Brussels in Brief

The EU budget and biodiversity

The EU budget refers to the financial resources the European Union has at its disposal to, firstly, run the Union's administrative "machinery" and, secondly, support the implementation of the Community's common policies. The first covers staff and building costs of all EU institutions, including the European Commission, Parliament and Council of Ministers, European Court of Justice and European Court of Auditors. The latter relates to the financial support to Member States in putting into practice different Union-wide policies, such as the Common Agricultural and Fisheries policies (CAP and CFP), environmental policy and the policies on regional development and cohesion.

Activities supporting protection of biological diversity form an integral part of EU environmental policy. Consequently, they are also eligible for funding from the EU budget. This financial support can be provided through dedicated Community funds for environmental protection (i.e., the LIFE funds) or integrated into the financing of other EU policy domains, such as regional and rural development.

Over the years, the total amount of EU financing available for biodiversity conservation has increased. However, it still remains only a small fraction of the total EU budget. In addition, it has also been acknowledged that a number of other, non-biodiversity related activities funded from the Community budget can have indirect effects on biodiversity.

During the current funding period (2007–2013), activities supporting the conservation of biodiversity are, in principle, eligible for a significant amount of funding from a number of EU funding sources. It remains to be seen, however, to which extent these funding possibilities materialise in practice.

This issue of *Brussels in Brief* outlines the main concerns related to the EU budget and Community spending on biodiversity. It also briefly discusses the forthcoming review of the EU budget and its possible implications on biodiversity conservation within the Union.

Brussels in Brief is a regular feature of the IUCN Newsletter produced by the ***Institute for European Environmental Policy (IEEP)*** in Brussels. It provides a platform to explain the substance of environmental policy, as well as to highlight up-coming EU agenda items relevant to Europe and beyond.

Each edition of ***Brussels in Brief*** considers topics that relate to the overall thematic focus of the current Newsletter issue.

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The EU budget

The EU annual budget corresponds to around 1% of the Union's national wealth (i.e., the EU's gross national income, GNI). This is currently equivalent to about 130 billion EUR per year, around 230 EUR per EU citizen. In comparison, the Member States themselves spend about 45% of the Union's GNI on national, regional and local public expenditure.

The first ever EU budget was the budget for the European Economic Community adopted in 1958. It was rather small, closer to 0.01% of the EU GNI, covering only the Community's administrative expenditure. Over the past 50 years, the budget has increased in real terms. However, despite enlargement and new sectoral responsibilities, its size in relation to EU GNI has actually decreased.

Where does the money come from?
The budget is funded from three main sources: 1) customs duties on goods imported to the EU,[1] 2) a share of the harmonized value added tax (VAT) base of each Member State, and 3) a contribution from the Member States based on the size of their GNI. In addition, approximately 1% of the budget revenue is gained from other sources such as surpluses from previous budgets (e.g., underspent Community funding), income tax paid by EU staff, and fines on companies that breach competition or other laws.

The EU budget revenue system has evolved significantly since the first 1950s financial framework. In 1988, the VAT-based income made up most of the Community budget (57%) whereas GNI-related contributions amounted to less than 11%. Currently, however, GNI-based revenue makes up the largest part of the Community budget. These payments, a uniform rate of 0.73% of a Member State's GNI, account for around 69% of total EU annual revenue whereas the import tax and VAT-related income represent about 30% of the total (15% each).[2] By 2013, the GNI resource is expected to provide about 74% of the EU finances.

According to the EU Treaty, the revenue and expenditure shown in the Union's budget should balance (Article 199 of the Treaty). Therefore, to avoid a budget deficit, the sources of revenue have to cover fully the costs of all foreseen Community-level activities during each budget period.

In general, the Member States contributions to the EU budget are roughly proportionate to the wealth of individual states. However, over the years a number of countries, including the UK, the Netherlands, Germany, Austria and Sweden, have obtained exemptions from the general principles. In practice, these exemptions aim to balance Member States' payments to the EU budget with the financial benefits they receive from it.

The exemptions are based on an agreement reached between Heads of State in Fontainebleau in 1984. According to this agreement "any Member State sustaining a budgetary burden which is excessive in relation to its relative prosperity may benefit from a correction at the appropriate time". The UK, for example, has negotiated itself a 66% reimbursement of the difference between its GNI and VAT contributions to the budget, and its receipts. Some feel that over the years these corrections have considerably reduced the simplicity and transparency of the EU budget system.

Box 1. Evolution of the EU budget

1958	The first European Economic Community (EEC) budget adopted
1958–1970	No independent Community-level budget but financing based on contributions from Member States; financial support to social and agricultural sectors initiated
1971–1982	In 1971 the Community gets an independent budget; the Parliament increases its influence in the adoption of the budget
1983–1987	Agricultural spending continues to increase; agreement on new common policy areas (e.g., fisheries and research); disagreements between Member States regarding budgetary imbalances gain prominence
1988–1992	First multi-year financial framework established; GNI-based contributions to the EU budget are introduced; less support for agriculture and more expenditure on cohesion and regional development
1993–1999	Second multi-year financial framework agreed; several new policy areas (e.g., foreign and security policy) begin to receive Community-level financial support; support for agriculture continues to decrease
2000–2006	First financial framework in Euros; focus on assistance to the countries which have applied for EU membership; corrections adopted to reduce the negative balance of Germany, the Netherlands, Austria and Sweden in funding the EU budget
2007–2013	Focus on improving the EU's competitiveness and cohesion; continued reduction in support to agriculture

Source:
http://ec.europa.eu/budget/reform/history/history1957_en.htm

[1] Also called the "traditional own resources"
[2] According to 2007 information

How is the EU budget decided and implemented?

The budget is negotiated between the European Parliament and the Council of Ministers on the basis of a proposal drafted by the Commission. First the three institutions prepare an inter-institutional agreement that establishes the principles for the budgetary discipline and long-term planning and creates the framework for cooperation between the parties. The inter-institutional agreement also includes a multi-year financial framework that sets out annual upper limits for each main expenditure category (i.e., budget line). Since 2000, the financial frameworks have covered seven-year periods (see below for more information on the 2007–2013 framework). More detailed information on the budget decision-making process is given in Box 2.

Expenditure is divided into compulsory and non-compulsory. Compulsory expenditure covers all expenditure resulting from compliance with international agreements and implementing the provisions set out in the EU Treaties. All other expenditure is classified as non-compulsory. In principle, the Council of Ministers makes the final decisions on compulsory expenditure and the European Parliament on non-compulsory expenditure. However, in practice this distinction has declined over time as the two institutions nowadays collaborate more closely at all stages of the inter-institutional agreement.

The implementation, i.e., actual spending of the EU budget, is governed by the Financial Regulation (Council Regulation (EC & Euratom) No 1605/2002). This Regulation is agreed by Member States and sets out the general rules for requesting, budgeting and using EU funding. In addition, the Implementing Regulation explains in detail how the Financial Regulation is to be applied (Commission Regulation (EC & Euratom) No 2342/2002). Finally, almost all EU financing activities, such as the establishment of different EU funds (see below), also require the adoption of explicit legislative instruments. These legal instruments set out the objectives of the funding in question and sum up the total cost. They often also impose multi-annual spending limits.

In practice, EU funding can be made available to the Member States and other possible beneficiary countries through various means including, for example, co-financing actions at Member State level or by providing loans and loan guarantees through the European Investment Bank. In the case of co-financing, specific EU funds have been established to support the implementation of certain Community policies, such as the CAP & CFP, Structural and Cohesion Policy and Environmental Policy. In the 2007–2013 financial period, these funds include, for example, the European Agricultural Fund for Rural Development (EAFRD), European Fisheries Fund (EFF), Structural and Cohesion funds, and the Financial Instrument for the Environment (LIFE+).

The Commission is responsible for implementing the budget, but shares most of the management tasks with the Member States. In general, around 22% of the EU budget is currently managed centrally by the Commission whereas around 76% is managed by Member States. Finally, around 2% is managed by international organizations or third countries.

Box 2. Procedure in drafting the EU budget

Step 1 – Commission's draft budget

The European Commission develops a preliminary draft budget. This is based on estimates from all EU institutions and bodies on the required expenditure. It also takes into account the guidelines or priorities for the coming budget year. The Commission submits the preliminary draft budget to the European Council of the Union in April or early May.

Step 2 – Council's first reading

Council's first reading of the budget takes place in late spring/summer. After a conciliation meeting with the European Parliament, the Council adopts the draft budget (with possible amendments). This draft budget is forwarded to the Parliament in September.

Step 3 – Parliament's first reading

The Parliament's first reading of the budget takes place in October. The Parliament may decide to amend the Council's draft. Also, any controversial matters are discussed in meetings with the Council and the Commission. The results from the Parliament's first reading are then referred back to the Council.

Step 4 – Council's second reading

Before its second reading in November, the Council has a further conciliation meeting with the Parliament with the aim of trying to reach an agreement on the budget. In the second reading the Council adopts its new version of the budget.

Step 4 – Parliament's second reading

Parliament's second reading in December marks the adoption or rejection of the budget. If approved, the President of the Parliament signs the budget into law

To monitor spending, annual audits are conducted both by internal and external auditors.[3] They are based on the Annual Activity Reports drafted by the different Commission policy departments (i.e., Directorates-General). Both the internal and external auditors' reports on the management of Community funds are sent to the European Parliament and to the Council of Ministers. If the reports are favourable, the Council can recommend the Commission to be discharged from the management of the annual budget. Based on this recommendation the European Parliament then takes the final decision on discharging the Commission.

[3] External auditors include the European Court of Auditors.

This so-called "discharge procedure" may, in theory, result in three possible outcomes, i.e., the granting, the postponement or the refusal of discharge. In addition, the procedure also often gives rise to a series of comments and recommendations that need to be addressed by the Commission within the following two years.

How is the EU budget spent?

The EU budget provides support to those policy areas where all Member States have agreed to act at the Community level. A wide range of activities are funded from the budget including, for example, the fields of agriculture and rural development, infrastructure, education and training, employment and social policy, environment and research. Part of the Community budget is also spent on funding sustainable development and humanitarian aid in countries outside the EU.

Of course, not all policies require financial support for their implementation. For instance, EU policies related to trade and competition attain their goals without contributions from the Community budget. Similarly, national social security, pension, health and education systems are all covered by the Member States and therefore do not receive EU funding. For some common policy areas, however, Community funding is considered crucial, for example, the EU policies supporting regional cohesion and sustainable rural development within the Union.

The distribution of EU funds between different Community policy domains is decided in accordance with the Union's existing political priorities (see Box 3). In addition, a number of general principles apply. According to these principles, Community-level funding should only be provided in cases where the common policy goals cannot be achieved by Member States alone (i.e., the subsidiarity principle). In other words, EU-financed activities should provide clear added value compared to action taken by individual Member States. Furthermore, the content and form of EU funded actions should not exceed what is necessary to achieve the given policy objectives (i.e., the proportionality principle).

As regards the distribution of funds between the Member States, less prosperous Member States generally receive proportionately more from the common budget than their wealthier counterparts. A number of these less well-off Member States also receive more than they pay in to the budget.

More information on the EU budget:
http://europa.eu/scadplus/leg/en/s27000.htm and
http://ec.europa.eu/budget/budget_glance

The EU budget for 2007–2013

The most recent EU budget was adopted after long and tough negotiations in May 2006 when the inter-institutional agreement between the Parliament, the Council and the Commission was signed.

The total EU revenue for 2007–2013 is some 975 billion EUR with the annual budgets ranging from 126 billion to 152 billion EUR for 2007 and 2013, respectively. These funds are distributed between four main priorities, namely support for growth and jobs (44.4%), sustainable use and production of natural resources (42.7%), protecting fundamental freedoms, security and justice in the EU (1.3%), and providing financial assistance and emergency aid to countries outside the Union (5.7%).

The EU budget for 2007–2013:
http://ec.europa.eu/budget/prior_future/fin_framework_en.htm
and
http://ec.europa.eu/budget/reform/budget_glance/what_for_en.htm

Biodiversity and the EU budget

Development and implementation of the EU environmental policy take place at Community level. Therefore, actions aimed at achieving this policy's goals, including protection of biological diversity and the sustainable use of Union's biodiversity resources, are eligible for financing from the EU budget.

EU-level funding for biodiversity conservation is mainly provided through the Community co-financing procedure whereby monetary resources are made available to Member States either directly (e.g., via Commission-managed project funding) or through contributions to Member States' own budgets. A number of Community co-funding sources are available to support biodiversity-related actions.

Mechanisms delivering EU funding for biodiversity

In 1992 the first EU-level co-financing mechanism exclusively dedicated to supporting implementation of the Union's environmental policy was set up. This EU Financial Instrument for the Environment, the LIFE fund, has provided funding for environmental conservation over three consecutive financial periods (Council Regulation (EEC) No 1973/92 and Regulation (EC) No 1655/2000). Under the current financing framework, funding has been continued under LIFE+ (Regulation (EC) No 614/2007).

Conservation of biodiversity has always been one of the core aims of LIFE funding. The Nature component supports implementation of the Birds and Habitats directives, including the establishment of the Natura 2000 Network. Protection of ecosystems and species outside the network has also been promoted, particularly in the current LIFE+ programme.

In addition to environmental funding, biodiversity conservation can also receive financial support as part of other Community policy areas, such as agriculture, fisheries, and rural and regional development. Funding is available both for the Natura 2000 Network and for assisting the protection of biodiversity within the wider environment. In addition, biodiversity-related research has long been supported through the EU Framework Programmes for Research and Development.

In the context of agriculture, optional support to environmentally friendly management activities, e.g., activities supporting conservation of biodiversity in agricultural ecosystems, was first introduced in 1985.[4] In 1992 (as a part of the first CAP reform) these so called agri-environment measures became compulsory for all Member States[5] and since 1999 they have formed an integral part of the EU's support for rural development.[6]

As regards fisheries, since the 2002 reform of the EU Common Fisheries Policy (CFP), protection of the marine environment, including biodiversity, has gained more prominent status within this policy domain. Consequently, funding for biodiversity should also be made available in the context of Community co-financing for the fisheries sector (e.g., the European Fisheries Fund (EFF)).

It is also considered that conservation of natural ecosystems and their functions creates the basis for sustainable economic and social development within the Union. Consequently, funding for biodiversity has recently become a more integral part of EU support to regional development and cohesion (i.e., the Structural and Cohesion funds).

Finally, the EU budget also provides support to conservation and sustainable use of biodiversity outside the Union's own territory. This support is implemented through the LIFE Third Countries programme, as part of the Community's wider development cooperation and external assistance.

Within the current 2007–2013 financing framework, biodiversity-related actions within the Community are supported by seven different Community funding instruments. These include EAFRD, EFF, Structural and Cohesion funds, LIFE+ and the 7th Framework Programme for Research and Development (FP7). The aim of this "integrated funding model" is to improve the implementation of EU biodiversity goals within the other relevant policy sectors.

[4] Article 19 of the Agricultural Structures Regulation, (EEC) No 797/85.

[5] Council Regulation (EEC) No 2078/92 on agricultural production methods compatible with the requirements of the protection of the environment and maintenance of the countryside.

[6] Council Regulation (EEC) No 1257/99 of 17 May 1999 on support for rural development from the European Agricultural Guidance and Guarantee Fund (EAGGF) and Council Regulation (EC) No 1698/2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD).

Box 3. Main goals (budget lines) supported by the EU budget in 2007–2013

Sustainable growth

Competitiveness

- Increasing EU competitiveness
- Support to economic growth and jobs in the context of sustainable development

Total: 85.6 billion EUR

Cohesion

- Support to the competitiveness of less advantaged regions (e.g. innovation and knowledge economy)

Total: 347.4 billion EUR

Natural resources

- Securing high safety and quality for agricultural products
- Supporting the farming community to adapt production to consumers' demand
- Support to direct measures to protect the environment
- Restructuring and diversifying the rural economy
- Promoting sustainable fishing
- Supporting crossborder actions to prevent environmental threats

Total: 416.5 billion EUR

Citizenship, freedom, security and justice

Freedom, security and justice

- Fighting terrorism, organized crime and illegal immigration based on shared information and common actions within the EU
- Better management of migration flows into the Union
- Cooperation in criminal and judicial matters

Total: 7.6 billion EUR

Citizenship

- Promoting and protecting the cultural heritage and richness of the EU
- Encouraging active participation of citizens in social debates
- Protecting public health and consumer interests

Total: 4.7 billion EUR

Global issues

- Emergency aid
- Long-term assistance for prosperity, stability and security of third countries

Total: 55.9 billion EUR

Administrative costs

- The staff and building costs of all EU institutions

Total: 56.2 billion EUR

Compensations

0.9 billion EUR

Source:

http://ec.europa.eu/budget/prior_future/fin_framework_en.htm

EU spending on biodiversity - only a drop in the ocean?

Since the 1990s, the protection of biodiversity and natural resources has become more important within EU environmental policy. Consequently, the total amount of EU financing available to support the Community's biodiversity goals has increased. For example, funding for environmental measures, including biodiversity conservation, in the context of agricultural expenditure has steadily risen.[7] However, only a small part of the total EU budget is specifically allocated for biodiversity conservation.

In 2007–2013, the most relevant EU budgetary priorities relating to biodiversity include promoting the preservation and management of natural resources and supporting regional cohesion within the Union. In addition, some funding for biodiversity-related activities is also provided in the context of increasing the competitiveness of the Union.

Only LIFE+ provides specific financing for biodiversity conservation. This is part of the 417 billion EUR dedicated to promoting the sustainable management of natural resources in the EU. The allocation to LIFE+ is, however, rather limited, amounting to not more than 2.1 billion EUR in total. This represents only around 0.5% of the total funding for natural resources. Furthermore, only around 40% of the LIFE+ expenditure is likely to be used for nature and biodiversity projects (approximately 0.8 billion EUR).

Funding for biodiversity under the EU agricultural policy

In comparison, according to a recent IEEP report,[8] most of the money assigned to the preservation and management of natural resources for the period 2007–2013, i.e., about 373 billion EUR, is allocated to supporting the goals of the Common Agricultural Policy (CAP). This is almost 90% of the total spending under the natural resources budget line.

EU agricultural expenditure consists of two specific elements divided between the two pillars of CAP. Pillar I relates to market and income support measures, covering direct payments to farmers and market-related subsidies. According to the IEEP analysis, 286 billion EUR[9] (about 69% of the total) has been allocated to Pillar I for 2007–2013.

Pillar II relates to those measures which fall under the Community's rural development policy, implemented through EAFRD. This Pillar is responsible for financing measures that support the implementation of the Community's environmental objectives within the agricultural sector (e.g., measures for biodiversity conservation) as well as social and economic cohesion within rural areas. The IEEP report estimates that the total amount of EU funding dedicated to Pillar II for 2007–2013 is 86.6 billion EUR[10] (about 21% of the total). Pillar II also requires co-financing by the Member States. For 2007–2013 the total financing under Pillar II (i.e., financing from the EU budget plus Member States' contribution) amounts to 144 billion EUR.

IEEP calculated that support aimed at improving the rural environment and countryside (i.e., expenditure under those measures included within "Axis 2" of the rural development Pillar) takes up 46% of the Pillar II budget in 2007–2013. This is then divided between measures supporting socio-economic development and environmental protection within rural areas. The latter includes payments for the agri-environment measures (AEM) which aim to preserve, restore and enhance nature and cultivated landscapes, and reduce the environmental risks associated with modern farming. According to the IEEP study, almost 34.4 billion EUR are expected to be spent on AEM over the period of 2007–2013.[11]

Measures supporting biodiversity conservation form a part of the total AEM expenditure. However, as AEM are not only focused on biodiversity, the total amount of money allocated to specific biodiversity conservation remains unclear. Nevertheless, this is likely to be a good deal less than the estimated total of AEM spending. On the other hand, a number of AEM (e.g., AEM supporting organic farming) could have indirect positive impacts on biodiversity. But these depend on the quality of implemented measures and uptake amongst farmers.

In addition to AEM, Pillar II funding also provides for payments to support the management of the Natura 2000 Network. According to the IEEP analysis, the majority of the Member States' Rural Development Programmes (i.e., programmes forming the basis for national allocation of EU financing) do not foresee using the available measures for funding Natura 2000 during the 2007–2013 period. AEM will, however, be applied throughout the EU and in some cases, depending on the Member States, this measure may be used to target Natura 2000 sites. In addition, some funding could also be allocated to support Natura 2000 in the context of the conservation and upgrading of rural heritage (i.e., in the context of the "Axis 3" of rural development).

All in all, the existing information on expected EU agricultural spending for 2007-2013 indicates that support to biodiversity conservation will form only a fraction of the total EU agricultural expenditure.

[7] European Commission - DG Agriculture. 2005. *Overview on General Principles, Types of Measures, and Application.* 24pp.

[8] Farmer, M. Cooper, T., Swales, V.and Silcock, P. 2008. *Funding for Farmland Biodiversity in the EU: Gaining Evidence for the EU Budget Review.* A Report for the RSPB. 80pp + annexes.

[9] This figure already excludes an amount deducted in the context of compulsory modulation, based on the report's calculations. The mechanism is used to transfer market based support payments (Pillar 1) to rural development policy measures (Pillar 2).

[10] Note: this is slightly lower than the 88.3 billion EUR figure given by the Commission, as the IEEP report compiles finance data from 76 out of 94 existing Rural Development Programmes.

[11] This figure is based on analysing 76 out of 94 national Rural Development Programmes.

Financing biodiversity through other Community policies
The EU budget allocation for the fisheries sector in 2007–2013 is around 4.3 billion EUR (a part of the 417 billion EUR for natural resources). It seems, however, that a very limited amount of these funds will be allocated to measures that will directly contribute to conservation of biodiversity in marine ecosystems. For example, the possibility of financing Natura 2000 in the context of EFF has not really been taken up by the Member States.[12]

The EU 2007–2013 budget foresees around 347 billion EUR allocated to supporting regional development and cohesion within the Union. According to preliminary information, funding for biodiversity will be similar to funding provided in the context of agriculture, i.e., amounting to no more than 1–2% of the total cohesion funding.[13]

As for research, support to this sector takes place under the “competitiveness” objective of the EU budget. In 2007–2013, 50.2 billion EUR is to be allocated to research and development activities in the context of FP7. The budget allocation for environmental research is set at 1.9 billion EUR within which research related to sustainable management of resources (including biodiversity) receives an indicative budget of 30 million EUR in the 2008 work programme.

Funding for Farmland Biodiversity in the EU: Gaining Evidence for the EU Budget Review: http://www.ieep.eu/publications/pdfs//IEEP%20(2008)%20Funding%20for%20Farmland%20Biodiversity%20in%20the%20EU%20Final.pdf
LIFE+: http://ec.europa.eu/environment/life/funding/lifeplus.htm
European Fisheries Fund: http://ec.europa.eu/fisheries/cfp/structural_measures/arrangements_2007_2013_en.htm
FP7: http://cordis.europa.eu/fp7/find-doc_en.html
Financial Programming and Budget:
http://ec.europa.eu/budget/budget_detail

How biodiversity friendly is the EU budget in practice?

The estimates for 2007–2013 indicate that conservation of biodiversity is not among the core areas supported by the EU budget, even though the current EU financing framework should provide more opportunities for biodiversity.

The actual decisions on how to allocate the Community financing are however mainly taken at the national level. The estimated financial allocations for 2007–2013 suggest that the uptake of biodiversity-related funding possibilities in the Member States was rather limited, indicating a lack of political will at national level to support the Community’s common biodiversity goals. In addition, even though the national allocation of EU funds is subject to Commission approval, there is little evidence so far of systematic use of this power to ensure more funding for biodiversity. Therefore, the EU budget for 2007–2013 cannot be considered to be particularly biodiversity friendly in practice.

These figures illustrate that it is not easy to assess actual Community expenditure on biodiversity. The budget lines are very general, covering a broad range of aims and activities, and spending on biodiversity objectives is incorporated into various funding instruments. Therefore, without an extensive analysis of the national level priorities (e.g., information on the Member States’ programmes overseeing the distribution of EU funding at national levels) it is not possible to establish the total contribution of the EU budget to biodiversity conservation. However, the mid-term review of the Biodiversity Action Plan, to be published in November 2008, might help to shed more light on the matter.

In addition to the limited direct support to biodiversity conservation, it is also clear that a number of activities funded from the Community budget can actually have indirect negative effects on biodiversity. For example, EU funding for regional development and cohesion actively supports infrastructural development such as improving road networks and promoting hydro-electricity. These activities can significantly contribute to the fragmentation of habitats and landscapes jeopardising the normal functioning of ecosystems.[14]

Similarly, supporting the efficiency and productivity of the agricultural and fisheries sectors has led to the unsustainable use of natural resources. For example, Community support for the EU fishing fleet is known to have significantly contributed to the depletion of fish stocks, both within and outside the EU. Likewise, financing agricultural production has resulted in the degradation of soil and aquatic biota in many places.

During recent years, more attention has been given at the EU level to minimizing potential conflicts between biodiversity conservation objectives and other priorities for Community funding. For example, the Environmental Impact Assessment (EIA) and Strategic Environmental Assessment (SEA) Directives[15] aim to ensure that potential negative impacts of plans and projects (e.g. their impacts on biodiversity) are addressed. However, more work on this area is needed in order to improve the overall biodiversity friendliness of the EU budget.

The future of the EU budget

The key purpose of the EU budget is to support the implementation of the current political priorities within the

[12] Torkler, P., Arroyo, A., Kettunen, M. *et al.* 2008. *Linking Management and Financing of Natura 2000.* Final report. 51pp.
[13] IEEP pers. comm.
[14] E.g. WWF. 2006. *Conflicting EU Funds: Pitting Conservation against Unsustainable Development.* WWF Global Species Programme, Wien. 72pp.
[15] IAE Directive 85/337/EEC & SEA Directive 2001/42/EC.

Union. Recent financial frameworks however fall short in reflecting the objectives and priorities of the present EU policy agenda. Several new challenges, such as climate change and the energy crisis, do not feature high on the budgetary agenda. In addition, the continued heavy support for the EU agricultural sector (i.e. CAP) has been questioned by many.

Consequently, in May 2006 the Parliament, the Council and the Commission agreed to undertake an extensive review of the EU budget. This review was initiated at the end of 2007 by launching a broad consultation on EU finances, addressing both Community spending and its sources of revenue (Communication from the Commission, SEC/2007/1188). The Commission aims to present its proposals on the future priorities of the EU budget at the end of 2008, beginning of 2009 at the latest.

It is, of course, difficult to completely overturn spending priorities developed over years of political debates and compromises between Member States. Therefore, it is unrealistic to imagine that the review will result in an entirely fresh start for the EU budget. However, changes in the budget have already taken place in the past providing a precedent for future revisions. For example, reprioritizing the Community policy agenda has led to lower spending on the CAP (around a 20% decline since 1998) and increased support for the Union's Cohesion policy.

The expected reforms will not take place in a vacuum but are likely to be influenced by a number of policy developments. In particular, ongoing efforts to streamline and modernize the CAP (the CAP "Health Check") play an important role in shaping discussions on the future of the budget.

The Commission is also reviewing the EU's Cohesion policy with a view to publishing a Green Paper on possible new directions and priorities in September 2008. It is believed that consideration of specific spatial and territorial objectives together with the Community-wide economic and social goals would improve the future effectiveness of the policy.

In order to justify continued support from the Community budget, the CAP might be further orientated towards supporting broader sustainable development in rural areas. The proportion of CAP spending might also further decrease to make more resources available for promoting the cohesion of the enlarged Union. Increased financial resources are also needed to successfully tackle the challenges posed by climate change.

The biodiversity outlook

All in all, it is clear that further efforts are needed to "green" the EU budget. The current budget review provides an important opportunity to secure increased funding for biodiversity in the future.

Instead of reducing the overall level of CAP spending, the discussions on the CAP Health Check seem to pave the way for increased support for the contemporary challenges faced by the EU, including dealing with the threats of climate change and biodiversity loss. This could result in support from the EU budget to promote sustainable land management practices and the maintenance of ecosystem services within rural areas.[16] These developments would help considerably in making the budget more biodiversity friendly.

The final outcomes of the budget review and the CAP Health Check may also result in reducing EU spending on agriculture. This could have detrimental effects on agricultural biodiversity as the reduction of resources would first and foremost be shouldered by the CAP support for environmental protection, including agri-environment measures.

The budget review will need to improve the allocation of resources for climate change.[17] This could also provide synergies with biodiversity conservation, helping to increase funding. For example, protecting ecosystems and their processes can help to mitigate and adapt to the effects of climate change, e.g. by buffering the impacts of extreme weather events such as floods and storms. On the other hand, activities supporting climate change mitigation can also conflict with biodiversity conservation. For instance, a number of common mitigation measures, such as promotion of renewable energy sources, can result in indirect negative effects on biodiversity. Consequently, mitigation actions supported by the EU should be carefully considered to ensure that they benefit both biodiversity conservation and climate change objectives.

Existing evidence indicates that integrating biodiversity funding into support for other policy sectors has not been as successful as hoped. Consequently, arguments have been raised for alternative approaches, including establishing a dedicated fund for biodiversity. Caution in advocating this approach is, however, needed as strong political commitment is required to guarantee the allocation of adequate resources to such a fund.

Over the past decades the support to conservation and sustainable use of biodiversity in EU policy has significantly increased. However, the financial contribution from the Community budget for concrete actions remains low. Meanwhile, biodiversity and related ecosystem services continue to be lost. It is, therefore, hoped that the ongoing budget review would help to pave the way for a long-awaited increase of financial resources for biodiversity conservation within the EU.

[16] E.g., Cooper, T., Baldock, D., Hart, K. and Eaton, R. 2008. Analytical Paper to Inform the LUPG Vision for a Future CAP. IEEP. London. (Unpublished Report).

[17] E.g. Adelle, C., Pallemaerts, M. and Baldock, D. 2008. *Turning the EU Budget into an Instrument to Support the Fight against Climate Change.* 63pp. http://www.ieep.eu/whatsnew/newsitem.php?item=158