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***CHANGES OF THE EU POLICIES IN HORTICULTURE***

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## **Changes of the EU Policies in Horticulture**

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*Sixth Joint Conference on*

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## **Changes of the EU Policies in Horticulture<sup>1</sup>**

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### **Summary**

The EU policy in horticulture has switched its aim from price support to integration of farmers' income. Regulation 2200/96 established the new European Market Regulation (CMO) in horticulture. On this base the producers' organizations (PO) are no longer a political institution but a real economic organization with the objectives of planning and concentrating the production.

At the same time, the UE has promulgated another plan (Decision n.2796 of 10/10/96 applying the objectives of the Reg. 2081/93), which is specific for Italian regions in "Objective 1" namely with low average income. This issue establishes the commercial macro organizations with the target of concentrating the supply of the producers' organizations in order to achieve countervailing power and economies of scale in services and trade.

These new issues come out within a general framework of international agreements promoting cooperation and free trade areas (Mediterranean, Magreb, PECO,...). The impact on the European horticultural system will be tremendous in terms of production assessment and food chain organization and management.

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<sup>1</sup> Sixth Joint Conference on Food, Agriculture and the Environment, Minneapolis, Minnesota, Aug. 31-Sept. 2, 1998

<sup>2</sup> Prof.Franco Alvisi passed away on February 16, 1998. Unfortunately, he could contribute to this paper just for the basic ideas but he did not have the chance to share the responsibility of the text.

## **The new policy for fruits and vegetables**

Basic regulation establishing Common Market Organizations (CMOs) and the necessary annual decision on prices and aids, are adopted by the Agriculture Council on proposal by the Commission. The CMOs have been frequently adjusted. A common feature of these changes was to reduce price supports, with compensation to producers through direct payments (which now account for some 60% of total FEOGA (Fond Européen d'Orientation et de Garantie Agricole - European Agricultural Guidance and Guarantee Fund) expenditure on market support and to exert some control over supplies.

Products have different incidence on cost to FEOGA. For instance, cereals and oilseeds together amount to just 10% of agricultural output but their cost to FEOGA is 42% of the total. Other commodities do not cost so much in support in relative terms. This is the case of sugar, when allowance is made for levies on producers, and of fruits and vegetables. In this cases, however, there is a high degree of protection at the frontiers.

In describing the current CMOs it is also necessary to take into account the outcome of the GATT "Uruguay Round", which the European Union began to apply on July 1, 1995. The cut in the overall level of support required by the Uruguay Round Agreement does not exceed the cut taking place under the UE own reform decisions (Tracy, 1997). However, the most immediate impact was through the transformation of variable import levies and other protective devices into tariffs.

## **The CMO for horticulture**

The CMO, instituted with the basic Regulation 1035/72 was based on two main principles:

- the existence of fruit-growers' organization, which were supposed to organize production and to manage quantity and quality of supply;
- the institution, for a specific list of products, of an intervention compensation for withdrawals of produce from the market at time of crisis.

Given the special characteristics of the fruit and vegetables market, this CMO was relatively liberal, intervention being limited and emphasis being placed on market forces (Ledermann, 1997). As a result, it cost relatively little to FEOGA-guarantee: less than 5% of the total, while fruit and vegetables account for 16% of total EU agricultural output.

During the 90s, however, several regions and products were affected by severe crises, causing income losses to producers. These led to a review of the CMO. In particular, the development of *producer organizations* (PO) had on the whole been inadequate, in number and activity, leading to differences between products and regions. Furthermore some groups had been set up with no real commercial role but just for the management of market withdrawals. Thus, the withdrawal system resulted efficacious to offset short-term fluctuations but not for structural organization. Some fruits, indeed, resulted in a structural surplus to market demand. As a result, the Community-financed withdrawals have changed short-term surpluses into structural ones (Ledermann, 1997).

A new reform of CMO could hardly take the form of strict supply control through production quotas, given the number and heterogeneity of the produce.

Income aids along the "arable crops" model would have been highly expensive for a sector which accounts for 16% of total EU agricultural output. As a result, the new CMO Regulation (Reg.2200/96) has four objectives:

- the P.O.s are responsible of managing supply and organizing it better to face an increasingly oligopolistic demand (distribution side);
- recognition of the central role of the market for guiding production and determining fruit-growers' income, with reduced reliance on withdrawals;
- account to be taken of environmental concerns in the production and marketing of fruit and vegetables;
- reinforcement of product standardization, to respond better to modern distribution methods and consumer expectation.

A new aspect of this policy lies in the increased responsibility placed upon producers, who must organize themselves to manage the market.

Even the conditions to recognize the POs have been tightened up. They must have a minimum number of members offering a minimum quantity of marketable produce (the precise conditions are to be defined by Member States) and they have to show that they can be effective providing their members with necessary technical assistance, keep proper accounts and selling their products. Their area of responsibility is no longer limited to a list of products but relates to product categories. They can be universal (all products) or specialized OP (fruit, vegetables, produce for processing, citrus, nuts, mushrooms). Producer must undertake to belong to just one PO for the product concerned, and to sell all their produce through the OP, except for direct sales to consumers up to a maximum of 25% of their production..

The great innovation is the "Operational Fund". This is the instrument made available to POs to manage the market and to implement their operational programs. The fund for each PO is co-financed (fifty and fifty) between the producers, proportionately to their supply (turnover), and the FEOGA. The latter is subject to an annual ceiling: initially 4% of the value of marketed production by each PO, providing the total amount of aid is less than 2% of the total turnover of the OP. POs must submit to their regional authorities an "operational program" with the task of improving quality, promoting marketing, developing the use of environmentally-friendly production techniques, etc.. Withdrawal operations can receive EU finance only if the PO has been approved by Regional Authorities. The share of operational programs that can be used for withdrawal is digressive, and the quantities cannot exceed certain percentage of marketed production (10% on average over a three-year period). Lower prices make withdrawal less attractive, and the rate of compensation is being reduced.

As regards processed products, production aid is granted only to processors who have paid producers at least a specified minimum price under contracts with recognized POs. The minimum price is established annually under Management Committee procedure, on the basis of the previous minimum price, the movement of market prices and the need to ensure normal market disposal.

### ***The Trade Macro-organizations***

At the same time, the UE has promulgated another plan (Decision n.2796 of 10/10/96 applying the objectives of the Reg. 2081/93), which is specific for Italian Regions in "Objective 1" namely with low average income<sup>3</sup>. This issue establishes the trade macro organizations (TMO) with

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<sup>3</sup> The bulk of the Objective 1 regions of the Community are situated in essentially rural areas where agriculture and forestry constitute the main land use and play a major part in income generation and employment. In most of the Objective 1 areas, other sectors of the economy are under-developed and in rural areas agriculture constitutes an important source of private sector employment. (about 15% of employment in agriculture).

Measures for the development of these regions are deployed through Community support frameworks or single programming documents with funding being provided for a range of instruments by the three Structural Funds and the FIFG through integrated development

programs. Amongst other development measures, the instruments for rural development and agriculture mainly take the form of multifund integrated packages. They aim to diversify agriculture and extend the range of economic activities which at present is over-dependent on agriculture.

Appropriations for Objective 1 account for almost 70% of all appropriations under the Structural Funds.

#### Italy

The programmes are concerned mainly with the modernization of methods of producing traditional products using a distribution approach and marketing in order to meet market demand better. The programmes are also concerned with the development of alternative activities using natural resources (forestry, farm tourism, etc.).

Agriculture is very important throughout the southern regions, contributing 6.2% of GDP in the south as compared with 3.7% nationally. It provides work for 14.5% of the labour force in the Mezzogiorno as compared with a national average of 8.5%. The eight southern regions concerned (Abruzzi, Molise, Campania, Apulia, Basilicata, Calabria, Sicily and Sardinia) include 54% farm holdings in Italy. The EAGGF Guidance Section will contribute ECU 2 228 000 to the 1994-99 programming phase (including the Objective 5(a) section).

Six regional programmes and the multiregional programme on dissemination and services were adopted in 1994-95. The multiregional operational programme "Services for the commercial development of southern agricultural products", submitted to the Commission at the end of 1994, was finally adopted on 10 October 1996. The cost of the programme is ECU 120 million to which the Community will contribute EAGGF ECU 72 million. This programme will improve the organization of agricultural supply and concentrate it by taking account of market requirements, improving product quality and increasing the income of producers of basic products.

#### Belgium

The EAGGF section accounts for only a small part (less than 7%) of total finance under the SPD; it comprises horizontal measures (Regulations (EEC) Nos 2328/91 and 866/90), which account for over half the appropriations, and some rural development measures. These measures are very closely targeted and are designed to support farmers in their activities or help them diversify (local products, farm tourism, horse riding etc.).

Overall, management of this programme appears to be prudent rather than very dynamic.

#### Germany

The promotion of agriculture and the countryside in the Objective 1 regions of Germany seeks primarily to adapt structures to the conditions of a free market economy, improve the quality of life in rural areas and increase their attractiveness and create alternative employment. The integrated development of the countryside is of particular importance.

EAGGF assistance to agriculture and the food industry has made the new Länder competitive at European level and encouraged alternative sources of income.

#### Greece

The programmes are intended to improve infrastructure, structures and competitiveness in agriculture and rural development in order to stabilize the population of rural areas and maintain their incomes. Agriculture still occupies a very important place in the economy, accounting for 22% of employment and 15% of GDP.

Rural development policy, at both regional and national level, appears stronger than in the previous period (1989-93), both in financial terms (ECU 700 million from the three Structural Funds, including ECU 531 million from the EAGGF) and in terms of the topics covered. It should be noted that the measures to apply Regulation (EEC) No 2019/93 (specific measures for the smaller Aegean islands) have been fully operational since 1995. In 1996, as required by that Regulation, the Commission prepared a progress report on the first two years which included data on the implementation of the various measures and some requests by Greece for the adaptation of certain schemes to make them more relevant. This report has been considered by the Council and Parliament.

#### Spain

The assistance financed by the EAGGF Guidance Section in the Spanish Objective 1 regions is intended to promote rural development and the modernization of agriculture.

The multiregional operational programme "Development and economic diversification of rural areas", approved on 18 June 1996, was the last of the forms of assistance planned for implementation of the Community support framework for 1994-99 to be approved.

Progress in implementing the various operational programmes may, overall, be regarded as satisfactory. However, there are substantial backlogs in the implementation of certain regional programmes (Cantabria, Andalusia, Canary Islands).

#### France

Administrative problems (the time taken to transfer appropriations from the central government to the most remote regions) and adverse climatic conditions caused delays in implementing some single programming documents.

In 1996 only two programmes (Réunion and Corsica) committed appropriations from the 1995 instalment. This was due to the difficulties of defining the reprogramming required to take account of the impact of the hurricanes Luis and Marilyn on Guadeloupe and Martinique and the requirement on French Guiana to close the previous programme under satisfactory conditions before implementing the one for the new period.

#### Ireland

The principal objectives of the agricultural, forestry and rural development measures are:

- improved efficiency of farm production
- promotion of farming in harmony with the environment,
- diversification of on-farm production
- development of the non-farm rural sectors,
- improved processing and marketing of agricultural produce
- development of the forestry sector, and
- income maintenance in less-favoured areas.

The OP has been in operation since 1994 and all measures are being applied with the exception of one or two minor actions.

The Food sub-programme, which is part of the Industry Operational Programme, was amended in 1996 to take account of the slow progress in earlier years. Most expenditure is now on schedule.

The Operational Programme for Local Urban and Rural Development, which contains a measure for village renewal, is on schedule with its expenditure.

#### Netherlands

The main aim of the SPD for Flevoland is to diversify agricultural production, principally by encouraging organic and sustainable farming, encouraging new developments and making the countryside more attractive both for ecological reasons and to promote tourism. A

the target of concentrating the supply of the producer organizations in order to achieve countervailing power and economies of scale in services. The tender was open just one year ago (April 1997) and seven projects were approved. They are starting this year.

The main objective is to concentrate the supply in a trade company (Ltd form) owned by producers. The threshold parameters of the TMO should be as following:

Production supply by associated	80%
Turnover of TMO	50 millions of ECU
IPM production	50%
Production under farm plans	80%
Supply to modern distribution (supermarkets)	50%

The Trade Organization Ltd should concentrate the supply (at least 80% of the members' production) at multi-regional level, achieve economies of scale in structures and transports to handle the production, differentiate distribution channels.

The tasks available are as follows:

- training of producers and TMO's personnel;
- enhancement of production;
- organization of trade

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considerable effort is being made to concentrate national agricultural research institutes in the region and improve the transfer of the results of applied research to the agriculture sector.

#### Austria

The implementation programme for Burgenland, approved by the Commission on 15 November 1995, began well in 1996. The measures financed under the section for agriculture and forestry guarantee farmers' incomes and will improve living conditions for the rural population.

#### Portugal

The main aims are making the agriculture sector more competitive, increasing the economic viability of holdings and conserving natural resources and the environment.

Overall, implementation of the four multifund programmes to which the EAGGF Guidance Section is contributing has gone according to plan. In particular, the "Agriculture" sub-programme in the "Modernization of the economic fabric" MOP has a higher rate of implementation than planned (the 1997 annual instalment was committed in 1996). Implementation of the Pedraa programme on the development of the Autonomous Region of the Azores required an increase of ECU 5 million in the EAGGF Guidance Section component.

On the other hand, there have been some delays in the MOP "Promoting the potential of regional development", mainly as a result of the need to ensure that the final decision on the Alqueva major project (a dam on the river Guadiana) contained full guarantees, particularly as regards the protection of the environment.

#### United Kingdom

##### Northern Ireland

The objectives of the agriculture and rural development subprogramme of the single programming document (SPD) are to assist farmers to become more efficient, to promote farming in harmony with the environment, to diversify on-farm production, to maintain farm income in less favoured areas, to improve the efficiency of the food industry and to involve local communities in their own development through the establishment of community groups, the drawing-up of strategic area plans and implementation of community regeneration projects.

The implementation of the measures was somewhat uneven.

##### Highland and Islands of Scotland

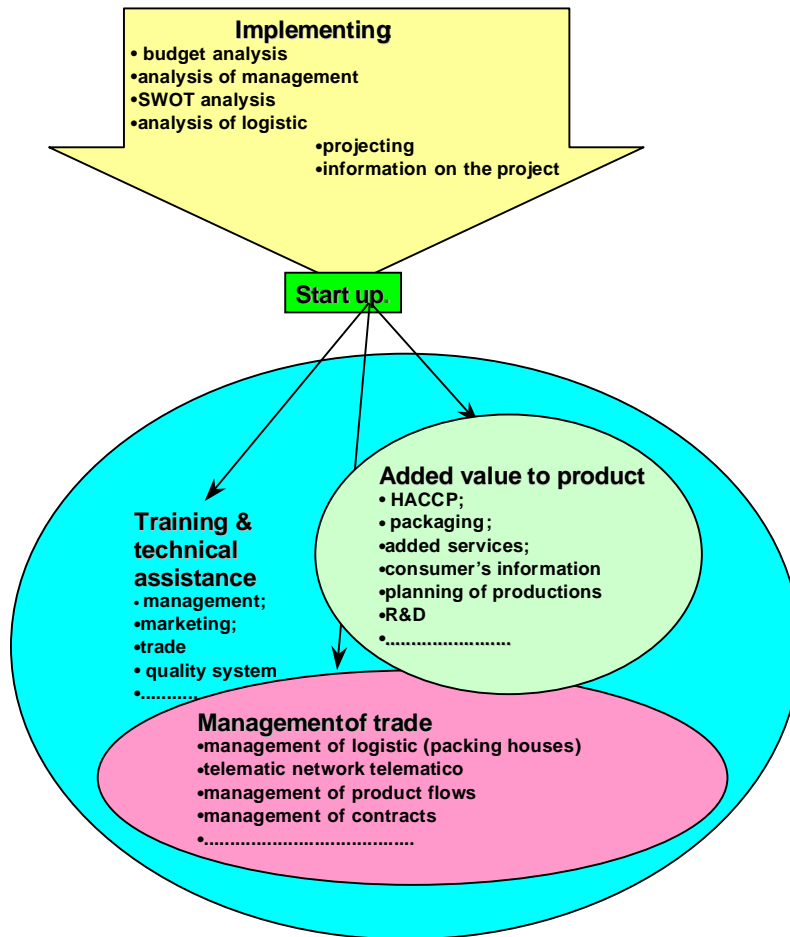
The priorities for rural development are to improve efficiency in agriculture by reducing production costs, to improve the quality of primary sector products and improved animal welfare, to increase the value added to primary products, to diversify agricultural enterprises and to strengthen thecrofting communities. The EAGGF also supports measures for enhancement and protection of the environment and for improvement of forestry management and development of timber processing and marketing.

In 1996, with the exceptions of the environmental and forestry management measures, all measures were in operation and financial implementation was proceeding according to plan.

##### Merseyside

The single programming document for Merseyside, approved by the Commission on 29 July 1994, reflects the urban nature of this region with a small allocation of ECU 3 million for the EAGGF Guidance Section. Most of this allocation was for the application of Regulation (EEC) No 866/90, but progress has been slow and the United Kingdom authorities announced their intention not to proceed with this measure in England, including Merseyside.





### ***The Mediterranean Policy and the European Spatial Development Perspective: new frontiers for horticulture***

The long-term economic, social and spatial development of the EU will be affected by the gradual economic integration of Europe, the growing role of regional and local authorities and the likely enlargement of the Union. These processes are taking place within the context of the globalization of the economy and substantial technological change. Under these circumstances, regions, cities and territories are in constant competition to attract economic activities, jobs, infrastructure, and the like. This competition is one of the major forces driving spatial development. While market forces increasingly operate at the European level, spatial policies are still often devised at national or even lower levels, making it difficult to exploit fully the opportunities offered for the development of Europe (see appendix).

Since 1972, when the EC announced a "global Mediterranean policy", the EC has granted tariff concessions for certain agricultural products imported from various Mediterranean countries. The duty reduction mostly range from 50% to 100% (Tracy, 1997); fruit and vegetables, wine,

olive oil are particularly important. These items compete with the EU's own production in its southern regions.

Hence, the concessions are usually limited to specific quantities and periods (off-peak periods for EU production of fruit and vegetables). Moreover, they did not affect the "reference prices" and "countervailing charges", which were often a more significant means of protection than tariffs.

In 1992, as part of a "new" policy involving financial and technical co-operation with ten Mediterranean Countries, the EC granted further trade concessions, in particular enlarging tariff quotas in four equal stages 5% each year from 1992 to 1995, but only by 3% per year for some sensitive products, such as new potatoes, tomatoes and wine.

Developing closer relations with the Mediterranean countries gained further importance, being seen by some Member States, particularly France and Spain, as a counterweight to the EU's relations with Central and Eastern Europe. In November 1995, while Spain held the presidency of the UE, a conference was held in Barcelona, attended by all EU countries and all non-UE Mediterranean countries (except Libya). This adopted a Declaration which confirmed a new "Euro-Mediterranean partnership" policy. This provides for closer political and economic ties throughout the region, with increase EU financial assistance, and aims at a multilateral free trade area by 2010. The UE, however, has not committed itself to granting free access for farm produce (figure 1, 2 and 3).

Just Turkey had an Association Agreement with the EC since 1964, and obtained tariff concessions for most of its agricultural exports. Its perspective is a free agricultural trade by 2005.

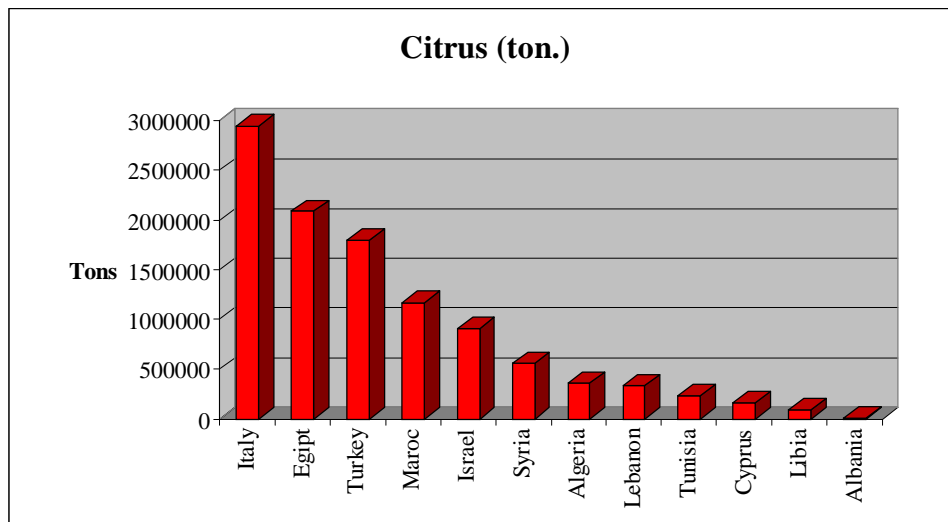


Figure 1

Figure 2

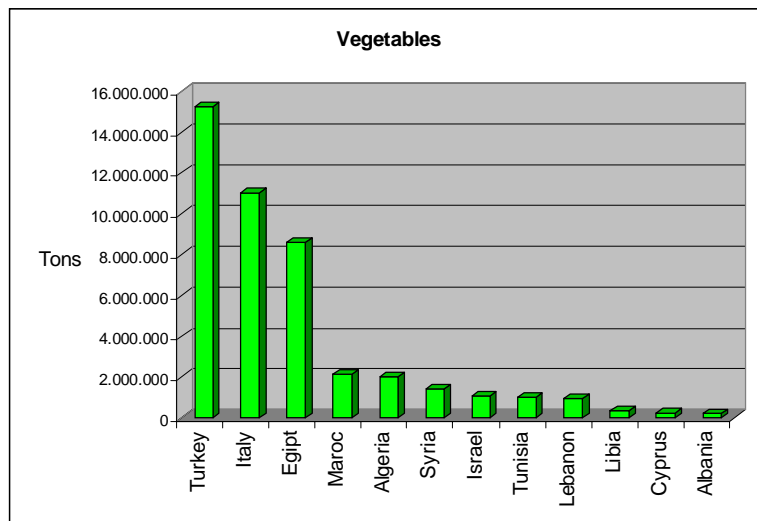
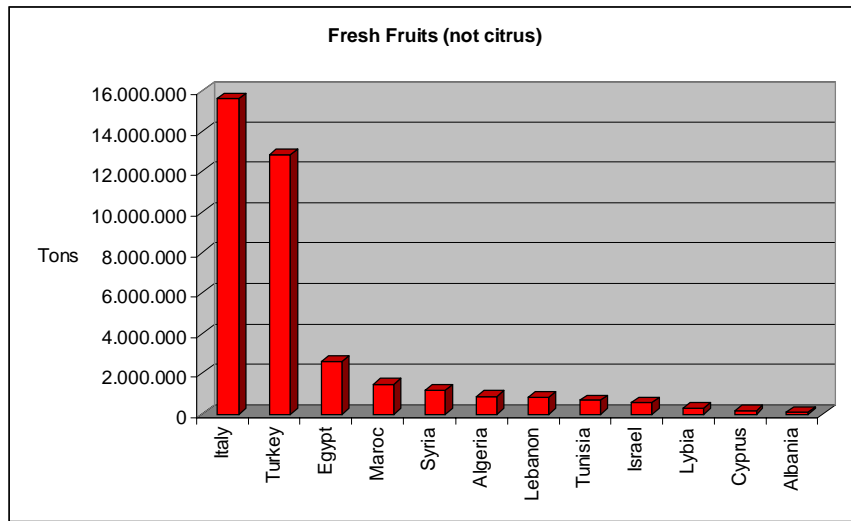


Figure 3

### New features of the Horticultural policy

The marketing systems just described represent responses to the common basic problem of how to maintain a reasonable level of price on horticultural markets in a way acceptable both to operators and to the general public. Price, of course, can be sustained both by increasing demand and by limiting supply (Loseby, 1997). The first method, an increase in demand, can be brought about by sales promotion and attention to required quality characteristics, instruments which appear so far to have created little or no controversy in the fruit and vegetable sector. It is in attempts to implement the second method, control of supply, where problems have arisen:

- on the part of public opinion, shocked by and incomprehending towards the destruction of intervention stocks;
- and on the part of operators, who do not wish to be limited in their individual market strategies and claim the right to supply quantities for which they have found a market, unfettered by restrictions.

Present day policy attitudes frown on price fixing, and in Europe it is forbidden by competition policy; but without price fixing and/or quantity controls the "free-rider" element steps in, as individual firms cut prices to enlarge their market share at the expense of other operators (Loseby, 1997). In the EU currently there appears to be no solution to the free-rider problem; in the USA it can be overcome by forms of market regulation made mandatory at the request of the growers themselves, who are also required to finance the associated administrative expenses; in New Zealand, the problem is affronted, at least in export markets, by conferring monopoly powers to the product Boards for apples, pears and kiwifruit, whose activities are guided by representatives of growers and other operators, and are subject to frequent review.

However, increasingly farmers have to provide the raw materials and value-adding opportunities for the food-processing, retailing and logistic sectors. Thus producers are having to seek new formal and informal linkages in the market to minimize input cost and to assure markets for oversupplied products. High-technology investment in production, assembly, grading, packing, processing and distribution facilities are needed to service an increasingly sophisticated market (Street, 1990; Montigaud, 1996). The retailers, on the hand, have shown little propensity to share in the upstream investment requirements or risks: they have no need too if others will take the risk to assure a market.

Thus producers' organization or cooperative are more vertically integrated towards market services, but in this extent they actually include costs externalized by retailers (figure 4). This system leads not to an added value to agricultural products but to higher structural costs (Bagnara *et al.*, 1998).

Since prices are market driven, it is quite difficult to remunerate fruit-growers just on price share base and any effort to get part of added value has led to higher fix costs. Consequently, the real goal of a PO is to stabilize prices through production planning and control. This is feasible only when a PO is leader of a specific product or an area of production.

The horticulture sector, faced with a market price reduction and a fierce competition, cannot afford any more strategies based on the production increase or on reduction of costs. On the contrary, it should revise its organizational, investment and marketing co-ordination policy, in order to make the product more competitive, together with the added service. Management system and corporate restructuring seem to be the key elements which most influence the horticulture sector.

In order to re-engineer the horticultural chain, two specific tasks have been identified (Bagnara *et al.*, 1998):

- 1) get the PO or cooperative closer to production;
- 2) bring the value of investments in services and logistic back to producers and, at the same time, get the trade closer to consumer.

The first task aims at getting the cooperative organization closer to production and its territory. This process leads to a down-sizing of the cooperative structure and thus a reduction in the fix internal costs. The original function of the cooperative is indeed the aggregation of supply. The new tasks of such an organization can be outlined as follows:

- a) better price transparency at production level with reduction of market risks and of costs due to large structural investments.
- b) economies of scale in supply control;
- c) differentiation of production through planning and quality management.

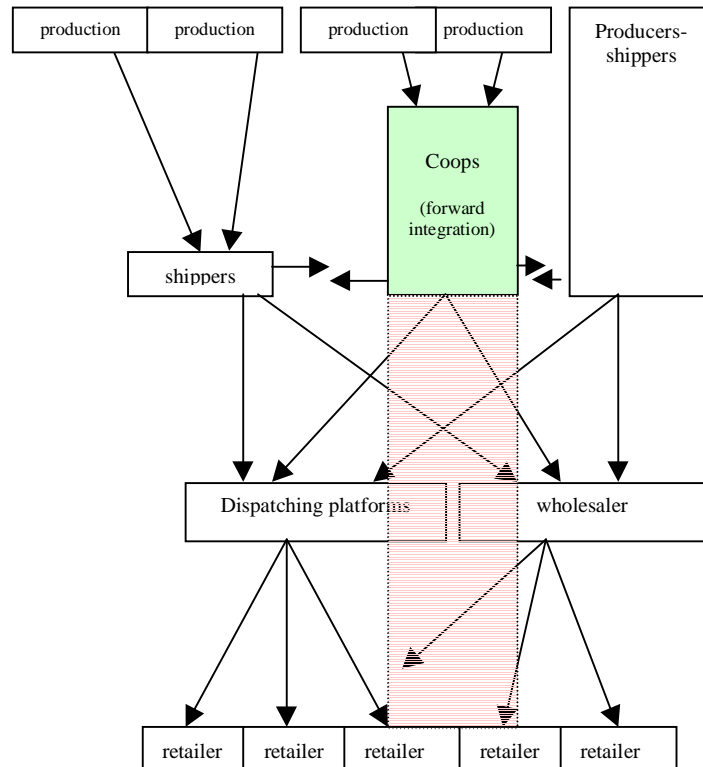


Figura 4

To get a better price transparency at production level is, furthermore, necessary to introduce a price clearing procedure, a contractual transaction, between POs and the packing-houses or wholesalers even though these two are owned by PO: this is possible only if they are separately managed but horizontally integrated through a stocks-holding relations. As pointed out by Loseby (1997) vertical coordination has worked in the opposite direction dimming the level of price transparency in fruit and vegetable markets. The lack of price transparency clearly creates opportunities that can be exploited by operators with privileged access to market information or with particularly strong market power. It can lead to situations in which competitive conditions in the market are undermined.

The second task aims at bringing back to producers the investments in technology and logistic, and getting trade closer to consumer. As a matter of fact, the current commercial activity of cooperatives is characterized by large investments to achieve part of added value to price. However, market competition will not allow cooperative to remunerate producers by higher prices. Thus, resources invested in logistic, internally at the same cooperative, are inefficient and underused, so that they penalize producers prices.

Another feature is trade which has been applied for completing product share of cooperative in order to meet the retailers' requirements. Now the globalization of market and of products' flows requires a better control and management of trade in order to enhance the value-added chain. Italy, in particular, thanks to its geographic position can play a great role in international trade of fruits and vegetables. Consequently, trade is not just a complement of local production or of cooperative management but its role should be reverse: local production is a complement of trade.

From a “corporate restructuring” point of view (figure 5), trade and investments in logistics are the real “value-added” function which should be managed by a separate company in capital institution (Ltd) and owned by producers. Producers are thus rewarded by basic prices, from OP, and value and earnings of stocks, from trade company. When efficient and competitive, differently from cooperative, this structure can even attract capitals from market.

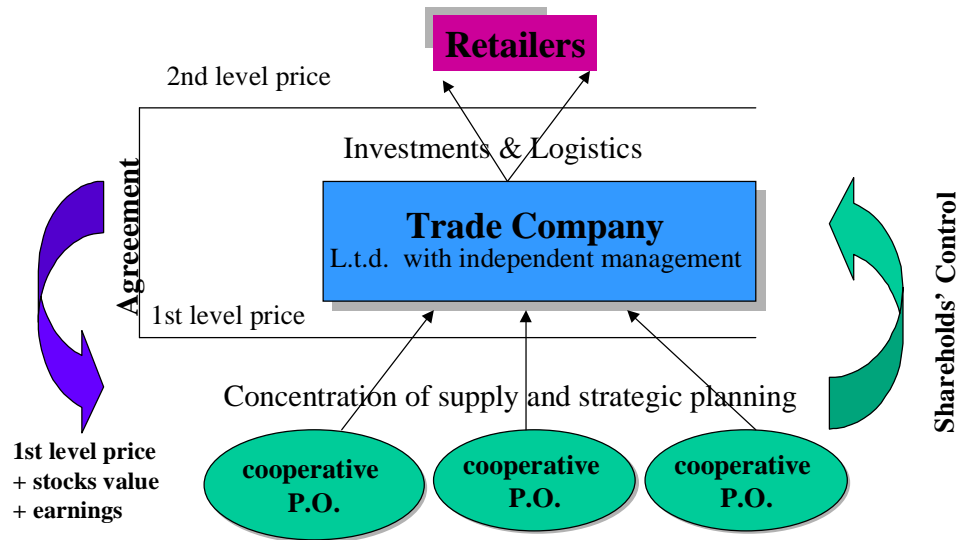


Figure 5

This model is just a step of a broader policy framework of the agricultural system. Just a small part of the current agriculture can be considered naturally efficient (top corner of the system triangular in figure 6). The two main areas to work out are services and environment related agriculture. These two should be enhanced to reduce the "weak central area", of figure 6, namely the conventional and undifferentiated agriculture which is actually the largest part.

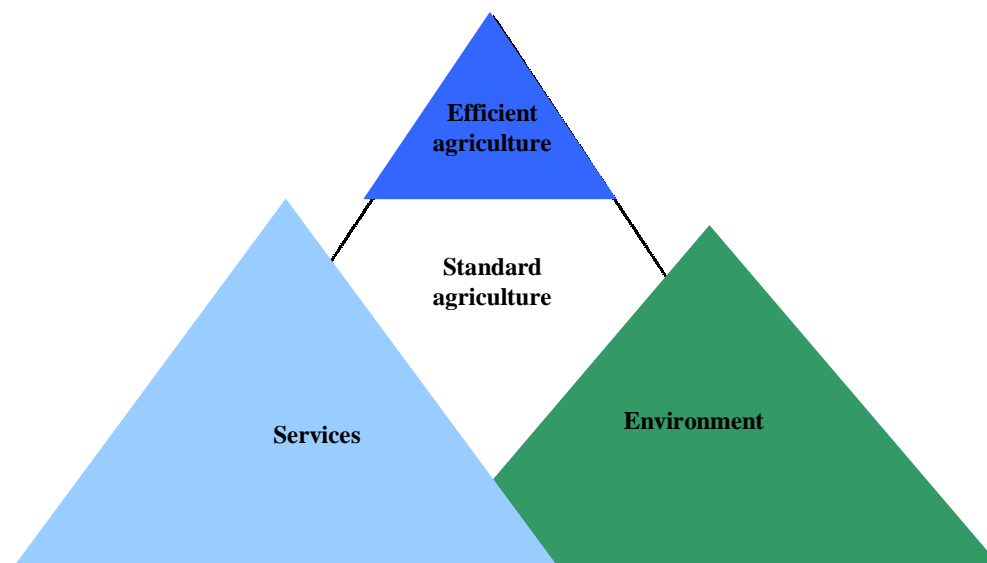
Up to now, as mentioned in the precious paragraphs, any efforts towards the market competition are made by the central part of the system stretching thus its functions. This led not to market competition nor better producers' remuneration but higher structural costs of POs. Consequently, from a management viewpoint, the system should be more competitive and efficient only if the enhancement would start from the service areas towards the production. Service are thus considered the real task for enhancing the value-added chain.

However, services are not tailor made for horticulture but they are an active part of the current economy. In other words, the real challenge is not to build new services on agriculture but to make services' economy entering and connecting the agricultural system. Thus, any new action to support horticulture or, broadly speaking, agriculture, should be aimed not just at the production system and it services to be market connected, but at the territory of location in order to connect a complete economic system. Consequently, the growth of a region depends on spatial planning which supports the connection between rural and urban space and information is now globalizing the economy, undertaking the role played by financial capital and the market.

This feature is even highlighted by international markets. International trade, indeed, is rapidly switching from commercial market to option market. In the first case, the economic relations led

to management of economic efficiency. In the option market, the product flows are integrated and partially substituted by financial flows. The trade mechanism is gradually changing in an "information-financial" system where the core business is the management of information. Intellectual property rights are thus the main tools of marketing; finance control is in turn the main tool of food chain management. In the real market the firm has to make investment decisions while in the capital market it has to make financing decisions.

Strategic options cover thus the alternatives the firm can exploit to maximize the market value of the firm. So, screening and selecting strategic options may be evaluated by the acceptability criteria, measured by the maximization of the market value: the higher the option contribution to market value, the more acceptable the option is (Stemme and Zuurbier, 1994).



**Figure 6. Agricultural Systems Triangle**

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## Appendix

### EUROPEAN SPATIAL DEVELOPMENT PERSPECTIVE

#### Overview of contents

**Part I** contains a description of the background, the policy goals, the policy approach adopted and the status of the European Spatial Development Perspective (E.S.D.P.).

**Part II** examines the forces driving the long-term spatial development of Europe. It presents a view of European geographic, demographic, economic, social and environmental trends, a list of spatial issues of European significance and a preliminary assessment of the impact of Community sectoral policies on the European territory. The thematic analyses are summarised in terms of strengths, weaknesses, opportunities and threats associated with each spatial issue. Looking forward, the E.S.D.P. proposes a number of spatial criteria for developing a more solid comparative review of spatial issues.

A limited number of policy aims and options in response to these issues are presented in **Part III**. This part concludes by proposing an initial framework, methodology and process for developing an integrated European spatial development policy. Transnational co-operation is given a prominent role in turning the identified policy aims and options into spatial development strategies.

**Part IV** deals with the further development and implementation of the E.S.D.P. This final part is designed to provide an initial impetus for a broad political debate on the policy options and methodology and to indicate where and how innovative and experimental action for co-operation could begin.

#### I. The spatial approach at the European level

This first official draft of the E.S.D.P. is intended as a common frame of reference to round off the period of reflection which the ministers of spatial planning have been undertaking since 1993. In line with the principles for drawing up the E.S.D.P., which were agreed at the informal conference of ministers responsible for spatial planning and regional development in Leipzig in 1994, the approach is indicative, not prescriptive. It is nonetheless expected to lead to tangible results for the European territory and to act as a stimulus for action. It is addressing three main questions of common concern throughout the European continent: setting up of a balanced and polycentric urban system, parity of access to infrastructure and knowledge and prudent management and sustainable development of the natural and cultural heritage.

The spatial approach seeks to stimulate discussion on the right territorial balances to be struck between competition and co-operation and could serve as a means of enhancing economic and social cohesion. The idea is to give a new dimension to the conduct of sectoral policies by integrating them into their spatial context and looking at how they interact. The E.S.D.P. process thereby serves as a framework for spatial integration which takes account of the various levels of political and spatial organization in Europe.

In this approach, the spatial entity becomes a common denominator — the subject of a new type of social contract — and the development of co-operation then becomes a method of working as well as acting. Partly because of its decentralised approach, and partly because of its transnational dimension, it could bring about an added value by contributing to making decisions more efficient and relevant to the specific contexts to which they apply.

#### Goals

The E.S.D.P. pursues three equally important fundamental goals:

- economic and social cohesion;
- sustainable development;
- balanced competitiveness of the European territory.

These goals will be combined and links will be forged between them. At a more fundamental level, they match the three operational objectives of the 1994 Leipzig document: balance, protection and development.

#### II. SPATIAL ISSUES: THE EUROPEAN DIMENSION

##### **II.A. Geographic characteristics and driving forces in Europe**

The long-term economic, social and spatial development of the EU will be affected by the gradual economic integration of Europe, the growing role of regional and local authorities and the likely enlargement of the Union. These processes are taking place within the context of the globalization of the economy and substantial

technological change. Under these circumstances, regions, cities and territories are in constant competition to attract economic activities, jobs, infrastructure, and the like. This competition is one of the major forces driving spatial development. While market forces increasingly operate at the European level, spatial policies are still often devised at national or even lower levels, making it difficult to exploit fully the opportunities offered for the development of Europe. In addition, the Community's territory is highly diverse and complex; it is further enriched each time the Union expands. In order to respect and make use of this diversity - often considered to be one of Europe's major development assets - a geographically differentiated approach to spatial policy is required, while still preserving an overall view of Europe.

The geographical patterns of activity and land use in Europe are influenced by economic, social and environmental trends. These trends occur mainly at the continental or transnational levels, but also at the regional and local levels in many different areas within the Union. They present not only problems and threats but also opportunities. Given that the starting point for a spatial approach is the basic physical and human geographical characteristics of Europe, three main driving forces, which play a major role in shaping future trends in spatial development, can be identified:

1. *Demographic and urbanisation trends.* Demographic trends of ageing, very low population growth and immigration will reinforce the already dominant patterns of urbanisation. The highly urbanised regions in north-west Europe will experience higher population growth rates, whereas the population in many regions with low population densities will continue to decline.
2. *Characteristics and trends in the European economy.* Economic forces may increase the imbalance in economic activity across the Union, driven by the internationalisation and liberalisation of trade and by the impact of new communication technologies.
3. *Longer-term environmental trends.* Despite past and present policies addressing a number of major environmental issues, including waste management, climate change, pollution and loss of biodiversity, these problems still need to be tackled at the root. Longer-term approaches to these issues would shape the further development of the European territory, bringing about new geographical patterns of activity.

## ***II.B. Spatial issues of European significance***

In order to develop policy options and guide the future spatial development of Europe in a positive direction, a number of issues have been reviewed at some length:

### **II.B.1. Changes in urban structures**

Rapid technological, political, social and economic change is bringing about a substantial shift in the hierarchical and functional relations of the European urban system. European towns and cities have to adapt to their new position in the European urban hierarchy at international, national and regional levels, whilst at the same time addressing the problems of urban sprawl, congestion and social segregation.

### **II.B.2. The changing role and function of rural areas**

Whereas agriculture has been the predominant economic activity in rural areas for many years, these areas are now becoming increasingly dependent on the development of their urban settlements. Shifts in the economic base of rural areas will, however, vary from region to region, reflecting contrasting processes of agricultural intensification, diversification, extensification and marginalisation.

### **II.B.3. Changes in transport, communication and knowledge structures**

The pattern, form and use of infrastructure will undergo continual and rapid changes in the years to come. Community transport and infrastructure policies will evolve towards a more liberalised, efficient, environmentally friendly and cohesive European transport and communications system. Advances in telecommunications technology will also change the way infrastructure is used and have the potential to bring about important shifts in the location and in the patterns of activity.

### **II.B.4. Continuing pressure on Europe's natural and cultural heritage**

The fragmentation of habitats and protected zones is a major threat, while the effectiveness of nature conservation in protected areas depends on an appropriate management of the surrounding areas. Significant issues to be addressed are the continuing wastage and pollution of water, the destruction of cultural landscapes and increasing pressures on the Union's urban heritage.

## ***II.C. Impact of Community policies***

Community policies are not neutral for the Union's territory. Sectoral, structural and horizontal Community policies must take into account three major concerns within an integrated vision of the entire territory:

1. a more balanced geographical distribution of production activities to correct present trends towards concentration in the most competitive areas;
2. a more sustainable land use to ensure the most appropriate choices in terms of basic infrastructure in the longer term interest of the entire territory;

3. a greater sensitivity to specific territorial needs.

Interdependency, integration and a cross-sectoral approach must become basic principles for Community policies. The potential for the E.S.D.P. to promote greater consistency between these policies, increasing their effectiveness and optimising the use of public resources, should be put at the centre of the present debate on European spatial planning.

For spatial analysis to be improved and developed at the European level, there is a need to:

1. agree on a set of spatial criteria and their indicators; these can then be used to
2. develop typologies of areas and
3. assess the spatial impacts of long-term European scenarios.

A set of seven criteria, allowing typologies of areas to be set up, is proposed in the E.S.D.P.. The typologies may serve as tools to formulate hypotheses about how elements of physical and human geography interrelate with sectoral policies. Furthermore methods for combining the criteria need to be developed as an added value of spatial analysis.

### III. Policy aims and options for the European territory

The E.S.D.P. is not intended to provide a comprehensive policy response for all the issues identified in Part II. Selected policy options in Part III stress the relationships between the different components of the territory. These options are based on the three main aims laid down in the Leipzig E.S.D.P. document. These are:

- a more balanced and polycentric system of cities and a new urban-rural relationship;
- parity of access to infrastructure and knowledge;
- prudent management and development of Europe's natural and cultural heritage.

For each of these more general aims, a limited number of more practical objectives have been selected. In order to achieve these objectives, a number of specific policy options have been identified, taking the following considerations into account:

- the need for a more integrated, multi-sectoral approach at the European level;
- a focus on the European dimension (i.e. Europe-wide, transnational, cross-border, interregional or inter-urban co-operation);
- the interests and policy priorities of the Member States and of the Union;
- their expected practicability and effectiveness in reducing spatial imbalances.

#### **III.A. A more balanced and polycentric system of cities and a new urban-rural relationship**

In the increasingly global and liberalised economy, competition between towns and cities may lead to new inter-city relationships. Planning policies will seek to improve the relations between towns and cities through co-operation, emphasising complementarity between urban centres. To be able to cope with the change, the internal development of the cities also deserves attention. Focusing on these issues will moreover help improve the relationship between urban areas and their rural hinterland.

#### **Policy aims**

##### **III.A.1. Complementarity and co-operation between towns and cities.**

###### *Policy options*

- a) *Promotion of integrated spatial development strategies for clusters of towns and cities in cross-border areas.*
- b) *Co-operation within networks of towns and cities at the transnational and European levels, and of smaller towns in sparsely populated rural areas and in a number of regions lagging economically behind.*
- c) *Improvement of connections between national / international networks on the one hand and regional / local networks on the other.*
- d) *Strengthening co-operation at the regional and local levels with cities and towns of Eastern and Central Europe and the Mediterranean countries.*

##### **III.A.2. Dynamic, attractive and competitive towns and cities**

###### *Policy options*

- a) *Development of the European strategic role of global cities and of "gateway cities", with particular attention on outer parts of the European territory.*
- b) *Improvement of the attractiveness of towns and cities for mobile investment, in particular in less favoured areas.*

- c) *Diversification of the economic base of towns and cities that are excessively dependent on one particular sector.*
- d) *Reinforcement of the economy of small towns in rural areas where a solid urban development base is difficult to establish.*

### **III.A.3. The sustainable development of cities.**

#### *Policy options*

- a) *Exchange of experience on, and support for effective methods of reducing urban sprawl; alleviate excessive urban pressure in certain coastal areas.*
- b) *Improve the business, environmental and social service infrastructure of cities located in the less favoured areas, including functions relating to basic needs.*
- c) *Promotion of comprehensive urban planning strategies aimed at social and functional diversity notably with a view to combating social exclusion, and including the re-use of previously developed land.*
- d) *Promotion of a prudent management of the urban ecosystem, including the protection and development of urban open spaces and green belts.*
- e) *Promotion of sustainable accessibility in urban areas through appropriate location and land-use planning policies.*

### **III.A.4. Partnership between towns and the countryside.**

#### *Policy options*

- a) *Promotion of (re)location strategies and environmental measures in rural areas under pressure.*
- b) *Maintenance of a minimum level of services in small and medium-sized towns in rural areas facing decline or abandonment of land.*
- c) *Support for the development of endogenous potential in these areas.*

### **III.A.5. Diversification of rural areas.**

#### *Policy options*

- a) *Diversification of the economy in predominantly agricultural areas with weak production structures.*
- b) *Ensure sustainable agriculture. Promote agro-environmental measures and the diversification of agricultural land-use in highly productive agricultural areas.*
- c) *Exploitation of opportunities for the development of renewable energy in rural areas, with due consideration given to local conditions, especially the cultural and natural heritage of each area.*

## **III.B. Parity of access to infrastructure and knowledge**

The movement of people, goods and information across the continent of Europe is marked by a tendency towards concentration and polarisation. The poorer regions are in danger of losing out. Construction of new infrastructure alone is not enough; what is required is a combination of better access to landlocked or remote areas and a more efficient and sustainable use of existing infrastructure. In parallel, the broadest possible dissemination of knowledge and innovative capacity must be stimulated.

### **Policy aims**

#### **III.B.1. Better accessibility.**

##### *Policy options*

- a) *Improvement of infrastructure, including ground and air transport services in landlocked, peripheral, ultra-peripheral, and other remote regions,*
- b) *Promotion of a more balanced intercontinental accessibility to and from the major ports and airports.*
- c) *Improving accessibility in areas without direct access to the major networks through efficient regional public transport.*
- d) *Improvement of access to telecommunications facilities and the adjustment of tariffs compatible with the provision of "universal services" in sparsely populated areas and in economically less favoured areas.*

#### **III.B.2. More efficient and sustainable use of infrastructure.**

##### *Policy options*

- a) *Encouragement of location policies which reduce the dependence on private cars and encourage multi-modal transport.*
- b) *Containment of road traffic on congested axes by e.g. road pricing and inclusion of environment costs in transport.*
- c) *Promotion of multi-modality and of combined transport on Euro-corridors. including exploitation of opportunities offered by European ports for coastal and short sea shipping*
- d) *Sharing and co-ordinated management of infrastructure where competition is resulting in over-supply.*
- e) *Improvement of links between transport services between the national and the regional levels, particularly in sparsely populated areas.*

### **III.B.3. Diffusion of innovation and knowledge.**

#### *Policy options*

- a) *Increasing access to information technologies and raising awareness of the challenges and potential benefits of the Information Society in regions where it has still not been established.*
- b) *Support the establishment of technopoles and improvement of links between higher education, applied R&D, innovation centres, industry and business in regions whose development is lagging behind.*
- c) *Achievement of a minimum level of access to higher education and research and innovation centres in remote or sparsely populated areas.*
- d) *Improvement of the level of general education and vocational skills as a part of integrated development strategies in regions where this is low.*

### **III.C. Prudent management and development of the natural and cultural heritage**

Rigorous protective measures can only cover a small part of Europe's natural and cultural heritage. For the remainder, the ideal of sustainable development calls for a more creative approach to natural and cultural heritage, capable of passing on present-day achievements and values to future generations. Greater attention should be given to the careful management and development of natural assets, water resources and rural and urban landscapes.

#### **Policy aims**

#### **III.C.1. Conservation and development of natural heritage.**

##### *Policy options*

- a) *Develop further a European ecological network, linking protected natural areas of regional, national, transnational and Community interest.*
- b) *Appropriate management of environmentally sensitive areas or areas of high biodiversity and reduction of pressure from human activities in nature areas.*
- c) *Development of strategies reconciling economic development with the responsible maintenance of the natural heritage in the other rural areas.*
- d) *Development of regional or transnational strategies for risk management in areas prone to natural disasters.*

#### **III.C.2. Sound management of water resource**

##### *Policy options*

- a) *Integrated strategies for the management of water resources and flood risk, (particularly) in transnational catchment areas of major rivers.*
- b) *Improvement of the balance between water supply and demand in areas prone to drought.*
- c) *Concerted management of major aquifers, especially coastal and transnational aquifers.*
- d) *Preservation and rehabilitation of major wetlands endangered by over-exploitation or water diversion.*

#### **III.C.3. Conservation and creative management of cultural landscapes**

##### *Policy options*

- a) *Longer-term conservation and management of landscapes of cultural and historical importance through sound land-use planning and management.*
- b) *Creative rehabilitation of landscapes degraded by different human activities.*
- c) *Preservation of characteristic landscapes in areas threatened by agricultural abandonment.*

#### **III.C.4. Conservation and creative management of urban cultural heritage.**

##### *Policy options*

- a) *Proactive strategies for integrated conservation in areas where the urban cultural heritage is at risk or becoming degraded.*
- b) *Development of strategies to control the pressures on the urban cultural heritage generated by tourism, real-estate speculation and infrastructural provision*
- c) *Remodelling, in a creative way, coherent groups of buildings situated in towns and cities suffering from degradation of their urban landscape.*

### **III.D. A framework for integrated spatial policy**

Part III proposes a framework for an integrated application of the more thematic policy options identified on a spatial basis. The actual contents of any integrated spatial strategy will, as appropriate, be defined at the Community, transnational, national, regional and local levels at a later stage of the decision-making process. For the time being, the framework is therefore merely proposed as a subject for discussion and further elaboration.

The framework for an integrated spatial policy at the European level involves three approaches:

1. geographical integration,

2. horizontal co-ordination, and
3. vertical co-ordination.

*Geographical integration* – the essence of an integrated spatial approach – combines selected thematic options with coherent spatial strategies for the future development of specific areas of the European territory. There are three levels where such strategies can be applied in a European context, according to the scale and scope of the policy options concerned:

- the Europe-wide level;
- the transnational level;
- the regional/local level.

*Horizontal co-ordination* is required to implement multi-sectoral policies.

*Vertical co-ordination* between administrative levels should ensure that different combinations of policy options applicable at different administrative levels but addressing the same geographical area are complementary.

Only through adequate co-ordination will the spatial approach be sufficiently convincing to influence sectoral policies at all levels. This system for integrated European spatial policy development is depicted in the figure below.

The transnational level is considered to be the 'pivotal' level for a full integration of spatial policy options. It is mostly transnational co-operation that can bring Member States, regions, local administration and other actors together in order to translate the E.S.D.P.'s guidelines, aims and options for spatial policy into clear spatial strategies. These transnational integrated strategies could then play an active role as guidelines both for the differentiation of Community policies in different parts of the Union and their co-ordination with the relevant national policies. Policy options which relate to spatial issues shared by geographically separate regions need to be tackled at the regional or local level and by interregional and inter-city co-operation.

### **III.D.1. A European spatial development agenda**

The need for policy co-ordination is already recognised at the European level. There are clear spatial interrelationships between the various policies, and these reflect the potential for an *integrated spatial development policy agenda*. The main elements of this could be:

- mutual support between a better spatial balance and economic and social cohesion;
- balanced urban and regional competitiveness through an integrated approach to urban and regional networking, with clearly defined regional, national and international roles for towns and cities;
- better accessibility, not only through a coherent combination of different means of transport, but also in terms of education and vocational training;
- reinforcing EU border regions and their cities, including the development of gateway cities, multi-modality in Euro-corridors, parity of access to telecommunication facilities and intercontinental accessibility;
- the development of Euro-corridors — a number of which have already emerged — as a conceptual tool for integrating a range of policies for infrastructure, multi-modality, co-operation between cities, etc.;
- sustaining and developing Europe's biodiversity by successfully developing a European ecological network.

### **III.D.2. Transnational strategies**

Transnational areas are geographically continuous areas, in most cases covering at least (parts of) three countries. This is the level at which many spatial issues of a European dimension manifest themselves and where the basis can be found for regional and urban co-operation across national borders. This is already being applied in seven large transnational co-operation areas under the INTERREG II-C programme. A further set of five co-operation areas is foreseen under Article 10 of the E.R.D.F. (European Regional Development Fund).

By its very nature, the size of a transnational area has to be flexible. Transnational areas may be identified in the first instance by physical and human geographical features, for example: river catchment areas, mountain areas, maritime basins as well as areas in predominantly urban areas with a weak economic structure, very densely populated parts of urban areas with a very strong economic structure. They may, however, also be defined by the policy contents of the spatial strategies and will often partly overlap in terms of geographical coverage. The strategies, to be defined by the national and regional authorities co-operating closely, may reveal the need to take the spatial or geographical characteristics of the various parts of the Union into account when applying Community sectoral policies.

### **III.D.3. Regional and local co-operation**

Many of the policy options requiring co-operation at the European, and particularly the transnational level, are dependent on complementary policy implementation at the regional and local levels, from small towns in rural areas to large metropolitan regions. There are two aspects to integration at this level.

1. *Cross-border co-operation and development of cross-border spatial strategies*: A number of INTERREG cross-border regions are already reaping the added value of setting cross-border projects within integrated

spatial development frameworks. It is the intention of the E.S.D.P. process to encourage the development of similar frameworks of co-operation.

2. *Interregional co-operation on spatial issues shared by geographically separate regions:* It is one of the basic assumptions of the E.S.D.P. process that regional and local communities and administrations should present their own views on how co-operation at the transnational or even European level may best contribute to meeting their aspirations in the Europe of tomorrow. Policy options of common interest can be designed, assembled and integrated with the aim of encouraging action primarily at the regional or local level.

Action at the regional level could include, for example, co-ordinated development of transport infrastructure, action programmes for the maintenance of settlements in rural areas facing population decline or abandonment of land, the sustainable development of landscapes, or the prudent management of water resources. Local action might involve joint strategies for economic diversification aimed at developing clusters of cities and urban networking, adoption of planning concepts for the sustainable city including multi-modal transport strategies, urban/rural partnerships for spatial development strategies.

#### IV. Carrying out the E.S.D.P.

Despite its indicative nature, the ESDP is meant to bring about tangible results. Application on a voluntary basis will therefore play a major role. Part IV reviews a series of questions relating to the putting into practice of the E.S.D.P. strategy and provides a framework for drawing up Part IV of the future E.S.D.P. document.

Firstly, the lack of reliable, comparable and geo-referenced data to underpin the E.S.D.P. is noted. Part IV therefore suggests the creation of a European Spatial Planning Observatory Network (E.S.P.O.N.) to provide the necessary technical and scientific base for that process. The network is to work in close co-ordination with existing bodies operating at the European level and addressing questions of relevance for its remit such as EUROSTAT, the European Environmental Agency in Copenhagen, The Common Research Centre in Ispra or the Institute for Prospective Technological Studies in Seville.

Secondly, a completed Part IV will examine whether existing mechanisms and instruments (legal and financial), both at the European level and within the Member States, are adequate to translate the E.S.D.P. into practical action. The possibilities to extend transnational, cross-border and inter-regional co-operation beyond the present INTERREG II A and C programmes as well as the pilot actions and projects co-financed under article 10 of the European Regional Development Fund will be considered.

Finally, Part IV will address crucial questions relating to horizontal and vertical co-ordination, geographical integration, the periodical review of the E.S.D.P. as well as its status.

At the meeting of the European ministers responsible for spatial planning that took place in Noordwijk in the Netherlands in June 1997, and in subsequent discussions on the conclusions of that meeting, agreement was reached on the following major lines of action:

- A wide political debate within each Member State, between Member States and between the European Commission and other European institutions will take place over the next 18 months or so, starting in the Autumn of 1997. Partial results of these debates can be expected under the Luxembourg and British Presidencies.
- Starting at the same time but ending with the U.K. Presidency, cross-sectoral/ interdepartmental consultations will take place within Member States and between national, regional and local administrations. The Commission intends, for its part, to organize consultations within its own services, the first results of which will be presented at the end of the UK Presidency.
- A work programme for drawing up a revised version of the E.S.D.P. under British Presidency will be defined, identifying the key issues that will need more attention in the near future. This will involve among other things elaborating Part IV under the Luxembourg Presidency and further refinement of Part II.
- A proposal on the E.S.P.O.N. will be submitted for agreement at a ministerial seminar under the Luxembourg Presidency in December 1997.