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**DISTRIBUTIONAL CONFLICTS AS A CONSTRAINT
FOR NATIONAL IMPLEMENTATION AND
INTERNATIONAL HARMONIZATION OF
ENVIRONMENTAL POLICY**

SUMMARY FINAL REPORT

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I. OBJECTIVES

The main hypothesis of the project is that there are complex and important relationships between economic and ecological distributional issues which have a significant influence on the formulation of environmental policy. This problem is examined with reference to the implementation of the internal market in the European Union, namely the question of "to what extent, and along what lines, it is necessary to harmonise environmental policies across the Community". Debates and negotiations about harmonisation are strongly influenced by the distributional conflicts that arise between the countries involved (as well as within each country at inter-sectoral and regional levels) due to the interdependency between economic and ecological distribution outcomes.

This project integrated several different aspects of analysis - theoretical, empirical and policy-oriented - in order to provide a comprehensive discussion of the links between policy-making processes and environmental distribution conflicts. At a theoretical level, the project started with the premise that issues of allocative efficiency in resource allocation must be resolved interdependently with questions of distribution for the design and implementation of effective environmental policies. This starting premise contrasted with the widespread presumption found in much economic theory and policy literature, that presumes complete separability between resource allocation and distribution issues. The specific objectives of the research, applied to the EC/EU situation, have been as follows:

- 1) to analyse the significance of national and international patterns of economic and ecological distribution and their institutional regulation for the recognition of environmental problems and for the acceptance of environmental policies addressing these problems;
- 2) to analyse, as a case study, the distributional obstacles to the formulation and effective implementation of national and supranational (EU) policies concerning acid rain and the greenhouse effect;
- 3) to discuss different strategies of harmonisation to resolve distributional conflicts that affect environmental policy making in the European Union.

II. METHODOLOGY

In this research distribution refers to the requirement of resolving competing claims in society by different persons/groups on available or potentially available goods/services or money. Therefore distribution is, generally, a matter of conflict. The resolution of this conflict depends on the decision rules defined by society, or broadly speaking the institutions and norms of each society. In contrast to this, allocation refers primarily to choices made by each individual economic agent - for example how a given person/group decides upon the way to use a given amount of factors of production/money for different purposes given the prevailing income and wealth distribution, institutional circumstances, and market prices.

The key argument in this project was that it is not only economic distribution (money income, property) that influences resource allocation choices, but also ecological distribution. We defined ecological distribution as the social, spatial and inter-temporal patterns of access to the benefits obtainable from natural resources and from the environment as a life support system. The determinants of ecological distribution are in some respects natural (for example, climate, topography, land quality, minerals, rainfall patterns), and in other respects social and technological. We can speak of ecological goods and bads. For example ecological goods and services include renewable and non-renewable resources, the pollution assimilation capacities of the environment, species diversity and amenity values of all sorts. Ecological bads are the risks and burdens falling on people as a result of pollution or exploitation, for example disturbed or destroyed ecosystems, interruptions to ecological life-support cycles, the dispersal of humanly and ecologically toxic substances in the environment.

Although we referred to ecological "goods and bads" as determinants of human welfare in a way analogous to economic goods and services, there are important differences which complicate the ecological distribution problem. Economic allocation and distribution relate well-defined objects and artifacts that are produced purposefully and under socially well-defined circumstances. The agents can be fairly precisely identified (for example, owners of factors of production, social groups differentiated by income, or by industrial sectors, or by geographical regions, etc.), and the objects of distributional contests (income, wealth, burden of costs, taxes, etc.) are quite precisely defined, most often in monetary terms. Economic distribution is resolved through well-understood market and public transfer mechanisms, backed by legal and political decision making procedures. By

contrast, in the ecological domain, the production (or “by-production”) of the “goods and bads” whose distribution is being debated, and the identities of the relevant agents and interested parties, are not so precisely definable. In some cases the interested parties are extremely diffuse (for example people suffering frosts health problems induced by or aggravated by urban pollution or carcinogenic substances) or hypothetical in character (future generations). With regard to the costs and benefits themselves, there are fundamental description and measurement problems. Ecological goods and bads cannot readily be divided into discrete units, measurable in terms of kilograms and volume. Even when the materials associated with environmental change (such as pollution discharges) are measurable in physical terms like volume, weight, concentration, or when the ecological goods can be quantified in some respects such as area of forest, these descriptions remain incomplete. For example it is not possible to describe exhaustively or to evaluate quantitatively the significance in welfare terms, of a destroyed ecosystem, or of changes in biodiversity, or of climate changes relating to greenhouse gas emissions. By contrast with purposeful economic commodity production and use which is clearly localised in space and time, the unplanned “side-effects” on ecological distribution (e.g. consequences of pollution and toxic waste disposal) will fully emerge only over long periods of time.

For all these reasons, there are significant differences between the ways ecological distribution conflicts are dealt with within industrial societies, and the ways economic distribution issues are resolved. Economic distributional conflicts are fairly coherently institutionalized, for example, as in bargaining between employees and employers, and in public policy areas of wage level negotiations, and budget talks relating to tax incidence, provision of social services, and income distribution. Furthermore, given that the objects of economic distribution claims are social artifacts measurable mostly in money terms, there is a strong incentive to aim to enlarge the “economic pie” as a way of alleviating distributional conflicts between social groups. By contrast, the purposeful social resolution of distributional conflicts associated in environmental issues depends on a sufficiently widespread perception of the existence of these problems (e.g. impairment of life-support functions or scarce physical resources). The emphasis on economic growth as a desirable goal, and more particularly as a means of softening economic distribution conflicts, has itself been a powerful factor encouraging neglect of environmental costs associated with economic expansion. So it is not surprising that resolution of ecological distribution conflicts is in a completely asymmetric relation to economic distribution. The usual situation over the past few decades has been *ad hoc* bargaining in environmental policy making, with ecological distribution issues resolved either implicitly (and in many cases simply by neglect) or through institutional channels not specifically intended for this purpose. However, while economic growth and population growth place increasing demands on the environment, it is not possible to expand physically the “ecological pie” upon which economic activity depends. So this marginalisation of environmental issues relative to economic growth and income distribution concerns has led, paradoxically, to a sharpening of ecological distribution conflicts.

The main theoretical task of this project has been to develop a conceptual framework for the analysis of these interrelationships between ecological and economic distribution issues, and their significance for environmental policy making.

For this purpose, a descriptive or “positive economics” approach has been used, aiming to portray economic activity in a changing dynamic relationship to ecological systems. It is thus assumed that the economy is “open” in the sense that ecological resources and conditions are not a given datum but are themselves evolving over time, and moreover that the inherent dynamism of the ecological system changes the (ecological) boundary conditions of the economy, and vice versa. Environmental policy must take account this evolution, and moreover will reflect changing social perceptions of the key environmental issues.

This descriptive evolutionary approach is felt to be more realistic than the traditional neoclassical economic approach to economic and environmental policy analysis. In particular, our approach avoids making the a priori normative assumption of an allocative efficiency criterion and thus is not constrained by the restrictive analytical assumptions needed to apply a unique efficiency concept. In effect, this means that we do not need to assume that resource allocation and distribution can be dealt with separately (that is, that distribution can be resolved at the “political” level, while economic policy instruments can be employed autonomously to achieve desired efficiency goals). Rather, by discussing distribution and resource allocation in an integrated way, we are better able to understand the conflicts arising from the perceived distributional impacts of implementing specific environmental policies, and to understand how distributional conflicts dominate the political process even when the policies in question are based on efficiency considerations.

The two case studies, describing the national and international levels of policy formation for acid rain and the greenhouse effect in Spain and The Netherlands respectively, are complementary to the theoretical perspectives. In both case studies a descriptive or qualitative approach is used. The empirical research findings demonstrate the

pertinence of the theoretical perspectives, and also furnish the basis for the discussion of environmental policymaking as a conflict resolution process. The ecological, economic and political conditions in each country are very different. The two studies, taken together, bring out how on the one hand the specific conditions influence the national formulation of environmental policy, and how on the other hand they influence the political and economic interests of each country in the harmonisation debate over environmental policy in the European Union.

III. MAIN RESULTS

The results of the project relate to : a) theoretical perspectives concerning the treatment of environmental distributional problems in economic theory, as a departure point for presentation of the studies; b) the two case studies for Spain and The Netherlands respectively; and c) synthesis and discussions of the insights obtained from the theory and case studies into distributional obstacles in the environmental policy process.

Theoretical Perspectives.

Established economic analysis perspectives which deal with distribution fall into two groups: (i) structural models of economic activity (including Classical and Neo-ricardian (Sraffian) growth models and also macroeconomic input-output models in the tradition of Leontief; (ii) neoclassical models based on marginalist calculus of opportunity costs and benefits. Both of these approaches have, traditionally, dealt exclusively with economic (monetary) distribution questions. In recent years, some aspects of natural resource depletion and environmental externality (such as pollution abatement) have been incorporated on an *ad hoc* basis. Usually, however, the distributional effects of pollution abatement or of "internalizing" opportunity costs associated with environmental use (for example through defining new property rights or duties) are not analyzed in a systematic way.

The theoretical perspectives developed in this study aim to overcome this limitation. Three different theoretical frameworks are developed, which can be regarded as complementary in that each places emphasis on different features of ecological distribution and political resolution of conflicts.

(a) A Neo-Ricardian model is presented which explains, in an abstract structural way, the inter-relationships between economic and ecological distribution. The Sraffian model of production of economic commodities by means of commodities, is extended to portray interdependency of the economic sub-system with ecological sectors in the form of exploitation of scarce natural capital as a needed raw material input as gradation of natural capital through economic waste disposal. Within the economy, the primary distributional question concerns appropriation of the economic surplus (divided between labour and capital owners). Ecological distribution contests refer, on the other hand, to questions of possession of scarce natural capital and the recompense (price or claim on a surplus) obtained for its use (that is, ownership and conditions of access). Economic distribution struggles can impact on ecological distribution in a variety of ways. The outcome of the contest over distribution of the economic surplus between capital (investment) and labour (consumption) impacts on the feasible economic accumulation rate, and also on the mix of economic commodities produced and their relative prices, thus changing the pattern of demands placed on ecological sectors for resource extraction and pollution assimilation. Conversely, the outcomes of contests over the control of natural capital use (for example conservation versus depletion decisions, or the relative valuation of natural capital and economic commodities) alter the ecological constraints placed on economic surplus production, the relative prices of economic commodities, and the parameters of the capital-labour distribution contest.

(b) A framework of evolutionary internalisation of "external effects" is developed in descriptive and diagrammatic form, which characterizes the reciprocal interaction of an economic and an ecological system, each having their own inherent dynamism, and the role of economic and ecological distribution conflicts in this "recursive" feedback process. Within this framework, the process of social evaluation of the environment is described, meaning the social and political mechanisms by which judgments of value and social regulation of environmental use come about. This social evaluation process does not rely only on *status quo* market evaluation. On the contrary it often contests the implicit or explicit (de)valuation of environmental goods and services in market economies. So social valuation of the environment is an inherently collective and politicised process, involving a range of non-market mechanisms and institutions by which judgments are made about, for example, the severity of economic impacts on the environment, social harm (damages, health risks uncertainties), and the significance of ecological constraints (social perceptions of environmental "scarcity"). The interpretation of available information is itself a matter of argumentation, for example scientific controversy over ecological

impacts and technological progress prospects, asymmetric information between culprits and victims, and the tendency for “discounting” of problems perceived as uncertain or as distant in time or space.

(c) A framework using game theory and political theory of institutions is developed to explain and interpret under what conditions environmental policy may be accepted in situations of distributional conflict. When ecological problems are evaluated and defined by society, through public pressure and controversies, implicitly there are environmental distributional conflicts. Therefore regulation of these conflicts, whether implicitly or explicitly, becomes necessary. Often bargaining will take place between different societal groups about environmental policy initiatives or reforms. Using the game theory framework, it is proposed that the acceptance of a policy initiative may depend on its effects on the players' standards of living. Using the policy theory of institutions, it is argued that the lack of institutions for resolving distributional conflicts concerning environmental policy discriminates against the social groups who are damaged by environmental deterioration. The perception of the change of welfare is, in the model, a function of the uncertain benefits and the costs which the individual will have to bear if the environmental policy is enacted. It is shown that the acceptance of and contribution to environmental policy will generally be sensitive to distributional factors, because there are frequently trade-offs between income equity and environmental policy objectives.

The Case Studies (Spain and The Netherlands).

The case studies have been designed to facilitate a comparative analysis in a number of ways. First of all, the two countries chosen have very different geographical, political, social and economic characteristics. Second, the two environmental policy issues discussed - acid rain and the greenhouse effect - involve quite different scales of relevance (spatially and temporally) and raise quite different scientific and political problems. Acid rain, caused mainly by SO₂, NO_X and NH₃ emissions, is mostly a problem at regional, national and continental levels. The damage caused by acid rain is clearly perceptible and depends specifically on the regional assimilation capacity of the soil and water and vegetation in each region. Finally, abatement measures are possible through emissions reduction through end of pipe technology. The greenhouse effect, relating mainly to increased emissions of CO₂, is by contrast a global problem whose severity is, at present, largely a matter of scientific inference corroborated by ambiguous empirical data. It is not possible to reduce CO₂ emissions by end of pipe technology, and although some attention is being given to augmenting carbon sinks (e.g. through forest planting and biomass production/combustion cycles), the main policy concern is to achieve a more efficient and reduced use of fossil fuel energy.

The respective policy histories for each country differ markedly in relation to the two issues. In the case of the greenhouse effect, environmental policy initiatives by both countries have been quite recent, prompted through the international policy initiatives particularly the EU-policy activity on this problem. Acid rain is quite a different story. In The Netherlands acid rain was recognised more than two decades ago as a national problem, because of the low assimilation capabilities of some regions relative to the emissions being produced in that country. A national environmental policy had been implemented for air pollution abatement at the beginning of the seventies, and measures relating specifically to acid rain in the early eighties. In Spain, by contrast, acid rain received no particular attention until the late eighties, and Spanish environmental policy in this field has been largely a response to international environmental agreements and the EU policy initiatives in particular.

Contrasts are also evident regarding the political and institutional frameworks for each country's policy initiatives. The Netherlands have built up, over many decades a style of bargained intersectoral compromise (sometimes referred to as a neocorporatist model) where the different societal groups work together to resolve major issues of economic distribution policy. Pressure for environmental policy has come mainly from societal groups who were directly harmed by pollution and from national and international environmental organisations, but the policy initiatives themselves are filtered through the traditional economic bargaining institutions. In The Netherlands there have been widespread public controversies about the character and the consequences of ecological deterioration, which strongly influence the bargaining positions adopted by sectoral interest groups. In Spain, with the legacy of Franco's dictatorship there is no such tradition of intersectoral bargaining and compromise. A neocorporatist pattern was applied for one short historical conjuncture, during the so-called "democratic transition", but this broke down after 1986. There have been few major environmental controversies in Spain, with the exception of the (successful) campaign against further use of nuclear power. Environmental policy has been, in this regard, more a state than a societal initiative. Thus, the present institutional framework of policy making in Spain is closer to the dirigist or statist model than to a neocorporatist or social consensus one.

We can therefore say that, in terms of national and international environmental policy initiatives, The Netherlands are “first comer” country and Spain is a “late comer” country. This has important implications for

the defining of international environmental policy agendas (as mentioned below). By the time of the research, however, neither country has developed institutional arrangements specifically intended for addressing and resolving environmental distributional conflicts in a coherent and comprehensive way. This is reflected in the fact that, while there is much political activity, The Netherlands are not necessarily further advanced towards achieving environmental goals than are the Spanish. For example, while comprehensive and ambitious environmental quality and sustainability objectives are stated in the 1989 National Environmental Policy Plan (NEPP), the real implementation of this programme is improbable in the foreseeable future. Progress in environmental policy is hampered by Parliamentary and sectoral preoccupation with traditional economic problems such as income distribution and sectoral advantage. Environmental policy initiatives tend to be viewed in highly partisan ways, with each potentially affected sector trying to offload the burden of costs or constraints onto others.

Conflict Resolution and the Policy Process.

The overall objective of this object is to improve understanding of distributional conflicts in relation to environmental policymaking in the EU context. This means giving attention to the variety of political levels at which demands for policy responses are expressed, and at which conflicts must be resolved.

The European Community (founded in 1957) first took initiatives in the environmental policy field with its 1973 environment program as a response to the international environmental policy initiatives of the 1972 United Nations Conference on the Human Environment in Stockholm. A further threshold was crossed in 1987 through the passing of the Single European Act (SEA), which established environmental protection as one of the Community's competences. The discussions leading up to the Maastricht Treaty of 1992, specifying implementation of a single market as from 1 January 1993, gave impetus to the debate about harmonisation of environmental policies between EU countries. It was recognised that environmental pressures and problems will persist or even worsen with the economic development and growth that the internal market is intended to promote. So, it is feared, if a country sets out unilaterally to promote environmental protection and sustainability, it may find itself at a cost disadvantage and experiencing reduced economic growth while other nations benefit from a "free ride". This concern makes it clear that, in reality, discussions over environmental policy are likely to be more influenced by equity arguments than concerns with resource allocation efficiency.

Given the aim of competitive equality within the EU and the transboundary nature of many environmental problems, some sort of harmonisation of EU countries' environmental policies would thus seem necessary. However, there is not yet a level playing field, and moreover the terms in which equality and harmonization might be sought are also open to debate. One can, for example, distinguish between harmonisation of outcomes and harmonisation at the level of specific policy instruments. As regards outcomes, it is clear that different countries start from very contrasting positions in terms of level and pattern of economic development, ecological endowment (land and water quality and quantity, resiliency of ecosystems, natural resource reserves, etc.), the severity of pollution in different environmental fields and social-political factors. For example, the official Spanish position in negotiations over European environmental policy is based on the norm of equity in economic performance as measured by per capita wealth and income levels. It is argued that since economic growth implies increasing levels of pollution whose abatement is costly, the less wealthy countries in the European Union should be allowed to reach a higher level of income before having to comply fully with the standards set down in the environmental agreements.

There may also be proposed a harmonization of environmental quality goals (based on some agreed criteria or standards), allowing each country to choose the instruments or techniques to reach the targets taking account of specific national or regional circumstances. For example, whether to use a catalytic converter or lean burnt engine for SO₂ abatement. This sort of goal-harmonisation strategy tends to be favored by the economically poorer or less technologically developed countries, provided that the environmental goal setting is felt to be fair and reasonable. An example of this sort of harmonisation strategy is the Second Sulfur Dioxide Protocol negotiated on the basis of national abatement targets defined with reference to ecological critical loads through the RAINS model. However, as discussed in the Spanish case study, even here disputes arise over whether the abatement goals should be harmonised as averages for national territories or with reference to specific regions (which would reduce the abatement costs for Spain, which has only a few localised regions of severe impacts due to acid rain).

A further possibility is to harmonise the specific instruments or policy measures across countries. An example is the EU carbon/energy tax proposed in 1991-92. Difficulties immediately arise with relative costs and benefits being very unevenly distributed between nations, and between different sectoral and socioeconomic groups

within each country. Harmonisation of instruments has been favored by several of the rich north European countries, who are among the *first comers* in environmental policy. This can be attributed to the fact that, typically, the specific measures proposed (e.g. eco-tax or catalytic converter) reflect these countries' own environmental priorities and political-economic circumstances.

The two case studies thus help to make clear that, in practice, the policymaking process is dominated by questions of the distribution of benefits and costs. In the final part of the study, we suggest a number of perspectives on the resolution of distributional conflicts in environmental policy in the European Union.

Results of game theory in international environmental agreements are applied to characterise the problem of incentives for cooperation in environmental policy. For example, in the case of a harmonisation of policy instruments (such as a common eco-tax), the results of game theory suggest that if the players have asymmetric benefit-functions or cost-functions, some kind of side payments (compensation) will be necessary to induce participation by all players in the game and reach an agreement. This approach is of restricted scope, being based primarily on an efficiency concept, but it is useful as a way of showing the need to approach policy design problems directly in terms of distributional considerations.

Alternative policy measures or instruments that may have the same goal of an improvement in allocative efficiency or environmental protection, may have radically different redistribution impacts. This means that formal economic analysis of policy options needs to highlight the likely redistributions of costs and benefits, and of patterns of economic opportunity, within and between societies. Some examples are: (i) the various burdens of monetary and non-monetary (e.g. time) costs placed on households, producers, and governmental or territorial authorities, by programs for waste recycling and reuse; (ii) the differential impacts of subsidies for public transport between city and rural regions; (iii) the burden of a carbon/energy tax on low-income households, as well as across different manufacturing and service sectors with possible employment impacts. There are also differential impacts in terms of incentives and opportunities to cheat or evade the policy measures, possibilities of strategic behavior (e.g. monopolisation of an emissions permit markets), and so on.

The emphasis in this research was on policymaking as a process. Political conflicts are not just over the distribution of costs and benefits associated with a particular policy measure, but about the choice of policy instrument, and more importantly about the setting of the policy agenda - the issues and priorities to be addressed. This is true at local, national, and international levels, and is primarily a matter of power and the institutional arrangements for deciding, or trying to change, the rules of the environmental policy game.

IV. SCIENTIFIC INTEREST AND POLICY RELEVANCE

(i) The results of the project show conclusively that the interdependency of economic and ecological distribution has great significance for environmental policy. There is an complicated feedback process between ecological, economic and political components of the social system.

The Neo-ricardien modeling perspective presented in the theoretical part of the project, is a useful contribution to the formal presentation of economic and ecological distribution interdependencies. However, this framework is essentially structural, and needs to be complemented by perspectives that highlight the conflictual process of environmental distribution decisionmaking. The approach in terms of evolutionary internalisation is a first step in this direction. With this framework, the inherent dynamism and interactions of the ecological-economic-political systems can be described, and the specific institutional features of policy debates can then be analysed in a coherent way. In future research this framework could be further developed, beyond the fairly abstract description that we present here. Two lines of research are fruitful here. First, further empirical analyses (similar to the case studies) could be conducted benefiting from the theoretical insights developed in this project. Second, the evolutionary internalisation perspective can itself be more tightly focused to address specific questions judged to be a particular policy relevance. For example, in several cases the way that property rights conflicts are resolved politically, may allow the possibility to pursue economic efficiency goals simultaneously with social equity goals. Another possibility is that, for working out which factors the bargaining process in international environmental policy influence and how important the question of fairness in international agreements is, one could try to combine game theory with approaches of political theory of institutions.

(ii) A major conclusion for policymaking is that resolution of economic and ecological distributional issues is a primary requirement for effective policies aimed at "internalisation" of environmental external effects. The

present preponderance of efficiency rhetoric most often just confuses the main questions of policy debate. In the first place, allocative efficiency with regard to environmental services and resources cannot, even according to neoclassical theory, be resolved independently from distributional choices, because typically the “efficient” resource allocation pattern will be highly sensitive to the decisions about rights and the distribution of burdens and risks. Second, even when policies are aimed at allocative efficiency improvements, political conflicts over the distribution of costs and benefits will have a dominant impact on the shape on the final policy (and on its effects). In order to make the character of this political resolution process more transparent, it is important to give greater attention to defining (and quantifying, to the degrees possible) the benefits of environmental policy or put negatively, to evaluating the costs of environmental policy failure. The importance of ecological distribution will in this way become more obvious, and this will improve the social basis for having explicit and purposeful resolution of the ecological distribution conflicts. The institutions created for this purpose should, clearly, provide for the equitable participation of different societal groups and organisations.

(iii) Finally, it is suggested there should be discussion within the EU about the aims and priorities of harmonised environmental policies. Up until now, the major environmental problems addressed at the European level have been those defined as urgent by the *first comers* in national and international environmental policy, and these are mainly the richer northwestern European countries. Our case study comparison suggests that the priorities of *late comers*, for example, the Mediterranean countries (and possible new entrants from Eastern Europe), may be quite different. Discussions along these lines could lead to a change in the implicit “rules of the game” for setting the policy agenda, towards a process that the participants perceive as a more fair game.