in the European Union at the turn of the century', Copenhagen, 1999, p. 306.

Figure 1

Environmentally sensitive areas scheme — grant payments and administrative costs, 1991/92 to 1996/97



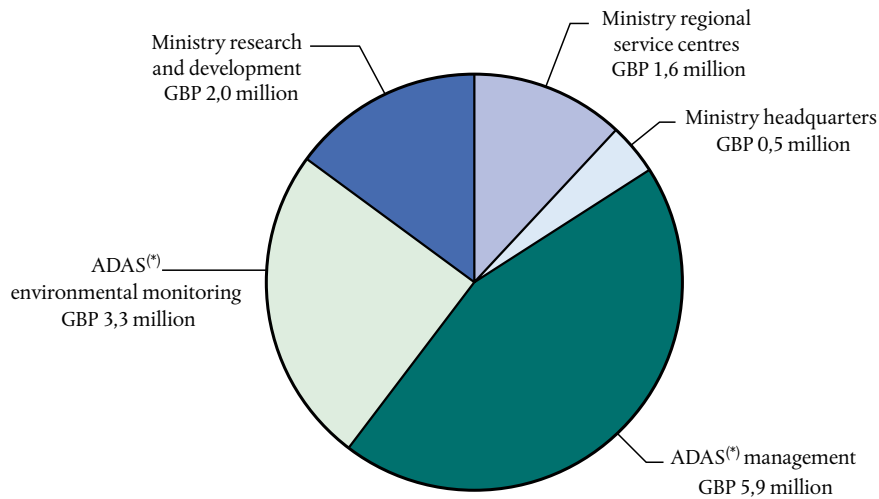
Notes:

1. Costs prior to 1993/94 do not include research programme costs as these are not separately identifiable.
2. 1996/97 figures are estimated and include some research and development relating to the countryside stewardship scheme.
3. Administrative costs in 1991/92 were not available and were assumed to be similar to 1992/93.

Source: UK National Audit Office report, 'Protecting environmentally sensitive areas', p. 33.

Figure 2

Administrative costs of the environmentally sensitive areas scheme, 1995/96



(*) ADAS: the Ministry of Agriculture's Agricultural Development and Advisory Service.

Source: UK National Audit Office report, 'Protecting environmentally sensitive areas', p. 34.

75. Significant implementational difficulties resulting in low rates of farmer participation and consequently low environmental impact, were identified by the Court in Germany, Portugal, the

United Kingdom, Austria, Spain, France, Finland and Sweden (see Text box 8).

Text box 8

In Bavaria (Germany), uptake of certain measures in the KULAP programme — such as 20-year set-aside, which covers just over 100 ha is so low that environmental impact is minimal. Baden-Württemberg's MEKA programme shares similar problems for some measures. In Saxony, 85 % of farmland is at risk of erosion but only 30 % of farmland is covered by anti-erosion measures. Indeed, in the most vulnerable localities, participation in the key anti-erosion measure (*mulch saat*) is as low as 3 %.

In Portugal, the measures to combat intensive practices and to reconvert arable land to pasture, have had no environmental impact since they were not applied.

In the UK, the NAO found participation was much lower than planned in some regions, for example in the Cotswold Hills, only 1 600 ha of arable land had been converted to grassland compared with a target of 6 000 ha. The UK Parliamentary Committee scrutinising national expenditure noted that the impact of the scheme could have been much bigger if the Ministry had been more proactive in marketing the scheme.

In Austria, the Court's auditors found confusion among farmers and a high rate of error in aid applications due to the considerable number of measures available, of which some could be cumulated with others whereas others could not.

In Spain, the Court's auditors found that the national contribution in respect of both AE and AF measures, was being paid late to beneficiaries. This practice is irregular and undermined programme credibility and participation.

Administrative complexity is also a problem in France, where administration and control functions were separated between a large number of organisations.

In Finland, farmers found the application procedure so complex that they had to employ specialists in order to fill in their claims.

The Swedish National Audit Office found that farmers sometimes refrained from joining the Swedish AE scheme due to the administrative burden this entailed.

76. With regard to control at Member State level of EU expenditure, an important tool for verifying beneficiary compliance with EAGGF-Guarantee fund requirements is the Community-supported integrated administration and control system (IACS), which operates in each Member State for most of the EAGGF-Guarantee expenditure. Weaknesses in the control of AE and AF measures as a result of AE/AF controls failing to achieve the standards equivalent to IACS were identified in the course of this audit

in Portugal, Germany, Austria, Italy and France (see Text box 9). For example, in Saxony, many of the official maps used to verify aid claims are over 75 years old and are in consequence inaccurate, a problem common to all the territories of the former German Democratic Republic. The Commission has itself noted that 'in one Member State, no on-site farm inspections were made until 1995 and in several Member States there was little or no cross-checking data contained in IACS' ⁽¹⁾.

⁽¹⁾ European Commission, DG (VI. F. II.1), 'State of application of Regulation (EEC) No 2078/92; evaluation of agri-environment programmes', Working Document VI/7655/98, 25.11.1998, p. 111.

Text box 9

In Portugal, the IACS was still not completed at the date of the Court's auditors visit in January 1998. In the North, the problem was exacerbated by the absence of a cadaster. During farm visits the auditors identified discrepancies concerning most of the aid claims of the 16 farms visited. Comparison between arable aid, olive aid and wine declarations showed excessive payments for AE measures, or in respect of other schemes.

In Austria, the official record of slope gradients has not yet been completed, so that information on gradients supplied by the farmers in their aid declaration, which is one of the conditions for receiving some of the AE aid, cannot be checked by administrators.

In Italy, the follow-up of discrepancies detected by the IACS was inadequate and does not always result in the application of sanctions required by European legislation. The lack of a detailed record of inspection results does not allow the use of risk analysis in inspection sample selection, as required by EU regulations.

In France, fields receiving AE aid were not recorded on the same computer as fields receiving arable aid and therefore could not be cross-checked by computer with the parcels receiving arable aid.

77. Further control problems exist. Most programmes include a measure to compensate farmers for using less fertiliser (see Text box 10). However, it is not feasible to verify compliance with such measures. As the State Audit Office found in Finland, 'monitoring certain conditions in the programme is problematic with current control methods. Monitoring fertiliser levels was considered especially difficult. In related studies reliably verifying fertiliser

levels has been considered practically impossible' ⁽¹⁾. Visual inspection, soil sampling and examination of farm records, if undertaken with care, can all contribute to verification; but none of these methods is definitive. This problem is known to the Commission's own auditors, but the Commission continues to approve such measures.

⁽¹⁾ State Audit Office of Finland, 'Audit report on the administration and control of environmental support of agriculture', Helsinki, 18.6.1999, abstract in English, p. 3.

Text box 10

In France, no routine soil or water testing was conducted with regard to the 'prime à l'herbe' scheme, even though farmers are required not to apply more than 70 kg /ha of fertiliser on their grassland. The national authorities consider it impossible in practice to verify beneficiary compliance with fertiliser restrictions. Control therefore often consists primarily in asking the farmer how much fertiliser he has applied: if the response is consistent with a rate of fertilisation respecting the scheme limit, then the aid is paid.

In Rhineland-Pfalz's *Steillagenprogramm* (steep slope vineyard programme) (Germany), it was left to beneficiaries to identify soil sample sites, take samples, and submit samples to the official laboratories which would examine the soil in order to verify compliance with fertiliser restrictions.

In Saxony (Germany), although in principle soil tests should be made during each 'in-depth inspection', in practice in the locality visited by the auditors only one such inspection had been performed since the introduction of the scheme — and no soil test had been performed.

In Bavaria's VNP programme (Germany), although in principle soil testing was recommended, in practice it was not performed.

In Bavaria's KULAP programme, official evaluators noted inspectors' difficulty in verifying beneficiary compliance with some measures.

In Baden-Württemberg (Germany), no examination of farm records was performed to compensate for the absence of routine soil testing and to corroborate visual inspection results with documentary evidence.

In the United Kingdom, Commission inspectors found that, 'The control of fertilisers is very doubtful. Only the features of the grassland are taken into consideration (e.g. the colour and types of grass found). No soil analysis or grass analysis is executed' (European Commission, DG VI. A. I.3 mission report, on 'accompanying measures' in the United Kingdom, 19.11.1998, paragraph 7.2). The visual inspections are complemented by verification of fertiliser records which the participants in the scheme are obliged to hold.'

78. In practice, some Member States (e.g., Denmark) have found that the most effective method of combating nitrate pollution, is via farm-fertilisation planning and inspection. This involves national authorities and the individual farmer agreeing a farm plan which identifies how much nitrogen can be applied to each field, and when, in order to ensure both pollution prevention for the environment and profitability for the farmer. A field-level approach is appropriate, because the ability of farmland to retain nitrogen is dependent on the characteristics of each individual field: for example soil composition, the current crop's capacity to absorb nitrogen, the cropping history, field gradient, and proximity to water courses. Such fertilisation planning is administratively demanding, both of Member State authorities and farmers, but it has been found to constitute a practical and effective method of combating nitrates pollution.

79. Some control problems appear unique to individual programmes, but are symptomatic of the difficulty which national administrations experience in developing control systems adequate to the demands of the AE policy approach. In Castile-La Mancha, in order to control water use the authorities rely on theoretical agronomic tables of water consumption which set out how much each type of crop should normally consume (see paragraphs 54 and 55). The authorities even allow farmers to declare a lower rate

of water consumption than specified in the theoretical agronomic tables, in return for extra AE aid: although the programme requires that in such circumstances the farmer must install a flow-meter in order to prove his compliance, in practice this requirement was not universally applied in the first years of programme operation. There is a risk that a farmer could use more water than is specified in these tables if he wished to maximise yields. Due to such inadequacies in control, the Commission has requested a financial correction from the Spanish authorities in respect of this programme.

80. Similar 'unique' control problems were identified in Finland, where 80 % of 'inspections' are performed via examination of satellite photographs, a procedure which is unable to detect many forms of AE non-compliance, for example application of pesticides. The Finnish State Audit Office identified 'significant deficiencies in administrative control procedures...'. For example, in 1998 environmental management programmes were missing for around 3 000 farms and farming plans for nearly 5 000 farms out of a total of approximately 77 000 farms. The necessary administrative controls have not been used to ensure that farmers have met the conditions for support before support has been paid'. The State Audit Office also identified wide regional variance in inspection rates, and regional variance in the severity of

sanctions applied to farmers in the event of non-compliance with programme requirements ⁽¹⁾.

81. Control problems were also identified by the Court for afforestation measures. For example in Finland, although the programme requires an inspection visit prior to plantation approval, the Court found no evidence of such visits being made for some of the beneficiaries. Furthermore, in one forestry centre none of the beneficiaries had implemented their projects as approved by the authorities. In one case the Court found that a plantation approved for broad-leaved trees consisted entirely of conifers. In Extremadura (Spain), one beneficiary was paid to build 25 km of forest tracks; however, he built only 17 km, and improved a further 3 km. In the same case, the authorities failed to deduct ineligible surfaces, including a river, from the claimed area. And for 'agricultural income foregone' aid purposes pastureland without trees was inappropriately classified as high-value 'wooded pasture/arable crops'. The auditors found no supporting documents were kept showing that claims had been checked prior to payment or how inspectors had in practice verified compliance. Commission inspectors identified similar problems in Castile-Leon and Castile-La Mancha in 1997/1998. Control problems were also identified in Italy (Emilia-Romagna) and Austria.

Follow-up

82. The Community's Financial Regulation Article 2 requires the Commission, acting in collaboration with the Member States, to ensure that Community expenditure takes place within the context of programmes with specific objectives; and that performance against objectives is measured. But as already indicated, evaluation work has been undermined from the outset by the failure at both Community and Member State level to support the design of the programmes and the setting of the objectives with a baseline survey of the state of the environment. As the EEA has recently reported, 'Links between agriculture as an important driving force and environmental pressures are diverse and complex. There is relatively little data available at a European level to provide an objective view of changing pressures on the rural environment. Although work is progressing on agri-environment indicators within the European Union and the OECD as well as at national level, they have yet to be applied in a systematic way' ⁽²⁾.

83. The failure to develop environmental indicators on the basis of which the impact of the programmes could be quantified was an additional factor undermining the work of evaluation. This problem has been recognised clearly by the Commission and the

Member States. In its summary report of Member State evaluations the Commission states, 'There has been comparatively little progress in developing indicators which are applicable to the evaluation of agri-environment policies In conclusion, indicator selection to monitor environmental impacts is essential to the success of any evaluation programme. Indicators must be relevant to the programme and its area of application. A pre-condition of selecting useful indicators is that programme objectives must be specific and clear; having vague objectives is likely to present great difficulties in terms of monitoring impacts' ⁽³⁾.

84. The development of appropriate indicators is essential, if future environment-oriented expenditure within the agriculture policy domain is to achieve value for money. As the report produced for the European Parliament's Committee on Budgetary Control by Professor Stefan Tangermann, concludes, 'To deal with all these matters will require indicators of: resource protection for soil, water and atmosphere; of the extent and health of natural and semi-natural habitats; of bio-diversity presumably on both farmed land and in field boundaries and land surrounding agriculture; landscape features and landscape change; historical and heritage features' ⁽⁴⁾. There are currently significant gaps in agri-environmental knowledge, for example, 'For want of adequate analyses it is impossible at present to assess the presence and scope of the residues of numerous pesticides likely to have adverse effects on health' ⁽⁵⁾.

85. At Member State level, in the United Kingdom, the national parliament's Public Accounts Committee concluded on the basis of NAO evidence, 'We are dismayed that, 10 years after the start of the scheme, the Ministry have still not developed an adequate set of measurable targets for judging the success of the scheme' ⁽⁶⁾. In Sweden, the SNAO found 'our audit shows that only a very limited evaluation can be made of the effects of environmental grants where the conservation of biological diversity is concerned... . This means that the Government lacks, to a great extent,

⁽¹⁾ Ibid., p. 2.

⁽²⁾ European Environment Agency, 'Environment in the European Union at the turn of the century', Copenhagen, 1999, p. 58.

⁽³⁾ European Commission (DG VI. F. II.1), 'State of application of Regulation (EEC) No 2078/92; evaluation of agri-environment programmes', Working Document VI/7655/98, 25.11.1998, pp. 33 and 34.

⁽⁴⁾ European Parliament, 'The purpose and methodology of evaluation in regard to EU agricultural expenditure', PE 168.019, BUDG 102-EN, p. 64.

⁽⁵⁾ Eurostat and European Commission, 'Agriculture, Environment, Rural Development: Facts and Figures — A Challenge for Agriculture', July 1999, chapter 'Water and agriculture: contribution to an analysis of a critical but difficult relationship', p. 7 of 9.

⁽⁶⁾ Thirty-ninth Report of the UK Public Accounts Committee: Ministry of Agriculture, Fisheries and Food: 'Protecting Environmentally Sensitive Areas', paragraph 2. The UK's Environmentally Sensitive Areas programme was established within the context of Council Regulation (EEC) No 797/85 (OJ L 93, 30.3.1985, pp. 1 to 18), which provided for limited co-financing by the Community of national agri-environmental measures within the context of EAGGF-Guidance.

the basic data it needs to make choices between different environmental measures' (1). The EEA has noted as a weakness of AE policy implementation, that 'there was no comprehensive evaluation or monitoring of results' (2). There were, however, some exceptions to this general failure; such as the Bavarian Ministry of Environment's VNP programme, which was supported by a good baseline survey.

Commission follow-up

86. The basic regulations for both AE and AF required the Commission to report to the Council and the European Parliament on the application of these measures within three years of their adoption and implementation (3). This reporting was duly carried out in late 1997 (4). However, neither of the 'application reports' presented constitutes an evaluation.

87. With regard to AE, the Commission has both carried out its own study of policy impact and produced a report summarising the results of Member States' evaluations. The Commission's own study examined AE measures at programme level in a wide range of Member States. This evaluation, performed by external expert consultants on behalf of the Commission, identifies many of the same shortcomings as highlighted by the Court in this report. The Court welcomes the development of an 'evaluation culture' in the Commission and Member States with regard to AE programmes.

88. By contrast, the environmental impact of the AF policy initiative has not been adequately analysed at Community level. Although trees planted in the 1990s will not be mature until decades in the future, nevertheless evaluation is necessary now in order to verify that AF is proceeding as foreseen, for example to verify that trees are being planted in the places of greatest environmental need. Failure to evaluate means that inefficient practices, such as the use of sapling species which, after plantation, were found to be unsuited to local conditions, may not be identified and rectified and EU funds may not achieve their full potential in terms of environmental value for money.

Member State follow-up

89. At Member State level, the analysis of AE policy impact has been mixed. For example, in Germany three regions have pro-

duced impressive evaluation studies; but 22 programmes have not yet been evaluated. In Italy, environmental evaluations have yet to be performed by three regions. In some Member States the quality of evaluation is inadequate, for example in Castile-La Mancha (Spain), the evaluation does not isolate the impact of the programme from other factors affecting water levels, such as annual variation in rainfall. The Member State and Commission's assertion that this programme is responsible for increasing groundwater levels, is unsupported by empirical evidence. Although empirical data on precipitation is available, it is not used. In fact, a five-year drought in Spain ended in 1996, and this is the likely cause of increased groundwater levels. Furthermore, in Luxembourg and in several regions in other Member States the Commission has noted that 'there appears to have been a considerable lack of commitment to evaluation' (5). There has been no evaluation produced at Member State level of the environmental aspects of afforestation.

CONCLUSIONS AND RECOMMENDATIONS

90. The importance of environmental considerations within agricultural policy is set to increase further over time. The Commission's major policy direction document, 'Agenda 2000: For a stronger and wider Union', notes 'The integration of environmental goals into the CAP and the development of the roles farmers can and should play in terms of management of natural resources and landscape conservation are another increasingly important objective for the CAP...'. In the coming years, a prominent role will be given to agri-environmental instruments to support a sustainable development of rural areas and respond to society's increasing demand for environmental services. The measures aimed at maintaining and enhancing the quality of the environment shall be reinforced and extended' (6). Currently an amount of ECU 2 800 million per annum is mentioned in the budget evaluation of Agenda 2000 for the accompanying measures (7).

91. However, with the 1992 reform, the Community may have succeeded in 'greening' its CAP but not necessarily agriculture. The expected environmental benefits of the changes made by the reform of 1992 to the common organisations of the market (COMs), are not yet realised to a significant extent, as the European Environment Agency's assessment of the current state of the rural environment makes clear (see paragraph 7). In the arable sector, area aid is still providing incentives for production

(1) SNAO, *op. cit.*, pp. 9 to 11.

(2) European Environment Agency, 'Environment in the European Union at the turn of the century', Copenhagen, 1999, p. 306.

(3) Article 10 of Regulation (EEC) No 2078/92 in respect of AE. Article 8 of Regulation 2080/92 in respect of AF.

(4) Regarding AE, see European Commission, COM(97) 620 final, 4.12.1997; regarding AF, see European Commission, COM(97) 630 final, 28.11.1997.

(5) European Commission (DG VI. F. II.1), 'State of application of Regulation (EEC) No 2078/92; evaluation of agri-environment programmes', Working Document VI/7655/98, 25.11.1998, p. 106.

(6) European Commission, 'Agenda 2000: For a stronger and wider Union', Volume I, COM(97) 2000 final, 15.7.1997, pp. 27 and 33.

(7) European Commission, COM(97) 2000 final, 15.7.1997, p. 75.

methods and crops which are environmentally damaging (see paragraphs 10 to 16). It provided relatively higher support to irrigated farmland and maize crops, thus supporting more intensive use of water and of agrochemicals. Furthermore it allowed the extension of areas cultivated by crops, to the detriment of pasture and wildlife. The high environmental potential of set-aside has also not been realised (see paragraphs 17 and 18).

92. In the livestock sector, the pollution problems generated by intensive livestock production have not been tackled effectively by the reform (see paragraphs 19 to 26). The way the stocking limits for cattle were applied, was not suited to achieving the objective of extensification of production, as they allowed farmers to keep as many animals as they wished and to limit their claims only to the eligible number (see paragraphs 19 to 22). Furthermore, stocking density restrictions for sheep and goats did not effectively address the problem of overgrazing because in many instances quota limits were set at unsustainably high levels (see paragraph 23). Most importantly, the reform has not tackled at all the nitrate pollution problem generated by intensive pig and poultry production (see paragraph 26). Major nitrate pollution problems persist in many regions of Europe due to Member States' failure to adequately implement the Community's Nitrates Directive. Moreover, COMs outside the Mac Sharry reform have failed to take adequate account of environmental concerns, and those COMs continue to finance environmental damage (see paragraphs 27 to 30).

93. The agri-environmental (AE) measures have had some beneficial environmental impact, particularly in providing incentives to farmers to maintain their extensive farm practices, and avoiding the abandonment of farm lands or their conversion to intensive farming. But the AE measures have had very little effect in converting intensive practices to extensive farming. One of the main reasons for this unsatisfactory performance is the Commission's and Member States' weaknesses in resource targeting, programme design, approval, and evaluation. Allocation of funds was determined mainly by the priorities of governments and regional authorities and their ability to provide for national contributions (see paragraph 37). This resulted in high financing in some countries and regions with less urgent environmental problems, while pressing environmental needs remained unaddressed in countries which did not implement comprehensive programmes (see paragraph 38). Moreover, the implementation of the programmes turned out to be very costly in terms of their administration and control (see paragraphs 72 and 73).

94. Concerning afforestation (AF) measures, in many cases support was given for the planting of species which are profitable from the commercial point of view but whose environmental impact is negative, especially with respect to biodiversity and landscape (see paragraph 43). Moreover in some countries a very high proportion of AF aid was used to fund the construction of forest roads which have potentially negative long-term implications for the integrity of ecosystems (see paragraph 52). As in AE, in AF the resource allocation did not reflect an appropriate prioritisation of environmental needs.

95. The introduction of the AE and AF measures has aggravated the already existing problems of lack of coordination between the numerous Community programmes impacting on the rural environment, as already recognised by the Court (see paragraphs 61 to 69) ⁽¹⁾.

96. In order to improve the situation, the existing optional 'eco-conditionality' rules within certain common market organisations should be developed further and be made mandatory throughout the European Union. The environmental authorities at European and national level should be actively involved in identifying damaging agricultural practices and vulnerable zones, and in developing a comprehensive policy response to combat these threats. For example, arable aid should be conditional on the respect by farmers of European and local environmental protection legislation, such as pesticide control legislation and the Nitrates Directive. Livestock aid should be conditional on the respect by farmers of real density limits as well as European and local veterinary, animal welfare and environmental protection legislation.

97. The Commission should also conduct a thorough review of all environment-relevant measures which impact on agriculture, in order to verify that these are suitably coordinated, consistent and comprehensive in terms of the environment.

98. The staffing of the AE unit should be reinforced, in order to ensure that it appropriately reflects the financial importance and technical complexity of policy implementation in this field. This is made all the more necessary by Agenda 2000's rural development policy initiative, which has significantly increased the workload of the Commission. It is essential that the Commission's personnel responsible for managing and controlling these expenditures acquire a greater basic knowledge and understanding of agri-environmental linkages. This can be achieved by recruitment of relevantly qualified staff, by specialist training, and/or by access to consultancy support (see paragraphs 48 to 50).

99. It is essential that EU aid be actively targeted to the zones and activities where it can secure the best environmental value for money; to achieve this, the Commission must adopt a more vigorous approach, to ensure that EU funds are used to address environmental priorities identified at the European level.

100. Programme approval procedures must be improved to ensure that programmes are clearly connected with the achievement of measurable environmental benefits. The programme approval for Castile-La Mancha should be reviewed. The Commission must verify by on-the-spot inspection that the basic premises

⁽¹⁾ The Court of Auditors' Annual Report concerning the financial year 1996, paragraph 8.54(b).

of programme design are sound (e.g. that proposed aid rates accurately reflect data in the field) and that programmes are implemented as approved.

101. In order to address the verification problem presented by measures limiting nitrogen application, such measures should operate only if Member States institute farm-level fertilisation planning, supported by guidance for farmers. The Commission

should reject as inadequate (in terms of providing a sound framework for the financial management of Community funds) any future Member State application for programme approval which does not include such farm-level planning and inspection.

102. Member States must also generally develop further their systems for soundly designing programmes, for verifying beneficiary compliance with programme requirements, and for monitoring and evaluating programme impacts.

This Report was adopted by the Court of Auditors in Luxembourg at its meeting of 6 July 2000.

For the Court of Auditors

Jan O. KARLSSON

President

ANNEX I

Extract from 5EAP: agriculture and forestry related policy objectives, targets up to 2000, actions, time-frame and actors

Objectives	Targets up to 2000	Actions	Time-frame	Actors
Maintenance of the basic natural processes indispensable for a sustainable agricultural sector notably by conservation of water, soil, and genetic resources	Standstill or reduction of nitrate levels in ground waters	Strict application of the Nitrates Directive	1994 →	MS + AGR
	Reduced incidence of surface waters with a nitrate content exceeding 50 mg/l or giving rise to eutrophication of lakes and seas	Setting of regional emission standards for new livestock units (NH ₃) and silos (silage)	ongoing	MS + LA
	Stabilisation or increase of organic material levels in the soil	Reduction programme for phosphate use	1995	EC + MS
		Allocation of premiums and other compensating payments to be subject to full compliance with environmental legislation	1995 →	EC + MS + LA + AGR
Decrease in the input of chemicals to the point that none of these processed be affected	Significant reduction of pesticide use per unit of land under production and conversion of farmers to methods of integrated pest control, at least in all areas of importance for nature conservation	— Registration of sales and use of pesticides	ongoing	EC + MS + AGR
		— Control on sale and use of pesticides	1995	EC + MS + AGR
		— Promotion of 'integrated control' (in particular training activities) and promotion of bioagriculture	1992 →	EC + MS + AGR
Rural environment management permitting the maintenance of biodiversity and natural habitats and natural risks (e.g. erosion, avalanches) and fires	15 % of agricultural area under management contracts	Programmes for agriculture/environment zones with premiums co-financed by EAGGF	1992 →	MS + EC
		Protection of all endangered domestic animal races.	ongoing	MS
	Management plans for all rural areas in danger	Re-evaluation of licence conditions for irrigation and of State aids for drainage schemes	1995	
		Training of farmers, promotion of exchange visits between regions with comparable environment management situations	1992 →	EC + MS + LA
Optimisation of forest areas so as to fulfil all their functions	Increase of forest plantations, including on agricultural land	New afforestation and regeneration of existing forests, favouring the most adequate means for the environment (slow growing trees, mixed afforestation)	ongoing	EC + MS + LA + forest-owners
	Improved protection (health and forest fires)	Further action against forest fires	idem	idem

Source: OJ C 138, 17.5.1993, p.38.

ANNEX 2

Environmental problems associated with agricultural practices identified by the European Environment Agency: selected extracts from the report 'Environment in the European Union at the turn of the century', 1999.**GENERAL**

1. 'In many areas in the European Union, agriculture is now using intensive and large-scale production methods. This has and continues to involve significant use of artificial fertiliser (mainly nitrogen and phosphate) and the application of plant protection products such as herbicides, insecticides and fungicides. Not all of these substances are taken up by the crops and certain amounts of fertilisers contribute to eutrophication of soil and water systems, whereas pesticides pollute soil, ground and surface water and air. Livestock creates eutrophication as well and contributes to acidification and producing greenhouse gases. Agriculture also contributes in some areas to soil degradation, erosion and salinisation' ⁽¹⁾.
2. 'Both at EU and Member State level, there are major subsidy programmes that affect environmentally important markets [including, *inter alia*, agriculture] ... such subsidies ... sometimes have deleterious effects on the environment because they encourage wasteful production or the excessive use of damaging inputs (e.g. fertilisers, pesticides). Generally, subsidies are declining, although subsidies to agriculture through CAP [*inter alia*] remain high, and may have considerable negative environmental impacts' ⁽²⁾.
3. 'Links between agriculture as an important driving force and environmental pressures are diverse and complex. There is relatively little data available at a European level to provide an objective view of changing pressures on the rural environment. Although work is progressing on agri-environmental indicators within the European Union and the OECD as well as at national level, they have yet to be applied in a systematic way' ⁽³⁾.
4. 'Subsidies with a possible negative influence (like a considerable part of price supports) are still common' ⁽⁴⁾.

BIODIVERSITY

5. '...the threat to Europe's wild species is severe and growing... . The main causes are the abandonment of traditional forms of agricultural land use which alone accounts for over 40 % of Europe's declining bird species, inappropriate forestry, infrastructure development, water abstraction and pollution' ⁽⁵⁾.
6. 'Although concerns for nature protection are beginning to be integrated in sector policies, negative impacts on biodiversity are expected to continue from agricultural intensification, land abandonment, monospecific forestry ... and the introduction of alien species (and possibly genetically modified organisms) ... polarisation (towards intensification or abandonment) of agricultural activity in areas of extensive agricultural practices leads to ecological conditions of less value for nature conservation... In agriculture and forestry, exchange between cultivated and natural gene pools has occurred widely... . Data from different countries on GMOs indicate that genes from crops can, and already have [pass], into natural populations of wild relatives, but the process has also been seen in rape and cabbage (*Brassica*) able to break through the species barrier into other species such as white mustard (*Sinapis alba*) and wild radish (*Raphanus raphanistrum*)' ⁽⁶⁾.

⁽¹⁾ European Environment Agency, 'Environment in the European Union at the turn of the century', Copenhagen Office for Official Publications of the European Communities, 1999, p. 56.

⁽²⁾ Ibid., p. 403.

⁽³⁾ Ibid., pp. 29 and 58.

⁽⁴⁾ Ibid., p. 397.

⁽⁵⁾ Ibid., p. 347.

⁽⁶⁾ Ibid., p. 285.

LANDSCAPE

7. '...landscapes are undergoing radical transformation as a result of six main trends [including, as 1 and 2] the intensification of agricultural landscapes in which the quest for greater agricultural productivity continues with ever larger property structures [and] increasing mechanisation; and the reforestation or fallowing of rural land gradually abandoned by agriculture' ⁽¹⁾.

8. 'Traditional agricultural systems call for a considerable input of skilled work, to manage grazing systems and maintain features such as stone walls and hedgerows. With the decline in traditional farmland management, the shift towards mechanisation and more intensive production systems, coupled with a decline in the numbers of those working the land, many of these "cultural" landscape features are being lost' ⁽²⁾.

WATER RESOURCES

9. 'Water stress is caused by activities in two sectors identified as priorities under the 5EAP, namely agriculture and industry ... little progress has been made by the agricultural sector... . Water stress causes deterioration of fresh water resources in terms of quantity (aquifer overexploitation, dry rivers, etc.) and quality (eutrophication, organic matter pollution, saline intrusion, etc.). Such deterioration can result in health problems and have a negative influence on ecosystems' ⁽³⁾.

10. 'Over the past decades the trend in agricultural water use has, in general, been upwards, due to the increasing use of water for irrigation' ⁽⁴⁾. 'Water consumption (principally evapo-transpiration) in the European Union is estimated to be 77 km³/year, or around 32 % of total abstractions, with 80 % attributable to agriculture (mainly irrigation water)' ⁽⁵⁾.

11. 'Water resources in the Mediterranean basin area, under increasing pressure, are about to be a major challenge regarding development and security over the next decades... it is projected that in 2025 more than 13 countries will be abstracting more than 50 % of their renewable water resources and six countries more than 100 %' ⁽⁶⁾. 'In Mediterranean countries the overexploitation commonly arises from excessive abstraction for irrigation. The resulting increase in productivity and change in land use can establish a cycle of unsustainable socioeconomic development within an irrigated region. Additional resources are exploited to satisfy the increased demand from the population and agriculture, exacerbating the already fragile environment by reducing groundwater levels and, in some circumstances, accelerating the desertification processes... . It is estimated that about 50 % of major wetlands in Europe have "endangered status" due to groundwater overexploitation' ⁽⁷⁾. 'At one time during the period 1990 to 1995 [a major drought], 25 % of the population in Spain, especially in the south of the country, was suffering restriction of domestic water supply' ⁽⁸⁾.

12. 'Agricultural activities also contribute to phosphorus loading Diffuse phosphorus loads from agriculture are in some countries quite significant. In the United Kingdom, for example, the agricultural contribution is as high as 43 %, in Germany 46 % ... and in Denmark 38 %' ⁽⁹⁾.

13. 'Water quality is a significant factor in exposure to health risks. In general, water pollution has declined in the European Union, although concerns remain over localised quality problems, and particularly nitrate contamination of groundwater resources A Europe-wide assessment of drinking water quality and estimation of related health risks faces serious difficulties due to scarcity and comparability of appropriate data' ⁽¹⁰⁾.

⁽¹⁾ Ibid., p. 345.

⁽²⁾ Ibid., p. 344.

⁽³⁾ Ibid., p. 155.

⁽⁴⁾ Ibid., p. 161.

⁽⁵⁾ Ibid., p. 159.

⁽⁶⁾ Ibid., p. 161.

⁽⁷⁾ Ibid., p. 162.

⁽⁸⁾ Ibid., p. 163.

⁽⁹⁾ Ibid., pp. 165 and 166.

⁽¹⁰⁾ Ibid., p. 267.

14. 'Progress on [Directive] 91/414/[EEC] [the Community Directive combating pesticide contamination] has been glacially slow — seven years after adoption analysis is complete on only one active substance out of approximately 800' ⁽¹⁾.

15. 'Agriculture is the main source of nitrogen loading to water bodies. High inputs of nitrogen to water bodies can cause significant ecological changes' ⁽²⁾. 'Despite documented decreases in fertiliser use, livestock numbers and manure production, European agriculture still adds much more nitrogen to the soil than is required for crop growth. When this nitrogen leaches out of the soil and reaches a water body it can cause problems' ⁽³⁾. 'In the case of diffuse sources, such as nitrate runoff from agriculture, effective control has rarely been achieved The implementation of the Nitrate Directive has been unsatisfactory in the majority of Member States' ⁽⁴⁾. 'Nitrate concentrations in EU rivers have shown little change since 1980, contributing to eutrophication in coastal waters. Nutrient input from agriculture is still high ... overexploitation and salinisation of groundwater in the coastal areas continue to be critical' ⁽⁵⁾. 'The surplus of nitrogen input over uptake varies widely among EU countries. This surplus is high in certain areas of Belgium, Denmark, France, the Netherlands and the United Kingdom. It has been estimated that the supply of manure (in EU-12) exceeds 170 kg N per ha — a threshold set by the Nitrate Directive for zones which are identified to be vulnerable to the leaching of nitrate — in around 13 % (or almost 1 million) of the farms for EU-12, ranging from 63 % in the Netherlands to less than 10 % in France, Ireland and Italy' ⁽⁶⁾. 'The most serious situation was observed in regions where intensive livestock and arable farming takes place (e.g. Brittany, Paris basin, and Rhone valley)' ⁽⁷⁾.

SOIL RESOURCES

16. 'Intensive industrial agriculture gives rise to severe (and increasing) pressures on agricultural soils, which represent approximately 40 % of the European Union's total soil resource. The major impacts on soil are: increased susceptibility to wind and water erosion as a consequence of agricultural practices (long exposure of ploughed soil, loss of organic matter, cultivation on steep slopes, etc.); loss of grazing cover and erosion due to overgrazing; loss of fertility due to deep ploughing, elimination of crop residues, monoculture and elimination of mixed cultivation/animal farming; soil compaction by heavy machines, with increased run-off. These problems, initially focused on zones with fertile soil in Europe, are now widespread at continental level, as industrial agriculture has spread to regions with less fertile and more vulnerable soils, such as the Mediterranean area' ⁽⁸⁾.

17. 'Agriculture causes acidifying emissions (ammonia) and the development in livestock will bring this sector to the very top of the contributors to acidification over the next decade' ⁽⁹⁾.

18. 'Diffuse contamination is particularly significant in areas with intensive agriculture Strategies for soil protection, and systems for monitoring of soil, are not adequately developed at European or national level' ⁽¹⁰⁾.

19. 'Erosion is a major cause of degradation and the effects are increasing. All European countries are affected to some extent: about 12 % of the land area of Europe, mainly rural, is affected by water erosion and 4 % by wind erosion...' ⁽¹¹⁾. 'The major causes are unsustainable agricultural practices and overgrazing... . The loss of plant nutrients and organic matter via eroded sediment reduces the fertility and productivity of the soil. This leads to a vicious circle whereby farmers apply more fertilisers to compensate for the loss of fertility. Soil, once eroded, tends to be more susceptible to further erosion, and thus the cycle intensifies. The loss of applied nutrients in this way, represents an enormous cost to the agricultural community. It has been calculated that in Austria, potential loss of organic matter in agricultural soil due to erosion could be more than 150 000 tonnes per year, while potential loss of nutrients, such as nitrogen and phosphorus, could be more than 15 000 and 8 000 tonnes per year respectively' ⁽¹²⁾. 'In parts of the Mediterranean region, erosion has reached a stage of irreversibility and in some places soil erosion has practically stopped through lack of soil. With a very slow rate of soil formation,

⁽¹⁾ Ibid., p. 156.

⁽²⁾ Ibid., p. 164.

⁽³⁾ Ibid., p. 165.

⁽⁴⁾ Ibid., p. 178.

⁽⁵⁾ Ibid., p. 24.

⁽⁶⁾ Ibid., p. 57.

⁽⁷⁾ Ibid., p. 176.

⁽⁸⁾ Ibid., pp. 186 and 7.

⁽⁹⁾ Ibid., p. 31.

⁽¹⁰⁾ Ibid., p. 183.

⁽¹¹⁾ Ibid., p. 346.

⁽¹²⁾ Ibid., p. 188.

any soil loss of more than 1 tonne/ha/year can be considered irreversible within a time span of 50 to 100 years. Losses of 30 to 40 tonnes/year in individual storms that may happen once every one or two years are measured regularly in the European Union, with losses of more than 100 tonne/ha in extreme events... . Soil losses are high in Spain, where loss of soil in agricultural land reached a peak of an average 28 tonne/ha/year, in the period 1990 to 1995, while the total area affected was 18 % of the total land in 1995. Substantial losses have been calculated for Austria, where an average of more than 9 tonnes ha/year in agricultural land losses affected an area of approximately 8 % of the total land... . The EU Mediterranean countries have severe soil erosion problems, which can reach the ultimate stage and lead to desertification. At present rates of erosion, considerable areas in the Mediterranean and the Alps, currently not at risk, may reach a state of ultimate physical degradation, beyond a point of no return within 50 to 75 years. Some smaller areas have already reached this stage' ⁽¹⁾.

20. 'Below the broad framework of the 5EAP, there is also no legislation at an EU level which directly addresses soil protection' ⁽²⁾.

21. 'Modern intensive agricultural practices of specialising in either arable or livestock farming has resulted in declining organic content of soils in some rural areas due to the rupture of traditional organic and nutrient cycling associated with mixed farming systems' ⁽³⁾.

AGRI-ENVIRONMENTAL MEASURES

22. 'Agri-environmental schemes, though important for the conservation of farmed environments of high nature value, for improved genetic diversity and for protection of agro-ecosystems, present a number of weaknesses: competition with mainstream production support payments; insufficient administrative capacity; budget limitations (in 1997 only 3,7 % of the total CAP budget, or 5 % if Member State contributions were included; in some countries, a national co-financing contribution of 25 % has proven difficult); the Regulation (EEC) No 2078/92 schemes remain viable only through additional measures for farmers (for example LEADER programmes); payments were not guaranteed to continue in the future; there was no comprehensive evaluation or monitoring of results' ⁽⁴⁾.

23. 'A recent study has concluded that ... agri-environment measures may delay adverse developments and repair some damage but it is "highly unlikely" that the production-oriented systems can be reoriented, and that other agricultural measures are not focused on environmental benefits' ⁽⁵⁾.

AFFORESTATION MEASURES

24. 'Afforestation programmes initiated under ... Council Regulation (EEC) No 2080/92 have been applied differently in Member States. Four EU countries (Spain, the United Kingdom, Ireland and Portugal) have actively implemented these programmes, accounting for more than 80 % of the total area afforested under the Regulation. In many cases, fast-growing species, including exotic species, have been used, often at the expense of habitats of high biodiversity value' ⁽⁶⁾.

25. 'Under afforestation measures, 700 000 ha of new forest will be created and 300 000 ha of forest will be improved in the European Union. This implementation, however, often disregards the choice of tree species and the impacts on soil, water, landscape and biodiversity, and so it has not necessarily been environmentally beneficial In a recent study it was stated that the concerns of zonal afforestation plans, such as the selection of locally adapted tree species, have not been met and impacts on soil, water and biotopes must be expected' ⁽⁷⁾.

26. 'Ireland and Spain, in seeking to extend their forest cover rapidly for either commercial or watershed-management purposes, have often run into conflicts over the landscape impact largely related to the loss of open field or moorland landscapes and the planting of monocultures or coniferous trees' ⁽⁸⁾.

⁽¹⁾ Ibid., p. 189.

⁽²⁾ Ibid., p. 197.

⁽³⁾ Ibid., p. 346.

⁽⁴⁾ Ibid., p. 306.

⁽⁵⁾ Ibid., p. 392.

⁽⁶⁾ Ibid., p. 286.

⁽⁷⁾ Ibid., p. 393.

⁽⁸⁾ Ibid., p. 345.

THE OUTLOOK

27. 'Despite reforms of the CAP introducing certain environmental measures, there remains a prospect of agricultural polarisation: a combination of intensive farming and land marginalisation — both impacting on the environment' ⁽¹⁾.

28. 'Environmentally damaging subsidies, which are another example of failure to integrate environmental cost into market prices [an aim of 5EAP], are still large in agriculture' ⁽²⁾.

29. 'It is possible that, as a result of the Agenda 2000 measures, farmers producing cereal crops will reduce their use of certain inputs, such as plant protection products and artificial fertiliser ... in the beef farming sector ... There must be a concern that polarisation between intensification and marginalisation will continue' ⁽³⁾.

30. 'As regards future pressures and impacts on biodiversity likely to occur towards the year 2010, the main assumptions are as follows ... eutrophication will continue to be an important pressure ... intensification of agriculture can be expected to continue on a large scale in plains, notably in the Atlantic plains, and to occur locally in several regions ... in northern countries intensification of forestry and afforestation will continue ... land abandonment, mainly affecting grassland ecosystems, is likely to affect largely southern regions, with a consequent erosion of soil and an increase in fire risks. Land abandonment and marginalisation also concern continental and sub-continental middle mountains' ⁽⁴⁾. 'Even measures to create protected areas or to promote environmentally friendly agricultural production cannot prevent influences and impacts if the areas of land involved are small' ⁽⁵⁾.

31. 'Results of the 1999 CAP reform are expected to have both positive and negative impacts on biodiversity, but the full implications cannot yet be foreseen' ⁽⁶⁾.

32. 'Rural policies, and notably agri-environmental rural policies, have a great potential for environmental integration in a spatial context or framework within which it is possible to discern the actual impact of the shifts in policy response. A significant step in this direction is Agenda 2000 which introduces rural policies, including agri-environmental rural policies, and investment in environmentally sound techniques, as a second pillar of the CAP' ⁽⁷⁾.

33. 'It will also be important to ensure that adequate mechanisms are in place for monitoring the impact of rural development and agri-environmental measures given the paucity of data relating to the current measures' ⁽⁸⁾.

⁽¹⁾ Ibid., p. 31.

⁽²⁾ Ibid., p. 32.

⁽³⁾ Ibid., p. 58.

⁽⁴⁾ Ibid., p. 294.

⁽⁵⁾ Ibid., pp. 295 and 296.

⁽⁶⁾ Ibid., p. 306.

⁽⁷⁾ Ibid., p. 352.

⁽⁸⁾ Ibid., p. 353.

THE COMMISSION'S REPLIES

SUMMARY

In tackling the greening of the CAP, the Court of Auditors has embarked on a huge and vastly complex subject. The Commission welcomes the report which contains many conclusions, observations and recommendations marking a constructive contribution to the debate on the environmental impact of agriculture and the instruments of the CAP in particular. The Commission particularly welcomes the Court's appreciation of the complexities of the agriculture-environment interaction, notably the farming-dependent nature of the European rural environment, a fact which sets agriculture apart from other economic sectors.

The Commission itself has identified many of the policy shortcomings pointed out by the Court and has brought considerable reforms into effect by the recent Agenda 2000 CAP Reform. The Court's report endorses in principle the measures and actions taken in the recent reform which goes further along the same line as the 1992 Reform and thereby continues to integrate more environmental concerns into the CAP. Support prices are further reduced, weaknesses of the first reform are rectified and the new Rural Development Regulation provides a more coherent approach for dealing with the challenges of the countryside including the environment.

However, as is inevitable in a report of such wide scope as greening the CAP, there will be points made by the Court which the Commission finds either too harsh, although relevant, or the Commission does not accept and presents the case against. For example, the Commission (and Member States) were at fault, according to the Court, in failing to target the agri-environment budget on Europe's most pressing farming-related environmental problems, such as nitrate pollution, over-abstraction of water and so on. The danger, in the view of the Commission, is that to pay to alleviate many of the most serious environmental problems would run counter to the 'polluter-pays principle' — a principle the Court itself champions.

Reform of market regimes

The reduction of cereal support prices, which in fact started in 1988 with the stabiliser system, has led to an extensification of production. With lower prices for the product the economically optimum level of inputs goes down. One of the objectives of moving from price support to direct payments was exactly to discourage intensification of arable production.

The institutional prices are generally the base level for market prices in the EU. But there are years where other factors have a strong influence on market prices. For some years in the mid-1990s a strong world market kept internal market prices well above institutional prices. However, since then world market prices have decreased again and EU farmers are experiencing considerable falls in internal market prices.

In the livestock sector a major environmental weakness of the 1992 Reform was, as pointed out by the Court, that the stocking density limits for receiving animal premiums were in practice not fully effective. In the new common market organisation for beef and veal, Regulation (EC) No 1254/1999, adopted as part of Agenda 2000, it is laid down that the calculation of stocking density for the extensification premium must include all grazing animals on a farm. This is one of the considerable environmental improvements introduced by Agenda 2000.

The environmental problems in pig and poultry production in some regions of the EU should be tackled within the framework of the Nitrate Directive rather than by the CAP. Unfortunately, 12 Member States have not fully implemented the Nitrate Directive. The Commission is pursuing this matter vis-à-vis the Member States concerned via the Court of Justice. The CAP cannot solve problems caused by the non-application of key environment legislation.

In the sectors outside the 1992 Reform a number of changes have since been made with beneficial effects for the environment. For example, the fruit and vegetable sector was reformed in 1996 to include environmental considerations, such as stricter rules for withdrawals. As part of Agenda 2000 there will be new direct

premiums in the milk sector from the year 2005: a premium per tonne of milk within the milk quota and an area premium for permanent pasture. At the same time the milk support price will be reduced by 15 %. These measures clearly encourage an extensification of production.

Agri-environment measures

At the request of the European Parliament, the Commission produced a comprehensive document in 1998 concerning the evaluation of the agri-environment programmes (Commission Working Document 7655/98, Application of Regulation (EEC) No 2078/92 — evaluation of the agri-environment programmes). In that paper, the main achievements and shortcomings of programme implementation are described, using information drawn from 150 Member State reports and numerous Community-funded studies under the FAIR programme and its predecessors. The Commission notes that the Court has in places quoted from this document.

The Agri-environment Regulation was, as indicated by the Court, an innovative measure, introduced with the 1992 Reform, to encourage farmers to use agricultural practices going beyond mandatory requirements and normal good-farming practices. The main legal innovation lay in establishing a decentralised approach to the implementation of a Community obligation. Member States were required to implement the measures throughout their territory according to their needs. This was a decision of the Council, and no Member State or region had the authority to alter the terms of this basic obligation on the grounds of subsidiarity.

Approval of programmes was exclusively on the basis of the criteria in Regulation (EEC) No 2078/92 and these did not include assuring an even geographical spread of expenditure. However, it is important for the Commission to state that no programme was ever refused on the grounds of lack of resources, while programmes were refused on the grounds of incompatibility with Regulation (EEC) No 2078/92, for example for not delivering environmental services going beyond mandatory requirements and normal good-farming practices.

The new Rural Development Regulation (EC) No 1257/1999, which was drafted in the light of Commission experience and views expressed by the European Parliament, is more precise on programme justification and thereby meets most of the points raised by the Court. Member States must now build a strategy to cope with their environmental problems. They will be asked to provide a complete picture of their environmental needs and potential, including those matters addressed by national or community measures outside the agri-environment scheme. This new global approach will give the Commission the possibility of influencing the allocation of funds within programmes.

Despite the problems identified, the agri-environment measures have basically been successful. Agri-environment contracts concern one out of every seven farmers delivering environmental services on almost 20 % of EU farmland. This marks a very significant step towards sustainability. The target set in the fifth environmental action programme of 15 % of farmland covered by the year 2000 has thereby been exceeded.

The comments made by the Court on the control problems are noted by the Commission. But whenever audits by the Commission have revealed inadequate practices, the competent authorities have been asked to remedy them (for example requiring control rates to be increased in cases of a high percentage of irregularities, etc.). Shortcomings are also followed up in the clearance-of-accounts procedure. The implementation of Regulation (EC) No 746/96 provided a very important tool in respect of controls, by requiring an exhaustive administrative supervision, including cross-checks in all appropriate cases with data from the integrated administration and control system, which also was a new tool implemented at the same time as the agri-environment measures.

On the question of human resources within the Commission, it should be noted that the Commission in 1999 undertook a reorganisation of the directorates in Directorate-General Agriculture dealing with rural development, including the creation of a coordination unit to ensure a coherent programme approval procedure.

In referring to the Court's statement that the Community has not succeeded in 'greening' agriculture, the Commission must emphasise that it firmly believes that the Community is on the right track and that positive

results can already be demonstrated. For example, Table 2 of the Court's report shows a significant decrease in fertiliser use within the Community over the last 10 years.

In summing up this report, the Commission draws two main messages. Firstly, that with the Agenda 2000 Reform the instruments are in place to achieve environmental integration. This conclusion goes so far as to suggest that on the legislative level, integration of environmental concerns into the CAP is becoming a reality. In achieving this, agriculture has been ahead of the integration plans in other sectors — which should not be a surprise given the symbiotic relationship between farming activities and the rural landscape. The second main message is that it is important to develop and target the agri-environment programmes and measures to ensure delivery of real and quantified environmental benefits.

INTRODUCTION

1 to 9. In tackling the greening of the CAP, the Court of Auditors has embarked on a huge and vastly complex subject. In this report the Court has addressed not only all the regimes of the CAP and the accompanying measures — some EUR 40 billion expenditure per annum — but also the complex interrelation between agriculture and the rural environment.

The Commission welcomes the report, which contains many conclusions, observations and recommendations marking a constructive contribution to the debate on the environmental impact of agriculture and the instruments of the CAP in particular. The Commission particularly welcomes the Court's appreciation of the complexities of the agriculture-environment interaction, notably the farming-dependent nature of the Community's rural environment.

The Commission welcomes and accepts some of the, at times strong, criticisms of the Community's policy achievements in respect of environmental integration as a result of the 1992 Reform. In making its observations, the Court concentrates on a number of key elements, such as cross-compliance, adaptation of all market organisation regimes to ameliorate environmental impacts, and the need to tighten up the provision of agri-environment programmes.

These policy needs had also been identified by the Commission and brought into effect by the recent Agenda 2000 CAP Reform. In this way, the Court's report endorses in principle the measures and actions taken in the recent reform.

Agenda 2000 goes further along the same line as the 1992 Reform and thereby continues to integrate more environmental concerns in the CAP. Price support is further reduced, weaknesses of the first reform are rectified and with the new Rural Development Regulation the Community has a more coherent approach for dealing with the challenges of the countryside including the environment.

However, it should be emphasised that the CAP cannot solve problems caused by the non-application of key environment legislation, such as the Nitrate Directive.

The Court takes the fifth environmental action programme as a benchmark. The Commission notes that the only quantified target of the fifth EAP concerning agriculture was that 15 % of the land should come under agri-environmental management contracts. This has more than been achieved as, by 1998, contracts had been signed for almost 20 % of total farmland in the Union.

THE POST-1992 ENVIRONMENTAL IMPACT OF THE COMMON ORGANISATIONS OF MARKETS

Arable crops

10. The new Regulation (EC) No 1259/1999 (Article 3) stipulates more precisely the Member States' obligations to enforce necessary environmental measures. The Commission will closely monitor the implementation of the Regulation.

11 and 12. The reduction of cereal support prices, which in fact started in 1988 with the stabiliser system, has led to an extensification of production. With lower prices for the product the economically optimum level of inputs goes down. One of the objectives of moving from price support to direct payments was exactly to discourage intensification of arable production.

The institutional prices are generally the base level for market prices in the EU. But there are years where other factors have a strong influence on market prices. This was the case for cereals for some years in the mid-1990s where a strong world market kept internal market prices well above institutional prices. It is therefore not surprising that the reduction in the use of fertiliser and agrochemicals slowed down during these years.

However, since then world market prices have decreased again and EU farmers are experiencing considerable falls in internal market prices.

13 and 14. The base areas and the premiums per hectare are based on historic data on yield and land use. As the principle in the reform was to compensate the farmer for the income loss due to the price reduction, it was only fair to grant a higher compensation to irrigated land than non-irrigated as the loss suffered was also higher due to the higher yield per hectare. It should also be mentioned that in some parts of southern Europe agriculture is to a large extent only possible through irrigation. The premium differentiation was maintained in Agenda 2000.

Once the base areas were established, they have remained fixed. Whereas the premium differentiation reflects averages of different yield potentials it does not entail the obligation on the side of the farmers to continue or introduce irrigation. Therefore the introduction of direct payments should not entail any incentive to increase irrigation.

The fact that compensatory payments have not been the same for all products may have had some influence on farmers' decisions on land use, although in general there has not been an increase in the production of maize in the south of Europe. With Agenda 2000 the payments per tonne will be the same for all cereals and oilseeds and thereby neutralise any effect that the differentiated payments may have had.

The high premium for durum wheat is inevitably an incentive for this crop. Production was however limited in the past to individual eligible areas, and today to maximum guaranteed areas for each member state concerned.

15. The Commission agrees that despite the clear rules concerning the eligibility for arable aid, in practice there have been problems. It cannot be excluded that in the course of establishing the base area, some land slipped into it which had previously been used differently, e.g. grassland so long in rotation that it would not fulfil the reference period criteria. Another example is grassland classified in the public land register as 'arable land', which in practise makes it almost impossible to prove that it is not eligible. However, the criticism that the reform gave incentives for land-use changes is only valid in the set-up phase, while — once the register of parcels is established — direct payments give no incentive for further changes in land use. According to the information available to the Commission, these problems have not been widespread and have not had a significant influence on the determination of eligible areas.

16. As indicated in the reply to points 13 and 14, the arable premiums were introduced to compensate farmers for the income loss due to the cut in support prices.

The farmer's decision on the quantity of inputs is normally based on the input-output price relation, i.e. the prices of fertiliser, agro-

chemicals, etc. on one side and the final product (cereals) on the other side. The compensatory payment is a fixed element and does therefore not influence the farmer's decision on inputs.

One of the very important reasons for introducing direct payments was exactly to reduce the incentive of high prices to intensify production.

Apart from this, it is important to note that intensive production is not necessarily harmful to the environment. Intensive production can be sustainable within both arable and livestock production. This is notably the case where an improved eco-efficiency (emission per unit of output) overcompensates the environmental effect of higher input use.

Set-aside

17. Set-aside was introduced primarily as a measure to control production. However, if properly managed, set-aside can also have positive environmental effects.

18. See reply to point 10.

Livestock

19 to 21. The weakness pointed out by the Court has been rectified in Agenda 2000. In the new market organisation for beef and veal, Regulation (EC) No 1254/1999, it is laid down that for the extensification premium the calculation of the stocking density must include all grazing animals on a farm. This is one of the considerable environmental improvements introduced by Agenda 2000.

The impact of the restrictions on the density factor varies very much, of course, from one Member State to another. The United Kingdom is a country with extensive grazing land and many livestock farmers already meet the density levels encouraged by the regulations.

In other Member States, applying a density ceiling of 2 LU/ha has had a clear effect of discouraging intensive livestock farming. Mainly because of the stocking density rule, the number of premiums in several Member States is well below the regional ceiling for special beef premiums and potential suckler-cow premium rights. This is true especially in Italy, the Netherlands, Belgium and Denmark.

The impact of these measures on intensive livestock farming was thought sufficiently great by the Council that, in November 1996, it asked the Commission to look into appropriate solutions to the specific situation of regions traditionally dependent on intensive production.

In the case of Spain, the abusive practice referred to by the Court was noticed by the Commission, which asked the Spanish authorities to take appropriate measures.

20. The stocking density limit is an environmental measure to encourage a sustainable relation between forage area and cattle production. This is particularly important in the case of big holdings with a high number of cattle. The exemption for small farmers was introduced for social and administrative reasons. In some countries, like Portugal, a considerable number of farmers base their livelihood on a small cattle production. The stocking density limit would be difficult to fulfil for many of these farmers if they were still to make a living out of the production. The exemption was therefore maintained in Agenda 2000.

22. The Commission acknowledges that overgrazing has become a problem in certain areas. An evaluation study of the common market organisation for sheepmeat is being undertaken, including an examination of the impact of the regime on the environment. The Commission will draw its conclusions once the study has been completed, which is foreseen for spring 2000.

23. Cross-compliance was an option open to Member States under Regulation (EEC) No 805/68 as amended by Regulation (EC) No 3611/93. A further step forward was taken in Agenda 2000 with the inclusion of a similar but now mandatory provision in Council Regulation (EC) No 1259/1999 on direct support.

24. The improvements made under Agenda 2000 to the extensification scheme involve taking into account not only all the bovine animals on the farm (see point 20) but also the fodder area. The crops covered in Annex I to Regulation (EC) No 1251/1999 (Aid for producers of certain arable crops) will no longer be counted as 'fodder area' for extensification payments. In addition, the fodder areas taken into consideration must include at least 50 % grazing land.

26. Lower price support in the arable sector normally leads to an extensification in this sector as indicated in the reply to point 16. However, lower cereal prices may have the opposite effect in the livestock sector, where cereal is one of the most important inputs. Lower input prices will improve the relative competitiveness of intensive production systems. This shows that reducing or withdrawing price support does not in all cases lead to positive environmental effects.

As indicated in the reply to the Court's introduction, the environmental problems in pig and poultry production should mainly be addressed through the Nitrate Directive.

COMs unreformed by 'Mac Sharry'

27 and 28. With the reform of the fruit and vegetable sector, withdrawals are now governed by stricter rules for the disposal of fruit. According to Regulation (EC) No 2200/96 Member States are to draw up national frameworks for the environmental aspects of operational programmes and market withdrawals, and producer organisations are requested to notify to the national authorities the measures taken to ensure environmentally sound practice in connection with withdrawals.

With the reform of the milk sector, new direct premiums will be introduced from 2005: a premium per tonne of milk within the milk quota and an area premium for permanent pasture. At the same time the milk support price will be reduced by 15 %. These measures clearly encourage an extensification of production.

Tobacco production may not be the most environmentally friendly form of farming. Nevertheless, in Regulation (EC) No 2848/98 it is foreseen in Article 40 that specific aid can be granted to environmental protection measures. It must also be taken into consideration that this sector provides an important economic contribution to farmers and local communities, often in remote regions of the European Union.

29. The Commission has recently tabled a proposal for a reform of the flax and hemp common market organisation. The two crops will be included in the general support scheme for arable crops with the same level of support as for cereals from 2002/2003 onwards. A second part of the proposal consists of additional support for the processing of flax and hemp grown for fibre. The considerable overproduction of flax in recent years in relation to market capacity should cease due to the introduction of national guaranteed quantities. It should be noted that flax and hemp can be beneficial to the environment as they do not need a lot of fertilisers and pesticides.

30. The dried fodder sector was created in the 1970s when the Community decided — in the face of an American embargo on soya — to encourage internal production of high-quality protein crops. The sector was reformed by the Council in 1995.

Budget expenditure was considerably reduced and confined within a fixed budget envelope. In 1999, the aid level per tonne was cut for the first time when the maximum guaranteed quantity at Community level was exceeded.

As part of the Commission's constant monitoring of the various aid schemes to evaluate their respective merits in terms of economics, farming practice, social impact and the environment, it would like to follow up on the Court's comments and ascertain whether a further reform of the sector should be proposed to the Council, not excluding the possibility of abandoning the scheme.

31. The quote makes no difference between the effects of price support and direct payments despite common sense among economists about the significant difference in impact. Whereas price support does indeed stimulate intensification, direct payments are a fixed element in the farmer's accounts which leaves the decisions on input use unaffected. Even where direct payments are reinvested in machinery, changes in machinery costs do not affect the application costs for agricultural inputs and therefore leave intensity of input use unaffected. The European Environment Agency provides in its second Assessment Report of 1999, page 407, evidence of reduced emission from agriculture. An even more favourable picture of the significantly improved eco-efficiency of agriculture can be drawn when emissions are related to total production as shown on page 33 of the above report. Furthermore, the Commission would like to underline that the significance of the reform is evident from the fact that over eight years guaranteed prices were lowered by a total of 45 % for cereals and 40 % for beef.

THE ENVIRONMENTAL IMPACT OF THE 'ACCOMPANYING MEASURES'

In 1998, the Commission's Directorate-General for Agriculture produced a working document on the evaluation of the agri-environment programmes ⁽¹⁾ (hereinafter the '1998 working document'). This extensive document of over 200 pages was published (including on the Internet) at the request of the European Parliament and presents a full analysis of the Commission's views of the successes and shortcomings of agri-environment implementation, drawing on over 150 reports from Member States. The Commission notes that the Court has in places quoted from this document and in this reply further references are made.

At point 8, the Court notes that the focus of its review was on the difficulties in implementation and this reply inevitably also focuses on these aspects. A more balanced analysis of the negative and positive effects of agri-environment programmes is given in the 1998 working document.

34. Subsidiarity was introduced into Community policy by Article 2 of the Maastricht Treaty, which provides that the principle applies as defined in Article 5 of the EC Treaty (Treaty of

Rome). This latter Article limits application of the principle of subsidiarity to the decision-making process outside areas of exclusive Community competence. The common agricultural policy, of which the accompanying measures and especially the agri-environment measure are an integral part, is an exclusive Community competence. Thus, by Treaty provisions, subsidiarity does not apply. Nevertheless, the Court is correct in pointing out that the management system introduced by the accompanying measures was innovative. The innovation was in establishing a decentralised approach to the implementation of a Community obligation. In the case of the Agri-environment Regulation, Member States were required to implement the measures throughout their territory according to their needs. This was a decision of the Council, and no Member State or region had the authority to alter the terms of this basic obligation on the grounds of subsidiarity.

35. It should be emphasised that the EAP obligation of 15 % of EU farmland under management agreement, cited by the Court, is the only obligation exclusively attributable to the CAP — and the only one which has been fully achieved. The Court mentions that coverage alone is no guarantee of significant impact, which point was highlighted by the Commission in the 1998 working document at Section 18.3.

Planning

Commission planning

Under the guarantee system, money was only allocated to the budget for programmes which had been approved. Approval of programmes was made exclusively on the basis of the criteria in Regulation (EEC) No 2078/92 and these did not include assuring an even geographical spread of expenditure. The Commission can categorically state that no programme was ever refused on the grounds of lack of resources, while programmes were refused on the grounds of incompatibility with Regulation (EEC) No 2078/92. In fact, compared with the ambitions defined by the Budgetary Authority, the agri-environment programmes fell disappointingly short of expenditure estimates in many years. The question of budgetary consideration and Member State influence on the extent of programmes was discussed in more length in the 1998 working document at Section 18.1.3.

37 and 38. The Commission emphasises that these measures are to a large extent the competence of the Member States under the decentralised system of programme management specified in the legal texts. Furthermore, these measures are co-financed by the Community, which inevitably means that the allocation of Community funds will to a great extent depend on Member State and regional priorities and environmental ambitions.

⁽¹⁾ Evaluation of agri-environment programmes, DG Agriculture Working Document VI/7655/98.

In the cases cited of Member States with disproportionately low expenditure (Spain and Greece) the Commission made efforts to encourage programme adoption in both. However, there are many valid reasons for developing programmes at a slow rate, in particular administrative and control capacity. In the case of the new Member States, favourable elements for widespread application were in place: existing experience; environmental awareness among farmers and the public; sense of political priority; and trained extension services.

39. The Commission underlines the limitations of targeting funds to ameliorating 'environmentally damaging intensive practices', where this would be in contradiction with the 'polluter-pays principle'. Partly in the light of experience gained in the operation of the agri-environment measure, the Commission has formed the view that farmers should not be paid under the agri-environment programmes to reach the standard of 'usual good agricultural practice'. This comprises at least adherence to compulsory law and the standards a 'reasonable farmer' would follow in the region concerned. This standard is not fixed and will change over time, nor are codes of good agricultural practice developed in all regions for all sectors. The Commission believes that 'usual good practice' is the only sound and coherent basis on which to develop agri-environment programmes and has enshrined this 'baseline standard' into the agri-environment chapter of the Rural Development Regulation.

41. The Commission accepts that implementation had been too low in some Member States.

42. The main reason no programme has been developed to target greenhouse gas emissions is that the most obvious measure would be to cease inefficient extensive livestock grazing in favour of efficient intensive systems. The greenhouse gas emissions per unit of output (meat, milk) are up to 50 % higher with an extensive system than with an intensive system. The main thrust of agri-environment programmes has been to preserve extensive systems and prevent the damage of abandonment and at least not encourage the intensification of livestock keeping, notwithstanding the reduced emissions. However, air pollution should be given greater attention in respect of suitable measures.

43. The Commission disputes that there was no analysis of the EU's most important environmental needs: the various environmental action programmes, notably the fifth EAP, fill this role. The Commission accepts that insufficient needs analysis was carried out to identify the role for agri-environment programmes (see also 1998 working document Chapter 18). However, in order to ensure compatibility with the 'polluter-pays principle' some of Europe's most pressing environmental concerns, such as the nitrate pollution resulting from farming methods which are not in accordance with good agricultural practice, should be addressed by

compulsory environmental restrictions, (for example those foreseen in the Community's Nitrate Directive), rather than by voluntary agri-environmental programmes.

46. While accepting the Court's point, the innovative nature of the agri-environment instrument meant that many of the difficulties which were addressed by the implementing regulation (Commission Regulation (EC) No 746/96) could only be identified after a year or two of implementation. Running programmes were adapted to its provisions. The Commission can state with some certainty that its provisions were largely successful since most of the problems addressed in Regulation (EC) No 746/96 were wholly resolved by it. The Commission has drawn heavily on this Regulation in enacting the implementing regulation for rural development — which has been done ahead of programme implementation.

48 to 50. The Court highlights the problem of shortage of staff in Commission departments which, unfortunately, is not limited to the policy area covered by this report. Due to this general situation, it was not possible to recruit more staff to the EA and AF units. However, it is the Commission's view that despite this situation, the work of programme approval was competently carried out and has contributed to a generally successful, although not perfect, implementation of the two Regulations.

The Commission agrees with the Court's comments on staff requirements. However, the Commission would like to emphasise the contribution of the detached national experts, many of whom have had environmental and agronomic qualifications.

The Commission in 1999 reorganised the directorates in Directorate-General Agriculture dealing with rural development, including the creation of a coordination unit to ensure a coherent programme approval procedure. As stated by the Court, the workload on the Commission staff for dealing with the new programmes is very substantial.

The problem of delays in filling vacancies will be addressed in the general restructuring of the Commission recently launched by the College.

Member State planning

51. Concerning targeting of programmes, the Commission underlines that agri-environment measures are often not suited to addressing the activities which are 'most damaging to the environment' — since the farmer should often bear the cost of stopping the damage according to the 'polluter-pays principle.'

Reply to text box 1

GERMANY

North Rhine-Westphalia

In Germany, the *Länder* are responsible for environmental policy including agri-environment. Apart from Regulation (EEC) No 2078/92 there are other means to achieve environmental benefits in rural areas.

The low uptake of EU funding which the Court of Auditors found in North Rhine-Westphalia in comparison to the region's total farmland reflects this circumstance and might also be a reflection of the region's own financial resources. The low uptake of EU funding in North Rhine-Westphalia was however at no time connected with higher expenditure by other regions.

Saxony

The AE programme of Saxony included a specific measure addressing nitrogen input involving a 20 % voluntary reduction of N-fertiliser. First evaluations of this measure showed a significant reduction of nitrate concentrations in soil. A corresponding significant reduction of nitrate concentrations in the water has not, however, been shown yet. This would normally be anticipated over a long-term period, for example 10 to 15 years. The area covered by the specific measure was nearly 140 000 hectares in 1996/1997 and was increasing.

The ecological problems quoted by the Court of Auditors (soil erosion) were addressed by measures within the Regulation (EEC) No 2078/92 programme (for example mulch seeding) as well as by measures outside the programme. Selection of the most appropriate measure to address environmental problems lies primarily with the Member State. The Commission would hesitate to impose its own view of the correct interpretation of setting priorities in the application of aid schemes in Saxony or in any other region — in the manner suggested by the Court.

Bavaria

Article 2 of Regulation (EEC) No 2078/92 allows Member States to set up measures which 'may include aid for farmers who maintain extensive production methods introduced in the past'. The question whether in fact farmers would continue with environmentally beneficial farming practices without receiving financial aid has to be answered within the following context:

1. How representative are those statements?
2. How relevant are these statements considering a long-term period (sustainable farming)?

The Bavarian programme has recently increased the requirements of environmentally beneficial farming practices for the basic premium. As a result, 30 000 farmers quit the measures.

In addition, KULAP A as amended in late 1997 increased the number of more targeted measures and as a result a significant amount was allocated to more targeted measures.

Baden-Württemberg

The Regulation expressly permits horizontal programmes containing one or more of the measures available as well as the zonal programmes. In fact, the MEKA programme includes in addition to the horizontal measures many targeted measures, focused on one type of biotope or delimited zones.

FRANCE

Even if an allocation of funds between regions according to environmental priorities appears to be desirable, it must be noted that Regulation (EEC) No 2078/92 did not foresee any mandatory allocation key. However, the Commission can agree to the idea that the development of aid allocation methods by Member States can contribute to securing a more efficient use of EU funds.

Besides, an environmental comparison between various regions might sometimes be made difficult by the heterogeneity of their situations. For instance, it is not possible to compare the environmental consequences of the pig industry in Brittany, which is highly publicised, with the abandonment of thousands of hectares in Auvergne.

Lastly, some environmental difficulties partly result from a bad application of mandatory requirements and should not be addressed through additional money under agri-environment schemes. In the example of the pig industry in Brittany, agri-environment should not compensate for the inadequate application of the Nitrate Directive in this region.

ITALY

Agri-environmental programmes have had a different uptake, not least due to their innovative nature and to the complexity of their administration: the classical pattern of innovation (early adopters, advance majority) or learning curve was followed in Italy. The original estimates put forward by the regions, moreover, had not always been accurate. Finally, in some cases the level of premiums proved not to be adequate, especially in high-profit intensive land.

The new allocation of funds allowed the regions where agri-environmental programmes had been most successful, in terms of uptake, to finance expenditure exceeding the original budgetary forecasts. If the environmental aims, in this respect, may have not been the main concern, this 'flexibility clause' allowed a higher uptake where the proposed measures had found good chances for success, and contributed anyway to a wider diffusion of production methods compatible with the environment.

As concerns Sicily in particular, the Commission considers that organic farming and integrated production do contribute to addressing the problem of soil erosion, through their positive impacts on the environment.

The problem of erosion, which is due to the combination of several factors (both anthropic erosion and peculiar local conditions — the topography, the type of vegetation, the rain index, etc.), is aggravated by inappropriate land uses, such as intensive agriculture, over-grazing, deforestation. Organic farming methods improve the physical and chemical characteristics of the soil by increasing the organic compound content, the cation exchange capacity and the water-holding capacity: they therefore contribute in various ways to the reduction of erosion.

The Commission has taken note of the Court's comments on the inadequacy of market outlets for organic farming. This is an issue of serious concern, which the Commission services have raised in a STAR working document on the organic measure. The solution lies in removing the impediments to marketing of the produce, and in this respect the integrated approach promoted in the new Rural Development Regulation will contribute to meeting such challenges. However, when reading the comments of the Court, one is led to believe that the lack of guarantee for outlets undermines the value of the agro-environmental measure. The Commission staff do not share this view and point out that, in fact, the introduction and maintaining of organic farming is available under Regulation (EEC) No 2078/92 by virtue of its positive impact on the environment, and not because of the destination of the products.

FINLAND

The environmental problems in Finland due to agricultural activity exist in southern Finland, but also to a high degree along the coasts and in the inland watercourses and lakes all over Finland. The A and B areas (southern Finland) got around 60 % of the GAEPS support (general support measure) and consist of around 50 % of the field area under agri-environmental agreement.

The statement made that the Finnish programme allows farmers to apply more fertilisers than the economic optimum is not correct.

PORTUGAL

An amendment to the Portuguese AE programme was approved by the Commission in 1998 to eliminate the maximum limits concerning the number of hectares and livestock units.

AUSTRIA

The Austrian programme does provide for measures which are restricted to some regions only. These are individual measures for specific sites/areas and do not involve or need a significant amount of funds. Therefore, their regional allocation might be difficult to trace. Each year Austria delivers a report on the actual expenditure allocation on the level of measures and *Länder*.

Though the data on which the Court of Auditors bases its statement that the AE measures have only slightly reduced the Austrian stock numbers (0,1 %) are unknown, the following can be said:

- biodiversity in terms of variety and quantity of wild flora and fauna is not only influenced by livestock density but also, or even more so, by the reduction of fertiliser and pesticides as well as on the specification of stocking time; all of which is part of the Austrian programme OPUL,
- the required stocking density of 2 LU/ha represents a low density on typical Austrian soils which allows for biodiversity. To keep this low stocking density already fulfils the requirements of Regulation (EEC) No 2078/92.

SWEDEN

Several measures in the Swedish programme are already targeted to those parts of the country where there are specific environmental problems. Reflecting findings and recommendations in evaluation reports, Sweden has modified its programme regularly. In the last report, recommendations were made in line with comments made by the Court and it is likely that Sweden will propose measures in the new programme to further develop the targeting of measures.

52. Reply to text box 2

AUSTRIA

The high percentage of forest-road construction in the Austrian AF programme has to be considered under the specific problems Austrian alpine forests are confronted with.

Austria has about 4 million hectares of forests (46,8 % of the total area) which are mainly located in high mountainous areas. These forests have to ensure an important protection function in relation to soil erosion, avalanches and water regulation. The major problem of these areas is the fact that very often such forests are overmature conifer stands with no natural regeneration potential. The most urgent objective is therefore to realise regeneration measures with the aim of establishing unevenly aged mixed stands which are ensuring a higher ecological stability and greater biodiversity at the same time.

Such silvicultural interventions are only possible with a certain degree of forest-road infrastructure, in particular if environmentally sound silvicultural practices are used (harvest of single trees for example). The AF programme was thereby contributing to set up a sound basis for environmentally friendly silviculture in these regions.

The Commission understands the quoted text of the EEA concerning the environmental effect of roads as applying to normal public roads and not to forest service roads. The Commission believes that a narrow non-asphalted service road inside a forest can only have very limited effect on wildlife.

BAVARIA

The construction of forest roads represents only 5 % of the budget supported by the EAGGF. It is not relevant to criticise the environmental effect of forest roads, especially in mountain areas where they play a very important role in the protection against erosion and avalanches. Besides, it must be pointed out that in Bavaria no hectare was afforested without the agreement of the authorities in charge of the environment, which have looked carefully at the environmental impact of forestry measures.

ITALY

As in other Member States, the Italian programme aims at promoting the economic, social and environmental functions of forests and does not limit itself to one of these aspects.

53 to 55. The Commission and the Court of Auditors have had numerous exchanges of views on the agri-environment programme in Castile-La Mancha. Nevertheless, the respective assessments of its effects on the level of water consumption continue to differ.

The Commission would like to point out that this programme led to a decrease in the consumption of water for irrigation, as is shown, among other elements, by the recovery of the subterranean water levels.

Concerning the obligations of farmers under this agri-environment scheme, it must be underlined that they go beyond what is asked for by the Regulation on arable crops concerning the environmental conditions for set-aside land, which only foresees a simple management of the land.

However, the Commission agrees with the Court that, as in other support schemes, some farmers might be compensated more than

others given the different levels of water consumption existing between farms. Even if a too cautious approach might lead to disproportionately lower participation in the Spanish programme, the Commission will try to improve the quality of controls during the new programming period (2000 to 2006).

56 and 57. Concerning payment rates said to have been set too high and too low, the Commission identified flaws in the documents cited by the Court which indicate that not all factors had been taken into account. One problem noted is the assumption that without the payment the farmer would have remained economically static. This point is discussed further in the 1998 working document at Section 19.4.1. In the Swedish example, the assessment of overpayment of the ley farming measure conflicts with the national audit authority's assertion cited at point 67 that the payment is insufficient to cover the income foregone.

Reply to text box 3

GERMANY

To identify an appropriate aid rate for conversion based on loss of income, additional costs and a necessary incentive component, the latter being restricted to 20 %, is difficult. In addition, the willingness of farmers to take up this measure is also very much influenced by the future economic outlook that related to conversion.

AUSTRIA

For the level of premium for 'Elementarförderung', Austria provided justifications for income forgone, additional costs and for any necessary incentive component (maximum 20 %). With the recent adaptation of the programme the levels of premium have been adjusted. Especially the possibility of combining different measures has been limited.

The criticism of the Court concerning the rates for crop rotations and for cessation of maize production cannot be shared.

As the evaluation report mentioned a lack of counter-erosion measures, Austria will take that into consideration in their further development of the programme.

PORTUGAL

In line with the observation of the Court, the Portuguese programme was amended in order to update the aid levels based on an evaluation report. For this purpose, Portugal used a new calculation method (new technical and economic indicators) and abolished the limitations per farm.

58 to 60. In setting the payment levels, programme managers calculate the net effect of the obligations on the income of a farmer targeted by the measure. In all programmes, averages are used and calculations are made using a baseline of normal practice. Given the nature of environmental undertakings, compliance costs will vary over a range. If the measure covers different landscapes or farming systems, the range may be quite large.

Payments are set at regional averages. According to economic theory, the efficient premium would match with the costs of the

'marginal supplier' — the supplier with the highest compliance costs whose participation is desired. Suppliers with lower compliance costs than the premium level will be at an advantage, and benefit from what are called 'producer rents'.

Overall, the Commission welcomes the comments on targeting of measures. Targeting is discussed at length in the 1998 working document, Chapter 18. The conclusions include the Commission's view that 'blanket availability for all measures irrespective of local conditions should not be undertaken.'

Concerning the afforestation costs it has to be remembered that the Regulation only determines eligible maximum amounts and gives a certain freedom to the Member States to set the support level. The amounts are based on the effective costs, which can differ considerably from one region to another following the socio-economic and ecological characteristics. The Commission has, in line with the Regulation, taken into account the diversity of situations when approving the programmes and has ensured that the Regulation was respected. The higher premium for greater afforestation in some programmes, (for example Portugal) is given when beneficiaries join in a group to afforest a bigger area.

61 to 67. As the Court notes, the lack of coordination between programmes is not unique to agri-environment. This question was discussed at length in Chapter 23 of the 1998 working document. In fact, the Commission addressed the question of overlapping programmes in the implementing regulation in 1996, once the problem had been identified. In an innovative legal measure (at the time) the implementing regulation laid down the principle of no dual funding under agri-environment and another programme. Until then this objective was presumed to be achieved by independent application of each potentially overlapping programme. The rural development provisions relating to coherence and consistency build on this legislative provision and have become a central feature of the rural development programming process. A further measure developed in the implementing regulation was to ensure consultation with the environmental authorities, a process which should lead to inconsistencies, such as the Court's Bavarian example, being identified at an early stage.

68. The Saxony agri-environment programme was revised. The new programme was approved by the Commission on 18 December 1998 and the measure referred to by the Court is no longer applied.

69. The agri-environment programmes have been coordinated with the Nitrate Directive, since payments to alleviate serious nitrate pollution have not been allowed under the agri-environment programmes. The payments for reducing use of nitrate fertiliser are intended to commit the farmer to go beyond the level of good agricultural practice — which would include any compulsory or advisory level under measures implementing the Nitrate Directive. Problems of coordination have been severely exacerbated by the failure to implement that Directive. In relation to the Wild Bird and Habitats Directives, agri-environment measures have contributed to the implementation, but in line with the voluntary principle, agri-environment cannot fund obligatory measures.

70. The problems of water use are currently the subject of a Commission study which is expected to report in 2000. This may give the Commission more guidance on how to approach the complex issues in relation to water quantity.

Implementation and control

Commission implementation and control

71. (See also comment on point 37)

The Commission's view is that agri-environment is only suitable for the type of measures which fall into the voluntary category. Thus it is not appropriate to use a large amount of funding under agri-environment to counter the most serious environmental problems — which should be addressed by compulsory rules or cross-compliance. The Commission agrees that codes of good agricultural practice are often not present, but it would like to underline that a region without a code is not devoid of good practice. In particular, detailed expertise is available in all agricultural regions on the optimum (not excessive) use of inputs and good husbandry techniques. In approving programmes, the greater part of the Commission's examination effort has fallen on examining the agronomic data — based on the level of 'usual good practice' — underlying the payment calculations.

72. The Commission did not have the resources to make *ex ante* control visits prior to programme approvals, but later controls have been conducted by the AE and AF units as well as by the clearance of accounts unit. In this context, it should also be mentioned that within the latter unit a team specialised on the accompanying measures was created in 1997.

The Commission would like to stress the difference between controls and evaluation. Evaluation is not the same as control activities or audits. It is also accepted that an evaluation can only be carried out once it is certain that the proper controls have been conducted beforehand.

Member State implementation and control

73 to 75. The Commission agrees with the Court that the agri-environment policy puts a heavy burden on Member States in respect of administration and control.

Several factors explain this. First of all, regional/local agricultural and environmental conditions, together with the public perception of agri-environmental problems, account for the greatest variety in programmes. The measures included in programmes can be general, and therefore include all qualifying holdings, or specific and targeted. Last but not least, agri-environment measures are innovative in nature and may involve complex schemes.

The general conclusions which can be drawn from the report made by the National Audit Office in the United Kingdom show that start-up costs are high. It should also be noted that the report concerned the start-up phase where the administrative burden inevitably will be high.

Further discussion on administrative capacity is also given in Chapter 18 of the 1998 working document.

76. The requirement for IACS controls on agri-environment measures was brought in by the implementing regulation and substantial progress has been made. Further comment on controls is given in Chapter 21 of the 1998 working document.

It should also be noted that Agenda 2000 fully integrates the principles of the integrated administration and control system into all measures supporting rural development.

Reply to text box 9

PORTUGAL

The clearance unit has long been aware of the difficulties experienced by the Portuguese authorities in integrating agri-environment measures into the SIGC. These problems are technical, concerning the databases and files used by the two bodies responsible for administering the SIGC (INGA) and the accompanying measures (Ifadap). Financial corrections were proposed up to the end of the 1997 farming year. As a result of recommendations from the clearance of accounts unit, the Portuguese authorities have taken the necessary steps to remedy this situation as from the 1998 marketing year.

AUSTRIA

The mountain cadaster is under development and should be completed in year 2000. At the moment, the gradients are checked with a help of an inclinometer during on-the-spot visits.

ITALY

The shortcoming in communicating inspection results of IACS controls on environmental measures was detected also by the Commission and the matter is now under clearance of accounts procedure.

FRANCE

As from 1998, the 'prime à l'herbe' measure has been administrated under IACS. The shortcomings before that are under clearance procedure.

77. Reply to text box 10

FRANCE

These deficiencies were identified by the Commission and remedied in the renewal of the programme in 1998.

RHINELAND-PFALZ

It is the Commission's understanding that in Rheinland the soil sample is taken mainly to determine the optimal fertilisation level at the farm and not to control the reduction of fertilisation. Requiring the farmer to take the sample is an integral element in responsibilising the farmer.

UNITED KINGDOM

The short statement quoted from the Commission inspectors' mission report should be qualified, as not only the visible appearance of the grassland is taken into consideration. The comprehensive scientific monitoring and evaluation programme for the nitrate sensitive areas scheme comprises:

- the monitoring of nitrate losses (sampling of drainage water);
- the measurement of levels of atmospheric nitrogen deposition and emission;
- a grass sampling to obtain scientific information on the effect on soil fertility.

78. The Commission notes firstly that the Danish system of nitrogen accounting is integrated into the Danish agri-environment programme, in a good example of coherence, and secondly that the system is exceptionally complex to operate. The cost/benefit relation may not justify such an approach in a region without the nitrogen disposal problems confronting farmers in parts of Denmark.

80. The inadequacy of satellite photography to control undertakings was highlighted in the 1998 working document, Chapter 21.

The control deficiencies referred to by the Court have also been detected by the Commission and financial corrections have been imposed under the clearance procedure in respect of Spain and Finland.

The Court states, in respect of the afforestation measure in Finland, that there were some beneficiaries who were not inspected. During a Commission mission in 1998, the scrutiny of the inspection statistics furnished by the Finnish authorities concerning 1997 showed that the inspection rate was ranging measure-by-measure from 7,2 % to 27,3 %. In the absence of stricter rules in the Regulation, this was considered an acceptable level of inspection rate. On the other Finnish cases that concerned the changes to the afforestation plans, the Commission can agree with the Court's criticism in respect of documentation and other administrative procedures, but notes that the shortcomings may not be grave enough to justify a financial correction.

The quality of information of the inspection reports in Austria was considered problematic also by the Commission and the point has been communicated to the Member State. However, this issue was not considered grave enough to justify a financial correction.

On the other hand, financial corrections have been announced for Spain and Italy as a result of defects in their administration and control systems.

Follow-up

82 to 85. The difficulties of indicator selection are easily underestimated. For a more comprehensive discussion, see Chapter 10 of the 1998 working document. In echoing criticisms of the United Kingdom and Sweden, the Court has chosen two of the Member States which are at the very forefront of development of agri-environment indicators. This in fact highlights the difficulty of the task rather than the inadequacy of the effort. The great danger, as underlined in the 1998 working document, is that simplistic indicators are chosen which do not take account of site specificity — possibly comprising most of the environmental value.

Commission follow-up

86 to 87. Further discussion on evaluation efforts is given in the 1998 working document in Chapter 19.

88. A full AF evaluation going beyond the implementation report, which has already been done, is under preparation.

Member State follow-up

89. The Commission agrees with the Court that analyses of programmes have been mixed. However, in general, the evaluation results supplied are adequate and reflect well on the strategy contained in Article 16 of the implementing regulation to responsabilise the Member States in this regard. However, in many regions, and in some Member States less effort appears to have been made. In other Member States, evaluation is still at an early stage and no results are foreseen until 2000. The new Rural Development Regulation provides that Member State *ex post* evaluations can be co-financed.

In Germany, in addition to the impressive evaluation studies noted by the Court, evaluation is ongoing in all the *Länder*.

Since the Court's audit, most regions in Italy have produced and submitted their first evaluation reports to the Commission.

CONCLUSIONS AND RECOMMENDATIONS

90. The 1992 CAP reform was a major step in integrating environmental considerations into the CAP. Lower support prices combined with the introduction of direct aids was a clear incentive to less intensive production methods. Another substantial step was the agri-environment measures which promote farming practices going beyond mandatory requirements and normal good-farming practices.

Agenda 2000 goes further along the same line. Support prices are further decreased and the new Rural Development Regulation (RDR) gives the Community a more coherent approach for dealing with the challenges facing the countryside including the environment.

91. Concerning the greening of the CAP, the Commission firmly believes that the Community is on the right track and that positive results can already be demonstrated. This is supported by the findings of the European Environment Agency (EEA), which in its

latest report concludes that the integration of the environment into the CAP 'is moving in the right direction' and 'the Agenda 2000 Reforms promise to further the current progress in this area' (EEA, 'Environment in the European Union at the turn of the century' — Environment Assessment Report (EAR) No 2, Copenhagen 1999, page 407). In addition, the forecast of the EEA predicts an improvement in the environmental impact of fertilisers (EEA, second EAR, page 33).

In respect of arable crops, the payments are not in themselves environmental measures, but economic ones intended to compensate farmers for lower prices. They are a necessary element in a reform which substantially increases the incentives for more extensive farming practices. The higher compensation paid per hectare for irrigated farmland is due to the higher yield and thereby higher loss due to the reduced support prices. It was therefore only correct and fair to fix higher compensation for irrigated farmland. In the same way, compensations granted in high yield regions are higher than in regions with a lower average yield.

The compensations are based on historic data. For the farmer the area aid therefore becomes a fixed income element which does not influence his decision on inputs like fertiliser and agrochemicals. Only the price ratio between the inputs and the final product (cereals) influences this decision. This is the reason why the shift towards lower support prices compensated by direct aids is a considerable step towards less intensive farming practices in the arable sector.

As regards possible intensification effects of higher premiums on irrigated land, the Commission underlines that — once the base areas were established — they have remained fixed. However, since the base area was not actually irrigated in total at the time when the payments were introduced, their introduction could have entailed some incentive to increase irrigation.

Agenda 2000 has aligned the aid paid to maize with the level paid to cereals and thereby removed any special incentive to grow maize.

Set-aside is first and foremost a measure to control production, but if properly managed, set-aside can have positive environmental effects.

92. In the new market organisation for beef and veal, Regulation (EC) No 1254/1999, it is laid down that as regards the extensification premium the calculation of the stocking density must include all bovine animals present on a farm. The weakness pointed out by the Court has thereby been solved. This is one of the considerable environmental improvements introduced by Agenda 2000.

The Commission recognises that overgrazing has become a problem in the sheep and goat sector. An evaluation study of the sector is being undertaken, including environmental aspects. When finalised, the Commission will draw the appropriate conclusions concerning the actions needed.

The environmental problems in pig and poultry production in certain regions should be tackled within the framework of the Nitrate Directive rather than the CAP. The pig and poultry market organisations are very market-oriented and do not contain measures such as direct aid, for which cross-compliance could apply. The real problem is that 12 Member States have not fully implemented the Nitrate Directive. The Commission is pursuing this matter vis-à-vis the Member States concerned via the Court of Justice. The CAP can not solve problems caused by the non-application of key environmental legislation.

In the sectors outside the 1992 Reform a number of changes have since been made with beneficial effects for the environment. For example, the fruit and vegetable sector was reformed in 1996 to include environmental considerations such as stricter rules for withdrawals. The recent reform of the wine sector includes the possibility of making uprooting of vines conditional upon environmental measures.

93. In relation to the shortcomings of agri-environment implementation overall, the following is the assessment from the independent evaluation produced for the Commission:

'...it is not surprising that implementation [of agri-environment programmes] has not been entirely smooth and has fallen significantly behind schedule in several Member States. The innovative nature of the Regulation and the relatively heavy demands it makes on administrative resources in many regions should be borne in mind when considering some of the disappointing aspects of implementation. The Regulation should be seen as an experimental measure which can be adjusted and improved over time.'

The Commission adds a note of caution in respect of the Court's statement that agri-environment should address 'pressing environmental needs'. The key to agri-environment is the voluntary nature of the undertaking. If the pressing need can be addressed by a voluntary measure, such as conservation of biodiversity by maintaining low-intensity pasture systems, then the Commission fully supports the Court's position.

However, in order to ensure compatibility with the 'polluter-pays principle', some of Europe's most pressing environmental concerns, such as the nitrate pollution resulting from farming methods which are not in accordance with good agricultural practice, should be addressed by compulsory environmental restrictions (such as those foreseen in the Community's Nitrate Directive), rather than by voluntary agri-environmental programmes.

Nevertheless, it is correct that Regulation (EC) No 2078/92 had shortcomings. Therefore, the new Rural Development Regulation (EC) No 1257/1999 is more precise on programme justification.

Member States must build a strategy to cope with their environmental problems. They will be asked to provide a complete picture of their environmental needs and potential, including those matters addressed by national or Community measures outside the AE scheme. This new global approach will give the Commission a more effective role in influencing the allocation of funds within programmes.

The agri-environment measures are very detailed and comprehensive and thereby the administrative cost will be considerable, particularly during initial implementation.

94. It is worth recalling that the functions covered by forestry are important in terms of the environment, the economy and their social benefits.

The fact that a tree species is of commercial value does not mean that it has no benefits for the environment.

The Commission understands the quoted text of the EEA concerning the environmental effect of roads as applying to normal public roads and not to forest service roads. The Commission believes that a narrow non-asphalted service road inside a forest can only have a very limited effect on wildlife.

95. The Commission emphasises that an innovative legislative effort to ensure coherence between measures was made in the agri-environment implementing regulation.

96. It should be noted that the new Regulation (EC) No1259/1999 (Article 3) stipulates the Member States' obligations to enforce necessary environmental measures in the context of all sectors covered by common market organisations (CMOs). The Commission will closely monitor the implementation of the Regulation.

97. The Commission's programme for policy evaluations includes environmental aspects.

98. The Commission in 1999 undertook a reorganisation of the directorates in the Directorate-General for Agriculture dealing with rural development, including the creation of a coordination unit to ensure a coherent programme approval procedure.

99. The Commission takes issue with the setting of priorities at European level. Under the agri-environment system, priorities should be set by the implementing authority according to need (within the legitimate scope of the measures). This may include Community objectives, but set in the national or regional context.

100. The new programming period will give the Commission an opportunity to improve the quality of controls concerning the use of water in Castile-La Mancha.

101. The Court's proposal in respect of nitrogen-limiting measures is timely. In the new Rural Development Regulation, the Council included an agri-environment measure for 'farm planning' aimed at assisting introduction of this type of action. In addition, the Commission has provided in the implementing rules that nitrogen-reduction measures should only be the subject of payment where the reduction is measurable. However, the Commission points out that to have rejected in the past all nitrogen-reduction measures without this type of planning would have resulted in an even greater imbalance of expenditure between Member States, criticised at point 38.

102. On the need to improve evaluation, the Commission concurs.
