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## Rural Development in the EU<sup>1</sup>

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**SUMMARY:** This article analyses the evolution of European rural regional economies and the Community's public regional policies, with a view to drawing lessons for other areas of the world, especially Latin America. After presenting relative size data for the EU regions based on population, territory, employment and income, the article analyses the key economic and social trends in these areas, together with the underlying explanatory factors. The main conclusion is that the economic development of the rural regions of the EU is much more due to the overall national economic development issues, than to rural development policies. Therefore, the way to achieve rural development is by means of a good overall economic development policy, and national policies are more determining than EU-wide policies in the overall economic development of the EU member states. The article finishes with a summary of the lessons to be learnt from EU rural development policy, which suggest the need for radical policy change based on a reduction in the agricultural component coupled with an increase in the territorial and environmental components.

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**KEYWORDS:** Economic development of rural areas. Overall economic development and EU rural development policy.

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**JEL classification:** O18.

### Desarrollo rural en la UE

**RESUMEN:** Este artículo analiza la evolución de la economía regional rural europea y las políticas regionales públicas comunitarias, con el fin de aportar lecciones a otras áreas del mundo, especialmente Latinoamérica. Después de presentar datos relativos al tamaño de población, territorio, empleo e ingresos de las regiones europeas, el artículo analiza las tendencias clave económicas y sociales de estas áreas, junto con los factores explicativos. La principal conclusión es que el desarrollo económico de las regiones rurales de la UE es mayor debido en mayor medida a el desarrollo económico nacional que a las políticas de desarrollo rural. Además, la vía para conseguir desarrollo rural es a través de buenas políticas de desarrollo económico generales. El artículo finaliza con un resume de los aspectos a aprender de la política de desarrollo rural de la UE, sugiriendo la necesidad de un cambio radical de esta basándose en la reducción del componente agrícola unido a un incremento de los componentes territoriales y ambientales.

**PALABRAS CLAVE:** Economía de las áreas de desarrollo rural. Desarrollo económico general y política de desarrollo rural en EU.

**Clasificación JEL:** O18

## 1. Introduction

This paper was produced to assist those considering the Rural Development challenges facing South and Central America by examining the experience in this area of policy in the EU. Four questions were posed:

1. What is the relative importance of the rural areas in the EU?
2. What have been the main social and economic trends in EU rural areas, and the factors explaining these trends?
3. What lessons have been learned from Rural Development Strategies?
4. What policies are needed to adapt to open markets and globalisation?

Four preliminary points are necessary to provide a context for this summary of Rural Development in the EU. First, since the 2004 enlargement, there is a very wide disparity in general income levels amongst EU Member States. Second, these general economic development levels provide most of the explanation of the different levels of rural development. Third, whilst agricultural policy has been, and remains one of the most elaborated policies of the EU, it has continually changed not least to accommodate new Members of the EU, and with the enlargement just achieved, and that in prospect, it will change even further. Within all this the very concept of EU Rural Development Policy *per se* is new and under-developed. How it evolves in the coming years is as open a question as the survival of the EU itself.

The EU is a fast growing supra-national organisation. When the Treaty of Rome was signed in 1957 to bring into being the EEC, it comprised a common market with 6 Members States (Belgium, France, Germany, Italy, Luxembourg, Netherlands), a population of under 200 million, an appointed Parliament and a highly protectionist

agricultural policy<sup>3</sup>. In 2007 it is a European Union of 27 Member States, with a population of 480 million, a fully elected Parliament, a fully developed single internal market, a common currency adopted by 12 members, a written constitution –yet to be ratified, and plans to develop foreign and defence policy.

It is clear the growth in Membership and activity will continue for at least another one if not two decades. There is not much which is stable, complete or certain about the EU – it is in a state of continual development. There is nothing but political will which maintains this momentum and the will is severely tested from time to time. The failure to validate the written constitution and the hesitant approach to the accession of Turkey indicate that after five decades of strong forward momentum in the EU, the bicycle is at best freewheeling and it could yet fall over. It is not completely outside the realms of possibilities that failure to pick up momentum could result in retreat from some areas heretofore considered as central to the EU, the position and role of the Common Agricultural Policy, and rural policy within this is one example.

Some key economic statistics of the EU are summarised in Table 1.

The EU-25 is the largest economic bloc in the world. With a GDP in 2003 of €9.75 trillion this slightly exceeds that of the USA €9.73 trillion, and Japan at 3.8 trillion<sup>4</sup>. Of course the US population is much smaller (at 291 million) so US income per head 32,900 is over 50% higher than the average income per head for the EU-25 of 21,400 (at purchasing power standard).

This average income for the EU as a whole disguise the disparities which are now contained within in its membership. The disparities are in absolute size, as well as in development level achieved. The EU contains the earliest industrialising, and former colonial powers, the UK, France, Germany, Italy, Netherlands. The enlargements of the 1980s brought in the, then, much poorer Mediterranean, also colonial powers, of Spain and Portugal, plus Greece. The 2004 enlargement brought in poorer still countries of Central and Eastern Europe.

These disparities will steadily widen with further enlargements to bring in Romania and Bulgaria (in 2007) and then perhaps the SW Balkans and Turkey.

The EU only has competence in policy areas where it is explicitly agreed that this is the case. The most developed areas of EU (with relevance to rural development) policy concern the single internal market, and correspondingly external affairs, particularly trade, plus structural policy, environmental policy, and the Common Agricultural Policy (CAP). To give a perspective on the extent of EU involvement in general governance of the Member States, the EU budget takes about 1% of the GNP of the Member States for all its policies. This should be compared to the approximately 50% of their GNP which most Member States spend on domestic policies.

That half of the one percent of public funds channelled through the EU is spent on agriculture has no more significance than this happens to be the main spending policy the Member States have agreed to finance on a common basis. For historical reasons (see Tracy, 1979) the Common Agricultural Policy (CAP) was part of the foundation of the EEC. It is only with the most recent enlargement bringing in countries noti-

<sup>3</sup> Plus a Coal and Steel Community and Euratom.

<sup>4</sup> Eurostat, Economy and Finance.

TABLE 1  
Economic Output of the EU Member States, 2003

	Population	GDP current	GDP	GDP/head	
	million	€m	PPSm	PPS/head	Index EU-25 = 100
Northwestern-12	320,4	8.284.208	7.708.870	24.060	112
1 Luxembourg	0,4	23.956	20.647	45.900	214
2 Ireland	4,0	134.786	112.960	28.300	132
3 Denmark	5,4	187.951	141.231	26.200	122
4 Austria	8,1	226.142	211.503	26.100	122
5 Netherlands	16,3	454.276	419.310	25.800	121
6 United Kingdom	59,9	1.591.412	1.514.215	25.300	118
7 Belgium	10,4	269.546	261.061	25.200	118
8 Sweden	9,0	267.251	220.559	24.600	115
9 Finland	5,2	142.518	125.892	24.100	113
10 France	61,6	1.557.245	1.459.504	23.700	111
11 Germany	82,5	2.128.200	1.906.307	23.100	108
12 Italy	57,7	1.300.926	1.315.681	22.800	107
Southern-5	63	1.043.684	1.228.154	19.380	91
13 Spain	40,8	744.754	852.784	20.900	98
14 Cyprus	0,7	11.645	12.682	17.400	81
15 Greece	11,0	153.045	190.399	17.300	81
16 Malta	0,4	4.333	6.393	16.000	75
17 Portugal	10,4	129.908	165.897	15.900	74
Eastern-8	73	426.116	816.987	11.169	52
18 Slovenia	2,0	24.576	32.756	16.400	77
19 Czech Republic	10,2	80.097	149.863	14.700	69
20 Hungary	10,2	73.213	130.967	12.900	60
21 Slovakia	5,4	28.822	59.884	11.100	52
22 Estonia	1,4	8.042	14.050	10.400	49
23 Lithuania	3,4	16.271	33.791	9.800	46
24 Poland	38,3	185.227	375.316	9.800	46
25 Latvia	2,3	9.868	20.361	8.800	41
Some future candidates for EU membership					
26 Bulgaria	7,9	17.655	49.607	6.300	29
27 Romania	21,8	50.352	137.257	6.300	29
28 Turkey	71,0	212.268	418.706	5.900	28
EU-25	455,8	9.754.009	9.754.009	21.400	100
EU-15	382,7	9.311.915	8.917.949	23.300	109
USA	291,2	9.727.723	9.579.745	32.900	154
Japan	127,5	3.798.465	3.112.076	24.400	114

ceably poorer than the EU average, that the budget for structural and cohesion policies has exceeded the CAP.

However, throughout the 45 year life of the EU there have been very strong forces which have brought about continual changes in the scope and nature of the CAP.

One of these forces has been the six successive enlargements of the EU in 1973 (to 9), 1981 (10), 1986 (12), 1995 (15), 2004 (25) and in 2007 (to 27). The other major factors explaining the evolution of EU agricultural and rural policy have been the development of agricultural markets inside the EU and outside, the budgetary costs of maintaining this commonly financed policy, and the pressures on the EU via international trade liberalisation negotiations under GATT and now the WTO. This evolution is well documented, on the trade aspects see Josling, Tangermann and Warley (1996).

There are two critical conclusions from this evolution of the EU and its activities.

1. The development of the rural areas in the EU is very largely explained, and shaped, by national policies of the EU Member States and not the CAP; far less EU Rural Development policy.
2. EU Rural Development policy, which has only existed under this name since 2000 is now in a state of flux. Nearly all the ideas for this aspect, the so-called second pillar of the CAP, have developed to address the evolution of the CAP and to address the problems of the EU-15. The real political influence of the Member States from central and eastern Europe has still to be felt. Also decisions on the EU budgetary funds for the period 2007-2013 decided in 2005, will have a very big influence on the scale and nature of EU Rural Development policy.

It is therefore very easy indeed to *overstate* the importance of EU rural development policy *per se* in the development of Europe's rural areas. The major factors determining economic and social change in rural areas will be the wider political, economic and social policies pursued by the Member States. This makes the story very hard to tell for such a wide, and different collection of countries.

## 2. The relative importance of EU rural areas

The EU Commission in 2004 completed a large exercise called an Extended Impact Assessment of rural policy development over the previous decades. This report, Commission Staff Working Paper SEC(2004) 931, 14<sup>th</sup> July 2004, compiles data on 25 EU Member States not conveniently assembled anywhere else. Much of the data in this section is based on this study. The data refer to averages for 1999-2001 unless otherwise stated. The text describes the EU-25 average for each of the characteristics and then summarises the range by indicating the countries with the highest and lowest levels for each variable considered<sup>5</sup>.

**Definition of rural areas.** There is a long-standing and active debate in the EU about the definition of what *is* a rural area, or what *is* the rural economy? Some argue that in many European countries because the sectoral balance of the rural and non-rural economies are so similar (mostly services, some manufacturing and a little agriculture), and because there are such complex and large flows of exchange of goods

<sup>5</sup> The full tables are in the Commission report.

services and labour between rural and non-rural areas in both directions (e.g. people living in towns and working in the country and vice versa), the distinction between rural and non-rural has little meaning. This is emphatically, *not* the view taken here. Because the land using sectors, agriculture and forestry are such an important policy focus –with respect to food, raw materials and increasingly for environmental reasons, and because the EU has well-developed policy focussed on the rural world, this justifies the continued use of the distinction. However it is worth noting that there are proponents of the view that there is no rurality justifying separate policies, or government departments, under that name, and there are new attempts to delineate rural and urban areas giving greater prominence to settlement patterns, see for example Bibby and Shepherd (2004).

**Scale of the EU rural area.** Most data for rural areas in Europe are based on the OECD definition that local areas are rural if the population density is below 150 inhabitants per square kilometre. At regional level, this gives rise to a three-way classification of regions based on the makeup of the communes in the region, and this is the basis of much of the statistical evidence quote in this paper. Under this typology, regions are categorised as follows:

- **Predominantly Rural** if over half the population lives in rural communes (ie those with less than 150 people/km<sup>2</sup>),
- **Significantly rural** if 15%-50% of the population lives in rural communes,
- **Predominantly urban** if less than 15% live in rural communes.

On these definitions, 57% of the EU-25 population (of 456 million) lives in the rural regions. The total rural area of the EU-25 covers 94% of the territory.

**Territory in Rural Areas.** There is considerable variation between the member states; the Netherlands (57%), and Belgium (59%) have the lowest proportion of territory in rural communes. For nine member states (Austria, Cyprus, Estonia, Spain, Finland, Greece, Ireland, Latvia and Malta) the rural areas account for 94% or more of the total territory.

The extent of **agricultural land** as a proportion of surface area ranges widely. For the EU-25 the average proportion of land which is agricultural is 49%. This ranges at the low end from 7% for Finland, 26% for Slovenia and 30% for Cyprus, at the high end to over 70% of the territory defined as agricultural land in Hungary (72%), Netherlands (75%) and Denmark (79%).

Likewise there is a big range in the extent of **forest cover** and semi natural areas. The EU average is 41%, ranging from 82% in Finland down to almost none in Malta!

**Population** There is a wide disparity in the absolute size of the EU Member States from 82 million Germans to 0.4 million citizens of Luxembourg.

The most urbanised Member States (MS), measured as the proportion of the population in predominantly urban regions are Malta (100%), Belgium (85%) and the Netherlands (81%). According to the statistics, six Member States (Cyprus, Finland, Lithuania, Luxembourg, Sweden and Slovenia) are the least urbanised, and therefore most rural, having no *regions* classed as predominantly urban.

Thus there is a wide range in population density. For the EU-25 it is over 600 inhabitants per km<sup>2</sup> in predominantly urban regions. It is 125 inhabitants /km<sup>2</sup> in significantly rural regions and 38 in the predominantly rural regions. The predomi-



nantly urban regions have biggest range of population densities around these EU averages.

Changes in population over the last decade show a complex pattern. Overall EU population grew 3% between 1990 and 2000. Population fell in Estonia, Hungary, Lithuania, Latvia and Slovenia, and grew very slowly in Italy, Poland and the UK.

There was some difference between population growth rates amongst the three regional types, but this was not a simple rural – urban difference. The population in the predominantly rural regions and the predominantly urban regions showed slower growth (at 2.2%) than in the significantly rural regions (4.6%) in the 1990s.

This last observation is partly of a result of the process which is well under way in some parts of some EU countries of counter-urbanisation. This is the reversal of the trend established since the industrial revolution of people moving from countryside to towns. Now in the richest countries there is a well established pattern of population moving from town centre to suburbs, and from suburbs to the countryside. This is a particularly pronounced trend in the UK, Netherlands, Greece, France, Spain, Denmark and Germany. It is a complex matter taking many forms highly conditioned by the planning policies and fiscal rules of the country concerned. It is partly through the creation of new towns and villages in expanding regions; partly by the expansion of existing villages. It also shows as the conversion of former agricultural buildings into residences. A noticeable sector of this counter urbanisation is the growing incidence of second home ownership in rural areas. People want week-end or holiday homes in the countryside. These pressures have important implications for rural housing prices and rural labour supply.

**Demographic pressures.** Two statistics are offered to indicate the changing population structure. A variable called «demographic labour pressure» measures the ratio of people aged 5 to 14 i.e. people about to enter the labour market, to people aged 55 to 64, i.e. those who are about to leave the work force. If this ratio is over one, it indicates an excess of potential new entrants over retirees. The ratio is 1.08 for the EU-25 overall, and rises as we move from urban to the more rural areas. It is particularly high in the predominantly rural regions of the new Member States. This poses a very important challenge for rural policy in those countries.

The second demographic variable is the proportion of older people (over 65). Overall this averages 16% for the EU-25. The lowest proportion of older people is in Cyprus and Slovakia (about 11%) and the highest proportion of older people is in Italy, Sweden and Greece (over 17%). The incidence of older people does not vary much between the rural and urban regions –it is interesting to note the countries where the concentration of older people in predominantly rural areas is particularly high and often above that in predominantly urban areas these are: Spain, France, Greece, Italy, Portugal, Sweden and UK.

There are increasing concerns about the declining birth rate across much of the EU. The population structure is changing significantly with a steady increase in the age of the most populous group in the population. This will eventually turn up-side-down the usual pyramidal shape of the demographic structure of the population. The bulge group is now the middle age group, and will, in a decade or two, be the elderly in society. This has far-reaching implications for overall economic growth rates (slo-



wer), for pensions funding, and for the structure of demand in the economy as the elderly have quite different expenditure patterns than the young. As the elderly like to move to the countryside, it creates particular challenges for rural areas, in particular service provision – especially for health and social services, housing and transport.

**Unemployment** averages 9.8% across the EU-25. It is highest in Slovakia (18%) and is over 10% in Estonia, Spain, Finland, France Greece, Italy, Latvia, Lithuania, and Portugal. The EU average unemployment rate rises as we move from predominantly urban (8.1%), to significantly rural (10.7%) to predominantly rural (11.1%) regions. That is, generally speaking there is more unemployment in the countryside than in the towns. However, and importantly, the reverse is true in some counties for example UK, France, Estonia and Austria.

**Employment in Agriculture.** For the EU-25 the average percent of the workforce in agriculture, hunting, forestry and fisheries (2000-2002) was 5.5%. It is a little lower for the EU-15 at 4.1%, indicating it is higher in the new Member States. The range is wide. It is lowest in the UK (1.4%) and it is under 2.6% in five others (Belgium, Germany, Luxembourg, Malta, and Sweden. It is highest in Poland at 19% and is over 10% in four others: Lithuania, Latvia, Greece and Portugal. Unsurprisingly, the proportion of the workforce in agriculture rises steeply from urban (2%) to significantly rural (6.6%) to predominantly rural (13.1%) regions. In Greece, Portugal and some of the new MS, in the predominantly rural regions the agricultural share of employment rises to well over 20%.

**Incomes.** Given the features of the rural areas described to this point, it will not be a surprise to note that there is a big disparity of incomes per capita between rural and urban areas and between the EU Member States. The Commission has calibrated GDP/capita figures on a Purchasing Parity Standard for the member states and the three broad regions, all based on an index EU-25 = 100. The range is very large indeed: there is a six-fold difference between the index of 212 for Luxembourg, the highest, to the index of 35 for Latvia and 38 for Lithuania –although admittedly these are all small countries. The EU-15 average index is 109. All the new Member States have incomes below the EU-15 average, indeed eight of the ten new Member States have incomes below the lowest of the EU-15 (which is Portugal at 77). The exceptions are Cyprus (83) and Malta (77) who are only just above Portugal in income per capita.

As to be expected, the index of average per capita incomes drops as we move from urban (125) to significantly rural (87) to predominantly rural (71) regions.

### 3. The main social and economic trends in the rural areas of the EU, and the factors explaining these trends

It cannot be emphasised enough that generalisations for the EU-25 based on statistics averaged over the Member States are often unsafe. Although essentially the same drivers of observed social and economic trends in rural areas are at work across the EU, there are big differences in the extent to which these trends have progressed. To address this section therefore the EU is described in three groups categorised ac-

according to their economic history in the 20<sup>th</sup> Century –it so happens that this three-way split can be described geographically as a North West group, a Southern group and an Eastern Group. Of course, geographically, France, and especially Italy, span north and south, but from the perspective of their economic structures and political history these two are key members of the NW group.

- **The North and West group of 12**, (Austria, Belgium, Denmark, Deutschland, Finland, France, Ireland, Italy, Luxembourg, Netherlands, Sweden and United Kingdom, This group has 70% of the EU population and creates 85% of its GDP)
- **The Southern 5**, (Cyprus, Spain, Greece, Malta and Portugal, 14% of EU population and 11% of GDP)
- **The Eastern 8**, (Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovenia and Slovakia. 16% of EU population, 4% of GDP).

The point is that the EU was founded and almost entirely shaped, and is financed by<sup>6</sup>, the NW group. This is the source of the economic and political, and importantly, to date also, the intellectual driving force for the most important developments of the EU and its policies –including rural policy<sup>7</sup>. Although, of course, the EU will only survive if *all* members feel they have a share in influencing its path, and for sure, the influence of the South and the East will increase the longer they are in Membership, it is simply a fact that the preponderant weight of economic and political power is in the NW. This can be seen in the table on page 4. It is no accident that these happen to be the countries with the longest established pluralist democratic structures and institutions, with mixed market economies based primarily on private factor ownership and enterprise. The Southern group were admitted as soon as they adopted the necessary governance structures. The Eastern group likewise, but much later and at a lower development level.

These political/economic facts are the major determinants of the differences in the level of economic development achieved which shows up also in the extent to which agriculture has shrunk relative to the rest of the economy.

It cannot be emphasised enough that before even mentioning agricultural or rural policy, by far the preponderant explanation of the level of incomes –and any other measure of well-being of citizens– in the rural areas of any of the 25 European countries under discussion, is the overall level of income of all citizens of that country. Thus the reason that rural citizens in most of the EU-15, particularly the NW12, are much better off than rural citizens in the new Member States is because the EU-15 economies as a whole are much better developed than the new member States. It has nothing whatsoever to do with the rural policies pursued either by the individual member states or the EU as a whole. In short if you want the rural economy of a

<sup>6</sup> Of course all Member States contribute to the Own Resources of the EU, but the NW-12 contain all the biggest net-contributors to the budget.

<sup>7</sup> This might seem a harsh statement to the Southern Member States who have been in the Union for 20 years, but it can be defended in relation to the biggest influences on the principal steps the EU has taken: the elected parliament; the Single Market; Maastricht and the EU; monetary union; Eastern enlargement and the Constitutional Treaty.

country to grow, then you best achieve this by the steps which make the economy as a whole grow. The principal relevant policies are thus: macro-economic policies; the governance system; the institutional structures in place especially the rule of law and well established property rights; the training and education system and an encouraging attitude to private business.

If we really wanted to trace out the explanation for the patterns and trends of rural development summarised amongst the EU-25 member States for the 20<sup>th</sup> Century, these above are, by far, the most important variables on which to focus.

The following is a stylistic attempt to clothe the bare statistics of section 1 and the above generalisation, with some qualitative descriptors of the different social and economic patterns and trends of these three groups of EU Member States. The lack of statistical backing for many of the assertions which follow is a reflection of the fact that there is almost no effort to collate statistics for these wider issues across the EU. As the EU policy focus is agricultural, the statistical focus is also agricultural.

We have seen in section 1 that income levels are highest for the first group, the NW-12, lower for the second group the S-5 and lowest for the third group the E-8. The importance of agriculture in the economy –measured by GDP contribution and proportion of the workforce in agriculture is lowest for the first group, higher for the second and highest for the third.

**The North West 12** are mature, service economies where **agriculture has shrunk in every case to under 3% of GDP** and 6% of employment. Food, beverage and alcohol consumption remains at around a fifth to a quarter of household expenditure but a very large and steadily increasing part of this expenditure is in the form of processing, packaging, storage and transportation value-added, and particularly in the form of food service. This latter takes the form of pre-processed foods, convenience foods, ready made meals and increasingly food consumed out of the home.

There is also a highly developed supply sector upstream of farming. This, of course, supplies the obvious purchased inputs associated with intensified agriculture: plant and animal genetic material, animal feeds, fertilisers, energy, crop protection chemicals, animal health products, mechanisation, buildings, plant and equipment. It also supplies numerous services: finance and credit; legal; insurance; accountancy; economic, agronomic and fiscal advisory services and consultancies; land management and land transaction services; marketing and trading; information and, increasingly, information processing. The economic contribution of the food chain including both upstream and downstream sectors is thus typically three times that of the primary producing sector.

Thus the first trend is the relative shrinkage of agriculture as a part of the total economy *and* as a part of the food economy. There are no signs that this process has reached its end, even in countries (like the UK) where agriculture is already less than 1% of GDP. This relative shrinkage is accompanied by an outflow of labour services from agriculture.

**The second trend is that the upstream and downstream sectors show structural change, innovation and productivity growth much faster than agriculture.** The industries producing many of the inputs are highly sophisticated, knowledge and capital intensive enterprises many of these are now globalised, multi-national con-

cerns. This is especially so in the sectors providing fertilisers, crop protection and animal health products and machinery. There are large economies of scale in these industries and concentration has progressed to the point where there are top-five concentration ratios for certain products in certain markets of over 80%. Much agricultural research and extension has passed from the public sector to these private sector companies.

Concentration in the food processing and food distribution and retailing sectors has proceeded just as far as in the input supplies. Farmers thus buy from and sell to a very small number of concerns. This has been a steadily emerging factor of 20<sup>th</sup> Century life, the extent to which farmers have been able to create organisations, co-operatives or other farmer-controlled businesses, to help manage this imbalance in market power is very variable across commodity sector and EU Member State.

Food processing and distribution has shown tremendous technical change and innovation. Retailers now offer product ranges of tens of thousands; they aim to provide year round continuity of many lines previously thought as seasonal products. They achieve this by global sourcing and highly sophisticated food chain management, based on concepts like efficient consumer response, and just-in-time delivery. The logistical management skills and information processing capacity of this sector is unrivalled. The Chief Executives of these companies are often held up as exemplars of dynamic capitalism as they are managing concerns with large numbers of employees, and rapid technological change and product development. Nearly all product quality specification, including hygiene and safety assurance and control, is now managed by these retailers. There is a very high rate of new product development and innovation in this sector.

Competition amongst these oligopolists is fierce. Although the extent of globalisation of food retailing has proceeded much slower than input supplies, constrained by national and local specificities in tastes and preferences (and to a minor extent, language), it is now beginning to take place. The largest food retailers in Europe are beginning to have a presence in many countries outside their national base.

National and regional food consumption patterns still show important distinctions across Europe. There are quite different tastes and preferences for the form and balance of meats (red meat vs pork vs poultry), carbohydrate staples (potatoes vs breads vs pasta vs rice), dairy products and fruit and vegetables. These reflect long-established culture, customs and culinary traditions –themselves partly conditioned by climate. But the convergence of life-styles and social and family structures which accompany the twin phenomena of multiple wage earners in the household and the domination of office, rather than factory or farm-based occupations, plus the spreading media of TV and Film, and the dramatic lowering of the cost of international travel, are steadily eroding these differences. The penetration of electricity, the main white goods (cooker, refrigerator, freezer and microwave) is advanced. The preponderance of the population shops in supermarkets. The point is not that particular European people don't have different dietary tastes and preferences, but that increasingly people have the widened choice of consuming not only their own favourites, but everyone else's too. International mass travel, both business and pleasure –within and beyond Europe– is a major factor in this trend.

The reason for stressing these upstream and downstream factors at length (albeit qualitatively) is that, after the general economic development level of the country, the second main group of determinants of the development of rural areas are these factors. This is now beginning to be seen quite clearly in the new Member States of the EU where the major source of investment, innovation and development in the rural sectors is the inward investment by Western European supply, food processing and retailing companies.

**The third trend is the structural adaptation of farming to these developments.** Because of deep-seated land ownership and inheritance patterns across Europe, the predominant farm structure is still the small family farm or peasant holding<sup>8</sup>. Land ownership structures are highly fragmented. However, over the decades ways have been found by land renting and by the creation of co-operative farming structures of establishing farming operational structures which are much larger, often, but not always, more specialised, and thereby lower cost and more efficient<sup>9</sup>.

Labour and land are substituted by capital to increase productivity. There is a net out-migration of labour from the sector. Because the predominant production unit is a family this out-migration often takes the form of members of the family finding off-farm work, and eventually the farm principals, the farmer and spouse, themselves taking part-time work elsewhere, or they develop parallel income streams whilst remaining with at least one foot «in farming». A high proportion of farmers in this NW group have such off-farm earnings streams. The opportunities to do this at all, and the range of alternative earnings opportunities varies by Member State and Region. In the more densely populated regions for example in Netherlands, Belgium, SE England and N Italy the full range of industrial and service sector employment activities in nearby towns may be available. Likewise in parts of W Germany where the total population is spread in many medium sized towns rather than fewer very large cities, more of the rural population is within driving distance to such employment opportunities. In other regions more distant from any towns, there is a narrower range of alternative employment opportunities with greater reliance on the land based ones such as food processing, crafts and tourism.

There is a parallel development in those parts of agriculture which are labour intensive –for example in fruit and vegetable harvesting and, increasingly, in pack-house work– where the labour is seasonal and casual. Increasingly, as labour markets are gradually freed within the EU, it is supplied by immigrants. Just as in the United States, a significant part of this aspect of labour is supplied by people whose citizenship status, working conditions and wages are not up to the same standards as for the bulk of the working population.

<sup>8</sup> The UK has been, as it is many other ways too, an outlier in this regard. In the UK primogeniture prevails (i.e. inheritance by the elder son) and the fiscal system has favoured the retention of larger farm structures.

<sup>9</sup> The author is not aware of detailed studies of the legal and institutional basis of farm operating structures in the EU Member States. These have become very fluid in the UK with significant developments of farm contracting, share farming and a multitude of short-term, land licensing and leasing arrangements and land swaps.

**The fourth trend, or pattern observed in this group, is the increasing disconnection for the bulk of the population between their lives and the process of food production.** People who are removed for several generations from the countryside and thereby from the natural seasons and cycles of birth, growth, development, disease, disaster and death which accompanies the biological processes of rearing plants and animals for food, become detached. They forget the inherent variability and uncertainty of nature and their capacity to assess risks becomes clouded. Yet the consumer is sovereign in the consumer society. The shifting values of consumers, their attraction to fashion, to change and to what they see as good causes, creates both opportunities for the food chain (for example for the innovation in new recipes and new convenience products) but also sometimes deep challenges for farmers and parts of the food chain. Three such challenges, which involve large and important debates in the EU, (but most strongly manifest in the NW-12 group) concern (i) the use of fertilisers and plant protection products in agriculture and the organic farming movement, (ii) animal welfare issues and the vegetarian movement, and (iii) the place of modern biotechnology in food production.

These issues are already important in the food and agriculture debate in the NW-12, and this is slowly spreading to the international debate.

**The fifth trend which is well established in the NW-12 group of EU member States is the set of wider demands placed on farmers** –most of which centre on some aspect of the environment. The arguments will be spelled out in some detail because this trend explains a good deal of the current rural policy debate in Europe which is often not well understood outside Europe<sup>10</sup>.

As the countries in this NW-12 group became wealthier they have become more aware of, and more concerned about, the environmental impacts of their own consumption patterns. Because agriculture manages a very large part of the territory of this group of counties, and because it has very obvious impacts – both good and bad – on the environment, farming and the environment are topics of continual comment and debate in these countries<sup>11</sup>.

The principal trend of industrialisation and the creation of the service economy in the 19<sup>th</sup> and 20<sup>th</sup> Centuries in Europe led society to become better fed, freer from disease, more mobile thanks to mass transportation (itself environmentally damaging), much better informed by mass media, and with greater capacity to influence affairs through popular democracy and special interest groups. With these new facilities society first became aware, and then started to care, that economic developmental gains comes at some cost to the rural environment. Another way of expressing this is that the very forces of technical change and economic advance which caused the supply of rural environmental and cultural landscape services to fall, simultaneously helped bring about the situation where the expressed demand for these services increased.

<sup>10</sup> It is reiterated that in this account there is no suggestion at all that the developments described in this section are uniquely European or confined to the NW-12 group, they are not. What is unique, it is suggested, is the extent to which they are centre stage in the rural policy debate.

<sup>11</sup> The following 14 paragraphs are adapted from Buckwell and Armstrong Brown (2004).



It can plausibly be asserted that West European society (particularly in the NW-12) has now the biggest, safest and best, quantity and variety of food and drink products available to it of any time in history or any place on earth. This is all fundamentally the fruits of the earth, but with increasing contributions of other parts of the food chain up and down-stream of farming. Yet, and apparently paradoxically, the value (per unit) of food, however expressed—in real prices, in hours worked to buy a loaf of bread, or shares of disposable income spent on food—has systematically fallen. The farm-gate share of consumers' food expenditure has been driven down by three factors. First, the sheer resource cost of producing the food has fallen propelled by the technical progress outlined above. Second, the transformation of food through time (storage), place (domestic and international transport) and form (through processing, and adding preparation and convenience) has multiplied the raw commodity value many-fold. Third, as consumers' incomes have risen they are able to extend their expenditures far beyond the basics of food and shelter necessary for survival.

As the value of marketed food at farm-gate has dropped in real terms, the value of the non-marketed outputs of the countryside has risen. The majority of the population still lives in towns, suburbs and cities in conditions of high population density. Their demands for the space, greenery, solitude, fresh air, varied nature and recreational opportunities offered by the countryside all rise. We observe a huge growth in the service sectors catering for these demands. These activities generate employment, income and wealth in the rural economy<sup>12</sup>. They depend vitally on the intrinsic attractiveness of the rural areas. In the vast majority of the rural areas of this NW-12 group—especially that in easy reach of the bulk of its population—this attractiveness has been moulded by the activities, over centuries, of farming and forestry. This environmental and cultural landscape value takes a multiplicity of forms: the changing field colours and textures over the seasons and the years; the rolling landscapes of farmed countryside; the mix of farmland, wetland and woodland; the regionally varied, vernacular architecture of rural housing and farm buildings using local materials; the rich patterns of field boundaries, walls, hedges, banks, ditches, dykes and fences; the adapted wildlife where farming, forestry and nature have adjusted one to each other; the customs, folklore, language, dialects, costumes and cuisine.

So much of European cultural and heritage value is rurally based because until the industrial revolution so much of European population and wealth was rurally based. For many generations, Europeans moved off the land to the cities because this is where incomes and living standards are higher, and most «modern» activities required the scale and proximity of urban living. It is only in the second half of the twentieth Century that the developments in the service and creative sectors, in business structures and, particularly, in communications have permitted the opposite process to take place. The rural areas become more desirable, and rural house prices reflect this trend.

It is this combination of the declining real value of farm-gate food production and the rising value of the non-market outputs of the rural areas which may usher in a

<sup>12</sup> The most startling demonstration of this effect was the relative magnitude of the loss of rural tourism and recreation activity during the shut-down of the countryside in the 2001 Foot and Mouth Disease epidemic in the United Kingdom, which was uncompensated and far exceeded the loss to agriculture.



new era, a Third Generation Agriculture<sup>13</sup>. It is characterised by the feature that we are moving, or in some regions we have moved, to a situation where the value of land in terms of its non-market environmental and cultural landscape outputs is higher than its value in food production alone, and that society has found ways explicitly to demonstrate this.

However the economic developments, including the rising agricultural productivity summarised here have, naturally, come at what we now regard as a high cost to the environment. The negative environmental impacts of twentieth century agricultural intensification are very well documented. The provision of public goods and services from farmed countryside has declined in the past three or four decades. This includes detrimental changes to biodiversity, landscape, natural resources such as soil and water, and the rural economy.

Environmental organisations in Europe, both governmental and non-governmental, have done considerable research on measuring many of the environmental impacts of agriculture. This shows up as:

- loss of habitat diversity at farm and landscape scale resulting from business rationalisation (loss of mixed farming; loss of non-cropped habitat on farm);
- changes in crop type and structure, especially the switch from spring to autumn tillage, the associated loss of over-wintered stubbles and the loss of breeding habitat for ground nesting birds for example lapwing and skylark
- direct effects of pesticides on flora and invertebrates (around 10% of the 700-800 species of insect in cereal fields can cause a commercial threat, but most can be removed from the ecosystem by pesticide use);
- indirect effects of pesticides including the removal of plant and invertebrate material from the food chain;
- use of inorganic nitrogen to promote grass productivity at the expense of broad-leaved flora.

The impacts of agricultural intensification have not fallen on biodiversity alone. For example the English Countryside Agency has mapped England's landscape into 159 countryside character areas, based on distinctive features which are often a result of regional farming patterns. Together with insensitive development and mineral extraction activities, widespread intensification of agriculture is cited as a threat to almost all the countryside character areas. The key features associated with intensification from the landscape viewpoint are the expansion of monocultures, the loss or fragmentation of field boundary features and woodlands, improvement or overgrazing of extensive grazing land, and drainage and canalisation of rivers.

Agricultural soil management is associated with a range of environmental impacts. Again, taking England as an example, around 2.3 million tonnes of soil are estimated to have been lost from agricultural soils by erosion between 1995 and 1998,

<sup>13</sup> See Natta and Buckwell (2005). Their idea is that First Generation Agriculture –pre-industrial was, relatively speaking, in harmony with nature, Second Generation Agriculture – industrial agriculture mid-17<sup>th</sup> Century to the 20<sup>th</sup> Century, has been environmentally very destructive. Now at the start of the 21<sup>st</sup> Century in Europe there is a determination to find the third Generation, post-industrial agriculture which retains the productivity of the second generation but is more harmonious with nature.

and soil structural changes associated with cultivation and trafficking by livestock and machinery are thought to be linked to increased run-off and flooding. Raised soil nutrient status and loss of nutrients from soils is an increasingly important aspect of water pollution, and agriculture is estimated to be the source of 70% of nitrogen, 40–50% of phosphorus and 50% of the silt pollution freshwaters in England (DEFRA, 2004).

Agricultural change is not limited to the past few decades. Indeed, dramatic changes have been taking place on farmland for centuries, from forest clearing to new rotations to the enclosures. Fertilisers, pesticides and mechanisation were introduced in the early part of the 20<sup>th</sup> century. But for a short window of three decades (1960s–1980s) the rate and extent of change may have outstripped the ability of natural systems to buffer or adapt to it.

These tendencies are not, of course, confined to England. There is now systematic work underway to try and monitor these environmental impacts on a comparable basis across the EU. The European Environment Agency has developed a set of 35 indicators under the IRENA Operation (Indicator Reporting on the Integration of Environmental Concerns into Agricultural policy) and has just produced its first major report and conclusions on the feasibility and usefulness of this kind of work (EEA (2005). This work to date only extends to the EU-15.

There is now some evidence that the agricultural sector in the EU has been contracting from its zenith of the 1990s in terms of gross volume of output, and use of many environmentally significant inputs. Static or even declining future demand for raw agricultural output<sup>14</sup> would tend to lessen these pressures. Intensified competitive pressures and international trade exposure will mean that more of the remaining output is produced by the most efficient farmers. The question is whether these producers are systematically more intensive users of environmentally sensitive inputs, and whether they manage these inputs in a more damaging way than the less efficient producers they have displaced.

Just as the decline in the relative size of the commodity agriculture sector of the economy is driven by the income inelastic demand for raw food products, the rise now in the importance of the environmental services supplied by agriculture is driven by the suggested income elastic demand for these services<sup>15</sup>. In the absence of econometric evidence for this assertion we can point to the demand for activities which are market driven and which are associated with enjoyment of the natural, rural environment. These include the demand for day trips, week-end visits to beauty spots, heritage sites, national parks, nature reserves, outdoor recreation activities and sports e.g. equine activities. Other indicators are the membership of organisations devoted to these environmental services. English examples of such organisations are the Wild-

<sup>14</sup> Which can well happen as the demographic structure of the population ages.

<sup>15</sup> Income elasticity refers to the percentage change in quantity of food demanded per one percent change in disposable incomes. For most basic food items this elasticity is less than unity so growth in incomes is accompanied by a steadily declining share of expenditure on food items. However, given the non-market nature of environmental services no empirical data exists from which to demonstrate the income elasticity (ie greater than unity) for these services. Whitby (1996) discusses this proposition.

life Trusts, the National Trust, and the RSPB<sup>16</sup>. In large measure these activities take place in the countryside. In a large part of the land area of this group of countries, these other countryside activities take place in, adjacent to, or over farmed land. The biodiversity, condition of habitats and landscape, and the quality of the natural resources (soil, air and water) are a very large part of what is considered the quality of these experiences. In addition, of course, there is concern by most citizens for the quality and quantity of these environmental features for their own sake –but this is more difficult to measure<sup>17</sup>.

These societal changes are demanding, and getting, two sorts of policy measures. For the positive environmental services these countries have devised, and are still devising, publicly-funded agri-environment schemes to purchase the services from farmers and other land managers. To reduce the negative externalities of agriculture there is a growing body of environmental regulation. The most prominent examples are the Birds, Habitats, Nitrates, Water Framework and Waste Directives of the EU. Together with the national environmental legislation of the Member States, this constitutes a large and complex set of instruments now in operation in each of these two categories. The balance between these instruments and their efficacy are complex subjects in their own right and the matter of much debate.

In summary, regarding this fifth trend, citizens in these twelve, wealthy, population-dense, parts of Europe now demand very high standards of environmental land management, they want farmers not only to produce food, fibre and energy, but they want green space, biodiversity, beautiful landscapes, preservation of historical and heritage features in the countryside (including ancient agricultural buildings which have long outlived their original purpose), and the achievement of very high standards of soil, water and air protection. These demands, unsurprisingly, are having a big impact on the EU rural policy debate as will be discussed in the sections below.

The trends in **the Southern 5 group of Member States**<sup>18</sup> are fundamentally no different at all to the five listed above. The difference is one of degree not kind. All the drivers of change are the same, and the political and institutional structures fundamentally the same too, it is only the starting date for the changes which is generally later, and the extent of progress along these same paths which is generally smaller. These differences result from lower development levels, and also perhaps some greater degree of conservativeness of these more traditional societies. However such is the pace of economic integration, and all these countries are such extremely important tourism destinations from the NW-12 (as well as from the rest of the world) that

<sup>16</sup> Which together have over two million members – thus exceeding the numbers of farmers by a factor of ten, and also, noticeably, exceeding the total numbers of members of all political parties. This gives such groups important political legitimacy, well recognised in London, and in Brussels where these British organisations are highly active in their EU counterpart organisations.

<sup>17</sup> In addition to the large and still rapidly growing literature on the value of specific non-market environmental features and services, there are now attempts to aggregate these to assess the overall magnitude. See the UK Government sponsored study to calibrate these environmental impacts, EFTEC (2004).

<sup>18</sup> It has to be acknowledged that information about the two new members of this group, Cyprus and Malta is scant as they are both small and such recent members of the EU.

as far as the trends and patterns of consumption and behaviour described above, the S-5 and NW-12 groups will become indistinguishable –some regions are already.

The environmental issues do however stand apart from this judgement. There is no suggestion that the intensified agriculture in the Southern-5 is any less environmentally damaging than that in the NW-12, although on-average it may have progressed less far in many sectors. However, precisely because these countries are in the, hotter and drier, South, their demands on water resources for agriculture may, in some sectors, be more damaging. It is also the case that these countries have a large proportion of their land in natural and semi-natural areas. What is suggested is that the public valuation of the importance of this damage, and likewise the importance given by the public in these countries to the provision of biodiversity, and landscape amenity in rural areas may be noticeably lower than in the NW-12. If, as suggested above, the income elasticity of demand for non-market environmental and cultural landscape services delivered by farmers is greater than one then, with their lower income levels we would expect lower demand for such services, and thus lower importance and values attached to such services. But it is quite possible that it is not only that the income levels are lower, but that the income elasticity of demand is lower too. Differences in climate, topography and thus flora and fauna, may have created a different ethos about the countryside in the N and W of Europe compared to the South. At its simplest, and at risk of gross over-simplification, after the blaze of spring colour of the Mediterranean flora, the summer simply becomes too hot and the farms and fields too dry, to support a summer agro-tourism. The attractions of the coast are too great. Whatever the explanation, it is a matter of factual observation (see below) that to date the Southern-5 have taken smaller opportunity than the NW-12 to embrace agri-environment as a concept and a feature of their rural policy.

Turning to **the Eastern-8**, these countries abandoned their communist inspired, centrally-planned economic systems, the one-party state control, and collective ownership of land and capital from late 1989. Even before the Berlin Wall came down their agricultural and rural sectors were subject to the same technological and economic driving forces as the rest of the world. The difference was that the ability to react to these forces was circumscribed by their much more rigid political and economic systems. That said the same pattern of large out-flow of labour from agriculture, the substitution of labour by capital, the rise in the extent of food processing were all shared outcomes. However none of these processes worked themselves out to the same degree as in the West. In addition the quality of the capital investment, both on-farm and off farm was poor compared to that in W Europe.

The process of farm structural change did take a quite different form than in W Europe. Essentially, with the exceptions of Poland and Slovenia (which have to a large extent retained a peasantry-based farming structure), there was a large programme of collectivisation of farming. This proceeded at different pace and to different extent amongst these countries, but essentially it created a bi-polar structure of very large State and Collective farms on the one hand, and a large number of peasant small holdings and private plots on the other<sup>19</sup>. Actually, in most cases the land was

<sup>19</sup> See Swinnen *et al.* (1999) for an analysis of these processes.

not formally nationalised. Essentially the private use, income and sale rights were neutralised, or expropriated, but the ownership rights stayed with the former owners. This took place at different times in these countries from the 1920s in the Baltic States to the early 1950s in the Czech Republic and Hungary. From three to seven decades later, following the collapse of the Communist systems, the process of restituting these property rights commenced. This turns out to be a long and difficult process because land boundaries have changed; many of the former owners have left the land if not the country. In addition, in many of these countries, as soon as the old system collapsed there was an informal redistribution of useful agricultural capital as state and collective farms were dismantled –sometimes literally, brick by brick. There was much destruction of capital and, as a result in some cases, there was little incentive in receiving back extremely small parcels of land where the associated capital had been removed and the result was an asset of little productive worth.

Summarising, in a traumatic decade of «liberalisation and privatisation» in the 1990s in most of this group, agricultural output and incomes declined, especially in livestock production. The group as a whole switched from being significant net agricultural exporters (mostly to the rest of the Soviet Union) to net-importers (to a large extent from the EU-15). The initial years of this process involved extremely painful adjustment. The large, state and collective farms and food processing enterprises formerly employing (actually under-employing) very large numbers of workers closed down overnight, there was huge unemployment. Cultivation of private plots became even more important than in the former regime. Gradually, some of the Eastern-8 are surmounting these difficulties, and agricultural production in some commodities has now increased beyond that immediately prior to the dramatic reforms.

The EU attempted to manage the trade relations with the candidate countries through a series of Europe and Association agreements. The effects were closely monitored, but mostly yielded little benefit to the putative Member States as their agriculture was unable to respond. These are extensively analysed in Tracy (1994) and Tangermann and Banse (2000).

The input supply and food industries also suffered during this reform period. Their plant, equipment and technology were poor. The resulting quality of the produce, by W European standards was poor. Because it was decided early that these countries would be able to join the EU, they were given preferential market access to the EU in the form of so-called Europe Agreements. For a variety of reasons the agricultural trade balance with the EU, which had been a net surplus, was reversed especially for processed food. Consumers in these countries were very interested in having access to the huge range, variety and quality of Western European products. The natural advantage of lower wage and land costs in the east is still, by and large neutralised by the even lower productivity and by the incapacity, yet, to match the W European requirements for product quality and consistency and reliability of production.

As far as the two other trends discussed at length above for the NW-12 member States of the EU, the story is different in the Eastern-8. It is probably true to say that most citizens of these countries are just as divorced from the basics of food produc-

tion as described above for Western Europe. However, whereas an important characteristic in the NW-12 group is how vocal groups amongst these disconnected consumers are now making big demands about the production systems and technologies, the ethics and environmental effects of agriculture, this is much less apparent in the Eastern-8. The demands on agriculture, and for that matter on the rural economy are much simpler –for food and for jobs– rather than the non-market environmental services described for the NW-12. How fast this will change is hard to predict.

#### 4. Lessons from EU Rural Development strategies and policies

It is presumed here that readers are familiar with what the past Rural Development Strategies have been. For those who are not, a most helpful and succinct summary of historical development of EU Rural Development Policy provided by Chapter 1 of the EU Commission's Extended Impact Assessment, Commission (2004). The same source also provides a clear account of the Current EU Rural Development Policy for 2000-2006, and this is quoted below.

*«Under Agenda 2000 rural development policy was to officially become the 2<sup>nd</sup> pillar of the CAP, on the one hand to accompany the further reform of market policy across the whole of European territory and on the other integrated with Structural Funds policy in Objective 1 regions.*

*All existing measures and instruments were brought into a single legal framework based on multi-annual programming. The rural development regulation 1257/99 offers MS and regions a menu of 22 measures (extended to 26 with the mid term review CAP reform) from which they can design their rural development programmes in function of their needs in terms of agricultural restructuring, environment and rural development beyond the farm.*

*In addition to the mainstream rural development programmes, the Community Initiative LEADER continued in its 3<sup>rd</sup> generation (LEADER+), fostering innovative and bottom up approaches to local integrated rural development.*

*The mid term review (MTR) of the CAP, built into Agenda 2000, brought further important decisions in 2003 on reform of the 1<sup>st</sup> pillar, introducing a further decoupling of support from production in the form of the Single Farm Payment (SFP) based on an historical reference, cross compliance (statutory and other conditions to be respected by the farmer to receive his full SFP) and a Community modulation scheme (reducing SFPs and allowing a transfer of funds from the 1<sup>st</sup> to the 2<sup>nd</sup> pillar).*

*For rural development policy, being only half way through the [2000-2006] programming period, it was decided not to fundamentally alter the basic framework, but to add two new chapters to the rural development regulation on helping farmers to meet demanding standards and on food quality and to extend the agri-environment chapter to include animal welfare. In the light of consumer concerns about food safety and quality and about production methods an expansion of the available rural development tool kit was deemed necessary, complementing and reinforcing the 1<sup>st</sup> pillar reforms.*

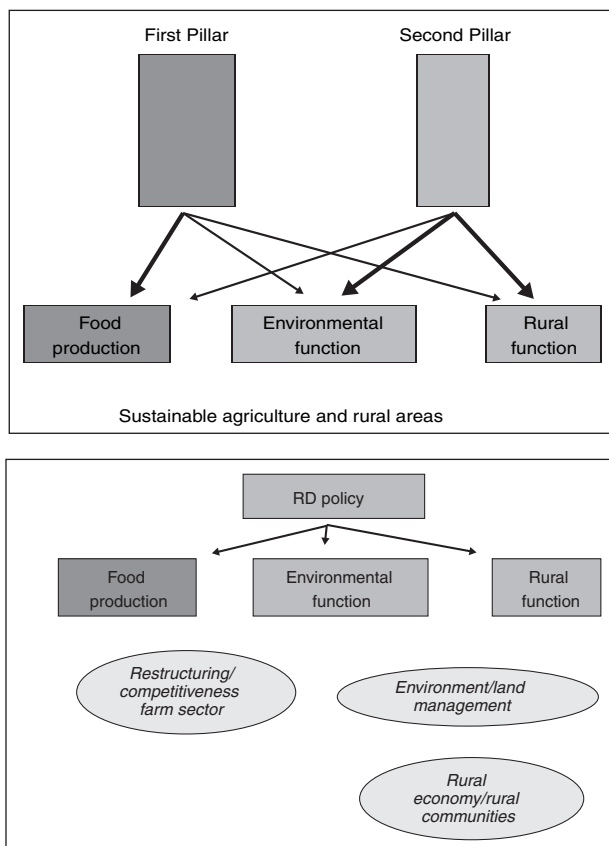


With the reformed CAP, to be implemented from 2005 onwards, the 1<sup>st</sup> pillar concentrates on providing a basic income support to farmers, who are further free to produce in function of market demand. To receive this support farmers must respect statutory requirements (18 standards in the field of environment, public, animal and plant health and animal welfare) and keep their land in good agricultural and environmental conditions (also when deciding not to produce).

Beyond these baseline requirements, the 2<sup>nd</sup> pillar of the CAP rural development policy supports agriculture and rural areas, in particular agriculture as a provider of public goods in its environmental and rural functions. Three main domains of intervention can be identified: agricultural restructuring, environment/land management and wider rural development.

The two diagrams on the following page show in a very schematic way the relations between the 1<sup>st</sup> and the 2<sup>nd</sup> pillar.

For the ten new MS, joining in 2004, certain adaptations of the CAP in the light of their situation have been necessary. The 1<sup>st</sup> pillar direct payments are only gradually phased in, while they have received a considerable rural development allocation to help face their restructuring needs. In addition, several specific rural development measures are available such as support for semi-subsistence farming».





### ***Some lessons from these Rural Development Strategies***

Having explained what EU Rural Development Policy is, an attempt is now made to answer the question set for this section: what are the lessons in Europe from the way we have gone about policy for Rural Development?

What will not be done here is to examine the cost effectiveness of the 26 specific Rural Development measures which make up the current Rural Development Regulation. This is for two reasons. First they have been in operation for such a short period of time the evaluations which have been conducted have not been published. Second, in the context of trying to explain the different levels of development achieved across the EU Member States and regions these measures are not the most important determinants. Even if we take a country which has shown tremendous economic development, including rural development, in the last three decades, Ireland, the impact of agricultural policy and rural development policy has been modest. Of far greater importance was the general economic policies, the development of infrastructure –aided greatly by EU structural policy, the education and training system and the encouragement and success of attracting inward investment.

Some of the main lessons from this complex evolution of agricultural and rural development policy in Europe are therefore summarised in the following fashion.

It is worth remembering that the rural development efforts under discussion take place in non-agrarian countries all of which have developed to the point that agriculture is already below 25% of GDP, for most it is well below 15% and for the biggest 12 countries it is below 5%. In this context the economic development of rural areas is primarily a result of general economic development. Countries which have high general living standards and income levels also have rural areas which have high incomes and living standards.

Thus the best and most successful rural development policy is the most successful general economic development policy. The main relevant policy elements will be general macro-economic, i.e. fiscal and monetary policy, the micro-economic, legal and institutional arrangements and how enterprise-friendly they are, and then the policies for education, health, social, transport and other infra-structure.

In Europe all these principal aspect of policy are in Member State competence and thus the variations in success of Rural Development around the regions of Europe are mostly explained by the variations in success of these general policies of the member States.

Within the context set by these general policies which are usually framed for the whole country and do not differentiate between rural areas and urban areas, are another set of provisions which have big impacts on the rural areas and how they develop. These are particularly the fiscal system and the planning system. Many countries have favourable fiscal provision for the treatment of income, capital and inheritance of farmers. There are often differential and favourable capital allowances, duties for fuel and local taxes for farmers, all of which can influence the development of farm and rural businesses. Likewise, the way land is zoned, and controls on development in rural areas has a big impact on employment creation and housing costs which are major influencers of rural development.

Seen in this context, agricultural policy *per se* has a very much more restricted field of application and power from the point of view of ensuring viable rural economies and communities than was commonly thought when the heavy agricultural protection was put in place in the 1950s.

Of course farmers are still a principal occupational class who only exist in rural areas, whose primary role is to provide in food, fibre and, increasingly, renewable energy and who will, in Europe manage the majority of the land surface to do so. This inevitably means that their production activities have a strong environmental impact and their existence across the territory plays a vital social role in the rural areas.

The point is that because there are serious problems of non-existent markets and market failures surrounding the environmental and social functions, then markets alone will not supply such functions. This means that either they are provided (as in the past 45 years in the EU) by cross-subsidy from an well-developed highly-protective agricultural policy, or they will have to be provided for in a more direct and targeted way. Failing either, the services will not be supplied and European societies are likely to judge this is a deterioration in the quality of their rural areas.

The point we have reached in the EU is where these issues are now being understood and teased out. The challenge as seen by a recent ad hoc group of experts who tried to define a vision for rural policy for the EU, von Urff et al (2003) is to find the right balance between:

- **sectorally based measures** which assist the restructuring of farming businesses, and the development of value-added, high quality, produce, and improve the marketing for the land based sectors (farming and forestry), and
- **territorially defined measures** to stimulate the diversification of the economic base of the rural areas, capitalising wherever possible on local and regional distinctiveness, and measures to facilitate the delivery of environmental and cultural landscape services which can only be delivered by land managers.

This reaches the nub of the current debate on Rural Development Policy in the EU. It found expression in the debate over the appropriate balance between the what the Commission has defined as the three axes of rural development:

- The Competitiveness of Farming and Forestry.
- Environmental Land Management.
- Wider Rural Development.

Precisely because the development levels around the EU Member States is so different it is very difficult to prescribe a balance between these objectives to suit all countries. It is clear that agriculture in several of the new Member States has a great deal to do to raise productivity and restructure to survive in the new market context in which it now finds itself. This gives greatest prominence to the measures under the Competitiveness of Farming and Forestry axis. This is a particular challenge for Poland where three-quarters of the sector resisted the restructuring under the communist regime. Equally these countries have a lot of catching-up in developing the expected standards of food quality and consistency of supply of the modern food industry. However most of the stimulus for this will be private sector, rather than policy induced. In both the Eastern-8 and Southern-5 there is a big challenge to develop rural economies to absorb the excess labour in agriculture. Thus the Wider Rural Development

actions are particularly important here. Whereas we tend to observe in the North-western-12 a stronger desire to use the Environmental Land Management measures of the Rural Development policy. The outcome of the debate over the balance between these aspects of rural development was to set in the Strategic Framework for Rural Development for 2007-2013 minimum expenditure weights of 10%, 25% and 10% for the above three axes.

If there are such different needs from Rural Development Policy amongst the countries in Europe this inevitably invites the question why have a common policy at all? Why not decentralise this policy, avoid prescribing the balance, and let regions choose for themselves what makes up the most intelligent balance of Rural Development measures in relation to the mix of problems they have. If different countries have different Rural Development needs, what is the logic of having a *common* rural development policy for Europe, collectively financed from the EU budget, within the framework of the Common Agricultural Policy?

Three answers are offered to this question. First, there is a path dependency involved here. Rural Development policy is slowly emerging in Europe by a process of transformation of agricultural policy. As the CAP is a core spending policy of the EU, therefore the emerging RDP policy is too. The very process of transformation, switching funds from Pillar 1 (the agricultural supports) to Pillar 2, the new and growing Rural Development policy means more of the expenditure is co-financed, so there is an element of decentralisation inherent in this switch. Second, the environmental elements of the RD policy deal heavily with EU-wide environmental problems. These genuinely are mostly trans-boundary problems, birds and animals migrate, river catchments cross borders, the atmosphere is pervasive, thus an EU-wide approach to regulation within the single market is essential. Third, part of the point of EU-wide policy is for social cohesion, or solidarity. This is the word given to the redistributive social objective of Europe whereby the richer Member States provide financial help to the less developed regions from a common budget.

However during the strongly fought discussions in 2005 over the size and composition of the total EU budget for the period 2007-2013 there was not much enthusiasm expressed for more budget-based cohesion measures. The six largest net contributors to the EU budget (Germany, United Kingdom, France, Netherlands, Sweden, Austria) fought hard to contain the total EU budget to little over 1% of EU National Income. In the process the funds for the Pillar 1 agricultural supports were maintained and it was plans to expand Rural Development expenditure which were curtailed.

## **5. What policies are needed to adapt to open markets and globalisation?**

This is precisely the question which has confronted the EU in its intensive debate over the reform of the CAP –both the pillar 1 market supports and direct payments and the Pillar 2 Rural Development Policy. The reforms to the CAP agreed in 2003 for Pillar 1 and 2004 for Pillar 2, were, inevitably, a political compromise, and did not really satisfy any of the stakeholder groups in EU society. The main beneficiaries

of the current policy (farmers) routinely resist policy change which diminishes their (perceived) benefits. Environmental groups seem always to want faster and bigger improvements to the environment. Taxpayer interests resent the high budget costs of the CAP. Consumer interests constantly push for higher food quality.

There is an acceptance that production and trade distorting agricultural subsidies have to be reduced or phased out. But equally there is general acceptance in European society that removing all assistance to farmers is not acceptable for the social and environmental consequences that would result<sup>20</sup>.

The longer term future of the Pillar 1 decoupled payments *is* in doubt. This issue is not a matter of strong debate, yet. But in the 2005 EU Budget settlement the Commission has been asked to provide a review in 2008/09 of all EU policies including the CAP and the EU budgetary resources. This review is bound to examine the balance between the two CAP pillars and ways of shifting this balance –either by reducing or eliminating the Pillar 1 payments, redistributing them, or switching resources from Pillar 1 to Pillar 2.

There is a low level debate in the EU on the appropriate instruments which should be available for dealing with the increasing volatility of the business environment in which farmers are operating. This increase in volatility partly comes from the greater exposure to international markets as the protection previously offered by the CAP is gradually dismantled. It also comes from restrictions on technologies farmers may use to deal with crop and animal pests and disease and weeds. As international travel and transport of plant and animal products expand, the speed of transmission of animal and plant disease increases. Europe has had its share of dramatic epidemics of animal disease. European farmers are also facing greater volatility in energy prices and in exchange rates. Finally, climate experts warn that global climate change brings a greater frequency of extreme weather events to which agriculture is particularly exposed. There is scope for greater international discussion on the appropriate tools to enable food producers, indeed the whole food chain, to deal with all this uncertainty. At present this is dealt with in very different ways around the world, and even within the EU.

An important dimension of managing this increased uncertainty and risk is in equipping farmers or the managers of the producer-controlled businesses who market the produce (and purchase the inputs) with the knowledge and capability to manage risk. Actually this is just part of the on-going need for higher standards of management ability of farmers or farm managers. In Europe this demands not only business management skills including information processing skills, but also the capacity for quite sophisticated management of the natural resources (soil, water, air) at their disposal as well as managing the landscape, biodiversity and heritage found on their land.

An important rural policy goal especially in the Eastern-8 group of Member States concerns land reform and farm restructuring. The main EU contribution to such matters has generally been confined to schemes to encourage early retirement and the

<sup>20</sup> An important argument from environmental concerns is that the withdrawal of support would precipitate farm structure change so rapidly that irreversible habitat and eco-system damage would result. It is the irreversibility argument which may justify a precautionary approach.

installation of young farmers. Even these schemes are not without their critics, on grounds they contain high dead weight costs (ie they pay people to do what they were anyway going to do without payment). As far as land reparation and amalgamation, there is little taste in the EU to fund this centrally. Land restitution and ownership questions are also too sensitive and left to Member States.

It is often expressed in Europe that with the high labour and land costs farmers face compared to their competitors in most other parts of the world, Europe's comparative advantage can never be in commodity production but must be in high quality, high value, usually more processed and certainly differentiated produce. An important development in EU policy has therefore been to assist the development of market segmentation and product differentiation. These are important elements of the second Pillar Rural Development programmes.

Environmental management is becoming a larger challenge for all European farmers, indeed all European land managers. The coverage of areas designated for the protection of birds and habitats, as nitrate sensitive, or «at risk» for other forms of diffuse pollution (particularly the phosphate and soil load of rivers and other water bodies) under both EU environmental legislation and national legislation is growing. There are more environmental regulations in preparation –particularly the Water Framework Directive and a Soils Directive. In addition member States and regions designate land, for example, as National Parks, Areas of Outstanding National Beauty, Green Belt, and so on<sup>21</sup>. Each such piece of environmental legislation adds restrictions to what can be done on and to the land. Nearly all such restrictions impose costs. Society is no doubt right to demand ever-higher standards of management of natural resources, and to wish to protect biodiversity and landscape. The policy issue is how the costs are shared. This is the continual debate on property rights. In the contest of private ownership of land who has the right to decide how it is used, whether to produce marketed goods (food, fibre and fuel) or public environmental goods (landscape, biodiversity, heritage). At root here is also the extent to which, through ever-higher regulatory costs imposed on its own agriculture, European pollution is exported to other regions, as food production in Europe is restricted and imports rise.

A related issue for Europe's rural areas now under debate is the appropriate contribution land management can and should play in mitigating and adapting to global climate change. In contrast to all other productive sectors of the economy, whose only role is to reduce carbon emissions (e.g., by improving fuel efficiency), the land based sector has, in addition [because it too has to reduce its Green House Gas (GHG) Emissions], the potential to play several positive roles. Through land use change: arable land to grassland; and grassland to forest; carbon can be sequestered in soil and timber. Land cover and management can play an important role in water run-off and flood management. In addition, with the appropriate energy policy and fiscal regime, land-based renewable energy can substitute for fossil fuels in electricity, heat, and transport fuels, and timber can be substituted for heavily GHG emitting products like brick, steel and concrete.

<sup>21</sup> These are some of the UK designations for rural land.

These are the elements of the European Rural Policy debate. The essence is agreeing the scale of the policy and the balance of these objectives and measures. The goal is simple to state, but hard to achieve, or even know if we are achieving it; sustainable rural development.

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