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**Rural Development Policies and Agricultural Adjustment
Berkeley Hill¹**

1. Introduction

The purpose of this paper is to examine the part that rural development policies can play in assisting the process of adjustment by the farming industry following the reform of agricultural policy. For a mix of historical and institutional reasons, rural development policy has been far weaker than agricultural policy in the EU. It has lacked the strong legal base of the Common Agricultural Policy (CAP), it has lacked a clear and accepted set of policy aims (a reflection of the complexity of the real problems faced), has lacked a strong set of institutions that “own” rural development (though some countries, including England, have recently reformed government departments on more “rural” lines), and has lacked an appropriate set of statistics at EU level. Nevertheless the shift in policy within the EU is clearly towards seeing agriculture as a component of the rural world rather than a separate activity, as was formerly the situation. Consequently, policy to assist adjustments that agriculture will need to make following future policy reforms will be increasingly within the context of rural development policy. It is timely to review what exists that can be of assistance to farm operators and the way in which this is likely to change over the next few years..

This paper draws on experience by the author in undertaking the baseline study of the England Rural Development Programme (for Defra, in 2002) and carrying out the mid-term evaluation of the Wales Rural Development Plan (for the National Assembly of Wales, on-going).

2. Agricultural adjustment and the rural world

Economists and statisticians are familiar with the trend of relative decline of agricultural activity (the production of a list of commodities deemed to be agricultural (within the process of economic development. The shedding over time of labour (and to some extent land) from the resource base is typical of industrialised countries, though it is not a universal and entirely consistent phenomenon. Some politicians and leaders may not be fully aware of the inevitability of structural change (for example, but an attachment to the “family farm”) but there can be little doubt over the strength of the fundamental economic forces at work.

History shows that structural adjustment takes many forms beyond the farm-number-and-sizes statistics commonly used to describe it. This complexity is in part a reflection that, in most OECD countries, agricultural production takes place in units that, in numerical terms, are mostly operated by households as unincorporated

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businesses. Adjustment is made within the context of the behaviour of household units, which combine economic activities (both production and consumption) with social and other functions. Changes take place over time; generational shifts of business control have been identified as important to the adjustment process.

Allocating resources in ways that combine agricultural production with other activities (pluriactivity) by individuals and by households is a long-observed response phenomenon². Most farms are operated in this way, though the share will reflect the definition of agricultural household used. The other activities are not necessarily connected to the farm business or even to the local economy. But it is not safe to assume that even the majority of households that engage in it are the result of once-full time farm families deciding to diversify. New entrants to agriculture are often pluriactive, with motives that are only partly associated with an interest in profiting from producing farm commodities. Among statisticians it is increasingly recognized that farms are engaged in activities that do not appear on the agricultural list (for example, Offutt 2002).

The third element in this background concerns the economic context in which farmers find themselves. It is often assumed that farmers are part of the “rural economy”, though this concept is hard to defend when there are no clear boundaries and when flows are diverse. Rather it is perhaps sounder to be concerned with what is found in “rural areas”, in terms of the people who live there, the businesses that are registered there, and the natural resources located there, though there is a substantial problem in defining such areas. The approach appropriate for England (where the countryside may contain rather rural and urban land uses closely inter-mixed, suggesting that rural areas are best described at a small geographic level) is rather different from that in rural Wales (where there are no large towns, and a relatively large Unitary Authority – or country – can be taken as the basic unit). Where a range of definitions are possible, it is clear that different definitions produce rather diverse pictures of the size of the “rural” population and its relative geographic size (Pfudere, 2003).

In England the composition of activities found in rural and urban area (defined in terms of electoral wards with particular rural characteristics) are very similar, as are also their economic and social problems (unemployment, crime etc.), though typically (in the UK) the severity of rural problems is less. While the presence of farming is a feature of rural areas, for most of them agriculture is a very small part of the activity base. The economic prosperity of rural areas is primarily affected by what goes on in the non-agricultural sectors, and shifts in agricultural prosperity are unlikely to have much impact on their broader economic activity. Research is progressing on the general factors associated with regions that are lagging behind; these include remoteness, human capital etc..

The economic character of rural areas is subject to adjustment because of economic, social and political factors, so that the problems faced by farmers should be seen as a subset of those impinging on the broader rural area. Various typologies of rural areas have been developed to reflect the mixes found and to help shape policies. In the EU

² Strategy is perhaps an inappropriate, as this implies a deliberate and planned process, which may not always be the way in which decision are reached.

regions felt to be lagging behind have been the subject of policies to assist them, a sense of equity being part of the rhetoric justifying actions.

The debate about whether or not there is a distinctive “rural economy” in the EU has not obscured the fact that adjustment by farm operators typically includes a greater involvement with non-agricultural activities, whether as the supplementary, main, or sole source of income (that is, by leaving agriculture completely). The availability of opportunities to adjust is crucial.

Though agricultural adjustment is unlikely to have a major impact on the economy in many EU rural areas³, the same is not necessarily true of its impact on landscape, biodiversity, and the social fabric and culture. Evidence is mounting on the environmental and landscape significance but is not strong on the socio-cultural side. Nevertheless, these factors carry substantial political valency (such as support within the National Assembly for Wales of Welsh-speaking farmers). A key factor in the economic, social and environmental outcome of the adjustment by farm families is whether or not this involves quitting the occupancy of the farm.

3. Agricultural and rural development policies

For historical reasons, in the EU the policy for agriculture and the policy for the economic development of regions that were lagging behind (many of which were rural) have separate roots. Prior to 1988 agricultural policy took little notice of the broader economic implications of its interventions (other perhaps than to assume that support for agriculture benefited the rural economy generally) while regional development was very largely concerned with non-agriculture, it being assumed that agriculture was already well catered for. A few excursions into integration were not entirely successful (for example, in 1981 three small ‘Integrated Programmes’ were adopted for areas, of Scotland, France and Belgium and in 1985 the Integrated Mediterranean Programmes were intended to help southern regions of the EC-10 to face up to competition from new Member States, in particular Spain).

However, 1988 proved to be a milestone in the process of bringing agricultural and regional development policies together. In that year the Commission published an analysis of the problems of rural areas (*The Future of Rural Society*) that took a broad view. It grouped areas into three basic types according to the mix of problems; the role of agriculture differed between them in the manner that it could be used as an instrument to relieve problems (as a agent to counter urban pressure on the environment in areas such as southern England, as the basis for diversifying the economy in more remoter parts and, in extreme cases, as the only way of maintaining incomes and populations in very remote areas). At the same time (though not apparently part of this review) the way the three EU Structural Funds (European Regional Development Fund, European Social Fund, and the European Agricultural Guidance and Guarantee Fund) operated was reformed. From 1988 their activities were to be coordinated and concentrated in selected areas:

- Objective 1 Areas were regions that were lagging behind (defined in terms of GNP/head), many of which were rural (the whole of Ireland was covered,

³ Defra instructed the evaluators of the England Rural Development Programme that its impact on the general rural economy was likely to be so weak that it was pointless to look for it.

and the western half of Wales) and for which multi-annual programmes were devised that would help the areas, including some assistance to farm businesses.

- Objective 5a covered assistance to agriculture to enable it to adapt (not limited to designated areas), while areas designated with 5b status were those outside Objective 1 areas that were deemed to be suffering from rural development problems that needed assistance.

This basic framework remained substantially in place until the introduction of the *Agenda 2000* package of 1999 and its associated Rural Development Regulation 1257/1999, discussed below.

In addition, in 1991 the EU launched the LEADER programme to support local rural partnerships involving agencies and institutions in Objective 1 and 5b areas with “bottom up” integrated rural development projects of a pilot nature. LEADER 1 (1991-4) has been followed by LEADER II (1995-2000) and, now, LEADER+. However, expenditure on these initiatives is small in comparison with agricultural and other rural spending.

4. Policy for structural change in agriculture

EU agricultural policy has been primarily defensive against the long-term economic pressures on farmers, which have been temporarily blunted but not fully countered. They have been narrowly sectoral and production-orientated. Funds have been concentrated in agricultural market policy – with a first-call on EU budget (“compulsory expenditure” taken to flow from Treaty commitments). There has been strong vested interests inhibiting change in the basic orientation and balance in support to agriculture, reflecting strong pro-farmer pressure groups, the heavy political weight attached to farm support, and a strong institutional structure behind agricultural support (dedicated administrations capacity, legal framework.).

From an early stage in the CAP there has been recognition of the necessity for structural change, though the assistance provided has been very slim when put alongside the commodity regimes. The Mansholt Plan of 1958 advocated major shifts of resources out of agriculture and changes to farm sizes, but its prescription was politically unacceptable at the time; in the event the outcome comprised some very modest directives of 1972 that made provision for farm modernization (including investment in buildings and machinery), early retirement, and the provision of socio-economic advice (such as on diversification and retraining). Rather more significant was the directive of 1975 that set up a system of targeted support to producers in Less Favoured Areas (hills and mountains). These were not entirely new ideas, as they were based on existing national models⁴. These elements, with their rural development associations, have continued in various forms.

Subsequent reforms of the CAP have compensated farmers for cuts in institutional support prices with direct payments of various forms. These may be regarded as dealing with short-term adjustment. The 1992 MacSharry reforms introduced direct payments for cereals, oilseed and protein crops based on areas, and with livestock

⁴ For example, the UK Hill Farming Act of 1946

payments for beef and sheep. These were carried forward and increased in the *Agenda 2000* reforms agreed in 1999 and changed to a simplified historically-based direct payment in the mid-term review of 2003. Though justified initially as “compensation” there has not been any serious attempt to scale them down over time as the event that gave rise to them has receded.

Alongside these production-related aids to the acceptance of policy reform there has been a second pillar, comprising measures designed at changing the structure of agriculture. These started with the “accompanying measures” of the 1992 MacSharry reforms. Based on existing examples, these “accompanying measures” comprised agri-environmental schemes, afforestation (mostly on agricultural land), the payments to farmers in disadvantaged areas (that cover just over half the UK), and early retirement. Over time to these have been added other schemes (“non-accompanying measures”) for a range of purposes (see below). It should be noted that, first, most of these structural measures are jointly financed in various combinations from the EU and national budgets, an arrangement that curbs the enthusiasm for them in countries such as the UK. Second, the implementation of these measures requires schemes to be drawn up and administered at national level.

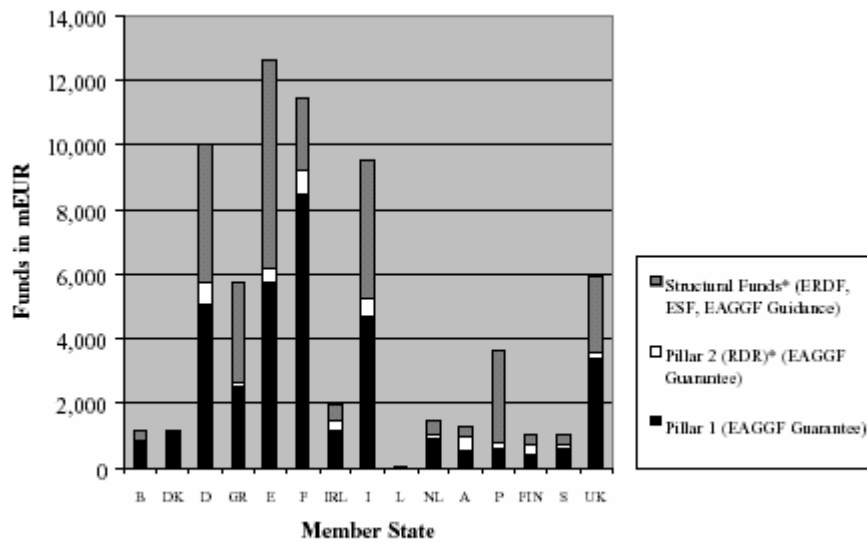
5. The present situation – EU rural development policies

Existing forms of non-commodity EU-funded support, with a few new actions⁵, were brought together in the Rural Development Regulation (RDR) 1257/1999, intended to operate during the period 2000/06. For reasons that will become clear, the title is rather a misnomer, though development forms part of its contents. This “Second Pillar” of the CAP is still quite a slim one, accounting for less than one fifth of the total support spending even by 2006 (see Figure 1). However, resources can be increased for the “accompanying measures” component (which in effect means mainly the agri-environment schemes) by “modulation”, whereby a fraction (up to 20%) of the direct payments under the Common Market Organisations (commodity regimes) may be withheld from farmers and diverted to this purpose, a process that attracts additional national funding too. This funding must be used in an additional way, not to displace national spending.

Because of the way that rural development is funded from the two sections of the agricultural budget (guarantee and guidance – see Figure 2), some elements of the RDP operate throughout the territories of Member States (the “accompanying measures” of the CAP) but for the others the RDR applies only outside areas given Object 1 status (or for some outside areas with Objectives 1 and 2 status). However, while this presents organizational and funding problems, these are not usually evident from the farmers’ viewpoint. Some countries (such as Wales) have ensured that the schemes operate on a national basis, with some small differences between Objective 1 and other areas (such as rates of grant). However, some forms of assistance may be available to farmers who operate under Objective 1 programmes that are not open to farmers in other areas.

⁵ New measures related to payments to compensate for environmental restrictions on land (Article 16 of RDR 1257/1999), and for certain forestry actions that had ecological and fire safety connotations (Article 32).

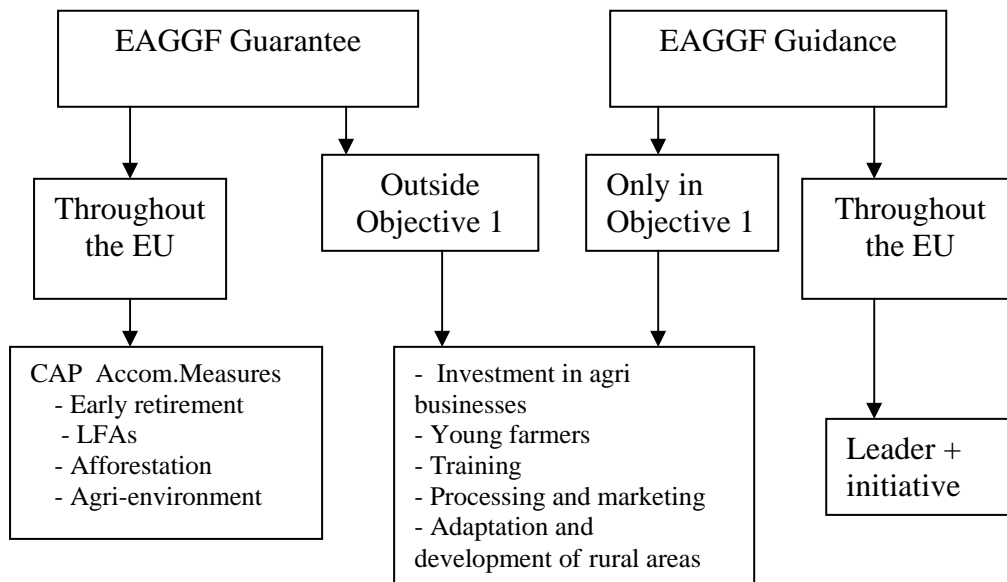
Figure 1 EU spending on agriculture (pillar 1), RDR (pillar 2) and the Structural Funds in Member States (Source LUPG 2002)



* annual average expenditure, 2000-2006

Source: Agra Europe (2002), European Commission (2001b) & European Commission (1999a)

Figure 2 Structure of financial support for rural development in the EU



The RDR has chapters and articles that provide for support for designated purposes, though the actual operation needs implementation through national schemes and measures, requiring appropriate enabling legislation. Implementation takes place

through multi-annual Rural Development Plans, drawn up by Member States and agreed with the European Commission, at which stage they become Rural Development Programmes (for example, see MAFF 2000 for the England RDP and NAW 2000 for the Welsh RDP). These RDPs must contain agri-environmental measures, though others contents are optional at national levels.

The RDR Chapters cover the following forms of support:

Chapter I – investment in agricultural holdings (covering on-farm investment for reducing production costs, improving and redeploying production, quality improvement, improving the natural environment, hygiene conditions and animal welfare standards, and (on-farm) diversification. In Wales this Chapter is implemented through the Farm Investment Grant and Farm Enterprise Grant Schemes, with the equivalent Farm Enterprise Scheme in England.

Chapter II – setting up young farmers (i.e. aged under 40, where the holding is viable and where the person is the head of the holding). Neither England nor Wales have chosen to apply schemes under this Chapter, one factor being the smallness of the sums that could be paid in relation to the costs of new entry. Nevertheless, Wales has encouraged young farmers by providing higher rates of support under other schemes.

Chapter III – support for vocational training (of persons engaged in agriculture and forestry – and not limited to holders). The main method used in England and Wales has been to conduct skills checks and then provide finance to the *providers* of training for setting up training schemes.

Chapter IV – Early retirement of elderly farmers (55 years and over but not of normal retirement age) and with assistance of farm transfer, but with support also for an income to farm workers. Neither England nor Wales have chosen to implement schemes, the main argument being very high deadweight, low additionality, and the very large sums that might be involved. Also there has been a feeling of inequity, in that similar schemes are not available in other occupations.

Chapter V- Less favoured areas and areas with environmental restrictions (area payments on land deemed to be of LFA status). In effect, this means a supplementary area payment to farmers in LFAs, with a differentiation between those in Disadvantaged Areas and Severely Disadvantaged Areas. Payments of a similar nature, given for a mix of environmental and social reasons (population maintenance in hill areas) have been given in the UK since at least 1975.

Chapter VI – Agri-environment (the only category in which it is mandatory to offer schemes). The assistance is to promote ways of using land that are compatible with the protection and improvement of the environment, the upkeep of the landscape, the use of environmental planning in farming practice etc.. In England this has formed the basis of the Countryside Stewardship Scheme, payments to farmers in Environmentally Sensitive Areas etc.. In Wales it is the basis of the Tir Gofal (a menu-based system for

environmental enhancement by management agreements and capital projects). In both countries an Organic Farming Scheme falls under this chapter.

Chapter VII – Improving processing and marketing of agricultural products (grants mostly to non-farmer firms)

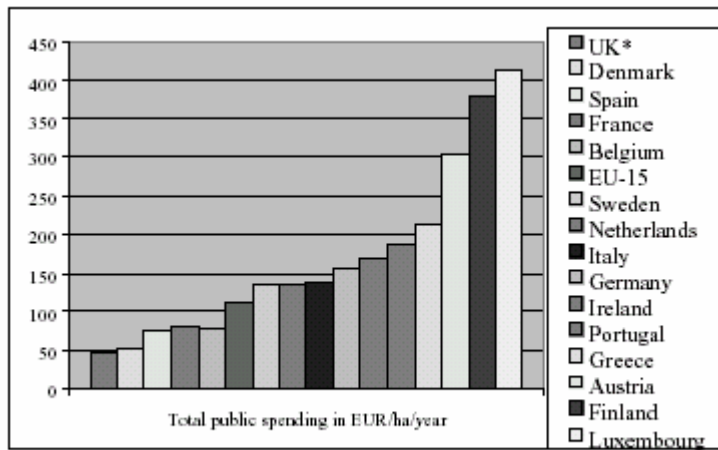
Chapter VIII – Forestry (including woodland creation by planting and natural regeneration, and management of forests, and provision of income support for a run of years when land is switched from agricultural use to forestry).

Chapter IX – Promoting the adaptation and development of rural areas (including land reparation, setting up farm relief and farm management services, marketing of quality agricultural products, basic services for the rural economy and population, renovation of villages and conservation of the rural heritage, diversification of agricultural activities and those close to agriculture to provide multiple activities or alternative incomes, encouragement for tourism and craft activities etc..)

The RDPs have been criticized on the following grounds:

- That they are complex packages that were drawn up to a very tight timetable to meet a EU administrative deadline, so were less than well-balanced, coherent and consistent.
- The tendency was to take existing support schemes and fit them into the RDR framework as well as practical in the short time available, making for poor scheme design and incomplete matching with the aims of the RDR. Appraisal was therefore truncated or otherwise inadequate.
- The allocation of resources to the various activities was based largely on historical commitment (e.g. farmer expectations that support for hill farming would continue) rather than on an analysis of opportunities and needs, resulting in (arguably) highly inefficient use of resources. The relatively low level of spending per ha under the RDP in the UK is a reflection of this country's lack of historical activity compared with other Member States (Figure 3).
- That they are agri-centric, with farmers clearly the main target group, directly or indirectly, though they (generally) form only a small section of the population of rural areas (about 3.5% of the residents of rural areas in England).
- In many countries (including the UK, Sweden, Finland, Ireland, Luxembourg, Austria), agri-environment schemes and support for farmers in hill (disadvantaged) areas dominate spending, actions that might not be considered appropriate for a package directed at development (see Figure 4)
- They do not address in a significant way the central issues facing rural areas (remoteness, poor infrastructure and communications, narrow economic base, disparities of access to services, encapsulated poverty, lack of a diversified economic base etc.).

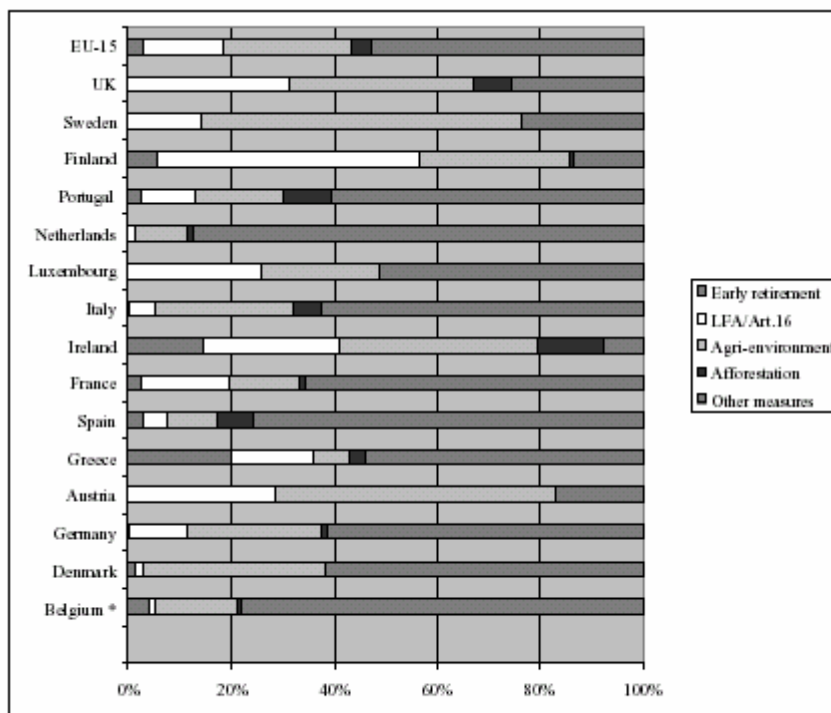
Figure 3 Average annual public expenditure per ha UAA under the RDR



* includes modulation receipts

Source: DG Agri pers. comm.; DG Agri pers. comm. & DG Agri (2001)

Figure 4 Planned allocation of RDR spending in Member States 2000-2006 (Source LUPG 2002)



*without € 1.7m Accompanying Measures for Flanders.

Source: DG Agri pers. comm.

- They are almost invariably administered (in the EU) by agricultural department, that have “limited experience of delivering such a multi-faceted instrument” (Land Use Policy Group, 2002). However, a recent survey by the UNECE found that responsibilities for rural development are now spread wider (Pfuderer 2003) and several countries have reorganized to make this evident (including in England the substitution for the Ministry of Agriculture, Fisheries and Food by the Department for Environment, Food and Rural Affairs in June 2001)

It is perhaps paradoxical that the flaw of being heavily biased towards farmers may be seen as a strength if the RDPs are viewed as one way in which agriculture can encouraged to adapt to changes in agricultural policy. There are several elements that encourage structural change. These include farm diversification assisted by investment grants and training (including into establishing forestry by new planting), early-retirement by providing pre-pensions and assistance with related farm restructuring, and marketing improvements. However, these are not a strong feature the RDP and account for only a small minority of expenditure. Most goes on environmental schemes and compensation for hill farmers, at least in the UK, forms of assistance that do not really help the process of *economic* development by assisting farmers to adjust to the present shifts in agricultural policy towards a more market-driven approach.

It is worth noting that agri-environment assistance comes in two main forms. One comprises payments to undertake projects that are deemed to enhance the environment, such as restoring field features (hedges, walls etc. or to undertake planting of trees). However, the other comprises payments are linked, at least in theory, to the pertaining level of farming prosperity. This applies to the compensation for income forgone by undertaking certain actions, such as the establishment phase of creating woodlands, and conversion to organic production. The payments to farmers in hill areas are also compensation for the handicaps under which they operate, compared with the conditions faced by farmers in other areas. Agri-environmental management agreements are to make up what is being lost through adhering to certain land-use practices. Consequently, a decline in farming prosperity resulting from lower support should lead to a *reduction* in the size of these payments. In practice, of course, such action would be hotly contested. Recent research suggests that farmers receiving agri-environment payments (in Wales) regard them not so much as payments in return for the supply of environmental services, but rather as income support.

In hill areas, the schemes that pre-dated those based on the RDR had the explicit aims of protecting the environment and maintaining the numbers of people living there. This was to be achieved through the intermediate objective of supporting the incomes of farmers, with annual reviews taking place of the changing economic situation of these farms (net farm income being a main indicator). The rationale for such payments has now changed to one of compensation for the disadvantages of increased costs and/or lower value output⁶, though not the nature of the support (though there is a switch to an area-based system rather than per animal). However, there seems not

⁶ In Wales, for example, the extent of the handicap and thus of the required compensation has not been calculated. In England it is assumed that payments only a contribution to the required compensation, so that detailed calculations are not justified.

to have been (in England and Wales at least) much attempt at measuring the degree of the handicap (higher production costs etc.) or of keeping calculations up to date. The view (in England) that the payments only partially offset any handicap, so that detailed calculation is not justified.

National rural development measures and agriculture

Though payments that attempt to adapt the structure of agriculture to better fit the new market and policy conditions are mostly routed through RDR/RDP schemes, there are others that are under national control.

Firstly, there are those that receive approval under state aid rules. These include, for example in England, the emergency scheme to restructure the pig industry in 2000/1 (Pig Industry Restructuring Scheme – PIRS) and the Agricultural Development Scheme, which aimed at marketing improvements. However, the passage through state aid rules is tortuous and lengthy.

Secondly, there are forms of assistance that are deemed not to form part of the CAP. For example, grants by the Welsh Tourist Board can assist farmers to develop facilities and in other ways to enhance tourist activity. In England the Action Plan for Farming, a grouping in 2000 of some 63 “Action Points”, contained many that were intended to assist in farm adaptation and rural development, including the provision of free advice on planning issues relating to diversification, improving IT access and skills, rural buildings grants and organic demonstration farms. In Wales, “Farming Connect” is a nationally-funded system that enables individual farms to prepare development plans and acts as a portal for access to schemes funded under the RDP (for diversification, afforestation etc.) and forms of national assistance. In addition to these national-level measures, there may be local ones, for example in National Parks.

6. Prospects

The EU requires Member States to carry out mid-term evaluations of their RDPs by the end of 2003. For England and Wales the evaluators are likely to follow up each of the broad criticisms outlined above, together with issues of a more administrative nature (such as the method of selecting agri-environment submissions, in which scoring systems can be used that rank project or in which a threshold qualification can be applied accompanied by queuing). One purpose is to point to changes that need to be put into effect for the remaining period of the plans / programmes.

Second, there are changes flowing from the mid-term review of *Agenda 2000*. The CAP reforms agreed on 26 June 2003 included a strengthening of rural development policy, with new measures available from 2005 to promote the environment, food quality and animal welfare, and to help farmers to meet the EU “production standards”. These would not appear to represent a major change in direction.

The responsibility that Member States have for evaluating rural development policies has highlighted the problems resulting from the institutional structure in many countries and the inadequate state of suitable rural statistics by which policy assessment can be carried out. While agricultural statistics have a long history and are generally strong on matters of production and resource use, in many countries they

have weaknesses in covering the non-agricultural activities of farmers and their families, precisely those that are the subject of development (Hill 2000). In terms of the broader economic and social conditions of rural areas, covering non-agricultural businesses and residents found in rural areas, in many countries even basic information is lacking or, where data exist in fragmented sources across government, there is inadequate ability to bring them together. Without such statistics it is difficult to make progress in rural development policy⁷.

But perhaps the most substantial factor determining the way that rural development policy will go in the EU is the running out of the RDR/RDP planning period in 2006. This is likely to end support under Objective 1 for existing areas when regional development funds are switched to new entrant countries (accession is likely in 2004). For countries like Wales this represents a potential major reduction in funds. When this happens, a revised RDR is likely to be the only channel of aid to the less prosperous rural areas. The Commission intends that the present complex delivery mechanisms be replaced by a dedicated European Rural Fund, to come into effect from 2007 (Rural Europe, 2003). However, the nature of the new RDR, the Plans and Programmes to which it gives rise and the funding mechanism is at an uncertain stage.

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⁷ In England Defra has recently established a system of rural statistics, following a report by Hill (2002, 2003). The UNECE has become interested in assessing the situation internationally (see Pfuderer 2003)

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