

Strengthening Environmental Integration in the EU

**Exploring opportunities for advancing Integrated
Product Policy**

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Content

PREFACE	5
SUMMARY AND RECOMMENDATIONS	7
1 INTRODUCTION	13
2 STRATEGIC EU POLICY PROCESSES	14
2.1 THE CARDIFF INTEGRATION PROCESS	14
2.1.1 The Cardiff Process and IPP	16
2.2 EU SUSTAINABLE DEVELOPMENT STRATEGY (SDS)	16
2.2.1 The EU SDS and IPP	17
2.3 THE CURRENT POLITICAL CLIMATE	17
2.3.1 The Open Method of Co-ordination	18
2.3.2 Options for the use of OMC in an environmental framework	20
3 INTEGRATED PRODUCT POLICY	22
3.1 INTEGRATED PRODUCT POLICY AT THE EU LEVEL	22
3.1.1 Implementing the Communication	23
3.2 INTEGRATING IPP THINKING INTO OTHER POLICY AREAS	24
3.3 AN IPP FRAMEWORK DIRECTIVE?	24
4 SPECIFIC POLICY ITEMS	26
4.1 THE BROAD ECONOMIC POLICY GUIDELINES	26
4.1.1 Introduction	26
4.1.2 The Environment in the BEPGs	27
4.2 ECONOMIC INSTRUMENTS FOR THE ENVIRONMENT	29
4.2.1 Aviation	30
4.3 FUNDING FOR THE ENVIRONMENT	32
4.3.1 The EU Structural Funds	32
4.3.2 Future Structural Fund Regulations	34
4.3.3 Other sources of finance	35
4.4 STATE AID GUIDELINES	37
4.5 MULTIANNUAL PROGRAMME FOR ENTERPRISE	38
4.5.1 Beyond 2005	38
4.5.2 Why is the programme important for the Environment?	39
4.6 THEMATIC STRATEGIES	40
4.6.1 The link between IPP and the Thematic Strategies	41
5 IMPACT ASSESSMENT AS GENERIC TOOL FOR INTEGRATION?	42
5.1 BACKGROUND	42
5.2 WHAT IS AN IMPACT ASSESSMENT?	42
5.3 PROGRESS SO FAR WITH USING IMPACT ASSESSMENT	43
5.4 SCOPE FOR IAS TO ADVANCE ENVIRONMENTAL INTEGRATION	43
REFERENCES	45
EEB's suggestion for key tasks of EU IPP framework Directive	46
Areas of interest not included in the report	47
INTERREG III	54

Annex I:	
The European Environment Bureau's suggested Key Tasks for an EU IPP Framework Directive	46
Annex II: Areas of Interest not included in the Report	47
Annex III: INTERREG III	54

Preface

This report has been prepared by the Institute for European Environmental Policy (IEEP) as part of the project Advancing Integrated Product Policy in EU Policy Development undertaken for the Danish Environmental Protection Agency (DEPA).

The aim of the project is to contribute to the development of thinking on environmental integration at the EU level and in particular to further thinking on Integrated Product Policy (IPP) and other environmental considerations in relation to policy areas other than the environment.

The report is based on information gathered up till July 2004.

Summary and Recommendations

The EU Sustainable Development Strategy, the Cardiff Process and Integrated Product Policy

Integrated Product Policy (IPP) is recognised as having a key role in contributing to sustainable development. At a strategic level it is to be an integral part of the EU Sustainable Development Strategy and one of the main delivery mechanisms for objectives set out in the 6th Environmental Action Programme, in particular the Thematic Strategies on Natural Resource Use and Waste Recycling.

The Commission has encouraged individual sectors to be more explicit in how they intend to integrate the IPP approach into their work, and Member States to ensure the integration of IPP thinking into non-environment policy areas. However, this report indicates that there is a need to explore in more detail precisely which policies and sectors are most suitable for advancing the IPP concept. There is substantial scope for future EU enterprise policies, economic policies and regional policies (structural funds) to address IPP thinking, but it is less evident that the concept can be successfully taken up in some other areas.

The Environment Council during the Dutch Presidency in the second half of 2004 is likely to prepare conclusions on the Commission's Communication on the Stocktaking of the Cardiff process. This and the review of the EU SDS later in 2004 are opportunities for pressing for advancing environmental integration in general and in specific areas.

Recommendations:

- The Annual Environment Policy Review and the Cardiff Stocktaking should be used as a basis to reinforce the environmental dimension of the EU SDS. Accordingly, the Commission should produce the Annual Environment Policy Review and the Cardiff Stocktaking in time for the documents to contribute to the Spring Report and the Spring Summits.

The use of Open Method of Co-ordination (OMC)

The environment dimension has been sidelined in the EU SDS and has been given limited attention in the Spring Reports and at the Spring Summits. It has been argued that the use of OMC in the environmental policy field can help redress the situation. It is however, unclear how this would work without a supportive Environmental Policy Committee – like those for economic and social policies. It is also questionable whether applying OMC to environment policy will undermine the Community method, which is the basis for the Community's *acquis* on the environment.

Recommendations:

- OMC should only be used in areas where it is a supplement to EU environmental regulation – e.g. in relation to investments in and research on cleaner technology and the exchange of good practices.

- OMC should only be used when progress at EU level is limited due to unanimity voting rules – e.g. in relation to economic instruments for the environment.
- OMC used in relation to environmental policies should ensure the European Parliament's involvement in the process.

Broad Economic Policy Guidelines and Economic Instruments

Many products do not include the costs of the environmental impacts that they create. Aircraft fuel and aviation services are clearly some of these products. In accordance with the IPP principle of working with the market, it would make sense to introduce economic instruments to help to tackle the emission and noise impacts of aviation. The BEPGs could be one way to further the general use of economic instruments for the environment via the OMC.

Recommendations:

- The review of the EU SDS should explore the opportunity for furthering the use of economic instruments for the environment via the BEPGs, and the Environment Council should ensure that it contributes to the drafting of the BEPGs, and to this end, Environment Ministries should ensure that their voices are heard in the annual cycle of economic policy discussions.
- In relation to the rapid growth of aviation, Member States should use the flexibility of the new Energy Products Directive to introduce market based instruments at national level and when renegotiating their bilateral aviation agreements with third countries ensure that market based instruments can be applied to aviation. The Commission should come forward with proposals for measures to tackle the issue at EU level, as soon as possible.
- Recommend that inter ministerial working groups or 'integration' networks are formed in the Member States to ensure a coordinated and constructive cooperation between financial, transport and environment responsible to take forward measure to address the growth in aviation.

Funding for the Environment

The most important potential sources of EU funding for environmental projects generally, and IPP-related initiatives specifically are the Structural Funds. There are many examples of projects financed by the Structural Funds, which have directly or indirectly supported approaches to cleaner production - but more needs to be done. Other funding opportunities arise through the LIFE programme, and through the EU's RTD programmes as well as the new programme for competitiveness of enterprises. The need for a new Financial Perspective for 2007-2013 means that all these funding sources are currently being renegotiated, and in the coming months opportunities for influencing the new Regulations to take greater account of IPP should be seized.

Recommendations:

- The Commission's commitment to reinforce the use of the Structural Funds to support overarching EU policy strategies such as the Lisbon Process and the EU SDS should be built upon in order to secure greater recognition of the importance of financial support for environmental initiatives, especially regarding IPP and the Environmental Technology Action Plan (ETAP).

- More specifically, IPP and other environmental priorities should be reflected in guidelines in the forthcoming EU Strategy on Cohesion Policy, and in National Cohesion Strategies.
- Authorities wishing to advance IPP should draw up their own Financing Strategies, indicating which of the Community's financial instruments would be most appropriate for proposed measures. Further advice on this will be required when new Regulations on the various financing instruments have been agreed.
- More use should be made of INTERREG-type initiatives on transnational co-operation to establish and support networks for the exchange of good IPP practice.

Impact Assessment as a generic tool for integration

In 2002 the European Commission introduced a new system of integrated impact assessment (IA) for its major proposals. This was intended to weigh up all likely economic, social and environmental impacts of a proposed measure; to identify synergies and clarify any necessary trade-offs between them; and to consider alternative policy options and instruments. However, the quality of the first wave of IAs has been uneven, and some of them poor. In particular, environmental impacts have received limited attention, and most emphasis has been placed on the short-term economic costs of proposals, particularly in relation to industrial competitiveness. Without major strengthening, the Commission's IA system as it stands cannot be relied upon to advance environmental integration.

Recommendations:

- A major culture change is required among Commission directorates-general to support an effective impact assessment system. This requires demonstrable political commitment at the highest level within the Commission and Council.
- This high-level support should be reflected at a practical level in the provision of adequate resources for the provision of training, advice and quality control.
- The Commission's Guidelines on Impact Assessment should be revised to give clearer guidance on incorporating environmental and sustainable development issues in impact assessments.
- In association with relevant EU agencies, the Commission should devote greater effort to establishing a permanent infrastructure for the continuous collection and analysis of basic data required for impact assessment. Particular emphasis should be given to environmental and social data.

Sammenfatning og anbefalinger

Formålet med denne rapport er at bidrage til udviklingen af tænkningen om integration af miljø, herunder den integrerede produktpolitik, i andre politikområder på EU-niveau. Rapporten ser på et udvalg af politikområder, hvor der vurderes at være perspektiver i yderligere integration af miljø samt på de overordnede rammer for integration af miljø i EU's politikker.

Rapporten bygger på informationer indsamlet frem til juli 2004.

EU's bæredygtighedsstrategi, Cardiff processen og Integreret Produktpolitik

Integreret produktpolitik (IPP) anses for at spille en vigtig rolle i forhold til en bæredygtig udvikling. Kommissionen har opfordret de enkelte sektorer til gøre det mere klart, hvordan de påtænker at integrere IPP-strategien i deres arbejde. Denne rapport indikerer, at der er gode perspektiver i at anvende IPP tankegangen inden for virksomhedsrettede politikker, den økonomiske politik og regionalpolitikken.

Anbefaling:

- EU's årlige miljøpolitiske rapport og gennemgangen af Cardiff processen (om integration af miljø i andre sektorpolitikker) bør bruges som basis for at styrke den miljømæssige dimension af EU's bæredygtighedsstrategi.

Brugen af den åbne koordinationsmetode ("Open Method of Co-ordination")

Der har været argumenteret for, at brugen af den åbne koordinationsmetode (OMC) inden for EU's miljøpolitik ville kunne styrke miljødimensionen i EU's overordnede politikker. Det er imidlertid spørgsmålet, om brugen af OMC vil underminere fællesskabsmetoden, hvor der udarbejdes fælles bindende lovgivning på miljøområdet i EU.

Anbefalinger:

- OMC bør kun bruges på områder, hvor den kan være et supplement til miljølovgivningen, f. eks. i relation til investeringer i forskning i renere teknologi og erfaringsudveksling.
- OMC bør kun bruges, når der er lille fremdrift med hensyn til fælles regler pga. krav om enstemmighed, f.eks. i forhold til økonomiske instrumenter.
- OMC bør bruges på en måde, hvor EU parlamentets involvering sikres.

Retningslinierne for den økonomiske politik og økonomiske instrumenter

For mange produkter inkluderer deres pris ikke produkternes miljømæssige omkostninger. Et eksempel herpå er flybrændstof. Introduktionen af økonomiske instrumenter er en måde at rette op på dette, og disse kunne fremmes via retningslinierne for den økonomiske politik ("the Broad Economic Policy Guidelines", BEPG).

Anbefalinger:

- I forbindelse med gennemgangen af EU's bæredygtighedsstrategi bør det undersøges, om brugen af økonomiske instrumenter kan fremmes via BEPG.
- Medlemslandene bør bruge fleksibiliteten i det nye direktiv om energiprodukter til at introducere markedsbaserede instrumenter på nationalt niveau, og Kommissionen bør komme med forslag til økonomiske instrumenter for flybrændstof på EU-niveau.
- Tværministerielle arbejdsgrupper eller netværk bør etableres i medlemslandene for at sikre bedre koordination.

Finansiering på miljøområdet

Den vigtigste potentielle kilde til EU-finansiering på miljøområdet, herunder IPP, er EU's strukturfonde. Der er mange eksempler på, at projekter der direkte eller indirekte har fremmet mere miljøvenlig produktion er blevet støttet under strukturfondene, men der er behov for at gøre mere på dette område.

Anbefalinger:

- Der bør sikres bedre rammer for finansiel støtte til miljøområdet, særligt IPP og miljøeffektiv teknologi, i strukturfondene.
- Der bør gøres mere brug af mulighederne for transnationale samarbejder på IPP-området.

Konsekvensvurderinger ("Impact Assessment") som værktøj for integration.

EU-Kommissionen introducerede i 2002 et nyt system for konsekvensvurderinger af væsentlige forslag. Intentionen var at vurdere alle sandsynlige økonomiske, sociale og miljømæssige konsekvenser af et foreslået initiativ og overveje alternative muligheder. Kvaliteten af den første gruppe af konsekvensvurderinger har imidlertid været varierende og nogle gange lav. Særligt har de miljømæssige konsekvenser fået lille opmærksomhed, mens hovedvægten har været lagt på vurdering af konsekvenserne for virksomhedernes konkurrenceevne. Uden en væsentlig styrkelse kan systemet således ikke på betryggende vis sikre integration af miljø.

Anbefalinger:

- Der er behov for politisk opbakning fra højeste niveau i Kommissionen og Rådet for at sikre et effektivt konsekvensvurderingssystem.
- På det praktiske niveau skal dette afspejle sig i, at der sikres tilstrækkelige ressourcer til træning, rådgivning og kvalitetskontrol.
- Kommissionens vejledning om konsekvensvurderinger bør revideres, så den giver klarere vejledning om inddragelse af miljøaspekter.
- EU Kommission bør sikre en løbende indsamling af basisdata til brug for konsekvensvurderingerne, særligt miljødata og sociale data.

1 Introduction

Aim of the Project

The aim of the project is to contribute to the development of thinking on environmental integration at the EU level and in particular to further thinking on Integrated Product Policy (IPP) and other environmental considerations in relation to policy areas other than the environment.

Advancing environmental integration in EU policy development is a far-reaching challenge, as the number of potential policy areas are many and include both strategic policy processes as well as concrete items of legislation. The project looks at a number of policy areas that have so far not been in the 'spotlight' from an environmental point of view. During the project, it was found that talking about integrating a fairly broad concept like IPP in EU policy development gives little meaning and is difficult to tackle in concrete terms. The project therefore focused on those elements of IPP which could be generic principles for the environmental policy field in general – such as working with the market, and life cycle thinking. A product-oriented approach building on these principles is needed to supplement and build on existing policies, which have already achieved significant improvements in Europe's environment.

Structure of the report

The first part of the report sets the scene. Section 3 describes the EU's two major environment-related strategic policy processes - the Cardiff Strategies and the EU Sustainable Development Strategy – while Section 4 focuses the Commission's Integrated Product Policy Communication.

The report then moves on to the details of a number of more specific policy items, namely the Broad Economic Policy Guidelines, the Structural Funds, the State Aid guidelines, the Multiannual Programme for Enterprise, Economic Instruments and the Thematic Strategies. All these items have been found to contain some future windows of opportunity for the inclusion of IPP thinking.

Finally, the report explores the use of Impact Assessment, reflecting its potential as a generic tool for integrating environmental concerns and IPP thinking into EU policy development.

During the project the study team explored a number of areas that were not in the end chosen for further inclusion in the report. However, these might be worth exploring more in the future and a short summary of these issues is therefore attached as Annex II to this report.

2 Strategic EU Policy Processes

The 1997 Amsterdam Treaty, which entered into force in May 1999, increased the profile of the principle of integrating environmental concerns into other policies, as well as making an explicit link between integration and sustainable development. Article 2 of the Treaty places sustainable development among the EC's primary objectives, and Article 6 specifically requires that:

'environmental protection requirements must be integrated into the definition and implementation of the Community policies and activities ... in particular with a view to promoting sustainable development'

There are a number of strategic EU policy processes, which should reflect environmental concerns, and more specifically, IPP thinking. To ensure a coherent and consistent approach, however, further synergies need to be made between existing policies and processes.

The following sections give an overview of the state of play on the Cardiff integration process and the EU Sustainable Development Strategy (SDS) – two key processes for environmental integration.

2.1 The Cardiff Integration process

The so-called 'Cardiff process' was launched in June 1998 at the European Council meeting at Cardiff, UK. Within the Cardiff process, all relevant Council formations were asked to develop environmental integration strategies, covering their respective policy areas. Progress on implementing the strategies was to be monitored by identified indicators and taking into account the Commission's guidelines.

All EU Council Presidencies between 1997 and 1999 prioritised progress in the Cardiff process. Significant attention was further given to the process during the Swedish Presidency in the first half of 2001. However, despite subsequent attempts to reinforce the Process, it has faltered since 2001. An annual stocktaking of the process has, however, been established, to feed into the Spring Summit, and this could help reinvigorate the Cardiff process.

Although all Council formations have had to develop strategies, nine sector Councils were specifically identified to start the process: Agriculture, Transport and Energy, Development, Internal Market and Industry, Fisheries, General Affairs and ECOFIN (predominantly involving economic/finance Ministers). The Commission, despite the Council's overarching responsibility in the process, has also been engaged in developing and reviewing the strategies.

By June 2001, strategies were in place for only six of the nine Councils, but another two were completed by March 2002. The sector strategies have been found to vary in terms of content and quality, however (Fergusson *et al* 2001). While they tend to acknowledge the need for changes in policy, they

have been disappointing with respect to including specific timetables. There has been a tendency to reflect agreed EU policy positions, rather than longer term visions of sustainable development. This has been supported by studies by e.g. Kraemer *et al* (2001) and SERI (2000).

The strategies' content is arguably also in need of revision, in light of changes in the environmental policy context, notably following agreement on the 6EAP, the World Summit on Sustainable Development, and major reforms of EU sector policies. The latter have major environmental implications, notably in the context of agriculture, fisheries, transport and regional development (Wilkinson *et al* 2002).

The European Council's Spring Conclusions of 2003 noted the Commission's ***'intention to carry out an annual stocktaking of the Cardiff process of environmental integration and a regular environment policy review and to report in time for the outcomes of these exercises to be taken into account in the preparation of its future Spring reports, starting in 2004'***. The annual stocktaking of the implementation of the integration strategies should provide information on the extent to which policy changes have been secured, in support of environmental integration.

After much delay the Commission finally on 1 June 2004 published the stocktaking¹, stressing the need to invigorate the environmental integration process and calling for clear operational targets and implementation of the Cardiff strategies.

The document attempts to assess the progress on 'strategy implementation' in all the nine sectors covered so far by the Cardiff process, and concludes that the Cardiff process has produced mixed results. On the positive side the CAP reform and initiatives on renewable energy and energy efficiency are mentioned. However, the stocktaking points at the need for improving the consistency of strategies and the need for political commitments to integration to be followed up by measures and implementation at all levels of governance. In particular, three opportunities for further promoting environmental integration are mentioned, namely:

- The Review of the EU Sustainable Development Strategy (SDS);
- The mid-term review of the Lisbon strategy in 2005; and
- The EU financial perspectives for 2007-2013.

A very positive feature of the document is a section for each sector on 'challenges and opportunities ahead for environmental integration', which highlights relevant policies and measures that are in the pipeline. This kind of information would in fact have been very helpful for this project as it essentially points at other policies where environmental integration could take place. Note though, that because policies are mentioned in these sections, it does not necessarily mean that the Commission has decided to 'green' the policy items. However, the sections could prove to be a useful tool for environment policy makers and NGOs as a kind of work programme indicating where efforts could be targeted in the near future.

¹ Commission Working Document, ***Integrating environmental considerations into other policy areas – a stocktaking of the Cardiff process***, COM(2004)394, 01.06.2004

2.1.1 The Cardiff Process and IPP

According to the Commission's latest communication on IPP (see Section 2), the Commission is to encourage individual sectors, in their reports pursuant to the Cardiff Process, to be more explicit in how they intend to integrate the IPP approach into their work. Moreover, Member States are encouraged to ensure the integration of IPP thinking into non-environment policy areas.

2.2 EU Sustainable Development Strategy (SDS)

In 2000, the EU agreed on the Lisbon strategy, which has the ten-year goal of making the Union the most dynamic, competitive knowledge-based economy, enjoying full employment and strengthened economic and social cohesion. It was argued early on in the process that the Lisbon strategy lacked the environmental dimension to deliver sustainable policies.

This environmental dimension was added in 2001, with the adoption of an EU SDS. The SDS thus complemented the principal lines of the Lisbon strategy, notably by adding both short and long-term (mostly) environmental objectives. The SDS took the shape of European Council Conclusions, namely the Göteborg Summit Conclusions in June 2001. The Conclusions were partly based on a longer Commission proposal for a SDS (May 2001, COM(2001)264).

The SDS was produced in time for the 2002 UN Johannesburg Summit. It is also a response to Article 2 of the Treaty.

The 2001 Göteborg Conclusions (the SDS) dedicated four pages to the issue of sustainable development, focusing on four key issues:

- combating climate change;
- ensuring sustainable transport;
- addressing threats to public health; and
- managing natural resources more responsibly.

All four priorities were environment-related, however, they were also strongly linked to some of the main Cardiff sectors, namely energy, transport, industry and agriculture. The Conclusions further outlined how the strategy was to be taken forward, with a coordination role given to the General Affairs Council. Each annual Spring Summit is to give policy guidance and hence renew political commitment to sustainable development in Europe. Plans for introducing sustainability impact assessments are also mentioned (see Section 4 for further detail). In implementing the Strategy, the separate Councils were asked to finalise and further develop the Cardiff Strategies, taking into account the objectives of the 6EAP and the SDS.

Importantly, the Göteborg Summit also recognised the need for a stronger external dimension of the Strategy. The elements agreed upon at the Göteborg Summit have subsequently been elaborated. The May 2002 Development Council thus added this dimension with further refinements made at the Barcelona Spring 2002 Summit.

There are a number of institutional weaknesses in respect of developing and reviewing the EU SDS. There is an Economic Policy Committee (see Section

3.1), an Employment Committee and a Social Protection Committee, which all contribute to the Spring Summit Process every year. However, the environmental policy field does not have an Environmental Policy Committee to support the Environment Council's annual contributions to the SDS. During the Spanish Presidency in 2002, this imbalance was discussed, but it was decided not to create a new committee. Therefore, the preparation of the environmental contribution to the Spring Summit takes place in the Council's Working Parties on the Environment and on international Environmental Issues respectively. So far the environment has been sidelined in the SDS and has been given limited attention in the Spring Reports and at the Spring Summits.

In its May 2001 Communication, the Commission had proposed that a comprehensive review of the SDS should take place at the beginning of each new Commission (in other words every five years). The Commission's 2004 Work Programme foresaw the publication of a consultation document on the first review for May 2004. It appears, however, that this timetable has slipped, but consultation is expected to be launched in July 2004. The Lisbon Strategy mid-term review is foreseen to take place during 2005.

Little information is currently available on the content and the possible link between these two reviews. According to the Commission², the SDS review should be used to further integrate the internal and international dimensions of the SDS. In April 2004 in Kinsale, at an Irish Presidency conference on Sustainable Development, the interrelationship between the SDS and the Lisbon strategy was discussed. At the conference, Catherine Day, Director-General of DG Environment, highlighted that since the review of the SDS will take place at the same time as the preparations for the mid-term review of the Lisbon strategy there is a risk that the Lisbon review will overshadow the SDS review. She thus called for a comprehensive and full SDS review, seizing the chance to reinvigorate the sustainable development approach to policy making in the EU. She confirmed that a preliminary SDS review paper would be launched in the coming months. However, some informal contacts with the Commission suggest that this paper will not be a review, but rather a short document with questions to start a stakeholder consultation, others suggest that the timetable is likely to slip again and that any action might not be taken before a new Commission is in place in November 2004.

2.2.1 The EU SDS and IPP

IPP is recognised as having a key role in contributing to sustainable development. At a strategic level it is to be an integral part of the EU SDS and one of the main delivery mechanisms of objectives set out in the 6EAP, in particular the Thematic Strategies on natural resource use and the prevention and recycling of waste.

2.3 The Current Political Climate

The Spring Summits are the occasion to evaluate the implementation of the Lisbon objectives and the SDS on the basis of the Commission's annual Spring Report. These reports are based upon regular, separate policy reviews and guidelines produced each autumn by the Economic and Finance, and Employment Councils respectively.

² COM(2003)745 and COM(2003)829

There are signs at the highest political level in the EU that less attention is given to the environmental dimension of sustainable development. During recent years, there has been a growing emphasis within the European institutions and in public debates, on the costs of environmental regulation and the need for maintaining industrial competitiveness. There has been intensified lobbying against a variety of proposed EU environmental measures, such as REACH, as well as weakened commitment to the Kyoto Protocol, in some Member States and parts of the Commission. Another indication for weakening support for the environment element of the SDS is that the environment issue was not given a section in the 2004 European Spring Council conclusions.

The emphasis now is on 'Environmentally Sustainable Growth'. Given these developments, it is expected that the 'environment' would have to offer at least 'win-win' solutions to economic growth/competitiveness issues to be considered seriously at a high political level. Environmental technologies are considered to offer one such 'win-win' solution. They consequently received considerable attention in the 2004 Spring Summit conclusions.

None of the two reports that had been foreseen to strengthen the environmental component of the 2004 Spring Report, namely the Environment Policy Review and the stocktaking of Cardiff were produced in time to be included in the drafting of the Spring Report this year.

Some argue that in order to accommodate the change in the political climate, the environment debates are turning away from the traditional legislation approach and towards new approaches, such as the so-called Open Method of Co-ordination.

2.3.1 The Open Method of Co-ordination

The roots of the Open Method of Co-ordination (OMC) lie in the Maastricht Treaty, notably in the provisions relating to the Economic and Monetary Union, in the so-called 'Maastricht Criteria' for economic and fiscal stability, and in the need to bring about a high degree of convergence among the economies of the Member States in the Euro zone (Kraemer *et al* 2003).

The OMC procedure for economic policy – Articles 98 and 99 of the EC Treaty - is described in Box 1, below.

Box 1: Selected parts of Articles 98 and 99 of the EC Treaty

Article 98

Member States shall conduct their economic policies with a view to contributing to the achievement of the objectives of the Community, as defined in Article 2, and in the context of the broad guidelines referred to in Article 99(2)...

Article 99

1. Member States shall regard their economic policies as a matter of common concern and shall coordinate them within the Council, in accordance with the provisions of Article 98.

2. The Council shall, acting by a qualified majority on a recommendation from the Commission, formulate a draft for the broad guide-lines of the economic policies of the Member States and of the Community, and shall report its findings to the European Council.

The European Council shall, acting on the basis of the report from the Council, discuss a conclusion on the broad guidelines of the economic policies of the Member States and of the Community.

On the basis of this conclusion, the Council shall, acting by a qualified majority, adopt a recommendation setting out these broad guidelines. The Council shall inform the European Parliament of its recommendation.

3. In order to ensure closer coordination of economic policies and sustained convergence of the economic performances of the Member States, the Council shall, on the basis of reports submitted by the Commission, monitor economic developments in each of the Member States and in the Community as well as the consistency of economic policies with the broad guidelines referred to in paragraph 2, and regularly carry out an overall assessment.

For the purpose of this multilateral surveillance, Member States shall forward information to the Commission about important measures taken by them in the field of their economic policy and such other information as they deem necessary.

4. [if] established, [...] that the economic policies of a Member State are not consistent with the broad guidelines [...] or that they risk jeopardising the proper functioning of economic and monetary union, the Council may, acting by a qualified majority on a recommendation from the Commission, make the necessary recommendations to the Member State concerned. The Council may, acting by a qualified majority on a proposal from the Commission, decide to make its recommendations public.

* The broad guidelines referred to in the two articles are the so-called Broad Economic Policy Guidelines.

In March 2000, the Lisbon European Council defined the Open Method of Co-ordination as 'the means of spreading best practice and achieving greater convergence towards the main EU goals'. It is based on five key principles³: subsidiarity, convergence, management by objectives, country surveillance and an integrated approach. The aim is to help Member States to progressively develop their own policies, in co-ordination with other Member States.

The OMC can involve elements of benchmarking, peer reviews, regular reporting, and the development by the Commission of voluntary guidelines for the Member States – and it already applies to the other two 'legs' of the EU Sustainable Development Strategy (SDS) – i.e. economic and employment policies (as well as innovation policies, pension policies etc.).

New areas for using the OMC are being explored. The aim of a recent Commission Communication⁴ is to define a common framework to support Member States in the reform and development of health care and long-term care, using the OMC. Also when the Commission, in December 2003, published its Environment Policy Review⁵, the idea of introducing some form of OMC in the environment field was further articulated.

Voices in support of applying the OMC to the environment policy – e.g. Kraemer *et al* (2003) – argue that this could help to address the current sidelining of environment in the EU SDS. According to Kraemer *et al* the evidence argues for at least two OMC processes, an 'Environmental Policy

³ See

www.europa.eu.int/comm/employment_social/employment_strategy/index_en.htm for details on the five principles.

⁴ COM(2004)304

⁵ COM(2003)745

OMC' for environmental protection and nature conservation policy, and a 'Cardiff OMC' for environmental policy integration, but it is less evident whether a third 'World Summit on Sustainable Development OMC', focusing on sustainability policy and sustainable development strategies, should also be established. However, the application of the OMC should not be used in a way which would undermine or weaken the existing EU *acquis*, or as a permanent substitute for EU legislative action.

Sceptics, on the other hand, question whether the OMC really offers new opportunities and question how the EU environmental *acquis* can be safeguarded. According to Radaelli (2003), the OMC has not achieved much in terms of co-ordination in those policy areas to which it applies, and the main results so far have been to gain momentum for previously neglected or politically sensitive policy initiatives. Radaelli further argues that the OMC has become a legitimate discourse, because official documents and certain academics refer to the OMC more regularly. According to Radaelli, this means that policy practices that recently would have been labelled 'soft law', declarations, voluntary codes, or benchmarking exercises have now been 'framed' as applications of the OMC. Some may argue, therefore, that using OMC could undermine the current legal basis on which EU environment policy is based. One possibility that has been suggested to protect the legal basis is to restrict the availability of the OMC to areas where the EU does not possess legislative competence.

However, one must keep in mind that other instruments also can be ineffective and that the OMC has so far been applied in particularly difficult areas, where the application of other instruments has not been feasible. Also the OMC is a relatively new instrument and it may therefore be too early for an assessment of its effectiveness. Some have suggested that the OMC will only be efficient if there is a mutual interest among Member States in the exchange of best practices, hence the method should only be applied to areas where this is the case.

So far the process relating to the OMC has not been very 'open', which has been identified as a key weakness. At the core of the OMC is a network of civil servants and experts (Radaelli, 2003). It has further been criticised for failing to include the European Parliament, which has no formal role in the OMC, arguably a major step backwards in terms of good governance. However, the EP has been involved e.g. in relation to employment, pension and social inclusion policies. In relation to the use of OMC in these fields, the Employment Committee and the Social Protection Committee have been driving forces in the processes, which also pose the question whether it is possible to ensure an efficient OMC process for environment policy without an Environment Policy Committee.

2.3.2 Options for the use of OMC in an environmental framework

A test case for using the OMC in an environmental context will be the implementation of the Environmental Technologies Action Plan⁶, adopted in January 2004, the Commission has announced. To what extent the OMC will take precedence over or supplement traditional Community Methods, however, will depend on discussions with Member States.

⁶ COM (2004)38

It has been suggested that OMC could suitably be tried in relation to the economic instruments for the environment – e.g. the coordination of national efforts on green taxes and charges. While this is an interesting idea, there is already an existing OMC process for Economic Instruments, which applies to the economic policy via the Broad Economic Policy Guidelines and Articles 98 and 99 of the EC Treaty. This seems to have been ignored in the debate.

A possible way of safeguarding the continued development of the *acquis* in respect of environment policy may be to use the OMC only in areas of limited Community competences.

3 Integrated Product Policy

3.1 Integrated Product Policy at the EU Level

There have been a number of significant developments over the last few years in Europe in relation to cleaner product policies, integrated product policies (IPP) and policies to further sustainable consumption and production.

When this report refers to the IPP approach and IPP principles, it refers to – unless otherwise stated - the concepts as they are used in the Commission’s IPP Communication from 2003: *Integrated Product Policy – Building on Environmental Life-Cycle thinking*⁷.

The primary aim of IPP is to ***‘reduce the environmental impacts from products throughout their life-cycle, harnessing, where possible, a market driven approach’***. According to the Communication, the IPP approach is based on five key principles:

- Life-Cycle Thinking
- Working with the market
- Stakeholder Involvement
- Continuous Improvement
- A Variety of Policy Instruments

IPP is to form an integral part of the EU Sustainable Development Strategy (SDS) and the delivery of the objectives set out in the Sixth Environmental Action Programme (6EAP). Resource use throughout the life cycle of products is a critical issue, and IPP is to be a key implementing measure for two of the eight Thematic Strategies, which are in preparation, namely those on natural resources and recycling. It is also to provide a major input into the ten-year framework of programmes on sustainable production and consumption agreed at the Johannesburg World Summit on Sustainable Development in 2002.

As well as contributing to the achievement of the objectives of the EU SDS and 6EAP, IPP is also to:

- supplement existing product-related policies by providing a wider life cycle framework; and most importantly,
- strengthen the coordination and coherence between existing and future environment-related product policy instruments.

⁷ Communication from the Commission to the Council and the European Parliament, *Integrated Product Policy: Building on Life-Cycle Thinking* COM(2003)302, 18.6.2003

3.1.1 Implementing the Communication

The Commission's Communication contains an indicative list of what the Commission considers to be the roles and responsibilities of Member States and other stakeholders (Annex II, p 21 of the Communication). It also outlines the steps that the Commission itself will take. These steps are summarised in Table 1 below.

Table 1: Tools for Establishing the Framework Conditions as outlined in COM(2003) 302

<i>Tools for Creating the Right Economic and Legal Framework</i>
With regard to creating the right economic and legal framework in support of greening products and their purchase, it is the Commission's role to ensure that instruments for which it is competent promote movement in this direction. The policy tools suitable for this are described as:
<ul style="list-style-type: none"> • taxes and subsidies
<ul style="list-style-type: none"> • Voluntary Agreements and standardisation
<ul style="list-style-type: none"> • Public Procurement legislation
<ul style="list-style-type: none"> • other legislation
<i>Promoting the Application of Life-Cycle Thinking</i>
<ul style="list-style-type: none"> • Action at Community level is required in three areas:
<ul style="list-style-type: none"> • Life-Cycle information and interpretative tools
<ul style="list-style-type: none"> • Environmental Management Systems
<ul style="list-style-type: none"> • Product Design Obligations
<i>Giving Consumers the Information to Decide</i>
The Community's role is to provide and encourage consumers with product information. Suitable policy instruments discussed are:
<ul style="list-style-type: none"> • Greening Public Procurement
<ul style="list-style-type: none"> • Greener Corporate Purchasing
<ul style="list-style-type: none"> • Environmental Labelling

It is clear that the IPP approach focuses on a mix of policy instruments. It is however, less clear at which level of governance these instruments are most efficiently introduced. To get an idea of where the EU could usefully make progress in a concrete and meaningful way, it would therefore be useful to analyse who is and should be responsible for putting into place these instruments.

Such an analysis would have to take into account the legal powers at the EU level (Community powers) as well as the subsidiarity principle. Community powers are those, which are conferred on the Community in specific areas by the Treaty. The Community is able to act only within this framework, although the framework is very broad. Within this, the scope for action is further limited in certain cases, by the requirement for unanimity in Council.

The subsidiarity principle is intended to ensure that the EU does not take action (except in the areas within its exclusive competence) unless such action is more effective than action taken at other levels. The principle is intended to ensure that decisions are taken as closely as possible to the citizen and that constant checks are made as to whether action at Community level is justified in the light of the possibilities available at other levels. It is closely linked to the principles of proportionality and necessity, which require that any action by the EU should not go beyond what is necessary to achieve the objectives of the Treaty. Given the need to ensure the free movement of goods within the EU's internal market, the Union clearly has a significant role in relation to the development of Integrated Product Policy. However, this is not an exclusive

role, for there remains the need for action at Member State level, and by industry itself.

The Communication has few deadlines and specific objectives for the above actions. In fact, many of the actions listed are already ongoing, and respond to other initiatives. The Environment Council Conclusions of October 2003, call upon the Commission and Member States, as appropriate, to ***'define more precisely how Member States are to be effectively involved in the development, implementation and monitoring of the IPP'*** and to ***'establish a more detailed work-plan and timetable'***.

3.2 Integrating IPP thinking into other policy areas

The IPP Communication states that ***'the Commission will encourage individual sectors, in their reports pursuant to the Cardiff Process, to be more explicit in how they intend to integrate the IPP approach into their work'***. It further says that a possible role and responsibility of the Member State (Annex II, p 21 of the Communication) is ***'ensuring the integration of IPP thinking into non-environment policy areas'***.

The European Parliament's Environment Committee adopted a report⁸ on 8 April 2004, which supported this by calling on the Commission to mainstream IPP thinking into all major EU policy areas, and to carry out an IPP compatibility review of existing legislation.

3.3 An IPP framework Directive?

The Environment Committee was also critical of the IPP Communication's light approach, and called on the Commission to present an IPP framework Directive, based on a set of clearly defined principles and objectives. The idea of an IPP framework Directive also has the support of NGOs. Annex I shows the European Environment Bureau's (EEB) suggestion for key tasks of such a Directive.

According to the EEB⁹ there are two different views on what IPP is. One perceives it as a new wave of voluntary action and as a mere streamlining exercise, which makes the different pieces of product legislation more consistent. The other sees it as a necessary push in a neglected policy field, which is applying various instruments in order to minimise the environmental impact of products, to substitute products by services, and to achieve quantitative environmental targets. The EEB supports and promotes the latter concept.

The issues surrounding whether to pursue IPP through a framework Directive or by integrating the approach into other relevant policy areas are similar to those which arose in relation to advancing the concept of integrated coastal zone management (ICZM) at Community level. The danger of relying on a separate legal instrument is that the commitment to pursue action in other policy areas may be reduced, and the approach marginalized. It was partly for

⁸ Committee on the Environment, Public Health and Consumer Policy: Report on the Commission Communication Integrated Product Policy – Building on Environmental Life-Cycle thinking, COM (2003) 302

⁹ http://www.eeb.org/activities/product_policy/main.htm

this reason that the Commission chose to pursue ICZM not through a framework Directive but in a Recommendation, which urged action at a number of different levels.¹⁰ Similar considerations would appear to apply in relation to a possible framework Directive on IPP.

¹⁰ Commission Communication Integrated Coastal Zone Management: A Strategy for Europe COM(2000) 547 27.9.2000, pp 2,11; Recommendation of the Council and European Parliament Integrated Coastal Zone Management in Europe, Preamble (17) Official Journal L148 6.6.2002

4 Specific Policy Items

Reflecting the Treaty requirement to integrate environmental concerns into other EU policies a product-oriented approach should form part not only of the high-level EU strategies discussed in the last chapter, but also of more specific and concrete policy items.

Among those most relevant to IPP are:

- the Broad Economic Policy Guidelines (BEPGs)
- the use of economic instruments
- the EU Structural Funds
- State aid Guidelines
- the Multiannual Programme for Enterprise
- the Thematic Strategies
- impact assessment

4.1 The Broad Economic Policy Guidelines¹¹

4.1.1 Introduction

The BEPGs lay down the EU's medium-term economic policy strategy. The 2003-2005 guidelines focus on the contribution that economic policies can make to achieve the EU's strategic Lisbon goal and are concentrated around:

- growth and stability-oriented macroeconomic policies;
- economic reforms to raise Europe's growth potential; and
- strengthening sustainability.

The BEPGs make both general and country-specific recommendations. The guidelines cover three years and a full review is foreseen for 2006. In the meantime, changes are only expected to take account of major new developments.

The BEPGs are adopted by the Economic and Financial Affairs (ECOFIN) Council, in line with Article 99 of the EC Treaty and on the basis of a Commission recommendation. The BEPGs build on an annual cycle of policy discussion that is initiated by the EU Economy Review¹² and experience with the implementation of the previous BEPGs.

¹¹ DG Economic and Financial Affairs (ECFIN) is responsible for drafting the BEPG and discussions in the Council takes place in the Economic and Financial Affairs formation.

¹² Annual publication of DG ECFIN on recent and prospective economic developments and studies on specific topics which are judged of particular interest for economic policy making. The Review is also the starting point of an annual cycle of European economic policy discussion.

Amongst other aims, the BEPGs are to promote sustainable development through the integration of environmental aspects into economic policy. This means that they also serve as the ECOFIN Council's 'Cardiff strategy'.

An annual implementation report summarises the Commission's findings in monitoring economic developments and the conduct of Member State's economic policies. The implementation report provides an overall assessment of the implementation of the BEPGs of the preceding year, including an assessment of the implementation of the country specific guidelines in last year's BEPGs.

The report is thus part of the Commission's economic surveillance and policy co-ordination activities. It serves as input for the next Commission recommendation on the BEPGs.

An important Committee in the annual cycle of policy discussion is the Economic Policy Committee (EPC), which provides support in the formulation of the BEPGs and in the general preparations of the Spring Summits. The Committee's main task is to contribute to the preparation of the work of the Council of co-ordinating the economic policies of the Member States and of the Community, and to provide advice to the Commission and the Council. The EPC is composed of two members¹³ from each Member State, generally senior officials from national ministries of finance or economics, and from national central banks. The Commission's DG ECFIN and the European Central Bank also second two members.

The EPC coordinates opinions with the Employment Committee, the Social Protection Committee and with the Education Committee, which also contribute to the Spring Summit Process every year in relation to their respective policy areas. As discussed, no similar committee structure exists for the environment policy.

4.1.2 The Environment in the BEPGs

The 2003-2005 BEPGs include a small number of recommendations on (environmental) sustainability, notably encouraging the use of economic instruments/incentives to achieve efficient resource use and to decouple economic growth from environmental degradation. The emphasis is on economic instruments in general, and on energy, transport and the Kyoto target in particular (see Box 2).

Box 2: Environment related Recommendations No. 20-23 from the 2003-2005 BEPGs

- reduce sector subsidies, tax exemptions and other incentives that have a negative environmental impact and are harmful for sustainable development. Ensure, inter alia through the use of taxes and charges, that pricing of the extraction, the use and, if applicable, the discharge of natural resources, such as water, adequately reflects their scarcity and all resulting environmental damage;
- reduce subsidies to non-renewable energy and promote market instruments, further broaden the coverage, and ensure appropriate differentiation of energy taxation;

¹³ Please see http://europa.eu.int/comm/economy_finance/epc/epc_members_en.htm, for details on names of Members

- adjust the system of transport taxes, charges and subsidies to better reflect environmental damage and social costs due to transport, and increase competition in transport modes;
- renew efforts to meet commitments under the Kyoto protocol and implement the EC greenhouse gas emissions trading scheme and set up systems to report on those policies and measures and their prospective effects on emissions. Take measures to reach the targets set by subsequent European Councils, notably on energy efficiency, renewable energy and bio fuels.

Source: Communication from the Commission on the implementation of the 2003-2005 BEPG. COM(2004) 20, 21.1.2004.

Interestingly, the 2004 implementation report concludes that progress towards environmental sustainability in 2003 was disappointing. Moreover, it tries to assess the source of or reason for some of the problems. There is special focus on the issue of climate change and a distance-to-target indicator for the Kyoto protocol is included, highlighting that even with the implementation of the new emissions trading Directive and other existing and planned policies and measures, most Member States will not reach their targets, unless they improve implementation. The report also concludes that while several Member States have declared their intention to use the flexible mechanism of the Kyoto protocol in addition to domestic and European policies, still only a few have explicitly made provision for the budgetary resources necessary for this.

The Kyoto indicator is however an exception as recommendations related to the environment in general are very broad and not country specific. However, the use of economic instruments in environmental policies could be an important part of the BEPGs. It would be useful to include more environment-related targets like the Kyoto targets – e.g. targets such as to remove coal subsidies by 2007. This would be a way of strengthening the Commission's position in issuing country specific recommendations. The idea of country specific environmental recommendations has been put forward in the Cardiff stocktaking, which suggests they should be considered for the BEPGs for 2005 onwards, where the situation poses a substantial economic challenge or has implications for economic policy.

The Commission needs to have a comparable basis of information in order to make balanced country-specific recommendations on environmental issues, therefore it is important that environment ministries ensure that they are involved when the annual reports are sent to the Commission to ensure that environmental issues are covered. The environment ministries could also contact their finance and economic counterparts and ensure full involvement in the drafting of the BEPGs.

Using the BEPGs could be a way of using OMC on an environmental issue without jeopardising the legal base of environment policy. For example the Commission might recommend minimum rates for a green tax base, or minimum investment rates for investment in environmental technologies or in research for environmental technologies.

4.2 Economic Instruments for the Environment

One of the five principles in the IPP Communication is 'Working with the market' by setting incentives so that the market moves in a more sustainable direction and encourages the supply and demand of greener products.

As stated in the Communication, 'getting the prices right' means that the price paid by a consumer for a product includes the costs of all the environmental impacts that it creates. If designed appropriately, market based instruments (MBIs) could play an important role in advancing the IPP concept in other policies.

There has recently been progress with market based instruments in EU legislation – the Emissions Trading Directive is one example of legislation that sets objectives and gives flexibility to Member States or market players to select the instruments or options to achieve them. Such legislation increasingly offers scope, and in places encouragement, for the use of economic instruments at national level. More national environmental taxes and charges have been used, and emissions trading schemes are becoming 'acceptable' options.

In addition, the European Council in its March 2003 Conclusions has urged ***'the Council (ECOFIN) to encourage the reform of subsidies that have considerable negative effect on the environment and that are incompatible with sustainable development'***.

According to the Environmental Technology Action Plan, the OECD will by the end of 2004 develop a framework to help identify and measure environmentally harmful subsidies, the Commission will then in 2005 work with Member States and regional governments, using as far as possible the OECD methodology, to identify the most significant subsidies that have a negative effect on the environment. A forthcoming Commission Communication is likely to discuss possible further steps at EU level to encourage this process of phasing out environmentally harmful subsidies.

A forthcoming Communication¹⁴ on Economic Instruments for the Environment is foreseen in the Commission's legislative and work programme for 2004. The communication will have a broader scope than the previous ('97) Communication in terms of coverage of instruments. It will be an information and guidance document, which can hopefully contribute to the increased use of these instruments in the environment field.

However, while the EU institutions and Member States increasingly make reference to the polluter pays principle and 'getting the prices right'¹⁵, progress with implementing these principles, e.g. through new environmental taxes, is less evident. But there is a move towards environmental tax reform as countries change their tax base by reducing labour related taxes and broaden the number of taxes and charges on environmental pollution, resources and services, but progress is slow (Eurostat, 2003).

To go beyond the general wording of 'getting the prices right', the debate has to turn towards concrete areas where economic instruments could contribute

¹⁴ The Communication is a shared responsibility of DG Environment and DG Taxation and Customs Affairs.

¹⁵ Internalisation of externalities. See www.red-externalities.net

to ensure that prices on products and services better reflect their environmental impacts. One such area could be aviation services and more concretely, the product aviation fuel. This could be done by either charging for aviation emissions, or by taxing aviation fuel.

4.2.1 Aviation

The use of economic instruments to address the environmental impacts of aviation is not common, though examples do exist (see box 5 below). Part of the problem is that the Chicago Convention, which is the fundamental treaty on international civil aviation, prohibits the imposition of taxes or charges on fuel kept on board aircraft and consumed on international flights. This is often misunderstood to mean that taxes on aviation fuel are prohibited by international law, but this is not the case. The 1944 Chicago Convention only prohibits a State to apply taxes and charges on fuel already on board of aircraft arriving from another State, so no taxes are charged on international flights (Skinner and Fergusson, 2003, and Article 24 of the Convention).

Box 3: Examples of taxes and charges being applied to aviation in Europe for environmental reasons.

- Zurich airport has operated a system whereby an emissions surcharge is added to the landing fee of an aircraft. The charge was introduced to encourage use of cleaner aircrafts and to accelerate the use of the best available technology. The revenues are used to fund emission reduction measures at the airport.
- Sweden, in 1998 introduced a similar tax at a number of its airports – to ensure that the tax remained revenue neutral, landing fees were reduced.
- Norway, in 1995 introduced a ‘green tax’ on domestic tickets for those routes where rail offered a suitable alternative, as well as for all international flights. In 1999, Norway also introduced a CO₂ tax on kerosene for all domestic and international flights, although it later withdrew the tax relating to international flights under pressure from the aviation industry and neighbouring countries.

Source: Skinner and Fergusson (2003)

A Communication¹⁶ adopted by the Commission in March 2000 says that the taxation of air travel should be more closely aligned to the environmental costs of air travel. It recommends that Member States, in co-operation with the Commission, intensify work within the framework of the International Civil Aviation Organisation for the introduction of taxation of aviation fuel at the global level. This recommendation has been endorsed by the Council and the European Parliament.

However, bilateral Air Services Agreements (ASAs) between specific countries often go further than the requirements of the Chicago Convention and therefore some of these may impose further restrictions on the use of taxes in aviation. Through ASAs many States have agreed bilaterally, and on a reciprocal basis, to exempt fuels supplied to each others’ aircraft when engaged in international air transport services.

This used to be reflected in Community law through the 92/81 Directive on the harmonization of the structures of excise duties on mineral oils, where Member States were obliged to exempt kerosene for commercial flights from

¹⁶ COM(2000)110

http://europa.eu.int/comm/taxation_customs/publications/official_doc/com/com.htm

taxation. This however, changed on 1 January 2004, when the new Directive on restructuring the Community framework for the taxation of energy products and electricity (2003/96/EC) came into effect. The new Directive maintains the exemption of aircraft fuel but modified it by allowing Member States to waive it and tax national flights and - on the basis of bilateral agreements - intra-EU flights.

The new Energy Products Directive does provide opportunities that the Member States could take. However, it might be more appropriate for actions to be taken at EU level. The aviation industry is well aware of the increasing pressure to adopt instruments to tackle the growth in air transport and increased pollution. Hence, industry has been discussing voluntary initiatives - such as a voluntary trading programme for emission (Andersen, 2001).

The 33rd Assembly of the International Civil Aviation Organisation (ICAO) in 2001 endorsed the development of an open emissions trading scheme for international aviation, and requested the ICAO Council to develop, as a matter of priority, the guidelines for open emissions trading, focusing on the structural and legal basis for aviation's participation. The UK, which has the Council Presidency in the second half of 2005, is supporting this work and would prefer to see aviation in an emissions trading scheme¹⁷.

Aircraft fuel is clearly a product that does not include the costs of all the environmental impacts it creates, including e.g. emissions and noise. In accordance with the IPP principle of working with the market, it would make sense to introduce some economic instruments to ensure that prices better reflect the environmental damage caused.

¹⁷ see the UK Department for Transport's homepage:
<http://www.dft.gov.uk/aviation/whitepaper/main/annexb.htm>

4.3 Funding for the Environment

4.3.1 The EU Structural Funds¹⁸

The biggest source of EU financial support for environmental investments is the Structural Funds. The principal purpose of the Structural Funds is to promote the economic and social development of disadvantaged regions, sectors and social groups within the EU and to 'contribute to the harmonious, balanced and sustainable development of economic activities, the development of employment and human resources, the protection and improvement of the environment, and the elimination of inequalities, and the promotion of equality between men and women'.

The Structural Funds comprise the European Regional Development Fund (ERDF), the European Social Fund (ESF), the European Agricultural Guidance and Guarantee Fund (EAGGF) (Guidance section), and the Financial Instrument for Fisheries Guidance (FIFG). During the current programming period (2000-2006), resources available to the Structural Funds amount to 195 billion at 1999 prices, around 16% of which are expected to be spent on environment-related projects. In addition, a further 18 billion is available to the poorest EU Member States through a separate Cohesion Fund, 50% of which is set aside for large environmental infrastructure projects. Altogether, 'cohesion' expenditure accounts for over one-third of the Community's annual budget, and so is an important lever in influencing developments in the EU's Member States and regions.

Support from the Structural Funds is currently focused on three main 'Objectives'. The first two are focused on specific geographical areas, while the third applies throughout the EU's territory:

- Objective 1: promoting the development and structural adjustment of regions whose development is lagging behind. These are the EU's poorest regions, and 70% of Structural Funds assistance is targeted at these areas.
- Objective 2: supporting the economic and social conversion of areas facing structural difficulties, such as industrial, inner-urban and rural areas.
- Objective 3: supporting the modernisation of systems of education, training and employment, throughout the EU.

In addition, there are a number of so-called 'Community Initiative' programmes, which give the European Commission a bigger say in identifying priorities and recipients. From an environmental point of view, the most significant of these is INTERREG III, which focuses on cross-border and transnational co-operation on joint projects between Member States and regions. This is described in more detail in Annex III.

All of the Structural Funds have made significant direct contributions to environmental projects where these contribute to economic development – Box 4 gives an indication of the sort of projects, which have already received

¹⁸ Structural Funds are dealt with by DG Regional Policy (REGIO) and the General Affairs and External Relations Council.

assistance. Beyond this, however, environment and sustainable development are one of three horizontal themes, which should be 'mainstreamed' across all vertical priorities, measures and projects in Structural Funds programmes.

Box 4: Types of environmental projects

Revised Commission Guidelines issued to Member States by the Commission in 2003 for the period until the end of 2006 emphasise the importance of using the Structural Funds to advance the strategic objectives of the Lisbon Process (which seeks to make the EU the most competitive, knowledge based economy in the world by 2010) (European Commission, 2003). The Guidelines also refer to the EU SDS, and stress that financial support through the Structural Funds should support more than one dimension of development at the same time – examples include investments in eco-tourism leading to economic development as well as environmental improvement. In the field of energy conservation, for example, the Structural Funds may co-finance measures in Member States to implement Directive 2002/91 on improving the energy performance of buildings by up to 20% by 2010, through technical improvements in the heating, cooling and lighting of private and commercial buildings. Moreover, Structural Fund-supported 'innovative actions' in the field of research and development, the information society and sustainable development were in place in 122 of the EU's 156 regions in 2003. Box 5 highlights a number of current Structural Fund projects aimed at encouraging environmentally-friendly production.

Box 5: Supporting cleaner production through the Structural Funds

Country	Region/City	Activity	Nature of Project
Austria	Arnoldstein	Product development	Developing environmentally-friendly friction-linings based on matrix sulphides
Hungary/Austria	Gyor/Vienna (Interreg)	SME Consultancy	Environmental management systems
Scotland, UK	S.Scotland	SME Information, consultancy	Improved environmental performance measures
Ireland	Limerick	Research Infrastructure	Environmental and Aeronautical Engineering Building (environmental technologies)
Sweden	Vasterbotten	Marketing/distribution	Supporting manufacture and sales of briquettes, pellets from

			biofuels
Sweden	Storuman/Sosele Municipalities	Educational access courses	Awareness raising of green business opportunities

4.3.2 Future Structural Fund Regulations

The current Structural and Cohesion Fund Regulations expire at the end of 2006. Until then, finance can be committed for projects under the current rules, and the money can be spent up until 2008. The Commission's proposals for revised Regulations for the period 2007-2013 were published in July 2004, and will be negotiated within the Council and European Parliament over the coming months. This gives an opportunity to ensure that IPP-related opportunities are given a higher profile in Structural Funds spending than at present.

The Commission's Third Cohesion Report¹⁹ gave some indication of the Commission's thinking on the future of the Structural and Cohesion Funds. The proposed 336 billion package will be even more closely focused on strategic EU policy priorities. Environmental projects will be given a higher profile – including support for investments related to NATURA 2000 sites. A major stakeholder consultation event to discuss the Commission's blueprint – the Third Cohesion Forum – was held in Brussels in May 2004. This gave strong support to the Commission's proposals – in particular that the priorities of Lisbon and Göteborg should be reflected in national and regional priorities, with the overall objective of advancing sustainable development.

However, the pattern of Structural Fund spending is ultimately determined by programmes developed at Member State – or, more usually, regional – level, so there will be considerable discretion in setting national spending priorities and defining regional beneficiaries.

The Structural Funds are expected to be focused on three priorities:

- **Convergence** - targeting the poorest (mainly acceding) countries, and replacing the former Objective 1. Some 78% of total expenditure will be allocated to this priority – a third of it from the Cohesion Fund.
- **Regional Competitiveness and Employment** - a successor to the current Objectives 2 and 3, but now focused on themes rather than pre-determined geographical areas, and open to all Member States. Some 17% of structural spending would be allocated to this priority;
- **European Territorial Co-operation** - focused on cross-border, transnational and inter-regional co-operation, building on the experience of the current INTERREG Community Initiative. This is allocated some 4% of the total budget.

Action under the first two priorities will be closely tailored to three EU policy strategies:

- the Lisbon Strategy
- the conclusions of the Nice European Council in December 2000 (in relation to social inclusion);
- the EU SDS

¹⁹ Commission of the European Communities, Third Cohesion Report http://europa.eu.int/comm/regional_policy/sources/cohesion3_en.htm

The Commission therefore proposes the following three cross-cutting themes, which both of these priorities will need to 'mainstream':

- ***Innovation and the knowledge economy***
- ***Accessibility and services of general interest***
- ***Environment and risk prevention.***

Under Environment and Risk Prevention, there will be opportunities for direct support for environmental investments, especially in the poorest 'Convergence' countries. However, support for initiatives in IPP and the Environmental Technologies Action Plan (ETAP) should be available under all three cross-cutting themes. Indeed, the Commission cites as examples: support for promoting clean technologies in SMEs; sustainable urban public transport; and the development and use of renewable energy.

The new draft Structural and Cohesion Fund Regulations set out only the overall framework. More detailed guidance to Member States about priorities and eligible projects will be contained in EU Strategic Guidelines on Cohesion. This is expected to be adopted sometime in 2005 by the Council (General Affairs) after consulting the European Parliament, at the latest three months after the formal adoption of the new Structural Fund Regulations. The EU Strategy Paper will be more binding on the Member States than the Commission's current Guidelines, so this will be an important document.

All Member State governments will be required to follow the EU Strategy Paper on Cohesion Policy in developing their own thematic and regional priorities in National Strategic Reference Frameworks to be negotiated with the Commission. These national strategy documents would then set the framework for more operational national and regional programmes.

It is important therefore for support for initiatives related to IPP and ETAP to be given prominence in these documents, but particularly in the EU Strategic Guidelines on Cohesion. For example, it could include guidance on green public procurement through Structural Funds spending; support for extending the take-up of environmental management systems such as EMAS; and the establishment and support through the European Territorial Co-operation priority of IPP networks to exchange experience and identify good practice. Capacity-building (e.g. regarding eco-design and environmental technologies) through the use of consultancy, research and training could also be supported through the Regional and Social Funds.

The final text of the new Structural Funds Regulations and the EU Cohesion Strategy paper will depend on agreement to a new overall Financial Perspective for 2007-2013. The Commission has proposed a budget considerably greater than that favoured by six Member States, and forthcoming negotiations in the Council could see some reduction in the draft Financial Perspective. This could have knock-on effects on the nature, size and distribution of the Structural Funds, but the major priorities outlined above are unlikely to change.

4.3.3 Other sources of finance

The Structural Funds offer the greatest scope for supporting IPP initiatives, but there are also alternative (but smaller) sources of funding. These include LIFE – the EU's Financial Instrument for the Environment. This has

supported a number of demonstration projects related to the development of clean technologies and the promotion of IPP. However, the budget for LIFE is very small, and competition for funding is fierce. Proposals for a new programme post 2006 – called LIFE+ - are expected from the Commission later in 2004.

Opportunities for collaborative research are also available through the current Sixth RTD Framework Programme. Proposals for a 7th programme are also in the early stages of development.

More details about grants and loans for environmental projects can be found at: [http:// www.europa.eu.int/grants/topics/environment/environment_en.htm](http://www.europa.eu.int/grants/topics/environment/environment_en.htm)
Using this website as a source, authorities wishing to secure EU finance for IPP-related initiatives would be advised to put together a Funding Strategy, drawing support as appropriate from a range of programmes to reflect their location and specific priorities.

4.4 State Aid Guidelines²⁰

Apart from opportunities for advancing IPP through the EU Structural Funds, Member States may also give state aids for a range of environmental protection initiatives. However, these are constrained by EU guidelines designed to ensure fair competition and the integrity of the internal market.

Article 87 of the EC Treaty states that: ***‘Any aid granted by a member state or through state resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods shall, in so far as it affects trade between Member states, be incompatible with the common market.’***

Article 88 of the EC Treaty sets out the procedures to enforce this. In cooperation with Member States, the Commission reviews all systems of aid existing in those States, and proposes to the latter any appropriate measures required by the progressive development or by the functioning of the common market.

However, the EC Treaty also provides (in Article 6) that environmental considerations must be integrated into all other Community policies - including competition policy. However, when putting in place environmental initiatives EU governments and industry also have to respect competition law including not establishing forms of collaboration, rules or practices that would constitute unjustified obstacles to competition. State aid in general falls under the remit of the DG Competition.

Community guidelines on those national state aids for environmental protection that are permissible were last revised in 2001 (OJ C37 3.2.2001). The general approach of the guidelines is to allow State aid when necessary to ensure environmental protection and sustainable development without having a disproportionate effect on competition and growth. In each case, Member States have to notify the Commission of the proposed measures. Permitted aids focus particularly on the encouragement of energy efficiency measures; support for the development of renewable sources of energy, including combined heat and power (CHP) systems; and aid for the management of waste. Varying levels of national financial support - or exemption from national taxes - are allowed in particular for:

- investments by firms to go beyond Community environmental standards, or in the absence of mandatory Community environmental standards. The investments concerned are investments in buildings; plant and equipment intended to reduce or eliminate pollution; and investments to adapt production methods with a view to protecting the environment. Support may be authorised up to 30% of the eligible investment costs;
- small and medium- sized enterprises, for which aid may be increased by an additional 10%. Advisory and consultancy services in the environmental field are specifically referred to in the guidelines;
- firms located in assisted regions

Examples of permissible aids include:

²⁰ State aid in general falls under the remit of the DG Competition and is dealt with in the Council formation for Competitiveness.

- Investments in buildings, plant and equipment intended to reduce or eliminate pollution or nuisances;
- Aids intended to adapt production methods with a view to protecting the environment; and
- The provision to firms of advisory and consultancy services on environmental protection measures.

There is currently no specific reference in the Guidelines to support for firms seeking to apply IPP to their activities, but support for IPP initiatives could fall within any of these categories. The Guidelines have to be revised at the latest by December 2007 – and this is likely to be based on a review of Member State experiences in applying them.

In addition to Community guidelines on state aids for environmental protection, there are also sector-specific guidelines in respect of aids for e.g. transport, agriculture, energy and fisheries, which are determined by their respective DGs. There are also guidelines in relation to regional aids aimed at improving areas lagging behind in economic development. These are also subject to periodical review, and also could provide scope for advancing IPP initiatives.

4.5 Multiannual Programme for Enterprise²¹

The current Multiannual Programme for Enterprise and Entrepreneurship²² (2001-2005) is a framework plan of activities targeted in particular at small and medium enterprises (SMEs). The priorities of the programme are:

- enhancing the growth and competitiveness of business in a knowledge-based internationalised economy;
- promoting entrepreneurship;
- simplifying and improving the administrative and regulatory framework for business so that research, innovation and business creation in particular can flourish;
- improving the financial environment for business, especially SMEs; and
- giving business easier access to Community support services, programmes and networks and improving the coordination of these facilities.

In managing the Programme, the Commission is assisted by the Enterprise Programme Management Committee, composed of the representatives of the Member States. Discussions are starting on a new programme, since the present programme expires at the end of 2005.

4.5.1 Beyond 2005

A new Programme on the Competitiveness of Enterprises is to be adopted in 2005, replacing the current Multiannual Programme. The new programme is to stretch from 2006 to 2010.

²¹ The MAP falls under the remit of DG Enterprise and is dealt with in the Competitiveness Council.

²² Council Decision (2000/819/EC) of 20 December 2000

A public consultation on the possible elements for the new enterprise programme took place in spring 2004. The Commission is to adopt its proposal for the new programme subsequent to the stakeholder consultation later in 2004. The Competitiveness Council and the European Parliament would then negotiate during 2005. The new programme should start on 1 January 2006.

In the Commission's consultation document, Sustainable Development Strategies are mentioned among the guiding policy priorities for the new programme.

The proposal contains 18 'Actions', a number of which could potentially have relevance for IPP and environment policy. The following actions have been assessed to be of particular interest to this project:

- Action 2: Promote corporate social responsibility and sustainable production.
- Action 7: Promote access to finance for enterprises, particularly SMEs.
- Action 12: Foster innovation through better knowledge and more efficient management of intellectual property.
- Action 13: Promote technology transfer and clusters.
- Action 14: Promote organisational and other non-technological innovation.

Among the proposals for Action 2 under the new programme are:

- the collection of data;
- sharing of information and raising of awareness on good practices;
- encouragement of voluntary initiatives such as Environmental Management Systems, product policy and environmental technologies on sustainable production;
- enhancing the knowledge on 'eco-industries'; and
- the development of a policy framework for environmentally responsible enterprises is suggested.

Among the proposals for Action 7 on access to finance for enterprises, particularly SMEs, there is no clear indication on how and if environmental concerns will be addressed, although the Environmental Technologies Action Plan is mentioned in a footnote. Similarly, under Actions 12, 13 and 14 there is no mention of how these activities will contribute to implementing the Environmental Technologies Action Plan, contribute to IPP or take into account other environmental concerns.

4.5.2 Why is the programme important for the Environment?

The programme is particularly targeted towards SMEs. While very few quantitative data on the contribution of SMEs to environmental problems exist, several studies have indicated that SMEs contribute substantially to the contamination of the environment and there seems to be enough proof to consider SMEs as an important contributor to the environmental impact of European industry (European Commission, 2004).

According to the Environmental Technologies Action Plan, the Commission will promote information exchange on training and education for procurers and users of environmental technologies. The ETAP also suggests that

training programmes could, for example, be specifically targeted at SMEs on subjects like public procurement, IPP or EMAS. This idea is however, not fully reflected in the Enterprise programme.

According to a report, the European Commission (2004) carried out in the context of the ETAP, literature provides some practical recommendations for promoting environmental technology among SMEs. Good results can be expected from education and awareness-raising, aiming at making entrepreneurs aware of the environmental impact of their business and the benefits of environmental improvement. The report considers that financial support should be spent on the implementation of management tools and/or on incentives for the purchase of environmental technology.

Scope for promoting IPP concepts and environmental concerns

The IPP Communication states that '***win-win situations need to be found where environmental improvements and better product performance go hand in hand and where environmental improvements support long-term industrial competitiveness***' and '***This is what IPP seeks to achieve***'.

Though the Commission proposal for the new enterprise programme contains an action for the promotion of corporate social responsibility and sustainable production, this is not substantially supported by the other suggested actions in the programme. One argument against earmarking a certain part of programme funding to address environmental concerns is that this kind of earmarking could encourage earmarking of certain sector policies as well. However, since integrating environment into other policies is a Treaty requirement, there seems to be an opportunity missed if the new programme does not in any way promote the environment.

In promoting the IPP approach and broader environmental concerns in this programme, one could therefore imagine that for Action 7 a part of the financial support to SMEs could be earmarked to activities aimed at improving the environmental aspects of product design, life-cycle assessment and marketing of green products and services. There could also be support for SME-activities related to implementing the Environmental Technologies Action Plan. Actions 12 and 13 could be used to support the development, diffusion, and transfer of environmental technology. Action 14 could support IPP and promote e.g. the EU's Eco-Management and Audit Scheme (EMAS).

4.6 Thematic Strategies

The thematic strategies arising from the 6EAP represent a new approach to policy development in relation to a number of cross-sector themes. Ideally they bring together all relevant directorates-general and stakeholders, and consider a range of options and policy instruments for addressing them. As such, they represent a parallel approach to environmental integration to that represented by the Cardiff process, which has had a more sector orientation.

The development of each of the Thematic Strategies is being led by DG Environment, with varying levels of involvement of other DGs. Work on all the strategies is being co-ordinated by the Strategic Planning Unit of DG Environment.

Originally, there were to be seven of these strategies to be presented at the latest within three years from the adoption of the 6EAP thus by mid-2005, covering the areas of soil, pesticides, marine, air, natural resources, waste recycling, and urban. There are ongoing discussions on whether the 'status' as thematic strategies will also apply to the work ongoing on Biodiversity and on Health and Environment.

4.6.1 The link between IPP and the Thematic Strategies

The two Thematic Strategies, which seem most relevant for IPP are the Natural Resources Strategy and the Waste Prevention and Recycling Strategy. IPP is to be one of the main delivery tools for these.

The Commission Communication *Towards a Thematic Strategy on the Sustainable Use of Natural Resources*²³ explores the linkages between the two strategies and IPP. Better knowledge of the overall life-cycle impacts of resources and products is needed to enable the EU to identify priority areas for intervention in relation to resource use and waste management. For example, there can be trade-offs between different phases in the life-cycle of resources and products: measures adopted to reduce environmental impacts in one phase can increase impacts in another phase. The aim should be to ensure that environmental impacts are minimised and environmental benefits maximised throughout the entire life-cycle. Sometimes very visible and dramatic impacts may be overestimated in comparison with more subtle long-term damage. For example, in relation to the manufacture of car tyres, the highly visible environmental impacts connected to the raw materials (rubber plantations, mineral oil extraction, refining etc) are actually small in comparison with the potential for reducing CO₂ emissions through more efficient tyre design.²⁴

Therefore, the two thematic strategies and IPP are complementary and need to be developed in conjunction with each other. The setting of targets in relation to the use of particular resources and in what quantities, and a ranking in importance of different categories of environmental impact, should be defined in the Resources thematic strategy. For its part, the IPP approach can reduce impacts at the waste stage, through consideration of such issues as design, industrial process and markets for recycled materials. Parallel implementation of the three initiatives will allow frequent feedback between them, helping to gradually improve the overall approach through an iterative learning process.

²³ COM(2003)572, 1.10.2003.

²⁴ *Resource Use, Products and Waste Policies: Three Facets of an Impact-based approach to Environmental Policy* – Background Paper, Informal Environment Council, Waterford, Ireland 14-16 May 2004, p.2.

5 Impact Assessment as generic tool for integration?

5.1 Background

Two processes can be seen as to have influenced the Commission's decision in 2002 to publish a Communication on **Impact Assessment**²⁵, which introduced a new procedure. These were: the Gothenburg Summit in 2001, demanding a sustainability impact assessment as part of the SDS, and the so-called 'better regulation' exercise with the purpose of producing legislation that is more effective and easier to read and understand. This led to the introduction of a new system seeking to integrate all existing internal procedures for impact assessment.

The main objective of the Impact Assessment (IA) procedure is **'to improve the quality and coherence of the policy development process'** by systematically assessing the likely positive and negative impacts of the proposals adopted by the Commission. The potential trade-offs between competing objectives, notably economic, social and environmental, are to be taken into account, including the objectives of the EU Sustainable Development Strategy. Finally, the procedure is meant to increase transparency, the participation of stakeholders and the cooperation between EU institutions. An Inter-Institutional Agreement on Better Regulation has subsequently been agreed between the Parliament, Council and Commission, which commits all institutions to using impact assessments.

The overall responsibility for overseeing the IA system lies with the Secretariat-General of the Commission, but the impact assessments themselves are undertaken by the responsible directorates-general. The Commission's Work Programme for 2004 (listed in Annex I.I) gives further details on the individual DGs responsible for each of the IAs.

5.2 What is an Impact Assessment?

The IA process has two stages:

- Firstly, a screening exercise based on a short **preliminary assessment** of all proposals presented in the context of the Annual Policy Strategy or the Work Programme of the Commission; and
- Secondly, an **extended impact assessment** of selected proposals.

The **Preliminary Impact Assessment** is a short statement on the objective of the proposal, the policy options available, and an assessment on whether an extended impact assessment is needed.

An **Extended Impact Assessment** is undertaken if two criteria apply:

²⁵ COM (2002) 276

- It is a proposal with significant social, environmental or economic impacts, and
- The proposal forms part of the priority initiatives presented in the Commission's planning process (in the Annual Policy Strategy, which is agreed by the Commission each February for the following year and/or the Work Programme).

Proposals subject to IA can be both regulatory proposals (directives, regulations) as well as non-regulatory proposals (white papers, expenditure programmes, negotiating guidelines etc).

5.3 Progress so far with using Impact Assessment

In December 2003, IEEP was commissioned by DEFRA (Europe Environment Division) to produce a report reviewing the extent to which considerations of sustainable development have in practice been incorporated into the first 'wave' of impact assessments on proposals and initiatives in the Commission's work programme for 2003.

Of the 580 proposals listed in the Commission's 2003 work programme, 43 were formally identified as requiring extended assessment. However, those not selected included several with significant effects on aspects of sustainable development. Of the 43 selected proposals, 21 extended assessments had been completed by April 2004. This shortfall reflected delays in the publication of proposals, or in some cases the withdrawal of a proposal altogether. The criteria for the selection of proposals for extended IAs have been unclear, and indeed the system as a whole has not been transparent, with many of the assessments not readily available to the public. In relation to the consideration of impacts, generally there has been a focus on the short-term economic costs of proposed measures, rather than their potential long term environmental and social benefits. This tendency could be reinforced, since both the Competitiveness Council and the Spring 2004 European Council have called for an enhanced competitiveness dimension of the IA process (in order to reduce the administrative burden on business by removing 'unnecessary' regulation).

5.4 Scope for IAs to advance environmental integration

The Commission's IA system is intended to produce more coherent policy proposals which take account of all potential economic, social and environmental impacts - intended and unintended - and identify available synergies between otherwise competing priorities. In principle, therefore, it should be a useful vehicle for advancing environmental integration - although there is no presumption that environmental objectives will be given priority over economic and social ones. However, in practice the implementation of the IA system so far has tended to downplay environmental considerations, for a variety of reasons. Most Commission directorates-generals are unaccustomed to considering options or assessing impacts, which lie beyond their immediate sphere of competence, and considerable effort and resources need to be devoted to training and support in this area. The availability of resources, relevant data and analysis also needs to be reinforced. These and other issues of quality control are currently being addressed by a Commission Task Force chaired by the Secretariat-General, which is reviewing the content and application of the Commission's Guidelines on impact assessment. The

first report of the Task Force is expected in July. Unless the IA system is considerably strengthened, it should not be relied upon as a principal vehicle for advancing integration.

More specifically, there seems to have been limited scope so far for impact assessments to advance IPP principles - but this partly reflects the nature of the proposals that have been subject to assessment. In principle, however, impact assessments should be a useful instrument to ensure that life cycle issues have been taken into account in the development of relevant proposals.

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EEB's suggestion for key tasks of EU IPP framework Directive

Key tasks for a European IPP Framework Directive:	
1.	Specify the purpose, the scope, the timeframe, reporting and evaluation obligations and links with other policy initiatives;
2.	Lay down a blueprint of priority environmental objectives (PEOs) that will guide and oversee all function areas and product groups addressed by the policy;
3.	Commit to establishing environmental product responsibility and the right information on products (see 8.1 below);
4.	Commit to the development of specific environmental objectives (SEOs) based on the PEOs which include criteria and indicators for improving the environmental performance of all products addressed (see 8.2 below);
5.	Set up working groups on priority product policy tools to drive aspects such as increased market share for green products, co-ordinating and providing access to product information and commencing work on a Sustainable Consumption Policy;
6.	Lay down the procedures and provide the resources for all relevant stakeholders to take part in the drafting and implementation procedures for daughter legislation and other mechanisms such as working groups; projects, studies and standardisation
7.	Foresee the creation of necessary IPP institutions and the allocation of required funding and resources;
8.	Foresee the creation of further implementing legislation through <i>daughter</i> directives on: <ul style="list-style-type: none"> 8.1 Environmental product responsibility creating the legal incentive for producers to take product policy objectives on board and establishing a citizen's 'right to know' on product information. 8.2 (Where necessary) function area/product-group specific legislative initiatives, setting quantified specific environmental objectives (SEOs), intermediate timeframes and identifying specific mechanisms to achieve them.

Source: EEB (2003) - see http://www.eeb.org/activities/product_policy/EEB-ENGO-vision-paper-towards-a-European-IPP.pdf

Areas of interest not included in the report

When selecting the areas for further investigation for this report a broad number of areas were touched upon, but due to the size of the project not included for further investigation. This work, however, might be of general interest for policy makers or other stakeholders looking for opportunities to contribute to policies.

This annex therefore consists of descriptions of the following four topics:

- I.I Commission Work Programme for 2004
- I.II Life-Cycle Thinking when Regulating Industrial installations
- I.III Employment Guidelines
- I.V Transport

I.I Commission Work Programme for 2004

Due to the institutional upheavals in 2004 (enlargement, a new Parliament and a new Commission) the Commission's work programme is a more focussed document than normal, with the aim to deliver a "...programme that is as realistic as possible, both in terms of what it (the Commission) can deliver and the other EU institutions can absorb", cutting out some of the initiatives envisaged in the Annual Policy Strategy. Priority is given in the document to just three of the Thematic Strategies - those on soil protection, waste prevention and recycling and pesticides - although work is still expected to be completed on the other Thematic Strategies not mentioned. The limitations to policy emerging in 2004 must be recognised - see table below for details of measures of interest included in the work programme, when they are expected to be produced and which Directorate General (DG) will be putting them forward.

The Communication published alongside the list of proposals (COM(2003)645) stated that Commission priorities for 2004 were to be accession, stability and sustainable growth including work on the Lisbon process and next steps in the Sustainable Development Strategy. The Communication also, importantly, outlined details of which DGs will undertake extended impact assessments and on what legislative proposals. Preliminary impact assessments have been produced for each of the proposals, these are available at:

http://europa.eu.int/comm/off/work_programme/index_en.htm

The impact assessments will either be completed by the DG responsible for the development of a proposal alone; or by the DG responsible and an Inter-departmental Steering Group (ISG); or by a group of DGs with a particular interest in a proposal (including the responsible DG).

Table presenting measures of interest highlighted in the 2004 work programme including details of date expected for release, DG responsible and, in the case of legislative proposals, DGs to be involved in the extended impact assessments (ExIA)

Title of Measure	DG Responsible	Month Release Originally Expected	DG's to be Involved in the ExIA
Proposal for a Council Regulation on support for rural development from the EAGGF	Agriculture	May	Agriculture with ISG
Draft Regulation for the new Structural Funds period post 2006	REGIO	May	REGIO with ISG
Financial perspectives post 2006	Secretariat General	May	Secretariat General
Review of the guidelines on State Aid for rescue and restructuring	COMP	June	Competition
Proposal for a Regulation on Forest Law Enforcement, Governance and Trade (FLEGT)	Development	June	Development
Proposal for extending the Directive on Carcinogenic	Employment	February - although not	Employment

Agents		yet published	
Communication on Thematic Strategy on waste prevention and recycling	Environment	September	Environment with ISG
Communication on Thematic Strategy on soil protection	Environment	September	Environment
Communication on Thematic Strategy on pesticides	Environment	September	Environment with ISG
Proposal for a Mercury Strategy	Environment	October	Environment
Communication on the Health and Environment Action Plan 2004-2010	Environment	March—although not yet published	Environment, SANCO, RTD, JRC
Review of the Sustainable Development Strategy	Secretariat General	May (very likely to be postponed)	Secretariat General
Erika III package on maritime safety	TREN	May	TREN with ISG
Communication on Climate Change	Environment	May	N/A
Report on the Lisbon Strategy	Secretariat General	January	N/A
Communication on the Action Plan on Organic Farming	Agriculture	March—although not yet published	N/A
Report on the implementation of the EU Forest Strategy	Agriculture	June	N/A
Communication on the financing of Natura 2000	Environment/REGIO/Agriculture/Budget	March—although not yet published	N/A
Commission report on risks, crisis and national disasters in agriculture	Agriculture	December	N/A
Report on the main developments in environmental policy since the introduction of the Sustainable Development Strategy	Environment	November	N/A

I.II Life-Cycle Thinking when Regulating Industrial installations?

Industrial installations can be connected across many sites through their supply chains; however, permits related to pollutants are normally issued to single installations. One could imagine that when issuing permits regulators could take into account emission cuts in other parts of the 'life-cycle' of a product. The authority would then accept a trade-off between emission increases at the site of the installation and emission cuts in the consumption phase of the product (ten Brink & Farmer, 2004).

A recent study by ten Brink & Farmer (2004) shows that the use of permits to cover 'chains' of installations is limited. The study found that in the Netherlands in some cases licensing authorities start to take account of wider life-cycle issues in setting permit conditions. In Norway, life-cycle issues can also be taken into account in setting permit conditions as legislation allows conditions to be set such that they address the dangers of creating environmental damage. In Sweden a recent court case has confirmed that it is possible to take into account life-cycle issues relating to products being produced within the permit procedure for an installation. However, the implications are not clear. For example, there is still debate over whether it is possible to set conditions with regard to the products from an installation, ie whether it is responsible for the lifecycle of the products it produces. This has yet to be resolved.

According to the ten Brink & Farmer study the legal situation in most countries prevents formal permitting on chains of installations, but one country has in a survey suggested that some view of elements in a chain might already be possible under the IPPC Directive. The study emphasises, that while this might have some environmental benefits, it poses a number of problems as e.g.:

- A chain would involve different regulatory bodies adding to complexity with costs to the regulator and industry.
- Regulation involving many legal entities in a single measure could result in a loss of legal certainty over obligations.
- Assessing the environmental impacts is very difficult, given that each could have different types of emissions and emissions could transform during through the chain (e.g. VOC to CO₂).
- Life-cycle analysis can be difficult and involve uncertainty, which build into a permit can lead to higher costs due to complexity.

This project has not explored the topic further as there seems to be many potential problems linked to this idea – e.g. chain permitting could also potentially be used as a purely cost saving strategy with no environmental benefits and the new flexibility might have negative impacts on pushing innovation and the development of cleaner technologies. However, it is worthwhile keeping an eye out for developments in this area if the IPPC Directive is amended at some point.

I.III Employment Guidelines

On the basis of new provisions of the Amsterdam Treaty, the Luxembourg European Council in 1997 initiated the European Employment Strategy (EES), also known as 'the Luxembourg process'. The Luxembourg process is a rolling programme of yearly planning, monitoring, examination and re-adjustment. Heads of State and Government agreed on a framework for action based on the commitment from Member States to establish a set of common objectives and targets for employment policy. The EES is designed as the main tool to give direction to and ensure co-ordination of the employment policy priorities to which Member States should subscribe at EU level. This co-ordination of national employment policies at EU level is built around several components, including the Employment Guidelines:

- **Employment Guidelines:** following a proposal from the Commission, the European Council shall agree every year on a series of guidelines setting out common priorities for Member States' employment policies.
- National Action Plan (NAP): Member States are to draw up an annual NAP, which describes how the Guidelines are put into practice.
- Joint Employment Report: The Commission and the Council are to jointly examine each NAP and present a Joint Employment Report. The Commission then is to present a new proposal to revise the Employment Guidelines accordingly for the following year.
- Recommendations: The Council may decide, by qualified majority, to issue country-specific Recommendations upon a proposal by the Commission.

The IPP element

The employment guidelines²⁶ do not contain text on the environment. However, the process of the guidelines was part of this project due to the fact that the EES initiated a new 'open method of co-ordination'. Due to the discussions on applying OMC in the environment policy field, it is relevant to understand how it has worked for the employment guidelines.

However, discussions are already starting on a forthcoming Commission communication on synergies between employment and social policies and environment policies. Therefore future opportunities to work on the link between employment and IPP may arise in the near future.

²⁶ Council Decision of 22 July 2003 on guidelines for the employment policies of the Member States (2003/578/EC).

I.IV Transport

Noting that the IPP Communication does propose to start the application of IPP to products, rather than services, it is useful to review the Community's competence over transport before exploring potential applications of IPP. The Community competence in transport has remained largely unchanged since the Treaty of Rome and the substantive provisions of the transport chapter of the Treaty can briefly be summarised as follows:

- The Community is to have common rules governing international transport, and conditions are to be agreed under which non-resident carriers can operate in all Member States.
- Measures are to be taken to improve transport safety.
- State aids are allowed for the purposes of 'coordination of transport' or to fulfil public service obligations.
- Discriminatory charges or other conditions (in effect against foreign carriers) are generally forbidden.

These requirements apply only to road, rail and inland waterways, but 'other appropriate measures' may also be taken, where necessary. In addition, there is a separate policy on the development of Trans-European Networks. The origin of the provisions is the need to facilitate free trade and free movement and therefore the provisions tend to focus on reducing barriers to these, while maintaining standards, eg relating to safety. Hence, there appears to be little potential scope for applying of IPP to EU transport policy. However, the development of internal market policies has had large impacts on developing IPP approaches in the transport sector.

In order that they should not act as a barrier to trade, emission limit values for local pollutants (i.e. not CO₂) for road vehicles have been set at the European level since 1970. The initial focus was passenger cars, but the scope has been progressively broadened to cover heavy-duty vehicles, light commercial vehicles and motorcycles. The emission limit values are enforced through the type approval process, which effectively requires each new model of vehicle (or engine for heavy-duty vehicles) to undergo independent tests to prove that they emit less than the applicable emission limit value before they can be marketed. These standards have been continually made more stringent, with stricter limit values being introduced every five years or so; the next stage of standards for cars is currently under discussion. In the last five years or so, the scope has become wider still to cover emissions from non-road mobile machinery, and thus emissions limit values have been introduced for railway engines and engines used in inland waterway vessels. In addition, in 2002, EC legislation was adopted that banned the use of certain dangerous substances in cars and set recycling targets for cars with the aim of encouraging manufacturers to design cars with disposal in mind. A recent Commission proposal would take these a step further and integrate the recycling standards into the type approval process.

Hence, to a large extent, environmental concerns are already integrated into the design of transport vehicles. For cars, consideration is given to the vehicle's in-use emissions and its disposal. The emissions of heavy-duty vehicles, motor cycles, railway engines and inland watercraft are also, or soon will be, taken into account in the course of the design of these vehicles, although there are, as yet, no requirements to design these vehicles with disposal in mind. However, considering that the car is by far the most

numerous transport vehicle, this need not be an immediate concern. One of the main emissions from transport is CO₂. However, CO₂ emissions from cars, the principal transport source, are addressed through a voluntary agreement with industry. The other principal gap is aircraft and sea-going ships, which tend to be ignored by EC legislation amongst other reasons because of the global nature of their use. Even here, however, the Commission is exploring ways of reducing emissions from ships and thought is being given to using emissions trading to reduce aviation's CO₂ emissions (see Section 3.4).

However, the environmental benefits of these various improvements have not led to equivalent improvements in transport's environmental impact. The principal reason for this is the amount of vehicles, particularly cars, being used. While air pollution in most urban areas in the EU is improving, there are still significant problems in some cities in reducing air pollution to levels below those which damage human health – principally as a result of the amount of emissions from transport. Similarly, even though the average CO₂ emissions from new cars are declining, transport's total CO₂ emissions have not shown a comparative decline. However, for the moment at least, the use of a product, in this case a transport vehicle, is probably outside the scope of potential application of IPP.

In summary, therefore:

- In-use considerations, such as emissions, are already integrated into the design of many vehicles used for transport.
- Design standards for the recycling of cars are also under development, while legislation already sets standards for recycling.
- Even though CO₂ emissions are not integrated into vehicle design, another instrument exists – a voluntary agreement with industry – to reduce these emissions from cars, which is by far the largest source.
- Aviation and maritime transport vehicles have been largely excluded to date from the scope of EU legislation, but instruments are being explored.
- It is the use of transport – that is the number and extent of use of transport vehicles – that give rise to transport's principal environmental problems. However, this is, at least for the moment, outside of the Commission's IPP focus.

INTERREG III

INTERREG is a 'Community Initiative' financed during the 2000-2006 period by the European Regional Development Fund (ERDF), one of the EU's Structural Funds. It aims to promote co-operation across national and regional borders, in order to strengthen economic and social cohesion and the 'balanced development' of the EU's territory. This co-operation may be focused on several different issues, but environmental protection and sustainable development is a key element of the INTERREG programme. This reflects the commitment of the Structural Funds to contribute to the 'harmonious, balanced and sustainable development of economic activities' in the EU's regions.

The current programme - INTERREG III - runs until 2006, with a budget of almost 4.9 billion for the 2000-2006 period. Under the forthcoming, revised Structural Funds Regulations for the post-2006 period, INTERREG-type projects will be financed under the proposed European Territorial Co-operation priority, with a much larger budget. Detailed arrangements for implementing this priority are expected to be published after the new Structural Funds Regulations are agreed later in 2005.

INTERREG is about networking and co-operation to tackle issues of common concern across national borders, both within the EU and with third countries. So the programmes and projects must be developed and administered jointly, and involve partners from at least two member states - and sometimes as many as five.

INTERREG III is divided into three 'strands', each focused on different types of co-operation in different geographical contexts:

- Strand A for cross-border work between immediately neighbouring regions;
- Strand B: for transnational co-operation between much larger groupings of European countries and regions;
- Strand C: for interregional networks among (non-contiguous) regional and other public authorities across the territory of the Union (and neighbouring countries).

These are described below in more detail.

IIIA: Cross-border co-operation between neighbouring regions.

This is aimed at promoting the integrated economic, social and environmental development of cross-border regions, through joint strategies and programmes. All regions (NUTS III level) along the internal and external borders of the Community are included, together with certain maritime borders. IIIA receives by far the biggest share of the total INTERREG III budget - at least 50% (i.e. < 2.4 billion euros), but possibly as much as 80%. (This depends on how individual Member States choose to divide their national INTERREG allocations between the Strand A and B programmes in which they are involved).

Draft Strand A programmes have been drawn up for an entire border, with sub-programmes for each individual cross-border region where appropriate.

Programmes have been developed by partnerships dominated by the relevant regional authorities. Regional contacts can be found on the Commission's Europa website.

IIIB: Transnational cooperation across large groupings of European countries and regions.

INTERREG IIIB is focused on nine large groups of countries or parts of countries, which together cover the entire territory of the EU. These are: Western Mediterranean; Alpine Space; Atlantic Area; NW Europe; North Sea Area; Baltic Sea Area; CADSES; Northern Periphery; Archimed. The purpose of IIIB is to promote a higher degree of integrated territorial planning within these areas, reflecting the recommendations of the European Spatial Development Perspective (ESDP). For each IIIB region, a single programme has been drawn up by an international working group of representatives of Member States and regional authorities. Priorities in each programme are set within a framework of a joint 'spatial vision' or planning strategy developed by the international working groups. Each programme is administered by a joint international secretariat. Between 14 and 44% of the INTERREG III budget is allocated to Strand B programmes.

IIIC: Interregional cooperation among (non-contiguous) regional and other public authorities.

Strand C is the smallest element of INTERREG III (with only 6 per cent of the total budget i.e. 295 million euro). Its overall objective is to improve the quality of projects funded by the mainstream Structural Funds and Community Initiatives through exchanges of experience and networking among regional and other public authorities. It applies throughout the entire territory of the Union (and some neighbouring countries), and supports networks of regional authorities which may be geographically dispersed right across Europe.

A single INTERREG IIIC joint programme has been drawn up on the basis of most IIIB areas. However, this does not mean that all the partners in a network supported by INTERREG IIIC should be located only in one IIIB area. The lead partner in a proposed network will apply for support through the programme for the IIIB area in which he is located, and it will be that IIIC programme which will bear the entire cost of the project, even if most of the members of the network are located outside the lead partner's programme area.

Despite its relatively small size, IIIC is the most complicated of the three strands. Each of the eight IIIC programmes sets out four priority categories of co-operation and three types of projects, in relation to a number of substantive themes.

Developing Interreg IIIC programmes and projects needs a considerable investment of time and patience, and it would be difficult to develop a suitable project before the expiry of the 2000-2006 programming period. However, similar opportunities will occur under the new post-2006 Regulations.

For more information on Interreg III –
<http://www.europa.eu.int/scadplus/leg/en/lvb/g24204.htm>