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TO THE COUNCIL AND THE EUROPEAN PARLIAMENT**

2004 Environmental Policy Review

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1. INTRODUCTION

This Environment Policy Review (EPR) reports the developments in EU environmental policy in 2004 and gives indications on the year to come (see annex for more details). The EPR feeds into the Lisbon process and given the current focus on the mid-term review of the Lisbon process, this year's review puts particular emphasis on the relationship between environment and the economy. It also reviews progress under the 6th Environmental Action Plan (6th EAP), which continues to set the overall framework for EU environmental policy. It builds on the recent stocktaking of the Cardiff Process of environmental integration¹ and reports on implementation of existing environmental legislation in the Member States.

The past year has seen:

- EU enlargement, which has an impact on future policy as new Member States must implement existing EU environment legislation;
- intense debate on environment policy and competitiveness in view of the Lisbon Strategy;
- debate on the review and implementation of the EU Sustainable Development Strategy;
- action to promote more sustainable production and consumption (SPC), including the Environmental Technologies Action Plan;
- preparation for emissions trading and post-2012 strategies on climate change;
- efforts to achieve the EU's target of halting biodiversity loss by 2010;
- developments in the inter-institutional debate and preparatory work on REACH;
- consultation on the Thematic Strategies to be presented in 2005 to deliver on the 6th EAP;
- presentation of the Environment and Health Action Plan to the WHO Ministerial Conference.

2. ECO-EFFICIENT INNOVATIONS AND RESOURCE EFFICIENCY KEY TO INCREASED COMPETITIVENESS

Highlights

During the past year competitiveness concerns dominated the EU policy debate, in the course of which a growing consensus has now developed on the contribution that eco-innovations and resource efficiency make to EU competitiveness and on the market opportunities they offer.

Work has been ongoing on better regulation both to improve use of impact assessment and to simplify environmental legislation so as to maximise the cost-efficiency of new legislation.

¹ COM (2004)394

The Kok report emphasised the role of environmental sustainability and social cohesion in the growth and employment creation process, and how Europe could gain from supplying innovative eco-efficient products and processes.

Other developments have sought to maximise the environmental contribution to GDP growth and employment:

- good progress has been made in implementing the Commission's Environmental Technologies Action Plan;
- the Dutch Presidency emphasised the importance of eco-innovations for a "Clean, Clever, and Competitive" Europe;
- progress was made with consultation of stakeholders on the Commission's thematic strategies on management of natural resources and waste prevention and recycling. This will also contribute to better regulation;
- the Commission published guidelines for national and local authorities on green public procurement.

New Findings²

There are growing findings that environment policy and eco-innovation can promote economic growth and maintain and create jobs, contributing to competitiveness and employment. There is an expanding world market for environmental goods and services, estimated at over €500 billion in 2003. The eco-industries sector employs more than 2 million people in Europe, and continues to grow at around 5% per year. There are promising market opportunities for eco-efficient products. The emergence of large dynamic economies like Brazil, India or China puts growing pressure on natural resources and boosts global pollutant emissions, calling for improved energy and resource efficiency both there and at home. Environmental constraints to rapid economic growth are increasingly recognised by countries like China, leading to a rising awareness of the need for sustainable development and thus offering interesting market openings for environmental technologies.

For example, recent reports show that:

- the net impact of environmental policy on jobs is neutral or slightly positive;
- eco-industries have been performing better than the rest of the economy;
- renewable energy and energy efficient measures increase security of energy supply and reduce economic losses from oil price volatility, while reducing greenhouse gas emissions and waste of finite resources;
- the competitiveness effects of industrial air pollution expenditure are generally limited;
- a growing number of companies and investors are taking a proactive interest in environmental performance and a number of recent studies indicate that good

² See SEC(2005) 97 for sources

environmental management is linked to greater efficiency, better financial performance and opens up new markets.

Outlook for 2005

A number of measures will aim to help the EU take full advantage of the contribution that environment policy can make to EU competitiveness. For example,

- EU and national commitments to implement the Environmental Technologies Action Plan;
- Reflect on how to make prices better integrate costs to society
- The thematic strategies on the sustainable use of natural resources and on waste prevention and recycling.

The Commission will continue to work with other countries to promote a more sustainable development. It will in particular develop a dialogue with emerging economies such as China, which share similar views on sustainable development, to take forward international action necessary to address global environmental problems, to avoid competition based on reducing environmental standards and to promote the uptake of eco-innovations and more sustainable products and processes.

Ongoing work to simplify and improve environmental regulation is also important. Tackling climate change, reducing loss of biodiversity, and improving our understanding of the links between environment and health can also help long-term economic growth while improving the environment and our quality of life.

3. ACHIEVEMENTS, TRENDS AND OUTLOOK IN THREE PRIORITY AREAS

Climate change, biodiversity loss, and environmental impacts on health are among the main priorities of the Sixth Environmental Action Programme.

3.1. Climate change

Highlights

Russia's ratification of the Kyoto protocol means it will enter into force in early 2005.

The Commission has been preparing for the world's largest greenhouse gas emissions trading scheme, with the adoption of the registry regulation and of monitoring and reporting guidelines and the approval of 21 National Allocation Plans to assign emission allowances to energy-intensive installations. The scheme, which will allow greenhouse gas emissions reductions to be achieved at least cost, started on 1st January 2005.

To help combat climate change the Commission has continued to promote the integration of environmental aspects into other policy areas, especially transport and development aid. It has also made three recent proposals to promote more efficient energy consumption.

New Findings²

The latest information on greenhouse gas emissions and the new findings available on the potential scale and impacts of climate change are cause for continued concern. There has been

a small downturn in emissions of greenhouse gases, but not enough to put the EU-15 on a linear path to meet its Kyoto targets. Overall 12 of the 25 Member States had emissions above this linear path.

Trends in a number of sectors remain of concern. The latest statistics indicate that the transport sector's emissions of greenhouse gases continued to grow, reaching almost 22% above 1990 levels in the EU-15 by 2002, and there has not yet been a decoupling between transport emissions growth and economic growth.

New findings have emerged during the year of the potential costs of failure to address climate change, including as a result of Community funded RTD. Extreme weather events, like the 2003 summer heat wave, are expected to become more frequent with climate change. By 2050 climate change could lead to 15% to 37% of all species being on a path to extinction. Glaciers are melting fast, which will affect drinking water supply, irrigation, and hydropower across Europe, not to mention winter tourism in the Alps. This contributes to raising insurance costs and uninsured damage. Economic losses from extreme weather events, in part due to climate change, have risen from an annual average of less than US\$5 billion to about \$11 billion over the last 20 years.

Outlook for 2005

There are three broad goals for 2005 agenda:

- stepping up implementation of measures to meet Kyoto commitments;
- launching the international discussion on global emissions reduction measures for after 2012;
- preparing to adapt to unavoidable climate change.

3.2. Biodiversity

Highlights

- Establishment of the Natura 2000 network of protected areas in the EU-15 has substantially advanced with the adoption of the lists of sites for the Atlantic and Continental regions. A Commission decision on one remaining bio-geographic region (Mediterranean) is expected by early 2005. The sites, selected to cover habitats and species of EU conservation concern, cover about 17% of the EU15 territory. Enlargement brought new biodiversity challenges and assets, including a new bio-geographic region (Pannonian). Good progress was made with designation of sites in the new Member States during 2004. A Commission Communication on financing Natura 2000 has been published. Substantial new co-financing opportunities have been included in the proposals for the Rural Development and Structural Fund Regulations for 2007-2013.
- The Malahide conference in May 2004 showed that there is a clear consensus among stakeholders on measures which need to be taken to protect biodiversity at European level. The meeting produced priority objectives and targets for meeting the commitment to halt the decline of biodiversity in the EU by 2010.

- The Bergen-op-Zoom conference in November 2004 further identified priority actions on bird conservation.
- Proposals for rural development policy post 2006 give higher priority to the environmental services of agriculture

At international level, 2004 was marked by several important decisions on global action to limit the decline in biodiversity:

- The 7th conference of the parties (COP7) to the UN Convention on Biological Diversity adopted a work programme to establish national and regional systems of protected areas on land by 2010 and at sea by 2012 and on indicators to assess progress towards the global target of significantly reducing the rate of biodiversity loss by 2010.
- The first meeting of parties to the Cartagena Protocol on Biosafety decided on documentation requirements and compliance mechanisms for Genetically Modified Organisms (GMOs).
- The parties to the Convention on International Trade in Endangered Species (CITES) agreed to strengthen controls on trade in a number of endangered species, including an action plan on illegal trade in ivory.

New Findings²

Newly published studies in 2004 showed that half of the planet's 5,743 known amphibian species (amphibians are good biodiversity indicators) are in decline and a third face extinction, indicating potentially dramatic species loss. They also show some 43% of Europe's bird species are now of conservation concern.

Integration of biodiversity concerns in other policy areas is progressing. Organic farming continues to grow, albeit at a slower pace. The proportion of agricultural spending dedicated to rural development and agri-environment schemes is also rising. Over-fishing remains a problem, and recovery of some stocks is proving more difficult than expected.

Outlook for 2005

- The Commission will publish a Communication on Biodiversity policy in 2005, building on the recommendations from the Malahide and Bergen-op-Zoom conferences.
- The Commission will continue to support the establishment and implementation of the Natura 2000 network including its extension to the new Member States and to the marine environment. Within the overall framework of the Commission's proposals for the financial perspectives for 2007-2013 work will continue to consolidate Community co-funding of the Natura 2000 network with the aim of helping to mobilise funding needed within Member States.
- Implementation of the Commission's Action Plan for Organic Food and Farming will begin

- The Marine Thematic Strategy will propose a framework for the elaboration and implementation of an ecosystem-based approach for the management of the seas and oceans.

3.3. *Environment and Health*

Highlights

The Commission's environment and health action plan was designed to fill knowledge gaps, identify emerging issues and improve communication. It was presented to the WHO Conference on Environment and Health in Budapest, where Environment and Health Ministers from 52 countries adopted the Children's Environment and Health Action Plan for Europe (CEHAPE), for which the Commission expressed its support.

The debate on REACH, the Commission proposal for a new regulatory framework for chemicals moved on in Council (Environment and Competitiveness) and in Parliament. A workshop organised by the Presidency on the extended impact assessment of REACH concluded that the cost of the system is greatly outweighed by the benefits, confirming the overall conclusion of the Commission's impact assessment. The debate has allowed the identification of measures to facilitate implementation and thus reduce costs whilst achieving the full benefits of an increased level of protection of human health and the environment. Preparations for implementation have also moved including partnerships with stakeholders working to establish workability and minimise the cost of the system, setting up the IT system and preparation for guidelines for industry and Member States.

The European Pollutant Emission Register (EPER), the first Europe-wide public register of emissions into air and water from industrial facilities, gave the public better access to environmental information.

The Community ratified a UN Europe-wide agreement and joined a second global convention to eliminate pollution by Persistent Organic Pollutants (POPs). These are toxic substances that can travel long distances, persist in the environment, and accumulate in the food chain.

*New Findings*²

Approximately 2 to 8% of disease in the EU-25 can be attributed to environmental factors, especially air and noise pollution from transport.

More needs to be done to address known health hazards, like over-exposure to air pollutants such as fine particulates and ozone, and to unsafe levels of mercury in seafood.

EU Member States are already investing in research and surveys to improve understanding, including human biomonitoring with a focus on heavy metals, dioxins, PCBs, endocrine disrupters, and asthma and allergies. But as they generally do not use the same methodological approach, the outcomes are difficult to compare.

Outlook for 2005

Work will continue to deliver the information needed to address threats by substances in the environment to human health:

- an agreement will be sought on the proposed REACH Regulation to allow more rigorous assessment and control of the chemicals used;
- implementation of the EU Environment and Health Action Plan, to put into place actions on human biomonitoring, research, information on environment and health.

Meanwhile, the Commission will be proposing measures to limit exposure to mercury, pesticides and air pollution, with strategies to be published in 2005.

4. MEETING THE IMPLEMENTATION AND BETTER REGULATION CHALLENGES

Highlights

Although EU legislation has done much to improve environmental quality, to create a level playing field for companies across the EU, and to help promote new market opportunities, there is still room for improvement. Full implementation of EU environmental legislation by Member States remains a challenge, including in the new Member States. Environment cases continue to account for a third of all open cases for non implementation of EU law for EU25. During 2004 the Commission has analysed the main areas of difficulty (waste, water, nature protection and environmental impact assessment) and is now drawing up action plans designed to improve the rate of compliance.

Proper implementation means both adopting the right national legislation on time, and putting the necessary infrastructure in place. There also needs to be inspection and action against those acting illegally. Community funds must continue to act as a catalyst for the investment needed in Member States.

The Commission's ongoing commitment to better regulation is intended to lead to EU legislation that is clearer and easier to implement, and which encourages the most cost-effective solutions. The Commission continues to promote voluntary approaches where appropriate and has launched an evaluation of the EMAS and Eco label schemes.

When designing new legislation the Commission tries to anticipate problems, to reduce administrative burdens, to minimise compliance costs and to maximise new opportunities. For this it uses impact assessments, public consultations and screening.

The integration of environmental thinking into other policy areas and sectoral decisions needs to be pursued to achieve the many environmental and wider benefits, which cannot be achieved through environmental policy alone. The stocktaking of the Cardiff process of environmental integration puts forward recommendations for reviving the integration process, including the need for Member States to ensure full implementation of the Directive on Strategic Environmental Assessment.

The Member States must implement environmental legislation fully. The Commission will focus on the main areas where most problems are encountered. Other issues to be considered are simplification of legislation, monitoring and reporting requirements.

5. CONCLUSIONS

Developments in environmental policy at the EU and national level over the past year confirm a number of trends identified in the 2003 Environment Policy Review:

Lisbon and the environment:

- Environment, including eco-innovation, is an essential element of the Lisbon strategy, through its contribution to sustainable economic growth and to the long-term competitiveness of the EU economy. This contribution involves especially:
 - Improving further the eco-efficient use of energy and resources, resulting both in higher resource productivity and reduced pressure on the environment, ;
 - Delivering the concrete targets already agreed for combating climate change and for energy efficiency and for more sustainable transport requires, amongst other measures:
 - Better information for EU companies and citizens on products, processes and services that help us tackle climate change and environmental threats,
 - Better reflection and pricing of the full costs to society as a whole of different energy sources and different goods and services, such as transport and mobility services to meet the ever increasing demand in a more sustainable way,
- Promoting eco-efficient innovations across all sectors of the economy, notably through the full implementation of the Environmental Technologies Action Plan (ETAP). Member States should establish roadmaps for the implementation of ETAP and be encouraged to develop action plans for green public procurement. In addition, a major effort throughout Europe is necessary to make real progress in energy efficiency.
- Keeping pace with the EU's competitors, such as the US and Japan, on eco-innovation. The global demand for eco-innovations is growing as emerging economies, such as China are increasingly aware that their rapid growth may soon be constrained by environmental limits. Environmental technologies and new innovations are needed to face this challenge. Support for research and "risky" demonstration activities should benefit from public support similar to that provided by the EU's competitors.

Environment in the EU

- The 6th EAP provides a stable framework to 2012 for Community environmental policies as well as for the integration of environmental concerns into sector policies. Its four main priorities –climate change, biodiversity, resources and environment and health- will require action over the long term perspective. There are also areas where short-term action is needed, as failure to act now may lead to higher future cost or irreversible damage and to lost opportunities for cost-effective solutions.

And globally

- The Commission will continue to promote international co-operation in pursuit of sustainable development, seeking to address global and trans-boundary environmental problems, advancing EU environment policy on global issues and ensuring integration of environmental requirements into all external policy areas, including security, development, trade policy and neighbourhood policy.

The coming year

- The Commission will issue a number of important environmental policy initiatives in 2005 which will shape the EU environment policy over the next years:
 - The communications on EU Climate policy post 2012 (February 2005) and on economic instruments to address the climate change impacts on aviation
 - The Communication on Biodiversity Policy
 - The Thematic Strategies on air quality, resource use and waste prevention and recycling, the marine environment, the use of pesticides, the urban environment and on soil.

Focus on better implementation

- The environmental policy framework is now well established, with a number of important pieces of environmental legislation in place. While new legislation will be proposed where appropriate, much greater focus needs to be put on implementing existing policies and legislation. Targets and binding rules have been set and agreed. It is up to Member States to implement these policies and deliver the benefits to society as a whole. The Commission will increase its efforts to work with Member States to achieve better implementation.

and on continuing to improve environment policy making

- Environment policy is increasingly based on better knowledge and science. However, wide gaps in knowledge and uncertainties remain, calling for continued efforts to develop our knowledge base. Significant research and development efforts are needed to fill these gaps, both in the Member States and in the EU as a whole. The Community research programmes should reconsider the constantly decreasing relative priority given to environmental and energy research.
- A more effective and transparent shared environment information system for the EU needs to be developed based on modern technologies. Such a system should serve both national

and EU wide needs as well as the needs of EU citizens across the enlarged Union. The European Environmental Agency with its extensive networks can play a useful role in this context.

- The Commission strives to continuously improve the way environmental policy is being designed and implemented. The use of impact assessments and extensive stakeholder consultation is already common practice. The more traditional regulatory instruments are being complemented with market based instruments and other means to maximise the opportunities for full and cost-effective implementation. These mixed approaches need to be continued and developed, at both Community and Member State level. Thematic Strategies of 2005 will pay particular attention to approaches to boost environmental innovations, cost-effectiveness and integration.
- The process of regulatory simplification needs to continue to reduce the administrative burden on the public sector and companies, while maintaining high environmental standards, and ensuring a level playing field in the Internal Market. Actions both at Community and at Member State level are needed. The Thematic Strategies due in 2005 offer a unique opportunity to make further progress towards regulatory simplification.

To meet EU citizens' expectations

- Environment policy is also about quality of life. It is directly relevant to people's lives. Time after time Europe-wide opinion polls demonstrate that a large majority of EU citizens want more emphasis placed on the environment and expect decisions to deliver better environmental quality and services at EU level. Thus strong European environment policy is a priority to the EU citizens and brings Europe closer to them.
- Europe needs to take up the challenge of using environmental opportunities and constraints in the framework of its growth and job creation policies. This is an important condition for improving welfare and for a more equitable future. Europe needs to engage now, both in Europe and globally.