

# **Towards a new European rural policy**

## ***Building the Second Pillar of the CAP***

### **1: Introduction**

The problem of how to reform the Common Agricultural Policy (CAP) has prevailed over European-level discussions of rural and agricultural policy for many years. Successive reform attempts have focused on two areas: first, controlling over-supply and cutting back on prices and production subsidies; and secondly, introducing new measures to deal with growing environmental and social problems in rural areas.

In 1999, a key step forward was made on the path of CAP reform. The architects of European farming policy designed a new, ambitious structure – the so called ‘Second Pillar’ of the CAP. Unlike the First Pillar, with its narrow focus on agricultural commodities and market management, the Second Pillar moves beyond food production to recognise and support a much more diverse range of activities in rural areas. The real significance of this Second Pillar, more formally known as the Rural Development Regulation (RDR), is only now becoming apparent: it provides a real and much needed alternative to a production-focused EU farming policy.

Governments, NGOs and other stakeholders in favour of further CAP reform generally argue for a move of the subsidy regime away from supporting food production to supporting the rural environment more widely. Only in this way can the CAP be turned into a progressive and effective policy that addresses the needs and demands of rural areas. As we stand on the brink of enlargement eastwards, the need for such a policy has never been more apparent. Achieving the goals of economic growth, social progress and environmental protection – the three legs of sustainable development - present these countries and the EU as a whole with huge challenges that will not be met by a policy which is narrowly focused on food production. New Member States (MS) need more than a simple transfer of the production subsidy system to farmers; they need a Marshall Plan for rural areas.

This new policy direction was expressed most clearly in the Proposals for a Mid Term Review of the CAP published recently by the European Commission. These proposals suggest that EU Commissioner Franz Fischler’s vision for rural policy goes well beyond what he was able to deliver through the last Agenda 2000 reforms. This vision is one of a decentralised rural policy that is equipped to address the serious environmental, agricultural and demographic problems of the European countryside. Fischler’s proposals are an indispensable step on the way to realise that vision.

Within the next 10 years, an enlarged Europe must have moved to a much more market-orientated and competitive agriculture, whose strengths lie in producing safe, high-quality foodstuffs for both the domestic and global markets. Market-distorting mechanisms (price support, intervention, export subsidies and supply control measures) must have been abolished. But a blind push towards an unfettered market will not in itself guarantee either a sustainable agriculture or lead to sustainable rural development. Without positive measures in place to address them, issues such as contamination of drinking water, loss of biodiversity, displacement of rural

communities and loss of jobs in rural areas will almost certainly continue. Pillar II, with its emphasis on broadening the economic basis of farming, environmental protection and rural regeneration must offer real hope for the future.

But are we wrong to rest so much hope and goodwill on Pillar II of the CAP? Can it really deliver what we want it to, especially in the new Member States of Central and Eastern Europe?. An inadequate Pillar II runs the risk of establishing an alternative regime for subsidies and rural development that embeds the problems of the past in a new framework. This paper considers whether Pillar II is really up to the job and how EU rural policy instruments must be reformed to provide a strong policy framework for post-enlargement Europe.

## **2: Why did Pillar II develop?**

### **2.1 The current CAP has failed to deliver**

#### **2.1.1 Pillar I has never been a 'total solution'**

After a series of difficulties and delays, and with the help of some financial compensation for farmers in Germany, Italy and Luxembourg, the 'Common Agricultural Policy' began with an alignment of cereal prices on 1 July 1967<sup>1</sup>. However, even as the CAP was being established, fundamental problems were emerging within the agricultural sector.

\* It soon became clear that a wide range of 'structural' issues were not being addressed through 'price' policy. These included: how to encourage young farmers; how to manage the exodus from the land; how to address the problems of small and/or marginal farms; and how to support a broadly-based rural economy not solely dependent on agricultural production. The first real reform proposals were subsequently published by the European Commission and became known as the Mansholt Plan after the then Commissioner for Agriculture, Sicco Mansholt. These proposals failed to gain ground but it is interesting to note that many subsequent reforms of the CAP have, broadly speaking, attempted to address a similar range of structural problems while attempting to control production and reduce price support.

#### **2.1.2 People want rural policy to deliver more than the traditional CAP**

The European Union's 370 million citizens (soon to be joined by a further 105 million as the EU is enlarged) have different expectations today of what a policy such as the CAP should deliver than they did even just a few years ago. In particular, the problems of BSE, dioxins in food and issues relating to genetically modified crops have influenced consumer opinion and behaviour. A June Eurobarometer opinion poll suggests that a majority of Europeans want to see a change in the way the CAP supports EU farmers. According to the poll, EU citizens believe the priorities for the CAP are to ensure that agricultural products are healthy and safe, promote the respect of the environment, protect medium- or small-sized farmers and help farmers to adapt their production to consumer expectations.

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<sup>1</sup> Robson, N (1997) The evolution of the Common Agricultural Policy and the incorporation of environmental considerations. In Pain D J & Pienkowski M W (Eds) (1997) *Birds in Europe: the CAP and its implications for bird conservation*. London: Academic Press.

### **2.1.3 There are significant internal and external factors demanding a different approach**

The circumstances under which the current CAP has to operate today are very different from 1967 although many of the same problems still exist and need to be addressed.

Changing consumer habits and lifestyles, growing environmental awareness, increasing tourism and leisure activities and demands for sustainable rural development all point to the need to reassess the role of farming and to shift policy away from simply encouraging food production. At the same time, from the perspective of the European Commission and Member States, the need to simplify legislation and administration of public funds as well as the need for transparency in the use of those funds have also come to the fore. Preparing for EU enlargement (see 2.1.4), aiding economic and social cohesion and providing viable alternatives to market-distorting production subsidies (to facilitate world trade) are further and substantive reasons as to why adopting a rural development policy must be a seriously considered approach for the 21<sup>st</sup> century.

### **2.1.4 EU enlargement requires a different policy response**

The accession of Central and Eastern European countries to the EU presents a set of economic, social and environmental challenges that the current CAP is incapable of dealing with. The farming sector in these countries is characterised, on the one hand, by a small number of commercial holdings and, on the other, by a large number of subsistence or semi-subsistence holdings averaging less than 5 hectares. In Poland, 18.8% of the workforce is engaged in agriculture; the average figure for ten accession countries is 9.8% (see Appendix 1 for further details). A policy focused on price and production support will not bring about the structural adjustment needed in the farming and rural sectors in these countries and could lead to over-production of some commodities, environmental degradation and social decline. With unemployment running at 13% in some countries and GDP (as a percentage of the EU 15) varying between 30% and 80%, these countries need a policy that contributes to economic prosperity and creates jobs in rural areas without destroying the current environmental assets.

## **2.2 A rural development approach offers clear benefits**

A new rural policy for Europe would:

- Distribute resources consistent with rural development and environmental needs;
- Offer good value for taxpayers money;
- Reflect current thinking on sustainable development;
- Cut the hidden costs to consumers and taxpayers of the current CAP;
- Encourage the efficient use of resources;
- Offer a level playing field for trade, especially with developing countries;
- Be compatible with EU enlargement;
- Be less complicated, bureaucratic and centralised than the current CAP;
- Be consistent with other EU processes and policies.

There are a number of clear benefits of a rural development approach over the current CAP.

### **2.2.1 A rural development approach can devolve responsibility and create choice**

The 'one size fits all' concept inherent in the current CAP has significant failings, not least for an industry as diverse as European farming. Currently, Common Market Organisations for dairy or beef, for example, establish a set of rules and conditions, which all farmers must adhere to irrespective of the locality in which they farm, the farm size, or its natural or human resources. Unsurprisingly, most farmers respond in similar ways: by strategies which maximise profitability from the limited subsidy system available. In the majority of cases, the most economic option has been to increase farm size and maximise output while seeking to reduce inputs and costs.

Pillar II, on the other hand, could offer a much more decentralised and flexible policy model. In the best cases, it allows for devolved decision making and a 'bottom-up' rather than 'top-down' approach to deciding what is needed in rural areas. The role of institutions at the centre becomes one of guidance (by providing a clear framework within which to work) and monitoring to ensure the approach is working and provide feedback. This approach also offers farmers much more choice about how to run their businesses. By focusing on food quality, the environment, farm diversification – to name just a few of the choices on offer – a rural development approach encourages farmers to think much more broadly about their business and consider what the market demands, not what subsidy prescribes. It allows Member States to develop programmes and schemes suited to local circumstances and conditions.

### **2.2.2 A rural development approach responds better to the requirements of the market**

Cutting production subsidies, increasing funding for rural development and broadening the range of such measures would force farmers to become much more market-orientated. This is likely to lead to much greater economic and social dynamism in rural areas than might otherwise exist.

\* The value of this can be seen from national examples. A UK Government Task Force<sup>2</sup>, asked to identify ways in which Government could help English hill farmers develop sustainable business enterprises, found a wide range of existing responses to similar opportunities under the England Rural Development Plan. Farmers had developed a number of entrepreneurial approaches, ranging from traditional tourism activities such as farmhouse Bed and Breakfast to a livery business or to producing cheese from sheep milk and selling it through a major UK retailer. All these farmers were optimistic about the future for their businesses and were contributing to the rural economy by taking on additional labour and using local goods and services. All had had to think creatively about the market demands and opportunities in the locality in which they farmed.

Such a market-led approach is particularly important. It is exactly the kind of response that will need to be encouraged and stimulated in the millions of farmers who will join the EU when enlargement proceeds. If consumers want quality food

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<sup>2</sup> Task Force for the Hills (2001) A report to the Ministry for Agriculture, Fisheries and Food (MAFF), UK.

from distinctive regions and localities, organic food, tourism and leisure opportunities, then producing more, so-called 'cheap food', is a strategy destined to fail.

### **2.2.3 A rural development approach provides investment for the long term**

A further critical benefit of the rural development policy approach is that it makes long-term investments in rural areas rather than offering short-term subsidies that do not necessarily aid structural adjustment or contribute to social cohesion. A key aim of future policy must be to make farmers less dependent on subsidy handouts and more focused on developing sustainable and economically viable businesses. Capital grants and initial start-up investments characterise much of the funding under Pillar II, recognising that a degree of 'pump priming' is necessary to help businesses in the first few years. Payments for early retirement or new entrants to farming also contribute to aiding structural change while 'Less Favoured Area'<sup>3</sup> payments recognise both the handicaps faced by farmers in such marginal areas and their contribution to environmental management.

In the case of payments for delivering public goods such as environmental and landscape protection, farmers will be in receipt of on-going public subsidy rather than one-off grants. But these payments should be of a much more transparent nature than production subsidies and should be focused on what the public wants. By entering multi-annual agreements, the farmer essentially signs a contract with society for a period of time and receives payment for delivering against the terms of that contract.

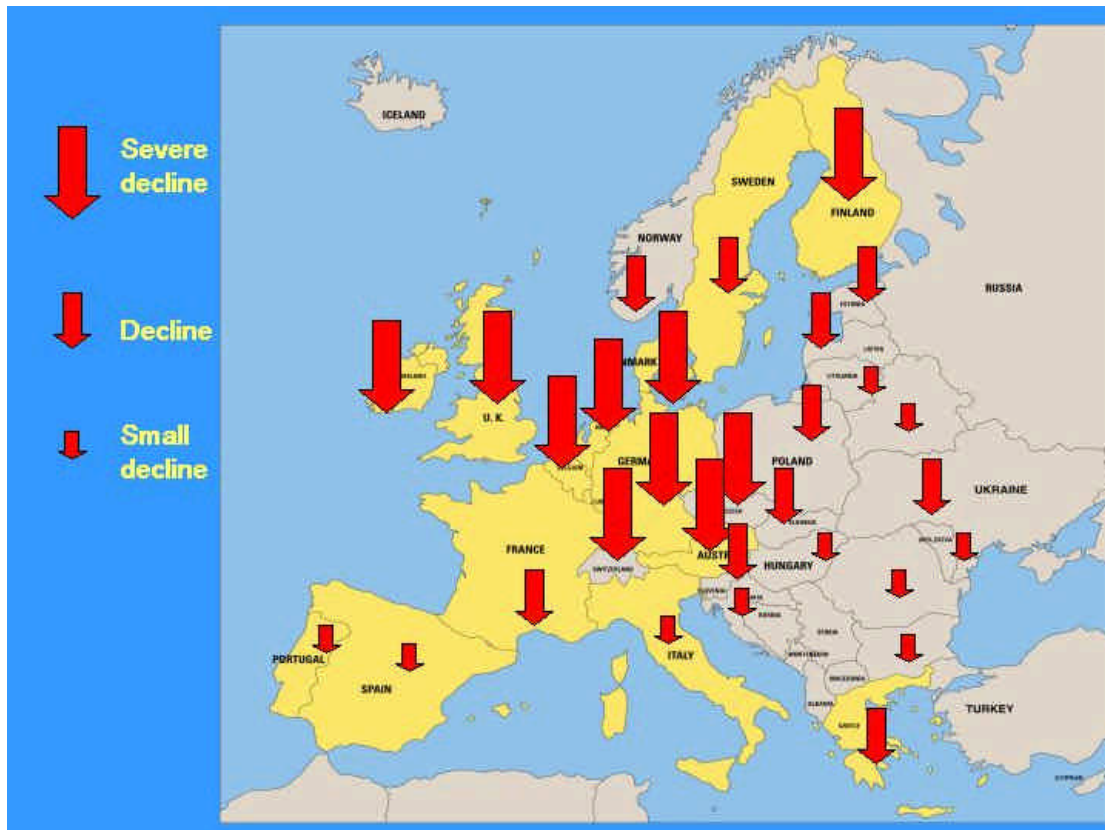
### **2.2.4 A rural development approach can respond to environmental priorities**

From an environmental perspective, a decentralised and flexible policy model also has major advantages. It allows Member States to develop programmes such as agri-environment schemes which respond to the specific environmental priorities in their countries. The scale of environmental problems on farmland should not be underestimated. Figure 1 illustrates the scale of decline of farmland birds such as the skylark and grey partridge across Europe. Birds are at the top end of the food chain and their populations and distribution are well monitored; as such, they are good indicators of the general state of the environment. With the right policies in place, these declines can be arrested and reversed. Such policies will be particularly important in Central and Eastern European countries that are currently strongholds for species that have elsewhere declined rapidly.

#### **Figure 1: Farmland bird declines in Europe**

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<sup>3</sup> In 1975, the European Commission recognised the particular difficulties of farming in remote and often mountainous rural areas (e.g terrain, climate, isolation) by designating them as 'Less Favoured Areas' and targeting specific aids and support measures to them. LFAs account for 30% of the Community territory and are home to 30 million people. Many of these areas are of high landscape and biodiversity value.



Based on Donald P.F, Green R.E. and Heath M.F (2001) 'Agricultural intensification and the collapse of Europe's farmland bird populations' in *Proceedings of the Royal Society, London* **268**, 25-29

Experience of agri-environment programmes to date shows the wide variety of measures introduced in different Member States to deal with different environmental issues from pollution control, landscape management, reversing the decline in birds and other wildlife to habitat restoration and recreation. Through such a decentralised model, a much wider range of stakeholders can be consulted and have a say in determining environmental priorities and the response needed.

### 3: How does Pillar II work in practice?

#### 3.1 What is Pillar II?

Following the principles outlined above, a new 'Pillar II' or 'Rural Development Regulation (RDR)' was introduced into the CAP as part of the Agenda 2000 reform package. Currently, Pillar II comprises 10% of the CAP budget. The MTR proposals envisage a transfer of funds into this pillar up to a further 10-20% of the total CAP budget.

The rural development pillar gives structural support to farmers and the countryside. Importantly, farmers can be paid to employ environmentally beneficial practices under the so-called 'agri-environment' schemes which belong to this pillar. Unlike the First Pillar, policymaking under the rural development pillar is based on a decentralised system or 'bottom-up' approach, which gives considerable flexibility for member states and regional authorities to design policy in accordance with local needs. Under the Second Pillar, Britain and France have pursued very different

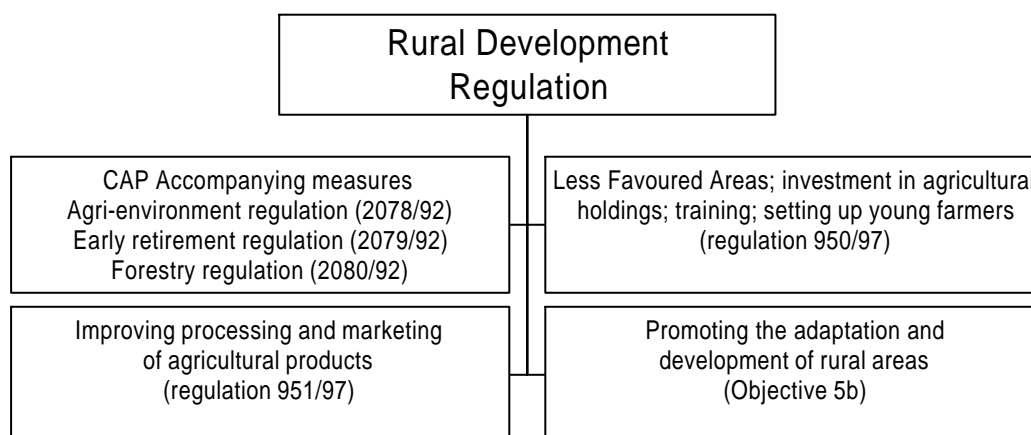
routes – they have been able to implement policy in accordance with national preferences<sup>4</sup>.

All of the regulations and policy measures contained within Pillar II existed separately prior to its establishment - Pillar II effectively brought them together under a single umbrella, as illustrated in Figure 1. Hence, many countries were already running schemes that continued once Pillar II was introduced. However, MS now have to show how the range of measures will be implemented in an integrated and co-ordinated way by preparing Rural Development Plans for specific geographical areas; a key benefit of Pillar II. Of all the measures available, only agri-environment measures are compulsory for Member States to implement; the remainder are optional.

Pillar II is co-funded – 50% from the central CAP budget and 50% from the Member State (75% and 25% respectively in Objective 1 areas) – unlike Pillar I which is 100% funded from the CAP budget.

Pillar II has only been operating for a short period of time; delays in producing national plans at MS level and approving them at European Commission level means that experience of running the RDR is limited and many lessons are yet to be learned. Having said that, a number of key issues have already surfaced that need to be addressed if the RDR is to be a real model for future rural policy. These issues are discussed further at Section 4.

**Figure 1: the components of the RDR**



### 3.2 How have Member States implemented Pillar II?

Member States have taken a variety of different approaches to implementing Pillar II – see Appendix 2 – as set out in their rural development plans. Some, such as Austria, have written plans that apply across the whole territory (the horizontal approach) while others, such as the UK, have produced plans that apply to specific

<sup>4</sup> Lowe, Buller, Ward (2002): Setting the next agenda? British and French approaches to the second pillar of the Common Agricultural Policy, *Journal of Rural Studies*, vol. 18, pp. 1-17

regions or geographical areas (the zonal approach). Some, such as Germany, have used a combination of both approaches. Only agri-environment measures are compulsory for all MS to implement; other measures from Pillar II can be chosen based on environmental and rural development priorities as assessed by the Member States themselves. Hence, the plans approved by the European Commission vary considerably as do the measures available to farmers in one country compared to another.

Table 1 illustrates broadly the range of activities that can be paid for under the various Pillar II measures:

**? Are countries running these schemes already? Or are they only possible under Pillar II? Need to specify precisely what the link to CAP is here.** Most countries are running a number of different schemes that farmers and landowners can apply to. A farmer interested in entering an environmental scheme that paid for grazing his cows on flower-rich meadow but who was also interested in producing cheese from the milk produced by those cows would probably need to apply to two separate schemes. In most countries, schemes are run by Agriculture Ministries or their agencies.

**Table 1: Examples of activities encouraged by Pillar II**

<b>Pillar II measures</b>	<b>Possible activities</b>
Agri-environment schemes	Support for farming practices e.g reductions in use of pesticides and fertilisers, hay making, organic farming. Habitat restoration and recreation.
Forestry	Extension of woodland areas; maintaining forest resources and forest management
Less Favoured Areas	Payments per hectare for maintaining farming systems compatible with safeguarding the environment .
Early retirement	Support to help farmers retire and release land for new entrants or to be amalgamated with existing farms
Setting up young farmers	Support to help young farmers with the costs of starting farming.
Training	Training programmes for rural skills linked to agri-environment and forestry measures. Training in food processing and marketing. Training in rural craft production, business diversification and start-up skills.
Investment in agricultural holdings	Support to reduce production costs, increase quality, promote farm diversification
Improving processing and marketing of agricultural products	Support to help develop new markets, apply new technologies or invest in infrastructure and improve quality.
Promoting the adaptation and development of rural areas	Farm diversification, renovation of villages, encourage tourist and craft activities, environmental protection, set up farm management services, services for the rural population.

## 4. Problems with rural development policy: where does it fail?

The implementation of the RDR in the 12-18 months since the European Commission **approved the first set of** Rural Development Plans has brought some key issues and problems to the fore. These need to be addressed if the RDR is to be the key means of delivering rural development policy in future. Not least of these are issues of: funding; bureaucracy; administration and delivery; environmental priorities; problems specific to enlargement countries; and transparency in the use of public funds.

### 4.1 Funding issues

#### 4.1.1 Tensions between Pillar I and Pillar II

\* The introduction of the RDR in 2000 marked a turning point in European agricultural policy. For the first time, CAP 'guarantee' funding was used to achieve rural development objectives (under Pillar II), rather than being reserved for Pillar I price support and other market measures. Historically, such issues were paid for through the smaller CAP 'guidance' fund while rural development more generally had largely been left to other measures such as Structural Funds, the Community Initiatives and the LEADER programmes. This shift to using guarantee funding was therefore quite significant, suggesting that rural development policy was beginning to be taken more seriously.

However, funding for the RDR, or rather the lack of it, is a critical issue for many Member States and is a constraint on how seriously rural development policy can be pursued. Given the imbalance between expenditure on Pillar I (90%) and Pillar II (10%), it would be fair to suggest that rural development policy is still, in many respects, at the margins of farming policy. Rural development is not yet seen as integral to farming's future. Until substantive shifts in funding occur, the goals and aspirations of a rural policy for Europe will remain unachievable and the intended beneficiaries will remain frustrated.

**The overall level of funding for Pillar II must increase (logically by reducing the funding allocated to Pillar I of the CAP) until at least 75%, and potentially all, of the CAP budget is devoted to it.**

#### 4.1.2 Inequitable distribution of funding

The limited funding available to Pillar II has meant that measures that could benefit all farmers have been available to only a few. The potential innovation and progress offered by this type of scheme has been stifled.

The financial situation is complicated by the way that allocations to Member States were partly based on previous spending levels under the measures that were drawn together to form the RDR e.g. the agri-environment regulation. Countries that already had extensive programmes in place therefore received larger allocations of the RDR budget than those that had not. Germany (15% of total), France (16%) and Italy (13%) were relative winners under this system while the UK (6%) and Greece (3%) were relative losers (see Appendix 2 for EU 15 figures). Not only did this allocation leave many Member States frustrated at the level of their share but ensured that many of the inequities of the current CAP were continued, **especially in those states that had little history or experience with agri-environment**

**schemes?** Had financial allocations been fully on the basis of environmental and rural development needs, rather than existing expenditure, the final picture that emerged would have looked quite different.

The MTR proposals suggest that new funds for Pillar II, raised by cutting Pillar I subsidies, should be reallocated to Member States on the basis of 'agricultural area, agricultural employment and a prosperity criterion'. According to the European Commission assessment this would redistribute money from 'intensive cereal and livestock producing countries to poorer and more extensive/mountainous countries, bringing positive environmental and cohesion effects.' However, without further definition of these criteria it is difficult to assess if the Commission's assertions are correct. There is some concern that environmental needs in particular would not be addressed through this formula.

**Financial allocations to Member States need to be revisited and based on environmental and rural development needs, as assessed by independent evaluations.**

#### **4.1.3 Over-reliance on match funding**

The financial structure of pillar II is also problematic; Member States contribute 50% of the funding (25% in Objective 1 areas) with the remainder funded by the European Commission from central CAP funds. This co-funding arrangement has effectively re-nationalised a proportion of farm support. The implications of this for those MS who are net recipients from the CAP – paying less into the central pot than they receive back - has not gone unnoticed. Further attempts to place more emphasis on co-funded Pillar II measures in future raises important political and financial questions for many countries. Some MS, particularly southern European countries, are already struggling to find the match funding for the money allocated from Brussels. A key advantage of co-funding however is that it places greater responsibility on MS to spend money well and ensures value for taxpayers contributions. Spending money at national level should, in general, be a much more transparent process and be open to closer public scrutiny than funds administered from a central Brussels pot.

Recognising the difficulties facing some countries and the importance of the compulsory agri-environment measures, the MTR proposals suggest increasing Brussels funding for these measures to 60% (85% in Objective 1 areas). There may well be an argument however for going further than this to increase Brussels funding for all measures if rural development programmes are to be really effective.

**A greater proportion of Pillar II funding – up to 75% - should come from the central CAP budget rather than national funds.**

## **4.2: Planning and programming: a bureaucratic nightmare?**

In order to draw down funding from Brussels, Member States were required to submit Rural Development Plans to the Commission during 2000. These Plans were to set out the schemes and programmes to be operated based on an assessment of rural development needs. The European Commission then assessed these Plans, negotiated changes with the Member States in some cases and gave final approval before implementation could begin. The Commission received over 100 different

Plans<sup>5</sup> to assess in a matter of months and backlogs in approval occurred. This timetable placed tremendous pressure on Governments, particularly Ministries of Agriculture, and other institutions<sup>6</sup>, led to incomplete consultation with key stakeholders and meant that many Member States took the approach of extending and complementing pre-existing national plans rather than adopting a fresh approach to rural development.

The process itself was further complicated by the requirement for different programming documents for measures within and outside Objective 1 areas and considerations as to how to co-ordinate RDP **RDR?** funds with Structural Funds generally. One study<sup>7</sup> found the complexity of RDR programming procedures proved a particularly heavy burden on regional authorities in southern Member States to the degree that:

*'the wide range of options under the Regulation could not be explored completely, that possibilities for policy integration have not been exploited to the full and that the adaptation of programmes to local needs has proven difficult.'*

This situation also applies to Central and Eastern European countries and their experience of implementation of the Special Action for Pre-accession Measures for Agriculture and Rural Development (otherwise known as SAPARD) regulation.

It might be anticipated that, having gone through this process once, Member States will, in future, be better prepared to deal with this planning and programming stage. However, attention needs to be given to streamlining the process and ensuring adequate time for proper consultation if the planning stage is to be effective. The UK approach of establishing consultation groups at national and regional level during the planning phase and continuing these to act in a strategic capacity, overseeing implementation of the plans, seems to be a good model to adopt. Greater consideration also needs to be given to policy integration, ensuring that RDR measures are complementary with each other and with other EU and national funds and measures.

**In future, there should be more time for consultation at Member State level and additional staff resources at European Commission level to scrutinise and oversee rural development plans.**

## **4.3 Delivery and administration: who does it and where?**

### **4.3.1 Administrative power struggles**

Closely linked to the overall bureaucracy of the planning and programming phase is the actual delivery and administration of Rural Development Plans at national, regional and local level. In most countries, the Agriculture Ministries are the most common authorities responsible for delivering plans although Environment, Trade, Commerce or Spatial Planning Ministries have also been involved in some Member

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<sup>5</sup> Many countries submitted more than 1 Plan e.g. Germany submitted 1 Federal Plan covering the whole country and a Plan for each region or Lander.

<sup>6</sup> Based on a seminar (April 2000) run by IEEP for the British Countryside Agencies assessing draft Rural Development Plans prepared by 7 Member States.

<sup>7</sup> Baldock D., Peterson J E, Dwyer J, Lowe P & Ward N (November 2000) The Nature of Rural development: Towards a sustainable integrated rural policy in Europe. A ten nation Study. For WWF and the GB Countryside Agencies.

States. Others such as Forestry authorities have also had a role to play. Many of these agencies have been unwilling to give up authority to other actors and tensions have surfaced at all levels in most countries. 'The Nature of Rural Development Study'<sup>8</sup> states:

*'Predictably, there are tensions between national, regional and local authorities in all the countries studied. These include frustration by regional bodies at the extent of policy control from the center and rising expectations at local level which may be hard to satisfy in the current structure. The Spanish agriculture ministry is not alone in worrying about the conformity of regional authorities with a national framework and about the administrative efficiency of delivery systems. Local and regional authorities often point to long delays in the clearance of their schemes and bottlenecks in the payment of funds.'*

**Member States need to review their administrative arrangements for Pillar II and seek to develop an integrated approach to delivery. Greater power needs to be devolved to regional and local administrations.**

#### **4.3.2 Sharing experiences**

All Member States have developed different approaches to implementation of plans but, whatever the approach, it is clear that common themes and issues have surfaced. Sharing experiences and learning from each others' good practice and mistakes may be one way to help iron out some of these difficulties in future.

**A rural development observatory should be established at EU level (similar to that which operates for LEADER programmes) into which Member States can feed information and use to share experiences.**

#### **4.3.3 Devolving responsibility**

Many commentators are agreed that devolving responsibility and administration to the local level and involving other actors such as Non-Government Organisations (NGOs) is more likely to ensure programmes and measures are tailored to meet local rural development needs. However, the fact that RDR measures are funded from the EAGGF Guarantee funds rather than Guidance funds (in all areas except Objective 1) has created some problems.

**These sentences are a little complex! Could we rephrase? (Suggestion below – though I may have got the wrong idea!)** Only registered *paying agencies* can administer Guarantee funds and only a small number of these are registered in each Member State to facilitate proper auditing procedures. This means that budgetary control remains a largely central function hampering the extent to which administration can be devolved. Under Commission rules it is possible to designate *authorising agencies* but it is not always clear what their relationship is to the *paying agencies*.

***These funds are set up in rather a complex way. Only registered 'paying agency' can administer them, and there are very few of these in each member state in order to facilitate proper auditing procedures. As a result, the budgets tend to be under very strict control from central government, making it difficult for the funds to adapt to differing local or regional***

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<sup>8</sup> Op cit

**conditions. While it is possible for the Commission to designate authorizing agencies, which can..., their relationship to the paying agencies has not been clarified, introducing another layer of complexity.**

While there is a clear need to oversee budgets and ensure good value for public money (see below), there would seem to be more scope to use a greater number of bodies and organisations to help deliver rural development plans. Without addressing this problem, the issue of a lack of Government capacity to deliver plans, particularly in some countries, is likely to remain.

**NGOs, for example, have considerable experience of operating agri-environment and rural development schemes and should be used to support Government programmes.**

#### **4.4 Is the environment a priority?**

Analysis of EU Rural Development Plans and of plans put forward by enlargement countries for SAPARD<sup>9</sup> highlight a clear problem that the rural environment is not a high priority on many national agendas. While the principle that environmental protection and enhancement is part of sustainable rural development has been largely accepted, the reality is that many countries are still grappling with the implications of this for economic and social development.

Countries such as Sweden and the UK have taken a positive approach to the environment. For example, in the UK almost two-thirds of the total RDR budget for 2000-2006 will be spent on agri-environment measures. Meanwhile, countries such as Spain and other southern European countries as well as many CEECs have devoted relatively little of their budgets to agri-environment programmes (an average 10% in the case of CEECs), and are concerned much more with aiding structural adjustment and agricultural modernisation. While these latter aspects of rural development are important, they can lead to environmental damage if high-input, high-output farming systems are the result. Agri-environment schemes, on the other hand, help to maintain farming systems that are sensitive to the environment.

\* A balance needs to be struck between encouraging restructuring and ensuring sufficient emphasis is given to environmental protection and enhancement. Two policy measures are helping in this area. First, the fact that agri-environment is the only compulsory element of the RDR ensures that Member States have no choice but to implement programmes in this area. Secondly, the requirement to provide lists of candidate Natura 2000 sites (under the terms of the EU Habitats Directive) before approving plans in Objective 1 areas **means that...**

**Ensuring that environmental protection is of sufficiently high priority could be achieved by: requiring a minimum percentage of RDR funds to be allocated to agri-environment measures; or making access to farm adjustment or other rural development measures by farmers conditional on a basic environmental impact assessment or entry into an agri-**

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<sup>9</sup> BirdLife International and Environmental Resource Management consultants (2000) *Environmental Assessment of the SAPARD Rural Development Plans in the Ten Accession Countries in Central and Eastern Europe*. RSPB, Sandy, Bedfordshire.

***environment scheme. THESE TWO POINTS ARE QUITE PUNCHY. IS IT POSSIBLE TO REPHRASE EG THE FOLLOWING:***

***Measures should be taken to ensure that environmental protection is of sufficiently high priority. First, a minimum percentage of RDR funds should be allocated to agri-environment measures, and member states which fail to devote these resources to agri-environment measures should be sanctioned. Second, access to farm adjustment or other rural development measures by farmers should be made conditional on a basic environmental impact assessment or entry into an agri-environment scheme.***

#### **4.5 Specific problems relating to Central and Eastern European Countries (CEECs)**

Many of the issues identified above are, as already noted, of particular concern in CEECs in relation to the SAPARD regulation. SAPARD is similar to the RDR but has a further important objective of preparing candidate countries to implement EU agricultural and rural development policies after accession. Part of the process includes setting up national paying agencies to operate in accordance with current EU procedures. Experience to date suggests that a further move to focusing on rural development, as opposed to agricultural policy, will present real challenges to these countries on accession.

The budget, or rather lack of it, for SAPARD is a real issue. It is too small to meet the needs of the countries in question. For example, Poland will receive just EUR 171 million annually (Hungary - EUR 38 million and Czech Republic EUR 22.45 million) for its SAPARD programme. Given the scale of rural development needs in these countries, this funding is a mere drop in the ocean. Current Commission proposals to give CEECs direct payments under the CAP will not help in this regard although further allocations of RDR funding are also anticipated. SAPARD is also criticised for 'focusing too much on the adaptation of administrative and rural structures to the EU framework instead of addressing the particular rural development needs of the accession countries'<sup>10</sup>.

However, many of these countries are still debating the agricultural and rural development policy agenda and the influence of political parties and political leaders on programmes such as SAPARD is very apparent. In terms of those responsible for delivering plans in the CEECs, the dominant actors are nearly always governmental and there has been little consultation with other organizations such as NGOs. Some countries such as Hungary and Slovenia have been better than others, such as Estonia, Lithuania and Poland, at engaging with NGOs. In terms of capacity to deliver and administer Rural Development Plans, it is apparent that many CEECs are struggling, particularly at regional and local level, and have insufficient human resources and skills base for effective delivery. Following the breakdown of the collective farming structures, which performed many of the functions of local government, these countries have had to develop new, local institutions. But the fact that many of these are in their infancy creates real and particular problems for CEECs which are not easily addressed.

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<sup>10</sup> 'The Nature of Rural Development' *Op Cit*

**Existing Member States with experience of running rural development plans could provide technical assistance and advice to CEECs to help build their capacity to deliver such plans. A system of 'twinning' could be established where countries are paired up to exchange knowledge and information.**

#### **4.6 The transparent use of public funds**

Given that taxpayers contribute over EUR 40 billion to fund the CAP every year, they clearly have a right to know how that money is spent and, more importantly, what benefits and services it provides. While the current CAP mechanisms have been criticised for lack of transparency, switching money into environmental and rural development programmes is no automatic guarantee that Society is getting what it pays for. Indeed, given the sometimes complex, multi-objective nature of many of these programmes, it is arguably a much more difficult process to ensure they deliver what they purport to. To give a concrete example, it is much easier (and cheaper) to determine if a farmer has planted and harvested a crop of wheat than it is to measure the direct impact a business grant to a farmer has on the local economy or an agri-environment payment has on the population of skylarks. That is not to say this cannot be done but rather that the costs tend to be greater and the process more complicated. The key challenges facing the implementors of Rural Development Plans in future therefore are:

- To make access to the various schemes and measures under RDPs simple so that people will use them;
- To minimise administration costs and streamline administration of schemes;
- To ensure the outputs of the schemes are measurable against their original objectives and provide good value for taxpayers money.

The first point about access to schemes means ensuring that the intended recipients of RDR funding know what is available to them. Member States will need to promote RDR schemes well and ensure that information about them is easily available.

**One idea that could help is the establishment of 'first-stop shops' – a single entry point to schemes at a local or regional level where people could go for advice and information.**

Having decided to apply for a scheme, the process needs to be as simple and non-bureaucratic as possible. A concept gaining ground in the UK is the idea of conducting a whole farm audit and plan. ***IS IT POSSIBLE TO HAVE A LITTLE MORE DETAIL ABOUT WHAT THIS MEANS AND HOW IT WORKS?***

**The audit (a concept already included in the MTR proposal) would help to identify the resources and opportunities on each farm and could be developed into a farm business and conservation plan that would lead to money being drawn down from the RDR.**

Advisors qualified to draw up such plans need not necessarily be government officials but could come from the private sector. In return for this money, the recipient would essentially be entering a contract with Society to deliver against the objectives of their plan. Produce, goods and services delivered through such a contract could be identified to the public through a 'whole farm accreditation scheme' which carried a recognisable logo. Farm assurance schemes and labels for organic produce work in a

similar way helping consumers to clearly identify food produced to specific standards. The whole farm accreditation scheme could go further to identify not just food products but a wider range of the outputs from an accredited farm.

Assessing the outputs of Pillar II measures is a matter of proper monitoring (both for compliance and impacts) and evaluation. The Integrated Administration and Control Scheme (IACS) already used to make payments under CAP and for compliance checking could be developed further, alongside the farm audit concept, to provide the basis for assessing activities and outputs relating to Pillar II. In addition, detailed rules and guidelines for monitoring and evaluation have already been established by the Commission and by the end of 2003, Member States have to have completed independent evaluations of their RDPs and submitted them. The costs of monitoring and evaluation should not be seen as unnecessary or additional to the costs of running the RDR but as an essential element of good governance. It must be clear that payments under the RDR achieve their intended outputs and can be quantified to the taxpaying public. To further aid transparency, the recipients of all CAP funding and the amounts they receive should be public information as it is in the USA. Finally, as an incentive to recipients to ensure they play their part in using taxpayers money wisely, there should be penalties applied for abuse of public funds. In the case of fraudulent activity in relation to RDR funding or where recipients choose to terminate their 'contract', they should be required to pay back any monies received and possibly face cuts in other direct subsidy.

**The names of all recipients of Pillar I and Pillar II funding should be available to the public. Recipients proved of misusing public funds should be subject to financial penalties.**

## **5. THE FUTURE: What future for rural policy?**

### **5.1 A vision for the Second Pillar of the CAP**

Where might EU agricultural and rural policy be ten years from now? By 2012, the EU is likely to consist of at least 25 Member States with a wide diversity of rural areas and farming systems. From a policy perspective, we might hope to have seen a major overhaul of the CAP with the outright abolition of market-distorting mechanisms (price support, intervention, export subsidies and supply control measures) and a significantly enhanced Pillar II. Indeed, we might hope that Pillar II accounted for the greatest proportion of the CAP budget – at least 75%. A large number of farmers and other rural dwellers would have benefited from a wide range of environmental and rural development measures under Pillar II. As a result, there would be high and stable levels of economic growth and employment, environmental protection and the wise use of natural resources and social progress that recognised the needs of everyone in rural areas. In other words, the three key tests of sustainable rural development will have been met. Many of the problems of planning, administration and delivery experienced in the early days of establishing the RDR will have been overcome. A wide variety of institutions, organisations and actors will be engaged in the effective delivery of rural development at national, regional and local level.

While this might seem a wholly ambitious agenda, it is achievable if steps are taken now to further reform the CAP and not delayed until 2006 or beyond.

## **5.2 How do the Mid Term Proposals contribute to this vision?**

A major step forward in building a reformed CAP around an enhanced Pillar II came with the mid-term review proposals launched by Commissioner Fischler in July 2002. These are outlined in detail in Appendix 3. Among the changes suggested were:

- Pillar II including a broader range of measures and encouraging higher standards in those areas of consumer concern – food safety, animal welfare and the environment.
- Around 25% of EU farmers who currently receive the greatest proportion of direct payments having these payments cut by 3% per year (dynamic modulation) leading to greater social equity, further enhanced by redistribution between Member States of the money raised through this route.
- The imposition of a ceiling on the amount of money an individual farmer can receive (EUR 300,000) further enhancing the social equity argument.
- The concept of a decoupled 'income payment', making a clear shift away from the direct payments as compensation for price cuts model of Agenda 2000 and previous reforms. In doing so, it shifts such payments out of the dubious 'blue-box' of the World Trade Organisation (for which the Peace Clause transpires at the end of 2003) and into the acceptable 'green box'.

The arguments for going down the route chosen by Commissioner Fischler are very strong indeed but the proposals themselves highly contentious, not least among those most likely to lose. The reaction from farmer's representatives has, not surprisingly, been negative although it is likely that many farmers may well benefit from such measures depending on how they adapt their businesses. Not surprisingly, on the other hand, the MTR proposals have been largely welcomed by consumer, animal welfare, environmental and development groups who see many advantages to dismantling the current inequitable system of production subsidies.

At Government level, the UK, Germany, Sweden, Denmark and the Netherlands have all signalled their support for these measures and even, in the case of the UK, argued they should go further. Meanwhile, France and Ireland have emphasised their outright opposition with countries such as Belgium, Spain, Italy and Portugal adopting similar positions. With Poland, Hungary and Czech Republic waiting in the eastern wings and pressing for farming subsidies equivalent to those of their EU counterparts, the autumn looks set for something of a political bunfight.

Either way, it is clear that the route towards a reformed CAP will lie in a direction similar to that outlined by Commissioner Fischler: with a strong move away from production subsidies towards rural development. However, it must not be assumed that Pillar II per se is the answer. The problems identified in this paper, if not resolved, could turn the revised CAP into as much of an unreformable anachronism as the current policy.

It is highly unlikely that the MTR proposals will be approved in their current format. Many of the proposals are highly contentious because of the impacts on the farming

industry or because they will lead to redistribution of funding between Member States. Discussion and negotiation will take place within the Council of Ministers during the autumn but a final decision is unlikely to be taken until well into the Greek Presidency in the first half of 2003. German elections in September will have a critical bearing on discussions and France is already a key objector to many of the proposed changes. Even if approved in full, the MTR proposals, while necessary, are only another step along the way towards a true European rural policy. Further steps will need to be taken if the full extent of European environmental and rural development needs are to be met and the present problems of the CAP overcome. These steps include:

1. Full commitment to completely phase out price supports  
The MTR proposals will further cut prices of key commodities but not until there is complete abolition of all price support will the current market distortions of the CAP come to an end. Abolishing price support would enable all export subsidies, intervention buying and supply controls (including quotas and set-aside) to also come to an end.
2. Further increases in funding for Pillar II  
The MTR review proposals indicate that between EUR 3 – 4 billion of CAP spending would be shifted from Pillar I to Pillar II, representing a significant increase in funding for environmental and rural development measures. However, this is still likely to mean that the smallest proportion (approximately 20-30%) of the current budget would be allocated to Pillar II. Given the scale of environmental and rural development needs there is a strong argument to increase funding for Pillar II to at least 75% of the total spend and possibly beyond.
3. Broadening the range of recipients eligible to receive Pillar II funding.  
To date the CAP has largely benefited farmers and other rural dwellers have not had access to its budget. When the RDR was first proposed there was considerable discussion as to who should be eligible for support through the various measures contained within it – just farmers or other rural dwellers able to contribute to meeting rural development objectives. In the final package, the measures were closely tied to farming. Today, there are even stronger arguments for broadening eligibility to Pillar II funding in order to create a more equitable policy capable of responding to the needs of rural citizens.
4. Giving support to CEECs on the same basis as the rest of EU members.  
Fast progress needs to be made to dismantle Pillar I of the CAP and build Pillar II. This would send an important signal to CEECs about the future direction of policy and avoid some of the demands made by these countries for production related subsidies. The Commission has already issued proposals for CEECs regarding levels of direct payments and other CAP mechanisms such as quotas because of pressure to avoid a 'twin-track' Europe. The sooner Pillar II is established as the major support mechanism for both the current EU and CEECs, the sooner rural development needs can start to be met.

## **6. Conclusions**

There is growing consensus that the current CAP is no longer tenable as the policy for Europe's rural regions, failing miserably to address their growing economic, social and environmental needs. Almost from its inception, the inability of the CAP to facilitate structural change was apparent. A succession of reforms – significantly MacSharry in 1992 and Agenda 2000 - moved us closer towards a more broadly defined rural development policy.

The establishment of the Second Pillar marked a sea change in policy terms. For the first time, it brought a mechanism within the core envelope of the CAP capable of dealing together with structural adjustment issues, environmental protection and business regeneration. Furthermore, it hinted at the possibilities for a more dynamic farming sector and the revitalisation of rural areas. The Mid Term Review proposals take us further down the path toward a rural policy for Europe and come not a moment too soon as enlargement eastwards looms. But they are, as yet, little more than proposals and highly contentious ones at that with no guarantee that they will make their way into legislation in their current format.

The MTR proposals move further to dismantling the outmoded Pillar I measures and building the much more forward looking and relevant Pillar II measures, both in terms of the funding for it and the measures within it. But experience of operating Pillar II to date has already highlighted some critical issues that must be addressed if it is to be an effective policy solution for the future. Funding levels, bureaucracy, devolved administration, delivery and insufficient emphasis on the environment have all been highlighted in this paper along with some possible solutions. The prize for dealing with these issues is a policy instrument capable of delivering successful rural development now and for generations to come. But the prize will not be easily won requiring teamwork of the highest order and total commitment to the end goal. Whether those involved want the prize badly enough is a question that remains to be answered.

**APPENDIX 1****Accession countries: key facts and figures**

Country	Utilised Ag.Area M ha	Population (millions)	% of workforce in agriculture	No. of farms	Av. farm size (ha)	% Share of Ag. in GDP	GDP as % of EU 15
Cyprus	0.134	0.757	9.2	52,089	3.6	3.5	82
Czech Rep.	4.3	10	4.5	56,487	18 <sup>1</sup> 886 <sup>2</sup>	3.4	68.4
Estonia	1	1.4	7.6	85,300 <sup>3</sup> 176,400 <sup>4</sup>	20.1 0.18	4.7	37
Hungary	5.8	10	6	966,916	6.7	3.9	52
Latvia	2.5	2.4	13.5	124,900	18	4	29.3
Lithuania	3.5	3.7	19.6	477,000	7	6.9	29.3
Malta	0.12	391,000	1.9	11,400	1	2	52.9
Poland	18.2	38	18.8	2	7.2	2.9	38.7
Slovakia	2.4	-	7.4			4.5	
Slovenia	0.49	2	9.9	90,675	4.8	2.9	72

<sup>1</sup> Personal holdings; <sup>2</sup> legal holdings; <sup>3</sup> agricultural holdings; <sup>4</sup> household plots





## APPENDIX 2: Approaches to Rural Development Plans by Member State

Country	Budget share	Geographic coverage	Priorities
UK	6	Eng., Scotland, Wales and N Ireland	Emphasis varies from: 'creating a productive and sustainable rural economy', conserving and enhancing the rural environment', 'improving economic competitiveness'
Austria	10	Horizontal Plan covers whole of Austria	Modernising agriculture, vocational training, LFAs, agri-environment, marketing and processing, forestry, rural development
Belgium	1	Horizontal plan + Flanders and Wallonia	Agri-environment, essential services for the rural economy, environmental protection demonstration projects + full range of RDR measures at regional level
Denmark	1	Horizontal Plan covers whole of Denmark	Improving living conditions in rural areas; improving the economic situation in rural areas; increased integration of the environment in agriculture and forestry.
Finland	7	Horizontal Plan + Continental Finland and Aland islands	Compensatory allowances; agri-environment measures + various at regional level including diversification of rural activities, setting up aid for young farmers
France	16	Horizontal Plan covers whole of France	Guiding ag holdings to sustainable and multi-functional ag; developing forestry resources; added value and quality of products; promoting employment; protecting and making better use of ecological heritage.
Ireland	8	Horizontal Plan - whole of Ireland	Early retirement; LFAs; Agri-environment and afforestation.
Germany	15	Horizontal Plan + 15 regions (Lander)	Improving rural structures; improving production and marketing structures; sustainable farming; forestry; coastal protection + various for regions.
Greece	3	Horizontal Plan - whole of Greece	Mountains and LFAs; Agri-environment; afforestation
Italy	13	20 regional plans	Various including: economic diversification; strengthening socio-economic fabric; modernisation of ag; early retirement.
Luxemb'g	<1	Single plan for Grand-Duchy of Luxembourg	Structural improvement of ag; LFAs; environmental protection and landscape conservation; sustainable forestry; adjustment and development in rural areas
Netherl'ds	1	Horizontal plan - whole of country	Developing sustainable ag; improving quality of nature; sustainable water management; economic diversification; tourism and recreation; improving quality of life
Portugal	5	Horizontal + Madeira and Azores	Early retirement; LFA; agri-environment
Spain	10	Horizontal + 7 regions	Agri-environment; afforestation; LFAs; early retirement + various in regions including diversification, competitiveness, improving infrastructure.
Sweden	4	Horizontal plan - whole of Sweden	Ecologically/ economically/socially sustainable rural development

## **APPENDIX 3**

### **The implications of the Mid Term Review proposals**

On 10 July 2002, the European Commission published its Mid Term Review of the CAP in line with the mandate given at the European Council of Berlin.

In the months prior to publication, there was intense speculation as to the exact form the review would take and much lobbying of the Commission by a wide range of interest groups. Farmers, in particular, argued against substantive reforms calling for the review to be little more than that i.e. a review analysing the current situation and implementation of the Agenda 2000 reforms and no more. At the same time, Member States began to clarify their positions on a pro or anti reform agenda and a great deal of interest centred around the French Presidential elections in May, given the pivotal nature of France in negotiations on the CAP. As the paper entered the Inter-Service rounds of other Directorate-Generals and copies began to leak, it soon became clear that the Commissioner for Agriculture, Franz Fischler, was playing a much more radical and imaginative game than many had anticipated.

The proposals continue many of the themes adopted in earlier reforms but go significantly further than some of the step changes seen in the past. The paper sets out a number of specific reform proposals for the CAP and the rationale for them. These reforms are aimed at:

- enhancing the competitiveness of EU agriculture;
- promoting a market orientated, sustainable agriculture;
- strengthening rural development.

Key elements of the proposals include:

- Further cuts in intervention prices for commodities such as cereals and rice;
- The introduction of a decoupled, single income payment per farm covering aids for a wide range of commodities, based on an historical reference period and subject to enhanced cross compliance rules (covering environmental issues, animal welfare, food safety and good farming practice);

- The establishment of an EU wide system of farm auditing for 'professional farms' compulsory for all farms receiving more than EUR 5,000 in direct aid;
- A requirement to put an amount of land into 10 year, non-rotational set-aside equivalent to the area currently set-aside;
- 'Dynamic modulation' which would cut direct aid payments (after the first EUR 5,000 ) progressively in steps of 3% from 2004 onwards, up to a maximum of 20% and the funding generated to be redistributed to Member States on the basis of agricultural area, agricultural employment and a prosperity criterion;
- No farm to receive more than EUR 300,000 of direct aid and any savings resulting to be transferred to the second pillar of CAP in the Member State concerned;
- New rural development options to cover food safety, quality and animal welfare considerations - including possible payments to encourage farmers to produce to quality assurance standards or schemes and for farm audits – and adjustment of the co-funding rules for agri-environment and animal welfare by 10%.

Essentially, these proposals would result in further dismantling of Pillar I of the CAP with the money saved used to build Pillar II.