Can the EU spend more green?

The CAP and the environment in future EU budgets

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Overview

The transition towards more sustainable socioeconomic models reflects a basic consensus across European societies and is line with EU treaties and international commitments. Such a vision should guide upcoming EU budget negotiations, especially the preparation of the post-2020 Multiannual Financial Framework (MFF) which should start in 2017. Given the reluctance of net contributing countries to pay more into the EU budget – all the more in the context of Brexit – any ambition to go beyond the status quo should focus on questioning the added value of existing EU budget lines.

Instead of pursuing a politically very hypothetical reduction in agricultural subsidies, advocates of a greener EU budget should embrace the logic of climate and biodiversity conditionality and aim to tighten up spending rules. Given widespread backlash against EU intrusion and excessive bureaucracy, such a vision calls nevertheless for a better balance between stricter EU target setting and greater national or local room for manoeuvre at implementation level.

Note and acknowledgments

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Introduction

Amid Brexit, the ongoing migration crisis and a fragile eurozone, the midterm review of the EU's Multiannual Financial Framework (MFF) 2014-20 to be decided upon by the end of 2016 almost appears as a distraction. With so much uncertainty down the road, starting to discuss the post-2020 MFF next year may prove even more complicated.

Yet, these discussions should be taken very seriously. Far from being the mere one per cent of the EU's gross national income (GNI) commonly decried, the EU budget sets much of the agenda of public spending and spending rules across 28 countries, from energy and infrastructure investment to research and innovation, from support for less developed regions, insecure groups, farmers and managers of natural habitats to migration and international development. Upcoming budget negotiations provide an opportunity to demonstrate the EU's relevance and its ability to drive strategic change.

One area in which the EU could do more is the environment and, more broadly, sustainable development. A challenge facing all European countries is the transition towards socioeconomic models which produce less greenhouse gas emissions, do not deplete natural resources and generate greater life quality for future generations. Several strategic roadmaps endorsed by EU member states reflect this commitment, not least the Europe 2020 Strategy, the EU Biodiversity Strategy, and the EU's climate action plans reflecting international commitments under the Kyoto protocol and, more recently, the Paris agreement. By setting targets, monitoring and incentivising national efforts, the EU ensures a fair burden sharing and coordination (with potential economies of scale) in an area that is characterised by large cross-border spillovers.

Notwithstanding the role of other instruments, this policy brief focuses on the EU budget's contribution to the EU's environmental sustainability strategy. It provides a critical assessment of EU spending and spending rules from this angle, and examines possible improvements in the context of the MFF midterm review and the next MFF negotiations. It also describes the positioning of key players and the political context in which these negotiations will take place. It starts first with a brief description of how the EU budget works.

Overall, the brief argues that advocates of a greener EU budget should focus on the quality of EU spending rather than on absolute figures. A radical reduction in agricultural subsidies may be out of reach in the next five-10 years, but the logic of climate and biodiversity conditionality has never been so strong. Given widespread backlash against EU intrusion and excessive bureaucracy, such a vision calls nevertheless for a better balance between stricter EU target setting and greater national or local room for manoeuvre at implementation level.

1. Why the EU budget matters – and what comes next

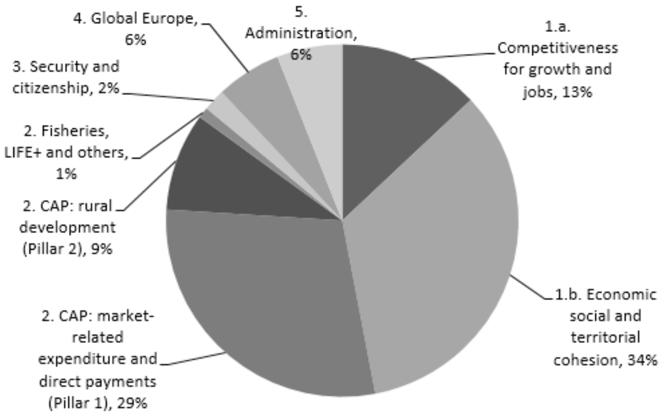
The MFF 2014-20 at a glance

Like any public or private organisation, the EU has an annual budget. However, key negotiations take place every seven years, when the EU's Multiannual Financial Framework (MFF) is decided upon. The MFF lays down the maximum annual amounts ('ceilings') which the EU may spend in different political fields ('headings'). The MFF is therefore not the budget itself, but the basis for the annual budgeting process. Its objectives are to ensure predictability and stability in line with longterm priorities. It also aims to avoid difficult budgetary negotiations between member states every year.

The volume of EU expenditure is determined by a revenue ceiling, and not the other way round. The EU cannot borrow to finance its deficit or some specific activities. In the recent and current MFF, ceilings for commitments and payments have been set at around one per cent of the EU's gross national income (GNI). Today, only 10 per cent of the EU budget comes from 'traditional own resources', which consist mainly of customs duties on imports and sugar levies. National contributions, by contrast, make up for 75 per cent of the EU budget today (up from 40 per cent in 2000). This situation has exacerbated tensions between member states and prompted, in 2014, the creation of the 'high-level group on own resources' to reflect on "finding more transparent, simple, fair and democratically accountable ways to finance the EU". Its final report should be available in December 2016.[1]

The ongoing MFF 2014-20 does not differ radically from its predecessor (MFF 2007-13) It keeps the same structure around five 'headings' and roughly respects the same equilibrium between headings. Nonetheless, the February 2013 European council agreement was marked by a few noticeable twists. For the first time in EU history, the new MFF suffered an overall real terms reduction in commitments and payments by 3.5 and 3.7 per cent respectively. Second, research and investment expenditure went up by 37.3 per cent compared to 2007-13 – though, in volume, this represented only a modest increase. Third, cohesion and 'natural resources' spending decreased in similar proportions, by eight and 11 per cent respectively. Direct payments to farmers (so-called 'pillar one' of the common agricultural policy) saw their EU budget share decline from 32.1 to 28.9 per cent. Finally, the EU budget remains characterised by the domination of internal and economic items over security and external affairs. Money for 'justice and home affairs' (heading three), which includes border management, immigration and police cooperation, shot up by 27 per cent. Still, in absolute terms, this item represents only two per cent of total EU spending.

Figure 1: Main headings and subheadings of the MFF 2014-20, and their share of the MFF. Source: European commission



1. See dedicated webpage on the European commission's website: http://ec.europa.eu/budget/mff/hlgor/index_en.cfm

The overlooked power of the EU budget

The political importance of the EU budget is reflected by the fierce character of EU budget negotiations every seven years. Yet, stakes are not high just because member states try to secure the highest possible net returns and seek to avoid an uncontrolled expansion of EU spending. The EU budget matters given its leverage over public and private spending, and since it sets far-reaching spending rules. Remarkably, administrative spending is limited to six per cent of the EU budget, while the rest of expenditure goes either directly to EU citizens, or provides project-based support. By comparison, the French state spends about 30 per cent on payroll.

The EU budget is a powerful instrument of national spending coordination. European structural and investment funds (ESI funds), which represent almost half of the EU budget, are conditional to national co-financing. Over 2014-20, ESI funds are expected to represent 14 per cent of the EU's public investment, a figure well above 30 per cent in a dozen countries, and which national spending tops up.

In addition to grants and subsidies, the EU has recently developed 'financial instruments' such as loans, guarantees and equity, which have higher leverage. The launch of the Investment Plan for Europe (2015-18) epitomises this trend, which consists of attracting private investors into funds alimented and guaranteed by the EU. Financial instruments mobilise private capital in the same way as ESI funds mobilise (mainly) public investment.

Finally, important strings are attached to EU spending. In the MFF 2014-20, it takes several forms: 'horizontal rules' of programming, reporting, monitoring, evaluation to be put in place by recipients of EU grants; 'ex-ante conditionalities' and 'macroeconomic conditionality' attached to ESI funds to make sure the conditions for impactful expenditure are in place; a six per cent 'performance reserve' to be released at the end of the MFF (ESI funds); health and safety 'cross-compliance' and 'greening' requirements attached to agricultural subsidies. Failing to observe common rules can lead the EU to reduce, withhold or suspend funds.

What benchmark for quality spending?

Expanding this leveraging and structuring dimension would be one way, for policymakers, to make the most of a limited budget and improve the quality of EU spending. Yet, this might require clarity as to what is meant by 'quality spending'. EU experts and institutions have long tried to offer concepts and theories to the public in an attempt to rationalise EU budget reforms. The concept of 'European added value' (EAV) has been commonly used in EU budget discussions by reform advocates. Based on the subsidiarity principle, it reflects the need to justify why EU spending is necessary on top of national spending, typically in presence of economies of scale or cross-border externalities. However, there is no single and uncontested definition of EAV, and the concept is often used as a proxy for European collective interest by opposition to national net returns.

In absence of a consensus on EAV, the EU's long-term commitments reflecting public goods or goals can provide a compass for EU spending. In 2011, the European commission justified its new MFF proposal by referring explicitly to the Europe 2020 Strategy and its five headline targets on employment, R&D, climate-energy, education and poverty.[2] In the wake of the UN sustainable development goals adopted in 2015, the upcoming revised EU strategy for sustainability could also inform future EU budgets.[3] The treaty on European Union (Article 3) also states that the EU

2. "A budget for Europe 2020", communication from the Commission, COM/2011/0500 final, 2011. http://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:52011DC0500&from=EN

3. An initiative in that sense was announced in the European commission's 2016 work programme

"shall work for the sustainable development of Europe based on balanced economic growth and price stability, a highly competitive social market economy, aiming at full employment and social progress, and a high level of protection and improvement of the quality of the environment". There is therefore fertile ground for an EU budget more orientated towards environmental protection and sustainable development.

2. Why the current EU budget is weak on environmental sustainability

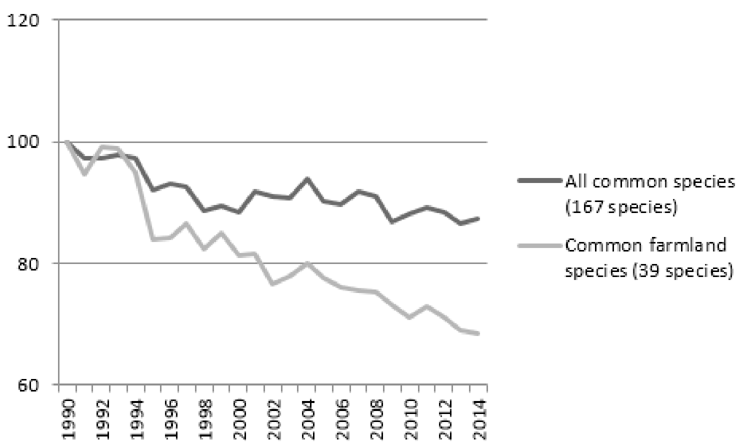
There are many angles from which a reform of the EU budget is desirable. Securing more resources for migration, external action, youth employment and investment will feature highly in the MFF midterm review and the next MFF negotiations. A 'greener' budget should also be a priority for EU policymakers, and this for several reasons.

Very ambitious biodiversity and climate targets

EU ambitions in the field of biodiversity and tackling climate change are extremely ambitious and will require mobilising important financial resources in the long run.

Following up on the 2010 UN convention on biological diversity, the 2011 EU biodiversity strategy sets a headline target to "halt the loss of biodiversity and ecosystem services by 2020, to restore ecosystems in so far as is feasible, and to step up the EU contribution to averting global biodiversity loss". This may sound modest, however biodiversity records have been rapidly deteriorating over the last decades, and the commission's midterm assessment of the strategy in 2011 revealed "no significant progress". Various EU initiatives to halt the trend, such as agri-environment schemes under CAP pillar two, special protection areas under the birds directive and Natura 2000, have not been able to cancel the negative effects of agricultural intensification.[4] As the graph shows, the problem is particularly concerning in rural areas.

Figure 2: Common bird index (1990-2014), European Union (aggregate changing according to the context), Index (1990 = 100). Source: Eurostat



The EU appears to be in a better place regarding its climate energy targets. In 2014, the EU produced 23 per cent less greenhouse gas (GHG) emissions than in 1990, a performance already beyond the 20 per cent 2020 objective. The 40 per cent reduction target set for 2030 is nonetheless very ambitious.

4. Anna Gamero (and several authors). "Tracking progress towards EU biodiversity strategy targets: EU policy effects in preserving its common farmland birds." Conservation Letters, http://onlinelibrary.wiley.com/doi/10.1111/conl.12292/epdf

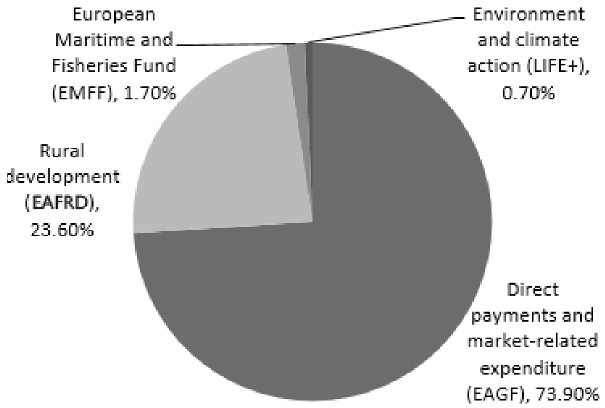
The EU relies on three main types of climate instruments: the Emissions Trading Scheme (ETS) covering the power and industry sector; binding national targets under the effort sharing decision (covering the non-ETS sectors), the renewable energy directive, and the energy efficiency directive; and the EU budget, though 'climate mainstreaming': 20 per cent of the EU budget is to be allocated to climate-related objectives by 2020, a threefold increase from the six per cent share in the 2007-13 EU budget. All of these instruments have the merit to exist, but they face serious limitations. The ETS, for instance, is far from setting the intended incentives with a relatively low carbon price. There is also no mechanism to force member states to shut down coal-fired power stations.

A misleading 'natural resources' heading

In the face of such challenges, the EU has no dedicated instrument for climate-ecological transition. With a budget of around €3bn representing less than one per cent of the 'natural resources' heading, LIFE is the EU's unique environmental programme. It supports actions towards resource efficiency, nature and biodiversity (especially the Natura 2000 network), as well as climate action. Contrary to ESI funds, LIFE does not trigger national co-funding.

By contrast, 29 per cent of the EU budget, and 74 per cent of heading two, are direct payments to farmers (CAP pillar one). Price support was, until the 1990s, the main CAP instrument. After the 1992 MacSharry reform, support to prices was set at a much lower level, thus discouraging production in an attempt to put an end to surpluses and market distortions. Over 20 years, a system of 'decoupled direct payments' was put in place whereby farmers receive subsidies independently from their level of production.

Figure 3: Spending breakdown of the 'natural resources' heading in the MFF 2014-20. Source: European commission



Nonetheless, direct payments are based on land surface, and more proportional than progressive by rewarding large industrial holdings as much as small farms. The 2013 CAP reform only modified the status quo marginally with higher 'cross-compliance' requirements, provisions for greater progressivity (through a five per cent cut above €150,000, and optional 'capping' at this level) and 'greening' (see below).

The European agricultural fund for rural development (EAFRD, CAP pillar two) represents another significant tool for climate and biodiversity. As an indication, in 2013, 25 per cent of the EU's utilised agricultural area was under EAFRD agri-environmental schemes. Funding also goes to organic farming, areas of natural constraints (ANC), Natura 2000 areas, forestry measures and investments.

Recent moves towards greener spending are too timid

The last MFF negotiations left a bitter taste to pro-environmental groups. A temporary coalition of environmentalists and farmers successfully fought to defend the CAP budget while reinforcing environmental requirements. Yet, the outcome of the CAP reform finalised after the MFF agreement included only modest greening provisions. Also, 'pillar flexibility' in both directions meant that while some countries were able to transfer funds from pillar-one direct payments to pillar-two environmental subsidies, as had previously been the case, others were now able to reduce agri-environment spending to increase direct payments.

The introduction of 'green payments' was an attempt to tame criticism against the CAP. Thirty per cent of direct payments are now disbursed only when farms satisfy three requirements as appropriate: the maintenance of permanent grassland, crop diversification and the development of ecological focus areas (EFAs). All three measures are designed to improve biodiversity records and to help fight against climate change.

Although implementation only started in 2015, early assessments of greening are overwhelmingly sceptical. The commission finds that 72 per cent of EU agricultural area falls under the obligations of at least one green direct payment obligation, therefore signalling "the potential to have a considerable impact".[5] Yet, focusing specifically on EFAs, it finds that the options available to member states have led a vast number of farmers to implement measures with low returns on biodiversity. More severely, the IEEP observes that "farmers who are not exempt from greening will be able to meet the requirements with very few changes in established management."[6] Pro-environment pressure groups generally regard greening as a smokescreen to protect the agricultural subsidies system.

By contrast, 'climate mainstreaming', another significant environmental commitment of the MFF 2014-20, seems to be on track. According to the commission, 16.8 per cent was achieved in 2015, and 20.6 is expected in 2016.[7] It estimates that 23-25 per cent of the ESI funds and 35 per cent of Horizon 2020 can be achieved. 30 per cent of the CAP budget is, in theory, related to climate action today. This includes 30 per cent of pillar one green payments, and an estimate of 30 per cent climate-related expenditure within pillar two.

Yet, mainstreaming and tracking climate-related expenditure throughout the EU budget is a rather technocratic and box-ticking exercise with low visibility. The methodology used by the commission is contested. The 'biodiversity proofing' introduced in the wake of the 2011 EU biodiversity strategy is even less ambitious, with no numerical target and non-binding methodological guidance. There are for instance no indicators making it possible to assess and compare biodiversity outcomes from national rural development programmes.

3. Three options to improve the EU's green spending record

There are arguably three (non-exclusive) ways to achieve a greener EU budget, taking into account the fact that CAP direct payments represent a major EU spending item: strengthen CAP pillar one conditionality; transfer money from CAP pillar one to pillar two; and raise climate and biodiversity 'mainstreaming' through the whole EU budget, including CAP.

5. "Review of greening after one year." European commission communication, June 22, 2016, SWD (2016) 218 final, Part 1/6. Accessed August 2016, http://ec.europa.eu/agriculture/direct-support/pdf/2016-staff-working-document-greening_en.pdf

6. Kaley Hart. "Green direct payments: implementation choices of nine Member States and their environmental implications." Institute for European Environmental Policy (IEEP). September 2015. http://www.ieep.eu/assets/1890/IEEP_2015_Green_direct_payments_-_implementation_choices_of_nine_Member_States_and_their_environmental_implications.pdf

7. Climate Action Progress Report 2015, European commission, http://ec.europa.eu/clima/policies/strategies/progress/docs/progress_report_2015_en.pdf

Option 1: Strengthen direct payments greening

Several options are available to reinforce greening.[8] A first approach would consist of general rule changes, such as reducing exemptions so as to include more arable areas into the green payments scheme, as well as attaching limitations on the use of pesticides or fertilisers. A second possibility is to strengthen existing criteria (for instance, extending ecological focus areas from five to seven or 10 per cent). Finally, member states could be asked to design more ambitious measures from an EU menu of options which could include achieving greater GHG sequestration, higher air and water quality or better biodiversity records.

Extending greening without increasing bureaucratic complexity would benefit from a country-flexible approach away from the current prescriptive top-down logic. Regional or national authorities could choose from a menu of broad environmental targets proposed to them, but be left the choice of priorities, and of the means to achieve them. This decentralised approach to greening would match local conditions better. Challenges would arise, however, in ensuring that the targets are ambitious enough and actually delivered, while securing a repayment of subsidies if they are not. The design of measures to achieve the targets should also avoid competitive distortions and be consistent with WTO 'Green box rules'.

Option 2: Reduce direct payments and raise contractual environmental spending

The main alternative to pillar one greening is to shuffle more money into pillar two. During the MFF 2014-20 negotiations, greening was the main reason why the CAP budget was not reduced more dramatically than it was, and why 'environmentalists' did not obtain a significant reduction of the pillar one envelope. However, new financial priorities – such as the need to spend more on security and external affairs – might impose a new cut in the CAP budget. Also, disappointment with greening, and the lack of an agreement on how to take it forward, could justify expanding contractual support for investment in or delivery of environmental and social public goods to the detriment of direct income support. Raising financial incentives could make rural developments subsidies more attractive and efficient than uniform mandatory obligations.

Some voices have recently called for the limiting of direct payments and more spending on sustainability. For the former European commission director general for environment Karl Falkenberg, "planning the next agricultural reform, more attention should be placed on sustainability, and strengthening rural development support type instead of direct payments linked to acreage."[9] Environmental pressure groups tend to support more explicit spending on environmental public goods. However, they point to the risk of a 'watered down' pillar two under the pressure of the agricultural lobby in compensation for lower pillar one direct payments. To avoid this, strict climate and biodiversity targets could be attached to spending. The governance structure of CAP could also be changed in a way that would give environmental officials and NGOs a greater say. This would restore trust in a policy perceived today as being controlled by agricultural officials in the commission, the council and the agriculture committee of the European parliament.

Cutting pillar one could be done either by capping payments to individual farmers or reducing payments to all farmers across the board. The first option would provide the opportunity to address redistributive aspects. The 2013 reform introduced optional capping above €150,000 but few countries took advantage of this possibility. Countries like France, Germany and Spain did not opt in (though they introduced other redistributive measures). During the MFF 2014-20 negotiations, the

8. See in particular Kaley Hart, David Baldock and Allan Buckwell. "Learning the lessons of the Greening of the CAP." Institute for European Environmental Policy (IEEP). April 2016. http://cap2020.ieep.eu/assets/2016/4/20/Learning_the_lessons_from_CAP_greening_-_April_2016_-_final.pdf

9. Karl Falkenberg. "Sustainability Now! A European Vision for Sustainability." European commission, EPSC Strategic Notes Issue 18/2016. Last modified July 20, 2016. http://ec.europa.eu/epsc/publications/notes/sn18_en.htm

Green-EFA group in the European parliament proposed to cap direct payments at €100,000 and to shift saved resources to pillar two or other environmental objectives.

Option 3: More climate and biodiversity mainstreaming throughout the EU budget

Raising the 20 per cent climate-mainstreaming target figure could have a significant impact on the design and delivery of EU spending programmes. However, clarification is needed as to the link with biodiversity mainstreaming, and on the methodology to classify expenditure as climate-environment relevant. A more thorough definition of relevant expenditure needs to be developed in partnership with environmental stakeholders.

The natural resources heading could be assigned a 40 or 50 per cent target. Within pillar one, in order to address criticism against greening, a higher share of green payments could be justified by the introduction of new criteria and/or national plans (see measures suggested in option one). Within pillar two, only two of the six EAFRD objectives are related to biodiversity and climate change today. Member states could be forced to spend 50 per cent of their rural developments envelope on these objectives.

4. Key legal and political parameters of upcoming EU budget discussions

The options outlined above are nowhere near reflecting the ongoing conversations on the MFF midterm review and the EU budget's future. In the coming months and years, advocates of a greener EU budget will need to take the status quo bias of EU budget decision-making as well as the political context into account if they are to develop an effective influencing strategy.

Decision-making: a limited timeframe and scope

The MFF decision-making is a special legislative procedure combining intergovernmental and supranational elements. The MFF regulation (or its revision) is proposed by the commission. It must then be unanimously agreed in the council and requires the consent of the European parliament by absolute majority voting. This does not allow MEPs to introduce amendments, but gives them significant influence over the process. Recent practice shows nevertheless that the European council has the upper hand, arbitrating expenditure ceilings and headings.

The addition of a midterm 'review/revision' clause was one of the European parliament's main demands during the last MFF negotiations. The rationale behind it was to ensure that the newly installed EU institutions (after the May 2014 European parliamentary elections) would be able to reassess the EU's political priorities and endow the MFF with renewed democratic legitimacy.

The MFF 2014-20 regulation stipulates that the commission "shall present a review of the functioning of the MFF" and, "as appropriate, a legislative proposal for a revision of the MFF regulation" by no later than the end of 2016. Since the commission is bound to present a legislative proposal for the post-2020 MFF before 1 January 2018, this leaves only a short window for any midterm legislative revision. In addition, sectoral policies will also be submitted to a midterm evaluation, which is expected to take place in the first half of 2017. With strong interlinks between the budget and individual policies, this evaluation will play an important role in the preparation of the next MFF negotiations.

Political context: reform fatigue or reform momentum?

The MFF midterm review is not only constrained by a limited timeframe. Most government and EU officials are today wary of unsettling the fragile equilibrium reached in 2013. The dominating consensus is that 'pre-allocated' national ESI funds and direct payments envelopes cannot be modified. At most, more resources should be channelled towards security, migration and external action (headings three and four) without raising the ceilings, ie adding to the financial burden of member states. Greater flexibility within or outside the MFF is seen as the main priority of the midterm review.

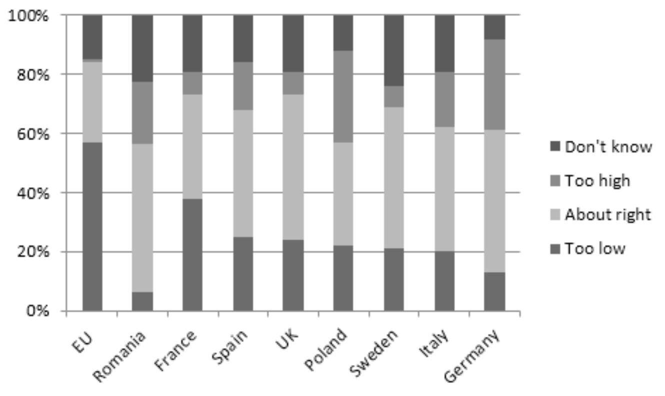
The next MFF negotiations are a more promising opportunity for reform. The EU's existential 'crisis' may prompt calls either for higher EU spending for greater effectiveness, or, on the contrary, for further cuts in the EU budget as a way to respond to the widespread anti-EU mood. Brexit may have a destabilising impact on the MFF negotiations by exacerbating tensions between national governments who will have to make up for the UK's net contribution. In all likelihood, the post-Brexit UK will not be part of the CAP and the common fisheries policy. This may prompt some net contributors to the EU budget to question the added value and the relevance of these policies. However, this will not happen before Britain is effectively out, and the UK will probably to continue to make a substantial contribution to the EU budget in order to retain access to the single market.

A sceptical public

In 2015, a relative majority of EU citizens thought that the EU gave "poor value for money" (43 per cent) and that the EU's political objectives did not justify an increase in the EU budget (47 per cent), while a good third of the public thought the other way.[10] These figures were relatively stable compared with 2011, and country figures often reflect the net contributors/recipients divide.

Climate action and environmental protection are perceived as second-order priorities, far behind social affairs and employment, health and economic growth. In a more striking finding, Europeans do not perceive large agricultural subsidies as a problem. Only a minority of them think the level of support for farmers is too high, with little variation from 2005. When asked whether there should be an increase in EU financial support to farmers in the next 10 years, Nordic countries, Italy and Germany appear to be the most CAP-sceptic countries, while eastern European countries call for greater support. At the same time, European citizens seem to welcome higher environmental requirements. 87 per cent of them are in favour of green payments, with little variation across the EU.

Figure 4: EU citizens' opinion on the level of financial support to farmers (2015). Source: Special Eurobarometer 440



10. "Standard Eurobarometer 83, Spring 2015. The EU budget", European commission, http://ec.europa.eu/public_opinion/archives/eb/eb83/eb83_budget_en.pdf

It is therefore hard to see the next MFF 2014-20 radically departing from existing spending volumes. The 'more spending for more effectiveness' rationale is not likely to take precedence over net return logics in the public discourse. Accepting this might mean dedicating more attention to preferences in terms of 'how' EU money is spent rather than 'how much'.

5. Key players positions on the future of the EU budget

Germany and 'friends of better spending': Changing the rules of the game

Germany was broadly satisfied with the MFF 2014-20 negotiations results. Key demands such as the EU budget's cap at one per cent of the EU's GNI and the introduction of macroeconomic conditionality were adopted. From an environmental perspective, CAP greening was seen as a first step in the right direction. In the short term, German officials want to focus the midterm review on greater budget flexibility, especially towards migration and security spending.

The German position on the post-2020 MFF will depend on the political coalition in power after the 2017 general elections, and on arbitration between different ministries. The environment ministry (led by the SPD Barbara Hendricks) launched in 2015 a 'nature protection offensive' (Naturschutzoffensive 2.0[11]), which suggests moving away from 'passive' direct payments and focusing on climate- and environment-related projects. A tentative CDU-Green government coalition after the 2017 German elections could try to shift the lines towards a greener and more investment-oriented CAP. However, German officials already warn that a bilateral agreement with France will be needed on the future of the CAP. Traditionally, accommodating French preferences on the CAP has been a way for Germany to secure support for its own priorities. Also, the Bavarian CSU – a key government partner for Angela Merkel – tends to defend agricultural subsidies.

Overall, maintaining the budget at one per cent of the EU's GNI, and attaching more strings to EU funding in order to raise performance, is likely to characterise once again the position of the 'friends of better spending' informal coalition.[12] The Netherlands used their EU presidency in the first half of 2016 to promote the vision of a tighter, more performing and flexible budget. The Dutch government also put forward a new, integrated "agriculture and food policy".[13] This vision for a radical CAP reform would mean more investment in technology and innovation, a greater contribution to climate transition, and farmers income support based on price volatility rather than direct payments.

France: Avoiding a too severe cut in CAP spending

Like their German colleagues, French officials see the MFF midterm review merely as an opportunity for limited technical adjustments. On top of security and migration, they call for the extension of the European investment plan and the youth employment initiative. They also stress that the midterm (policy) review of the CAP can only lead to secondary legislation changes since the rules are new and were negotiated for seven years. They think that the new CAP would benefit from simplification but defend greening. The French government is, for instance, not opposed to the extension of ecological focus areas from five to seven per cent – something which may be decided upon in 2017.

The French position on the post-2020 MFF risks being uncomfortable since, like in 2012-13, different objectives will be difficult to reconcile. Brexit and dire finances will urge France to adopt a conservative attitude to the overall volume of spending. This will make keeping the same level

11. http://www.bmub.bund.de/naturschutz-offensive-2020/#c59

12. During the last MFF negotiations, this informal coalition brought together seven net contributors: Germany, France, Austria, Denmark, Germany, the Netherlands and Sweden.

13. "Food for the future. The future of food. Discussion paper of the Netherlands presidency". May 24, 2016. https://english.eu2016.nl/documents/publications/2016/05/31/food-of-the-future

of farmers' subsidies while raising eurozone and Schengen spending very challenging. Across the French political spectrum, the consensus is that the CAP budget should not diminish after 2020. The combination of lower direct payments and the end of quotas in specific sectors like milk is seen as having had a negative effect on small farms. There is awareness about the difficulty of this position at EU level, hence readiness to discuss further CAP reform. While the centre right tends to stress support for investment and greater competitiveness, the centre left advocates a more progressive CAP, ensuring small farms and farms facing natural constrains have a strong safety net.

In a contribution to the Dutch presidency debates in May 2016, the French agriculture minister Stéphane le Foll (centre left) spelled out a vision of the post-2020 CAP.[14] The roadmap combines support for social innovation and agri-environment-climate measures; less bureaucratic but more ambitious greening though the introduction of a fourth requirement, "retaining crop coverage over the year"; and an income stabilisation tool would be put in place to compensate farmers for losses exceeding 30 per cent of their turnout.

Finally, France is probably the country in which the sense of ownership of the Paris agreement is the highest. In that sense, any French government could back more 'climate mainstreaming' across the EU budget. However, this would not be considered as a priority.

Poland and 'friends of cohesion: aversion to green conditionality

During the last MFF negotiations, Poland led the 'friends of cohesion' informal coalition of net recipients.[15] The group was weakened by the fact that some members, such as Czech Republic, Slovakia and Slovenia, were expected to become net contributors in the near future. This may be even more true today. At the same time, the Visegrád group shares higher political priorities, such as avoiding greater burden sharing in the euro and Schengen areas.

The Polish government is broadly satisfied with the MFF and the substantial shares allocated to cohesion and agriculture today. Polish officials stress that the EU budget has already changed a lot away from redistribution, for instance with the extension of financial instruments. In the short term, Poland will oppose any attempt to tighten up direct payments 'greening' and to remove flexibility from CAP pillar two to pillar one. In the next MFF negotiations, central and eastern European countries may back German-inspired conditionalities and performance criteria as a way to legitimise continued high levels of cohesion spending while keeping 'spendthrift' Mediterranean countries in check. However, they are likely to oppose greater spending in security, migration and external affairs, and are lukewarm towards EU climate and environmental action. CAP direct payments are a lifeline for 1.4m farms in Poland. Any EU proposal to reduce their level or expand 'greening' will run into substantial Polish opposition.

European commission and European parliament

The European commission and the European parliament approach upcoming EU budget discussions from slightly different perspectives. Since its start in 2014, the commission has signalled its willingness to be more responsive to the priorities of national publics and governments.In September 2015, budget commissioner Kristalina Georgieva launched the 'EU budget focused on results' initiative as a way to raise attention on the quality rather than on the volume of spending. The initiative should lead to proposals on improving the added value of the EU budget; extending flexibility, the use of financial instruments and conditionality; improved methods to assess spending; and better communication to the public.

14. "A reformed CAP for competitive, sustainable and resilient agriculture". May 31, 2016. http://agriculture.gouv.fr/amsterdam-stephane-le-foll-presente-une-vision-et-des-propositions-concretes-pour-une-pac-post-2020

15. It brought together 10 central and eastern member states and four Mediterranean countries (Greece, Portugal, Spain and Croatia)

The commission released its proposal for a midterm revision in mid-September 2016. The proposal consists in mobilising an additional €13bn for "migration, jobs and growth, and security", however without raising the ceilings.[16] The commission proposes greater budget flexibility in order to address the challenges of the refugee crisis, as well as a modest rise in successful programmes such as Horizon 2020, Erasmus+, the Youth Employment Initiative and the European Investment Plan. Very little is said on 'natural resources' (heading two), although, in conversations, commission and government officials suggest that technical adjustments of the CAP might happen in 2017 as part of the general policy midterm review exercise. Changes might include extending the use of financial instruments in rural development, and expanding "ecological focus areas" from five to seven per cent of holdings' arable area.

In the long run, however, the commission seems determined to defend and embed its current approach to greening and climate-biodiversity mainstreaming. Commission officials argue that this is a better way to spend towards environmental public goods than creating an ad hoc dedicated green or nature fund. The commission's communication on the midterm review stresses that the next MFF proposal "will be guided by the EU budget focused on results initiative and reflect the future challenges and needs of the union post-2020, assessing both the effectiveness of existing approaches in areas such as cohesion policy, the CAP and the external action instruments; and the potential for the EU budget to contribute in new areas."

The European parliament, by contrast, tends to advocate higher EU spending as a response to the current EU crises. The July 2016 resolution on the MFF midterm revision[17], which was adopted by an overwhelming centre-right and centre-left majority, paints a very bleak picture and warns against a new 'payment crisis'. As a consequence, it regards the upward revision of ceilings as "absolutely indispensable if the union is to effectively confront a number of challenges while fulfilling its political objectives", especially delivering the goals of Europe 2020 strategy.

Unsurprisingly, parliamentary committees defended their own turf during preparatory discussions. The Agriculture Committee's opinion adopted a very defensive tone, while the Environment Committee stressed the need to adapt the EU budget to the post-Paris/COP 21 context. Differences between political groups are not very pronounced, although Socialists and Democrats criticise the commission's rhetoric of 'better spending' and 'European added value' as a mere smokescreen to justify freezing the ceilings at their current levels. The Greens propose to raise the level of climate-related expenditure from 20 to 30 per cent in the wake of the Paris climate deal.

The following table summarises key players' positions in upcoming budget discussions.

Table 1: Overview of member states positions regarding the midterm review of the MFF 2014-20 and future EU 'green' spending. Author's own elaboration

	MFF review	**Long-term (general) priorities**	**Future of the CAP**	**Climate and biodiversity mainstreaming**
Germany, Netherlands, Friends of better spending	More flexibility without raisingthe ceilings	Stability of the EU budget Investment-orientated budget, conditionalities, performance-based budgeting End cohesion spending towards rich countries (Netherlands)	Less passive income support More support for innovation and more ambitious greening, though on a less bureaucratic basis	Overall supportive

16. "Mid-term review/revision of the multiannual financial framework 2014-2020 An EU budget focused on results." European commission communication, COM(2016) 603 final, 14 September 2016, http://ec.europa.eu/budget/mff/lib/COM-2016-603/COM-2016-603_en.pdf

17. Report on the preparation of the post-electoral revision of the MFF 2014-2020: Parliament's input ahead of the commission's proposal, (2015/2353(INI)), 06 July http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-

	MFF review	Long-term (general) priorities	Future of the CAP	Climate and biodiversity mainstreaming
France	More flexibility without raising the ceilings	Stability of the EU budget, but eurozone fiscal capacity or expanded investment plan Security, youth employment initiative	Continued income support More support for innovation and more ambitious greening, though on a less bureaucratic basis	Overall supportive
Poland and Visegrád group	Status quo	Continued cohesion subsidies, if necessary by accepting more conditionalities, while slowing down the expansion of financial instruments Contain headings three and four expansion	Strong CAP, and full payments convergence between east and west Against more ambitious greening	Rather opposed

6. Conclusions and recommendations

At a time of severe turbulences, the EU needs to make the demonstration of its capacity to drive strategic change. Although it entails difficult tradeoffs, the transition towards more sustainable socioeconomic models reflects a basic consensus across European societies and is line with EU treaties and international commitments. Such a vision should guide upcoming EU budget discussions, be it the MFF 2014-20 midterm revision to be decided upon by the end of 2016, or the next MFF negotiations which will start next year.

Using the transformative potential of the EU budget towards more ambitious environmental goals is possible. Given the expected reluctance of net contributors to pay more into the EU budget – especially in context of Brexit – any ambition to go beyond the status quo should focus on questioning the added value of existing EU budget lines. Arguments for greater environmental conditionality are particularly strong in the light of the EU's recent climate and biodiversity commitments. In exchange, however, the EU may have to become less intrusive, and more adaptable to local characteristics. The contractual approach developed through ESI funds could inspire future CAP reforms. National and regional actors could be asked to submit local plans to achieve EU targets, and grants would be conditional on achieving the targets. The interviews realised in the context of this research show that such a reform agenda would have significant public and political traction.

The three main options for greener spending outlined in this brief all have various environmental and political merits. Extending CAP 'green payments' would have a large-scale impact and is possibly the most accessible option politically. Yet, the credibility of eligibility criteria would need to be substantially reinforced. A more substantial CAP reform would mean restricting 'passive' direct payments linked to farms' arable areas to the benefit of investment and support for the delivery of environmental and rural public goods. Such an option would risk running into fierce political resistance given its disruptive potential for large agricultural economies. A long transitional period and the maintenance of high levels of support would be necessary. Finally, raising climate and biodiversity 'mainstreaming' throughout the EU budget would send a strong signal to all recipients of EU funding and serve as a useful background for future CAP reforms.

These changes would necessitate setting up more inclusive governance mechanisms. EU institutions and stakeholder dialogue would hugely benefit from overcoming the traditional opposition between environmentalists and farmers' organisations. Any further move towards sustainability should be decided and monitored jointly by these two groups, and more largely by involving EU citizens in future EU budget deliberations.