

## European rural development Policy in questions Introductory Paper to the task force 10 September 2007

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*Notre Europe* thanks Agridéa-Lausanne for authorizing it to publish this article

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## Table of Contents

Introduction	p. 1
I - A Rural Development Policy undermined by agricultural regulatory and budgetary developments	p. 3
II - Rural Development Policy in hock to a CAP under fire	p. 9
III - Exploring openings towards a genuine Rural Development Policy for the EU	p. 15

## Introduction

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**A**s the common agricultural policy's health check draws near and with the new 2007-2013 regional development programmes barely under way, the issue of European support to rural development and its evolution is back on the agenda.

It must be made clear that in this paper the term "rural development policy" will have the broader meaning of policy aiming to support social and economic development in the countryside; that is, all public interventions intended to improve the quality of life and the economic performance of rural areas, to retain their population as well as to preserve their natural resources. It will not therefore refer to the recently created European Agricultural Fund for Rural Development (EAFRD), nor to the CAP's second pillar, both of which include measures of support to agriculture.

Furthermore the subject is being addressed from outside the farming community, from the angle of European integration and territorial cohesion

in the face of tensions resulting from the 2004 and 2007 enlargements and from fall-out from the latest CAP reform.

Today the European Policy for Rural Development is vulnerable on two important fronts:

- It is weakened by the recent developments in community funding regulations
- It is at the receiving end of the growing threats to the CAP as other political priorities assert themselves.

Exploration of these two observations, which are provocative but realistic, will be followed with proposals aimed at moving the rural development policy into a favourable position on the 2014 horizon.

## 1. A Rural Development Policy undermined by agricultural regulatory and budgetary developments

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In its current set-up within the European Union, rural development policy is in a precarious position as a result of the mismatch - the contradiction, even - between its three bases: legal, financial and territorial.

**Legally**, the European Union's support for rural areas, identified in the cohesion policy's original programme as falling under "objective 5b", was a product of the 1988 reform of structural funds and cohesion policy arising from the Single Act (Article 130A). Yet an explicit mention of rural areas appears only a few years later, in 1992 with the Maastricht Treaty, when Article 130A was revised and became Article 158. Thus the European Policy for Rural Development is not legally founded in the CAP, the principles of which go back to 1958 and its main instruments to 1965, but in the cohesion policy. Therein lies its first weakness since **its legal base does not correspond to its current major funding source which is the agricultural budget.**

Indeed, in **financial terms**, the European Policy for Rural Development now falls entirely under the CAP. This second base is relatively recent since from 1989 to 1999, rural areas eligible under “objective 5b” (situated in regions whose average per capita GDP is above 75% of Community average) would benefit from programmes co-funded jointly by the European Social Fund (ESF), the European Regional Development Fund (ERDF) and the European Agricultural Guidance and Guarantee Fund (EAGGF)-Guidance Section. The same went for the rural areas included in regions whose development was lagging (with average per capita GDP of less than 75% of Community average). Though the management of these programmes was carried out under the ultimate responsibility of the Commission’s Directorate General for Agriculture alongside national or regional administrations responsible for farming, there was full consultation with administrations responsible for regional and employment policies.

From 2000 onwards, the Cohesion Policy had to take on board the creation of an autonomous rural development policy, under the 2nd pillar of the CAP,<sup>1</sup> which posited that whatever was not urban was potentially eligible for support. The territorial element was fading away as prior identification (zoning) was being shed along with “objective 5b”. Accordingly the programming of rural development measures was increasingly conducted independently from the Cohesion Policy. Whereas the management of rural development programmes in the regions whose development was lagging behind still merged the same three structural funds, the EAGGF-Guarantee Section (running on an annual budgetary period) was brought in instead of the EAGGF-Guidance Section<sup>2</sup> in the richest regions.

<sup>1</sup> Rural Development Regulation (1257/1999)

<sup>2</sup> Structural funding subject to operational regulation similar to those of the ERDF and the ESF

As early as 2003, the European Commission (Mr Fischler’s 23 November 2003 address<sup>3</sup>) acknowledged this financial set-up’s inadequacy to rural development needs<sup>4</sup>. Meanwhile, in practice, (non farming) rural development measures were less and less able to tap into the EAGGF<sup>5</sup>.

The last stage consisted in creating the EAFRD as a replacement for the EAGGF-Guidance Section, and making it the only support instrument for rural areas - without fundamentally altering its initial purpose, essentially on the reinforcement and modernisation of farming structures, including their compatibility with environmental needs.

Factually, the second pillar of the CAP comprises 4 axes the allocation of which is each Member State’s preserve, albeit subject to thresholds set for each:

- 10% at least for axis 1, “competitiveness”,
- 25% for axis 2, “environment and countryside”,
- 10% at least for axis 3, “**quality of life and diversification**”,
- **5% at least for axis 4**, LEADER (after an earlier Community Initiative Programme for rural development).

In practice, the first consolidated analyses of the national EAFRD programmes (Mrs. Fischer-Boël’s 22 May 2007 address) estimate at around 19% the share dedicated to rural development - that is, axes 3 and 4 only. The result is clear: rural development is now left with a residual allocation of € 13 billion for 27 Member States, whereas the figure rose above € 40 billion for the EU 15 for the 2000-2006 period, including the erstwhile ERDF and ESF allocations (see table below).

<sup>3</sup> Planting seeds for rural futures - Rural policy perspectives for a wider Europe – Salzburg, November 2003.

<sup>4</sup> European Commission (2003) – Overview of the implementation of rural development policy 2000-2006 – some facts and figures.

<sup>5</sup> CNASEA (november 2003) – Implementation of Rural Development regulations in Europe, proposals for the future.

This situation is all the more alarming given that the EAFRD came with trade-offs, symptomatic of a political climate averse to a strong rural development policy. Indeed, although the guidelines set within the framework of the 2003 CAP reform led to an increase in the relative share of the second pillar from 12% of the CAP in 2000-2006 to 20% for 2007-2013, its budget has dropped from 10% of the overall EU budget to 8% as a result of the decision to set a ceiling on the weight of the CAP in the general budget. In 2000-2006, for 15 Member States, the countryside rural areas benefited from the € 30 billion allocated to the 2nd pillar, to which were added € 36 billion from the Cohesion policy's ESF and ERDF; in 2007-2013, for 27 Member States, the talk is of € 69 billion only, all components together.

	1st Pillar	2nd Pillar	Total CAP	Total Cohesion	(including rural development)
<b>2000-2006</b> <b>(1999 price)</b> <b>- EU 15 -</b>	€ 267 Billion (88%)	€ 30 Billion (12%)	€ 297 Billion	€ 213 Billion	€ 36 Billion
<b>% of EU budget</b>		10%	45%	33%	
<b>2007-2013</b> <b>(2006 price)</b> <b>- EU 27 -</b>	€ 293 Billion (80%)	€ 69 Billion (20%)	€ 362 Billion	€ 308 Billion	~ 0
<b>% of EU budget</b>		8%	42%	35,7%	

SOURCE : EUROPEAN COMMISSION, "NOTRE EUROPE" CALCULATIONS.

Rural development had lost out in the ultimate bargaining between Member States, when the negotiators finally agreed to reduce by 22% the Commission's original proposal. At the end of the day, for the 15 old Member States, the budget dedicated to the countryside rural areas had been amputated by 35%: hardly a financial success for those who advocated harnessing the rural development policy to the CAP!

**The third base for the Rural Development Policy is territorial.** Territorial cohesion was written into the draft Constitutional Treaty – and confirmed in the draft Reform Treaty – this opens windows of opportunity in the near

future. However, as has been seen above, this territorial dimension was weakened to favour a more sectoral approach involving, since 2000, the harnessing of the European Rural Development Policy to the CAP's second pillar. Furthermore, the territorial impact of a CAP reform which is broadly unsympathetic to the preservation of a farming-based or farming-related economic activity in the most marginal areas<sup>6</sup>, must not be underestimated. Most specialists have reached the conclusion that decoupling and exposure to international markets will advance intensification on the most productive soils and in the most profitable production sectors, to the detriment of the most marginal and least profitable ones, which are threatened with abandonment. Thus outlying rural areas, including islands, arid or mountainous regions and the far north, may be able to count less than ever on farming to secure a satisfactory level of economic activity for their populations.

The reconversion trend is likely to accelerate, notably in the new Member States. The Commission anticipates the loss of 5 million farming jobs between now and 2014, to which must be added 5 million more, allowing for hidden unemployment<sup>7</sup>.

In addition, at sectoral level, the new measures<sup>8</sup> adopted in order to boost biofuels production will increase the pressure on the surfaces already highly prized in terms of major crops whilst grazing areas are liable to be abandoned.

There is good cause to question the suitability, the modalities and the scope of the EAFRD when facing these new territorial challenges.

<sup>6</sup> Subrosa (2007) – Exploring scenarios for rural Europe, the Future of Agricultural policy (<http://tinyurl.com/2umrsy>).

<sup>7</sup> Commission (COM (2006)857) Employment in rural areas: closing the jobs gap.

<sup>8</sup> Conclusions of the 8-9 March 2007 European Council.

## 2. Rural Development Policy in hock to a CAP under fire

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The coupling of rural development to the CAP has therefore met with a degradation at budgetary level. In addition, the prospects of this association hardly bode well. It is worth remembering that this repositioning essentially answered a mid-term political objective. It aimed to secure European support for rural areas by sheltering it from, in particular, urban areas' potential greed. The analysis of the challenges the EU and its budget are facing suggests that the success of this operation in the mid- to long-term is far from assured.

Analysis of political alliances shows that the expansion of the CAP's 2nd pillar remains highly controversial within the farming community, without making any headway in convincing the enemies of direct aids to farmers. With very few national and regional exceptions (from such states as Austria and Finland or regions<sup>9</sup> such as Scotland, the Limousin etc.), the new place made for rural development policy continues to be seen as a dilatory

<sup>9</sup> in strictly Euro-administrative terms.

measure and a transitory solution. As shown by recent debates at the Council<sup>10</sup>, reassignment to the 2nd pillar is often well received only in so far as it allows Member States more freedom in funds allocation. Indeed, the CAP is challenged on three fronts: first, its legitimacy as a sectoral policy is disputed; second, its economic justification is questioned; and third, its weight in the European budget is more and more constrained.

Contrary to beliefs broadly held in the farming community, rural development is much better perceived by ordinary citizens than farming – an activity blamed in recent decades for all manner of ills. Among the new Member States' populations as a whole, and as among the urban populations of the old Member States', upholding the "European rural model"<sup>11</sup> remains a unifying objective. Citizens readily identify themselves with a Rural Development Policy aimed at preserving natural resources, improving the environment and maintaining cultural heritage. They like the idea of ensuring economic dynamism through the promotion of endogenous local resources, of keeping the countryside populated and open to production and leisure activities, and of guaranteeing quality services .

Conversely, as born out by the debates that have stirred the EU over the past ten years, public support for a raw-materials- and biofuel-producing agriculture is seen as legitimate by fewer and fewer people. This disavowal probably reflects the sociological and economical changes undergone by Europe over the last 50 years and their political implication for the notion of public good<sup>12</sup>. It may be unoriginal to continue talking of the obsolescence of the CAP's original objectives and the need to find it new ones; but there is little point in going on as if recurring criticism concerning agricultural pollution, health scares crises and the monopoly rent of Île-de-France and south-East English farms did not exist.

10 Informal Agriculture Council Mainz, 22 May 2007.

11 LEADER Magazine "The European rural model" No 25 Winter 2000-2001.

12 «Agriculture, environnement et territoires – quatre scénarios à l'horizon 2025 [Farming, Environment and Territories – four scripts for the 2025 Horizon]», La documentation française (2006).

The downward trend of the food share in household spending; people's growing concern for environmental degradation and for climate change; the emergence of global movements for compassionate farming; and the prevalence of neo-liberal tenets concerning public spending - none of these can be ignored. The device of a second pillar does not look equal to the task of restoring the CAP's legitimacy, whether in its environmental or rural development aspects. On the contrary, it is liable to stir up discontent and lead to a unilateral rejection of any European action on rural development which is justified by its distinctiveness and specifically its contribution to territorial cohesion.

From a strictly economic point of view, it is hard to justify how more than 40% of the European budget should profit just 10 million farmers - to whom may arguably be added the 4.6 million agri-food sector employees. Whilst this does not amount to dismissing the CAP's case, notably with regard to its food security objective, it remains that the political argument used in 1988 by Jacques Delors<sup>13</sup> to justify the creation of "objective 5b" no longer holds good. The necessity to assist less favoured rural areas via the Directorate General for Agriculture on the basis of their enduring association with farming is outdated, if not for all of the 27 Member States then for a vast majority of them.

Indeed, on the strength of the OECD's definition (regions including more than 50% of their territory in rural areas and with a population density below 150 inhabitants/km<sup>2</sup>), among the 100 million (out of 490 million) Europeans living in rural areas only 20.6% are to be found working in the primary sector (instead of the 7% average for the EU 27), whereas 57.1 % work in the service industry (against 64% in the EU 27) - with perhaps half of those in the health and education sectors. As for demographic decline<sup>14</sup>,

13 Jacques Delors, 1st March 1991 address in Bordeaux «Pour le développement rural [For Rural Development]» in «Le nouveau concert européen [The new concert of Europe]», Editions Odile Jacob (1992).

14 Commission (2007) "Fourth Report on Economic and Social Cohesion – Growing Regions, Growing Europe".

although the trends remain essentially negative in the New Member States, the situation has been reversed in most of the old member states whose migratory balance has turned positive over the past ten years. Rural local authorities are faced with new challenges to meet the needs of those urban arrivals, including, occasionally, care for the elderly. But these problems do not have much in common with those contemplated in 1958 or 1988, and the EAFRD instrument is not intended to respond to them.

From the angle of EU 27 cohesion, the diversity - indeed the heterogeneity - of situations in rural areas gives cause for concern. The greatest disparities in regional income and economic and social indicators are to be found precisely in rural areas. Whereas towns and in particular the new Member States' capital cities are swiftly catching up, the more agricultural or rural regions are falling behind. In the fullness of time the question of a "European model" to be defended or promoted will have to be addressed, as it is the condition sine qua non for sustaining or developing a European policy towards rural development. In this debate, it will not be possible to elude the questions of the relevant level of intervention or of the Community added value. Indeed, depending on the type of rural area, its economic dynamics, its population density, and its agronomic potential, the mix of sectoral agricultural policy, rural development Policy (quality of life and support for non-farming economic activity), and environmental policy is liable to vary<sup>15</sup>.

Thirdly, the question of European intervention, indeed more precisely of public support towards farming and rural development, is becoming increasingly urgent. The countdown started in December 2005, when the British forfeited the principle of their rebate in return for the commitment to review the CAP in depth in 2008. It was clear from the outset that for the British negotiators, the price to pay for their concession was an early return

to the drawing board of the 2003 CAP agreement. This sword of Damocles hangs all the more threateningly since the first analyses conducted on Member States' use of the 2nd pillar reveal a conservative approach rather than an authentic intent to rebalance towards rural development. The other let-down will come from the evaluation of the 2nd pillar's capacity to contribute to the broader objectives the EU has in its sights, such as competitiveness, sustainable development and territorial cohesion. Achievements under EAFRD axes 3 and 4 are not likely to count for much in the reckoning.

Finally, the negotiations on the 2007-2013 financial prospects have brought into sharp focus the competing interests of diverse objectives and policies within the framework of a budget constrained to 1.24% of EU GDP. If, in 2005, in the face of a 45% reduction on the Commission's initial proposals, the policies associated with the Lisbon strategy clearly bore the brunt of the trade-offs in favour of cohesion - seen as the main objective after enlargement to the East - there is little evidence that the status quo will hold much longer. Specifically, it is not unreasonable to expect priorities linked to sustainable development (protection of the environment, global warming, energy security), to the political role of Europe in the world (migrations, law and order, peace keeping) and to economic competitiveness to gain the upper hand after 2014 and to make greater financial claims than it is currently the case.

<sup>15</sup> FAO- ECA 34th session June 2006 « the role of agriculture and rural Development in revitalizing abandoned / depopulated areas ».

### 3. Exploring openings towards a genuine Rural Development Policy for the EU

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The European Policy for Rural Development is thus locked in a dilemma whereby it is on the one hand deprived of satisfactory means and methods and on the other forced to embrace passively the much disputed fate of the agricultural policy, while lacking the clout to legitimise it (with only a 1:22 proportion of the available budget!). For the future, there are three possible openings worth exploring if this conundrum is to be resolved satisfactorily.

**The first opening concerns the actors** whom to rely on in order to reinforce the legitimacy of European public intervention in favour of the countryside. Even though agriculture's economic and productive activity naturally allows consumers a major role, we must accept that consumers are not, these days, the best defenders of agriculture. First and foremost, consumers are often indifferent to relationship between production and the land. The price argument continues to be the majority's priority, before novelty and choice. Their preferences are broadly followed up or encouraged by distri-

bution actors which put security of supply before proximity. According to this mercantilist approach, where landscape-diversity arguments count for little, Europe could not necessarily have reason to continue breeding cattle or producing rice.

Another problem arises, in most European countries, from the opacity or the weakness of the producer-consumer relationship. This relationship is worth cultivating and exploiting fully along the lines of the Slow Food movement, especially given the boom in labelling concerning geographic origins and organic status, which accounts even for products' transportation. The EU's historical advantage on this count incidentally needs to be reinforced in the framework of international negotiations, where the synergy with current environmental requirements should be taken advantage of. However, although there is probably room for improvement in the field of economic, territorial organisation and educational organisation, one should be aware that the target is small: the clientele concerned is unlikely to grow beyond 10 to 15% of households.

Other actors frequently referred to when discussing budgetary issues are the taxpayers. Indeed, their preferences, when given the status of public opinion, may influence the final trade-offs. At national level they have direct influence, in that they are one and the same as the voters. At European level, the relationship is more oblique and more skewed, depending on whether discussions take place at the Council or in the Parliament. In the past they spoke up for farming, but today, in a political context on the whole unsympathetic to public expenditure of any kind - and not least European - they rate rather as a negative force.

As for the citizens, they are a force to be reckoned with. There is much to be learned from the recent participative democracy exercises undertaken at European level, such as the European Citizens' Panel ([www.citizenspanel.eu](http://www.citizenspanel.eu)), which built on regional deliberation exercises and brought together

people from both town and countryside who shared a strong concern for the future of Europe's rural communities. Their approaches and proposals bring a fresh energy to the handling of this type of policy and inject new ideas into the hierarchy of priorities. The Citizens' Panel confirmed the opening of a sociological and political rift between farming and rural communities.

**The second opening relates to the architecture of the European budget** and more specifically to the way the current financial model could be realigned around the objectives of agriculture's multifunctionality, which would incidentally benefit from being explicitly stated in the new treaty. The problem to be solved lies with assessing the budgetary means from an efficacy point of view for each of agriculture's varied functions. Whereas food security readily fits in with agricultural policy both qualitatively and quantitatively, the answer is not quite so obvious or straightforward when it comes to other objectives. Should biodiversity and landscape objectives not be sustained by funding under the environmental policy? Should not the rural development objective and the objective on employment adjustments in and around the farming sector benefit from dedicated management within the framework of the Cohesion Policy - management which would give priority to the territorial dimension? Whatever the case, the 2005 financial prospects negotiations should be a reminder that repositioning a budget item under a different budgetary heading is fraught with danger, if only by drawing attention to individual sums involved. This fact should be properly considered before the operation is undertaken.

The alternative is to stick to the current framework of a large single budget with complicated rules for co-management between the relevant directorates-general. It would in any case be advisable to extend the analysis to the reform of the Cohesion Policy, while keeping in mind the increase of the contribution to territorial cohesion: a low density could then become an extra criterion for eligibility. Recent assessments of the dispositions

relating to agriculturally disadvantaged areas<sup>16</sup> also advocate further study of this option which is consistent with a more fine-tuned fit between measures and local needs, even though the strict eligibility criteria are determined and controlled at European level.

**The third opening concerns the governance of agricultural and rural development policies.** Decoupling has in some countries given rise to a regionalised implementation of the CAP. In a sense, given the very convincing results of the Cohesion Policy which opted for the regional tier as the relevant one for its action, regionalisation may seem the solution to go for. This prospect is however countered by the concerns currently entertained regarding structural funds' absorption capacity, particularly in the new Member States - because of the weakness of regional institutions, the presence of strong administrative centralisation or because the States are small. The efficiency condition of such a reform would therefore rely on its being accompanied by an increased technical and educational back up. On the basis of the analysis set forth above<sup>17</sup>, and which advocates a specific dosage combining for each territory the three policies - agricultural, environmental and rural - according to the territory's geographic, agronomic and sociological features, the region may turn out to be too large a geographic unit for the successful implementation of a relevant Rural Development Policy.

Finally the risk consisting in reproducing at regional level the flaws and preferences observed at national or European level must not be underestimated. Early analyses of the 2007-2013 regional programmes emphatically show that whilst the urban dimension has indeed been taken on board, the attention given to territorial cohesion, and more precisely to the relationship between town and countryside, leaves something to be desired.

<sup>16</sup> D. Zakeossian, David Baldock and alii, «An Evaluation of the Less Favoured Area Measure in the 25 Member States of the European Union» ([www.ieep.eu](http://www.ieep.eu) / <http://tinyurl.com/2rl3g9>) (2007).

<sup>17</sup> FAO- ECA 34th session June 2006 «the role of agriculture and rural Development in revitalizing abandoned / depopulated areas».

It can partly be explained by the presence of the EAFRD and its outwardly generous funding, the implementation of which is conducted separately by administrations dealing with agriculture according to their own regulations. Furthermore in a context of scarce public funding, priority is given to the areas wielding the greatest influence and/or to those liable to yield the fastest growth. The countryside, alas, does not meet either criterion.

## Legal Mentions

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