Institute for European Environmental Policy

FUTURE DEVELOPMENTS IN EUROPEAN REGIONAL POLICY

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1. Introduction

Over the next three years, negotiations will take place at both EU and national levels which are likely to result in major changes to the operation and impact of the EU's Structural and Cohesion Funds, and to aspects of the Rural Development Regulation. The background to this is the EU's unprecedented enlargement from May next year to include 10 new Member States, mainly in central and eastern Europe. The GDP of most of the regions in the new Member States will lie between 30-40 % of the EU average, and overnight, the EU's average GDP per head will fall by almost 13 per cent. While this might suggest – other things being equal – a significant increase in structural spending, several current Member States are on the contrary pressing for strict controls on future structural expenditure. In addition, the large agricultural sectors of the new Member States will put new pressures on the CAP budget.

Agreement on these funding issues needs to be reached in time for the introduction of a new EU Financial Perspective for the post-2006 period. Further factors for reform include demands from Member States and the Commission that the Structural Funds should more explicitly support the 'Lisbon agenda' launched in March 2000 – that is, to make the EU the most competitive, knowledge-based and sustainable economy in the world by 2010. At the same time, the debate launched in 2000 by the current Commission on improving European Governance has strengthened calls for greater simplification and subsidiarity in the operation of the Structural Funds.

All these developments will have, directly or indirectly, a significant impact on regional development within the EU - more specifically on the extent to which European funding can continue to support structural operations that support sustainable approaches to regional development. It is important, therefore that environment interests begin to clarify and if possible co-ordinate their positions in respect of forthcoming negotiations, at both EU and national levels.

A major constraint on their ability to do this is the high level of current uncertainty in relation to future developments. This is because – in addition to enlargement - next year sees the establishment of a new European Commission and a new European Parliament. As a result, the current Commission has been reluctant to foreclose future options by publishing concrete proposals now. Moreover, the combination of ten new Member States and a European Parliament with significant powers over the EU's budget means that the outcome of future negotiations over such proposals (when they eventually appear) cannot be known at this stage.

Against this background, this paper seeks to present an overview of current thinking on the possible direction of forthcoming reforms to the Structural Funds and the CAP within relevant Commission DGs, and among some Member States - in the knowledge that actual outcomes could be significantly different as a result of negotiations among many players. It also attempts to identify some future opportunities at both EU and national levels where influence can be exerted.

2. The EU's Financial Perspective post-2006

The size and distribution of the Structural Funds and CAP budgets will be determined by decisions on the EU's new, post-2006 Financial Perspective. The Financial Perspective (FP) sets a ceiling on the annual commitment appropriations for a number of Community activities, divided into seven categories, two of which are Agriculture and Structural Operations. The CAP accounts for about 45% of the total EU budget, so decisions on future agriculture spending have a big impact on resources available for other policy areas.

Decisions on the new FP will be taken on the basis of negotiations between the Commission, the Council of Ministers and the European Parliament in accordance with the procedures set out in Box 1. This means that deals between Member States alone formally cannot pre- determine the outcome of these negotiations (see below).

The financial envelope for post-2006 structural operations and CAP spending is likely to be constrained. Its size will be based on a number of parameters, including

- the commitment allocation for the last year of the current programming period (2006);
- the current ceiling on structural operations spending of 0.45% of EU GDP; and
- the ability of the accession countries to absorb the money – currently set at a ceiling of 4% of each Member State's GDP.

Different Member States have different views on the level of future structural spending, depending on their likely receipts, and whether or not they are net contributors to the EU budget. Accordingly, the UK, Germany, and the Netherlands have called for reductions in the current ceiling of 0.45% of the EU's total GDP. The recent Brussels and Copenhagen European Councils stressed the importance of strengthening future budgetary discipline in the EU, which suggests that there will be strong resistance to expenditure streams increasing in real terms, certainly within EU-15.

Box 1 Establishing the Financial Perspective post-2006

The Financial Perspective is formally established in a 'trialogue' between the Commission, the Council and the European Parliament in accordance with the provisions of the Interinstitutional Agreement of 6 May 1999 on budgetary discipline and improvement of the budgetary procedure. Although this is not a legal text, in practice the Interinstitutional Agreement is definitive, in view of the power of the European Parliament to reject the EU's annual budget in its entirety.

The Council and the Parliament together formally comprise the 'budgetary authority', although they negotiate on the basis of a proposal presented by the Commission. The 'trialogue' establishing the FP therefore comprises the President of the Budgets Council (now ECOFIN); the chair of the European Parliament's Budget Committee; and the Budgets Commissioner.

Negotiations on the post-2006 FP are likely to be protracted, not least because all relevant committees of the European Parliament are invited to present their estimates of future expenditure needs to the Budget Committee before the Parliament's position is established. The outcome of negotiations in the trialogue has to be endorsed both by the European Parliament (by an absolute majority of its members and at least three-fifths of votes cast), and the Council (by QMV). A new Financial Perspective has to be agreed before the beginning of the annual budgetary procedure for its first year – ie in the case of the 2007-2013 period (or possibly 2007-2011), before June 2006. Failure to agree to a new FP means that expenditure in the last year of the old FP is carried over, adjusted according to a formula set out in the Interinstitutional Agreement. The implications of this deadline for the timetable of negotiations are discussed in section 5 below.

2.1 The Franco-German 'deal' on the CAP

Despite the formal procedure setout in Box 1, a surprise deal was struck in October 2002 between President Chirac of France and Chancellor Schröder of Germany on the post-2006 CAP budget. France, a net recipient of the CAP budget, and concerned at the prospect of money moving eastwards due to enlargement, agreed to support Germany in fixing a ceiling on the CAP budget for the period 2007-2013 in return for German support for a less radical CAP reform at the Mid Term Review. The European Council endorsed the Franco-German deal at its autumn summit in October 2002.

Under the Franco-German agreement, a formula for spending on Heading 1a of the budget (essentially Pillar One spending) was adopted. Overall expenditure under this Heading would not exceed the existing ceiling determined for 2006, rising at the rate of one per cent per annum up to 2013. On the one hand this put a limit on CAP expenditure during the period of enlargement and on the other it set an implicit baseline which many Member States will defend fiercely. The rural development budget was not affected by this deal. In principle, it could increase although many Member States would be reluctant to tolerate further growth without some corresponding pruning of Heading 1a.

A number of Member States had major reservations about this formula and it is significant that the Summit conclusions were prefaced by the statement '*without prejudice to future decisions on the CAP and the financing of the European Union after 2006*'. The Budget Committee of the European Parliament also expressed irritation that it had not been properly consulted on proposed amendments to the current and future Financial Perspectives, as it should have been under the Inter-institutional Agreement.

2.2 Other influences

During the summer, a group of advisers appointed by Commission President Prodi, reporting on the future of EU policy, launched a critique of CAP spending, suggesting that it should be cut back, leaving more space for other activities at the European level. Member States could be responsible for more of their own spending in this domain. The so-called Sapir report even suggested that the agricultural budget should be reduced to as little as 10 per cent of its current level.

It is certainly the case that parts of the Commission and some Member States consider that further redistribution of the CAP budget would be desirable. This phalanx of opinion could increase after enlargement since so many new Member States will be eligible for a smaller proportion of the CAP budget than their EU 15 counterparts, adjusting for area, output etc. A more objective set of criteria – similar to that used for distributing Structural Fund money - would result in a considerable reduction in the share allocated to countries such as France, Germany and Denmark if the CAP budget was divided up in the same fashion. But in the current context, southern and eastern European countries may prefer to lobby for increased Structural Fund expenditure rather than any expansion in the rural development pillar of the CAP. Indeed, some may see an opportunity to siphon money out of the Second Pillar.

3 Structural Funds – Developing Ideas

Meanwhile, despite considerable uncertainty over future funding levels, the Commission's Regional Policy DG (DG Regio) has been developing its views on the future of the Structural Funds.

3.1 Objective 1/Cohesion Fund

Altogether, it is expected that between 70-80% of the Structural Funds will be focused on Objective 1, with between 43-55% of the total Structural/Cohesion Funds budget directed towards the new Member States.

The EU's enlargement next May will result in a major shift of structural and cohesion funding towards the accession countries. Because of the comparative poverty of the acceding countries, EU enlargement will result overnight in a 13% decrease in EU GDP per head. Since the threshold for eligibility for Objective 1 is expected to remain at 75% of average EU GDP per head, enlargement means that most current EU-15 Objective 1 regions – other things being equal - would be excluded just because of a statistical quirk.

To take account of this, Objective 1 – to be called 'Competivity and Convergence' - is expected to be divided into:

- Objective 1(a), focused on those Member States with a GDP less than 75% of the EU 25 average – mainly comprising the new Member States; and
- Objective 1(b) – for Member States with a GDP less than 75% of the current *EU 15* average – ie existing Objective 1 countries otherwise excluded because of the statistical effect of enlargement.

Less disadvantaged (current) Objective 1 areas (for example in the UK and Ireland) will receive tapering, transitional support. Islands and the EU's outermost areas will also continue to be made a special case.

It is also expected that a significant proportion of structural spending for Objective 1 countries will be channeled through the **Cohesion Fund** rather than the Structural Funds. Eligible Member States will be those with a GDP less than 90% of the average for the EU 25 – all ten new Member States will be eligible (compared with the current four). The Cohesion Fund currently supports large infrastructure projects in the fields of transport (roads, and increasingly rail investments) and environment (mainly waste and water management projects). Its scope could be extended to cover in addition energy infrastructure, and more sustainable forms of transport.

In the case of the acceding countries, a larger proportion of structural support is expected to be channeled through the Cohesion Fund. During 2004-2006, the Cohesion Fund will account for as much as one third of EU structural expenditure, compared with only 18% in the current four eligible EU-15 Member States. This is important because Cohesion Fund projects are larger, administrative arrangements are less complex, and the money can therefore be absorbed more quickly - but environmental safeguards written into the current Structural Fund Regulations do not apply to the Cohesion Fund. This could be changed, however, during negotiations over revising the Regulation for the post-2006 period.

3.2 Objective 2

There is still wide debate about whether Objective 2 should continue, and if so in what form. In the UK, the Department of Trade and Industry's (DTI) proposed *EU Framework for a Devolved Regional Policy* implies the entire disappearance of Objective 2, a position supported by the Netherlands and many of the German *Länder.* DTI has promised a more detailed statement this autumn about its views on the future of the Structural Funds.

In the Commission, however, DG Regio is proposing that Objective 2 should continue, and would be allocated as much as 20-30% of the total Structural/Cohesion Fund budget. Objective 2 – to be called Competivity and Employment' - would absorb the current Objectives 2 and 3, and would have the following features.

- Objective 2 resources would not be concentrated on a limited number of Member States or regions, but would be 'sprinkled' throughout the Union, partly in order to enhance the visibility of the EU on the ground.

- 50% of Objective 2 would be financed by the ERDF, and would be focused on the priorities set out in the 'Lisbon Agenda'. (This was launched in March 2000 at the European Council in Lisbon, and is aimed at making the EU the most highly competitive, knowledge-based economy in the world by 2010. In June 2001 at the Gothenburg European Council, an environmental element was added to the Lisbon agenda, to form the basis of the EU's Sustainable Development Strategy. Subsequently, a new process of policy development was put in place, whereby at each 'Spring' meeting of the European Council, the EU SDS is reviewed and new priorities are set for the EU and Member States for the following year).

- According to thinking in DG Regio, Objective 2 would focus on the following Lisbon priorities:

  - Innovation and the knowledge society
  - Environmental risks and disaster prevention
  - Accessibility and competitiveness

  Rural development appears to have been dropped as a separate category in the Commission's current scenario, although the other priorities would apply to rural areas.

- Each Member State – as now - would be given an indicative allocation from the ERDF-funded part of the Objective 2 budget, based on EU-wide criteria. These would certainly include unemployment levels, but are likely also to include a number of other criteria, some of which could be environment-related, although this is not clear at this stage. It would be the Member States themselves that would identify eligible Objective 2 regions within their territory, again based on EU guidelines and indicators.

- Regional programmes focusing on one or more of the Lisbon priorities would take the form of 'tri-partite contracts' negotiated between the Commission, the Member State and the relevant regional authority, acting as equal partners. Tri-partite contracts as yet remain something of an unknown quantity, but are likely to strengthen the role of regional authorities in setting regional priorities and implementation mechanisms.

- Environmental priorities are likely to include support for the management of the Natura 2000 network. One encouraging sign is that recently revised Commission guidelines for the mid-term review and revision of current Structural Funds programmes list the following as potentially eligible for support in the remaining 2004-2006 period:

- the Natura 2000 network;
- integrated river-basin management under the Water Framework Directive;
- rural development;
- renewable energy and greenhouse gas reduction programmes; and
- sustainable urban transport.

- It is not yet clear whether current 'horizontal' environmental requirements relating to the *ex ante* environmental assessment of draft programmes and the role of environmental authorities in their development and management would be a required feature of such tri-partite agreements.

- The rural development theme under Objective 2 would focus on non-agricultural development. The relationship between this theme and rural development under Pillar II is currently still uncertain.

- The remaining 50% of Objective 2 funding would be financed from the European Social Fund and be focused on supporting national employment and training action programmes already in place as part of the Lisbon agenda.

In respect of the Lisbon agenda, it should be noted that the inclusion of an environmental dimension has been perceived in some quarters as an opportunity for 'reverse integration' – that is, for ensuring that environment policy is tailored to the needs of competitiveness, rather than 'greening' its economic and social dimensions. Against this background, it is uncertain how far tailoring Objective 2 to the Lisbon priorities would in practice offer opportunities for some categories of environmental projects that currently have secured funding.

3.3 Community Initiatives

Current thinking in DG Regio suggests that most Community Initiative programmes would be absorbed into mainstream programmes – with the major exception of an 'Interreg'- type funding for cross-border and transnational programmes. Some 5-10% of the overall Structural Funds budget would be dedicated mainly to Interreg activities – a considerably higher proportion than currently. (Spending on all Community Initiatives together currently amounts to about 9% of the total budget). There would be increased scope within the programme for financing cross-border trans-European infrastructure networks, in addition to the type of 'softer' projects that are currently funded under Interreg.

In addition, between 5-10% of the Objective 2 budget would be allocated to an 'Excellence Fund' managed centrally by the Commission. It appears that this would be used to fund the sort of projects and programmes currently covered by Community Initiatives. Funding would be allocated on the basis of competitive tenders, along the lines of the current Innovative Actions budget.

The future of LEADER is still undecided. The view of DG Agriculture appears to be that it should be mainstreamed into Pillar 2. With its very decentralized, bottom-up approach to programme and project management, the absorption of LEADER could have significant implications for the administration of rural development activities.

4 Reform of the CAP – Implications for Regional Policy

4.1 Mid-term review of the CAP

The Agenda 2000 agreement on the CAP included a package of measures and the budget for the period 2000 – 2006. Provision for a Mid Term Review (MTR) in 2003 was included in the final package, and almost as soon as implementation of Agenda 2000 had begun, pressure began to build for further reforms and many commentators began to look to the MTR as the obvious opportunity for that to happen.

Following a year of intense negotiations, a final deal on the MTR was eventually struck on 7 July 2003. It represents a substantive and significant reform to the CAP, the implications of which go well beyond the current Financial Perspective (ending in 2006). Although it is focused mainly on eleven product regimes in Pillar 1 and does not address future funding of the Rural Development Regulation, nevertheless it has significant implications for Pillar 2. Importantly from the point of view of regional policy, it widens the options available for Member States, including the adoption of 'a regional approach' to the main future payment system for farmers, and, potentially, the provision of greater support for environmentally-sensitive farming practices. It allows Member States more scope to develop and implement measures that are best suited to their own conditions, whether political, agricultural, economic or environmental. Member States now have options relating to decoupling and national envelopes under the MTR agreement.

The Key elements of the MTR package are described in Box 2.

Box 2 Key Elements of the July 2003 Agreement on CAP Reform

- Full or partial decoupling of subsidies from production, and the introduction from 1 January 2005 of a single farm payment;
- Options for this form of payments to be regionalized;
- 'National envelopes' of up to 10% of decoupled payments to provide support for eg environmentally-sensitive farming practices;
- Compulsory cross-compliance relating to the single farm payment, and farm audits to be introduced progressively;

- Continuation of set-aside;
- Direct payments over 5,000 euros to be subject to cuts (modulation) of 3% in 2005, 4% in 2006 and 5% in years 2007-13 with money raised made available for rural development (Pillar II); and
- Some new Pillar II measures including temporary support for farmers in complying with forthcoming EU standards, including those relating to the environment; and increased rates of aid for farmers facing environmental; restrictions eg in Natura 2000 areas.

4.2 Future prospects for CAP reform

Given the significance of the MTR, a comprehensive overhaul of Pillar 1 regimes seems unlikely in the next five years. What seems more probable are:

- discussions on the distribution of the CAP budget;
- the need for further flexibility for Member States to develop measures appropriate to their own countries;
- further changes to 'unreformed' but important CAP regimes; and
- some kind of re-engineering of the Rural Development Regulation.

Each of these issues could be pursued with positive outcomes for the environment. The future of the RDR is discussed below.

5 Future Development of the Rural Development Regulation from 2007

As discussed above, the Mid Term Review envisages a modest transfer of funding from Pillar 1 to Pillar 2, beginning in 2005 and becoming fully operational from 2008 onwards. At this point, a 5% rate of modulation is envisaged. This is expected to generate EUR 1.166 billion annually. It will be redistributed amongst the EU 15 according to a complex formula.

Effectively, the redistribution of modulation money gives weight to a new formula which could, in principle be applied to the whole of the rural development budget. The so called SAPARD formula is not currently being proposed as a means of determining Member State rural development budgets after 2007 but this could occur. There are likely to be major winners and losers from any such redistribution.

A second strategic question for rural development funding concerns the relationship between measures funded under the Guarantee Section of the CAP budget (principally the 'accompanying measures') and those funded under the Guidance Section, which is one of the Structural Funds. Approximately 40 per cent of all FEOGA rural development spending is attributable to the Guidance Section, predominately in Objective 1 areas. There are considerable tensions between the different rules applicable to the two budgets, which are particularly irksome for Member States with large Objective 1 areas. Simplification and the creation of a new single instrument are seen as fundamental to the future of Pillar 2 and rural development policy within the EU. The Commission is now thinking of combining expenditure on rural development within a single budget heading, adopting rules for expenditure which would be more like those now applying to the Guidance Section than the Guarantee Section. There would then be a single rural development budgeting and programming system, applying both inside and outside Objective 1.

An approach along these lines appears to have been accepted by both Michel Barnier and Franz Fischler, the two Commissioners most concerned. At present it looks as though the new single rural development fund would be administered by DG Agriculture, which would need to reorientate some of its internal structures and ways of working. Effectively, the new fund would continue to focus mainly on agricultural recipients and the need to soften the impact of CAP changes would remain a key element in the rationale for the fund. Nonetheless some continued expenditure outside the agriculture sector would remain important. This deal may not have been fully accepted by other Commissioners and may not survive the change of Commissioners and Parliament which will occur next year. At present, however, it appears to be the basis of planning for the next financial framework.

5.1 Refocusing Rural Development

It is also clear that rural development funding will need to be more appealing for Member States concerned about the administrative costs and rigidity of this form of rural support. Criticisms of rural development, such as the top down nature of several measures and the dubious quality of some outcomes will need to be addressed.

One specific question concerns the future of LEADER. This is seen as a popular measure at the local and Member State level and one of the successes of rural development over the last decade. (Nonetheless less than 10 per cent of the current EU LEADER budget of EUR 2.1 billion for the period up to 2006 has been spent so far). DG Agri will be using the Salzburg conference in November partly to explore the possibilities and pitfalls of 'mainstreaming' LEADER into the rural development budget. This could be a means of making rural development more bottom up, open to participation, focused on building social capital and less concerned with farm structural changes. Furthermore, it is anticipated that LEADER may not be viable as a Community initiative after 2007 because the other three initiatives will be either absorbed into DG Regio's mainstream funding instruments, diverted elsewhere or abolished. This would leave LEADER vulnerable as the only remaining Community instrument.

Enthusiasm for LEADER does not extend to all DG Agri or Member State officials. Many are concerned about the high transaction costs and difficulties of tracking expenditure with sufficient rigour. Thus, while there is sympathy for mainstreaming the

LEADER approach this may turn out to be a simplified version of the present initiative. The concept of mainstreaming is still to be made more precise.

At the same time, there are strong arguments for seeking to devote more Pillar Two resources to the improved implementation of certain aspects of EU environmental policy. Better implementation of the Habitats and Water Framework Directives appears to be the most likely priority. Meetings between DG Agri and DG Environment are being scheduled at present to develop thinking on this front. One of the targets for DG Environment is to secure a slice of rural development money for the management of Natura 2000 sites. The Commission's formal report to follow the 'Markland Report' on Article 8 of the Habitats Directive will argue for substantial Community support for management costs estimated at up to EUR 6 billion per annum. It is also notable that the recent revisions to the RDR allow Member States to provide temporary adjustment subsidies to farmers meeting higher EU environmental standards. The need to raise environmental standards over a relatively wide area, not just in Objective One regions, is likely to be part of the case for maintaining the Second Pillar.

Other more specific issues being discussed in relation to the future of Pillar Two include:

- The need to provide more environmental value added from agri-environment schemes. Many of these are seen as too lax and simply rewarding farmers for activities which might be considered compulsory once the new cross-compliance rules are in place. For example, farmers will not normally be allowed to plough up permanent grassland so there would be no need to pay them to maintain it. More ambitious schemes are hoped for by the Commission.

- Changes to some of the older measures which date back to the early days of farm structural policy. There is considerable scepticism in some quarters about the value of large-scale expenditure on farm capital grants, especially as most other rural businesses do not benefit from these. The recent criticisms of the Less Favoured Area scheme by the Court of Auditors will need to be addressed and some feel that the LFA policy itself may be at risk.

6 Timetable for Negotiations at EU Level

A first timeline of events between now and 2007 and beyond is set out at Table 1. At this stage, it is necessarily tentative, especially after 2004, and the attribution of specific months has to be based on informed speculation. However, important determining factors are:

- the timing of the European elections;
- the establishment of a new Commission in the autumn of 2004; and

- the need to negotiate a new Financial Perspective with the European Parliament in the framework of the Interinstitutional budgetary agreement.

With a new European Parliament and Commission scheduled for June and November 2004 respectively, little can be expected in the way of concrete proposals before the late autumn 2004. However, the Third Cohesion Report is expected to be published in January 2004, and this should bring DG Region's thinking on the future of the Structural Funds and the RDR into sharper focus. However, it will not include figures for budgetary allocations, nor their distribution between Member States or regions.

According to the Inter-institutional agreement on the budget, the draft multiannual Financial Perspective has to be presented by the Commission to the Council and Parliament before 1 July 2005, and agreed by a formal deadline of June 2006. However, given the need to negotiate and agree new Structural Funds programmes during 2006 in readiness for their launch on 1 January 2007, in practice the FP would need to be finalised by the beginning of 2006. This, together with the likely length of the negotiations, would suggest that the Commission should present its proposals as early as possible. However, it is likely to delay publication until after the IGC has been completed (scheduled – optimistically – for May 2004), and the new Parliament and Commission are operational (after 1 November 2004). Negotiations on the FP are therefore likely to take place from December 2004 and continue throughout 2005.

Year	EU Agriculture/Rural Policy	EU Structural/Cohesion Funds
2003	*September* MTR Regulations expected. *November* Salzburg Rural Development Conference. *December* MTR implementing regulations?	
2004	*November/December*	*January* Third Cohesion Report published *Feb/March* Third Cohesion Forum *May* 10 new Member States join EU; Scheduled completion of IGC; *June* European Parliament elections *November* New Commission in place. *November/December* Publication of draft post-2006 Structural/Cohesion Fund Regulations

	Commission publishes draft Financial Framework post- 2007	
2005	Major political debate between Member States and EU institutions on Commission budget proposals. Agreement possibly by December Debate on future of rural and cohesion policy continues. Draft regulations for new measures from the Commission expected.	Negotiation by Council/Parliament of Structural/Cohesion Funds Regulations *Autumn* Negotiations begin on new Structural Funds programmes

7. Issues for Consideration

Throughout much of Europe, the EU's involvement in regional and cohesion policy over the past twenty years has led to important advances. It has given a major impetus to strategic spatial planning, partnership working, and the introduction of mechanisms and procedures for integrating environmental sustainability into structural spending programmes. It has also provided the opportunity for fruitful cross-border collaboration and mutual learning. Despite early difficulties, DG Regio has become more sensitised to the needs of environment and sustainable development, and current relationships with DG Environment are good.

Against this background the environmental interests need to develop further their positions on a number of strategic issues at EU level, as well as on detailed issues of programme management. Opportunities to influence the Commission's thinking will arise with the expected publication in January of the Third Cohesion Report and with the convening of the Third Cohesion Forum in February/March 2004. During 2004, DG Regio and DG Agriculture will also undertake an impact assessment of the draft revised Regulations, which should involve extensive consultation of stakeholders.

7.1 Key issues to be considered

- Should EU structural spending be maintained at or near the current level of 0.45% of EU GDP, or be reduced by focusing only on the very poorest Member States?

- Should Objective 2 be maintained? If so, should it be concentrated on a few priority regions, or be applied across the EU's entire territory?

- Should current requirements and procedures for 'mainstreaming' the environment across all priorities and measures continue to be set centrally, within the Structural Funds Regulations – or should arrangements be left for decision at regional level to reflect the principle of subsidiarity?

- Should the Cohesion Fund Regulation be revised to include the environmental safeguards currently included in the Structural Funds Regulations?

- Should a single Rural Development Fund be established? If so, should it be administered by DG Agriculture?

- What should be the relationship between a Rural Development Fund and a 'rural' strand of Objective 2?

- Should LEADER continue as a separate initiative, or be mainstreamed into the rural development budget?

- Which are the best routes for generating funds for nature conservation and NATURA management?

- Should the Agencies argue for a larger Pillar 2 budget and the adoption of the SAPARD formula, or an environmental variant?

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