



THE ARKLETON TRUST

Rural Development, European Enlargement and the WTO Trade Talks

Report of the 1998 Arkleton Trust Seminar

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1. Introduction

The Arkleton Trust was set up in 1977 to study new approaches to rural development and education and to improve understanding between policy makers, academics and practitioners concerned with rural issues. The annual seminar is an important event for the Trust. Given the anxieties in Europe about the future of agricultural, structural and rural policy in the context of enlargement and the forthcoming round of GATT Trade Talks, it seemed useful to bring together senior policy makers, practitioners and academics, from both East and West Europe, to discuss the issues and explore common ground. The seminar was held under a combination of Arkleton Trust and Chatham House rules which allows for free speech and non-attribution of views, as well as encouraging maximum participation by avoiding the presentation of papers. However, a discussion paper was prepared for the seminar participants and circulated beforehand. The key points from that discussion paper are contained within this report but, more importantly, the report seeks to distil the issues raised in the excellent debates so that others can benefit.

2. Raising the Issues

A collective attempt was made to establish the key issues that are likely to play an important role in adjustment of the European rural development policies in the foreseeable future. In this respect, the seminar discussed the following groups of questions:

2.1. *Is there a new approach towards rural development issues in EU?*

Rural areas in the EU are confronted with irreversible changes. The existing rural development policy framework does not provide sufficient instruments to address the wide array of problems. Imbalances exist in net contributions to the EU budget and the figures are eloquent; as an example, Germany contributes almost 30% to the EU budget, irrespective of the fact that it produces only 27% of EU GDP [CEC 1997a: Table 6]. Although such fiscal redistribution is necessary between richer and poorer members of an economic and political union, it does represent a source of potential tension and a point of negotiation between the member States. Despite such elements of redistribution, the 'Cohesion report' produced in 1996 reveals that the development disparities between rich and poor regions within the existing EU-15 continue to grow. Moreover, future enlargement of the Union will further widen disparities between member States and regions. Rural employment problems form an important component of economic disparity at EU and national levels.

It is clear that agriculture alone cannot solve rural employment problems. Many observers argue for a further shift from sectoral (agricultural) to a territorial or spatial (rural) orientation of rural policy in order to encourage development of vigorous rural labour markets and assist structural adjustment of agriculture. The extent to which the latest Commission documents (Agenda 2000, Regulation on the Community support for Rural Development) provide a starting point for a coherent rural development policy was an important discussion topic of the seminar. It attempted to examine whether Agenda 2000 heralds a new emphasis on integrated, bottom-up and sustainable approaches in rural development.

2.2. *How is EU rural development policy affected by enlargement?*

Rural conditions and trends in the present EU-15 differ markedly from those in the Central and Eastern European Countries (CEECs), which have much larger proportions of their working age populations engaged in agriculture, much lower incomes per head, major transitions in land ownership and tenure arrangements, and a diverse range of policies regarding settlement patterns and territorial development. There are many other differences - economic, cultural, institutional, historical and

environmental - both within and between the CEECs, and between them and the EU-15. It is important to recognise that these conditions may need different policy approaches from those which have been essentially developed in the context of the present EU-15.

The seminar sought to clarify the rural development characteristics in the CEECs and to examine the extent to which the 'rural development policy' at EU level (in so far as it exists or is emerging) is relevant to the situation in the CEECs. The nature and complexity of rural needs and circumstances in the CEECs was discussed in relation to the 'rural development' approach/content in the pre-accession measures. It is evident that enlargement will affect rural development policy and funding in the existing EU-15, most evidently through the probable adjustments in CAP (at least partly related to enlargement) and the Structural Funds. The seminar also considered the possible impacts and responses of such changes.

2.3. *How is the 'Millennium Round' of WTO Trade Talks likely to influence rural development policies?*

EU agricultural policy will be heavily attacked by the USA in particular (supported by almost every non- EU country other than Japan) in the forthcoming round of trade talks due to start at the beginning of 2000 under the ægis of the WTO. In this respect, it is likely that further liberalisation of international agricultural trade will play a catalytic role in switching from sectorally oriented agricultural policy to spatially oriented rural policy in the EU.

3. Rural development issues in the EU

Many of the following trends are linked through the general issue of globalisation and related economic, social and political restructuring. Most of them originate outside rural areas themselves, and make it increasingly necessary to view such localities in a broader context. They are not specifically 'rural' in origin or nature: what delineates rural from urban restructuring is not so much the nature of the forces driving change or their general consequences, but rather the specific forms which these take in areas we perceive as 'rural'.

It is important to stress that rural areas differ markedly from one another in their economic structure and activity, their natural and human resources, the peripherality of their location, their demographic and social conditions, their history and culture. They are therefore affected in different ways, and to differing extents, by the trends identified. Policies and support structures for rural areas must increasingly recognise this diversity of conditions and outcomes through flexible support structures and devolved responsibility under the subsidiarity principle.

3.1. *Rural trends in the EU-15*

Trends in rural areas both influence policy developments, and are partly influenced by previous and present policies. Those trends which affect nearly all rural areas in the EU include:-

- **The decline in agricultural employment** and in the relative economic importance of food production, accompanied by structural changes in the farming industry. As an example, in the early 1800s agriculture employed some 35% of the British labour force, by 1900 this had fallen to about 10%. Now the figure is less than 2%. Although some rural communities remain highly dependent on farming and related industries, the fact is that **most of those living in rural areas now depend on other sources of income and employment.**

- Associated **structural changes in agriculture**, including fewer farms and farmers, fewer and larger fields, greater specialisation and generally more intensive production. A dual structure persists - various estimates suggest that one-fifth of all farms produce four-fifths of our food, whilst most have other sources of family income (commonly off-farm jobs, but also a variety of on-farm diversified enterprises, or off-farm businesses and pensions). Research conducted in the 1980s and early 1990s showed that family farming survived better where there were well diversified surrounding labour markets [Bryden *et al.* 1994]. In the Mediterranean EU Member Countries, it is often a case that rural regions are highly dependent on particular agricultural products (e.g. olives, wine). A similar situation exists in some peripheral and mountainous rural areas in northern Europe, where production possibilities are limited (beef, sheep) and economic diversification has been problematic. This makes the position highly vulnerable to sudden changes in the agricultural support policies. However, the Italian example, where 75% of the farms are smaller than five hectares, shows that where alternative employment opportunities exist, regardless of growing competitiveness on agricultural markets, small farms will not disappear since their pluriactivity means a relatively lower dependence on policies, thus making them much less vulnerable to policy changes.
- Other **labour market changes** include the growth in the service sector, in some cases a relative or even absolute growth in manufacturing sector employment, as well as growth in female employment, casualisation, part-time employment, and frequently high unemployment. Closer inspection of different rural areas clearly shows that even in the most 'rural' regions, some have experienced growing employment whilst it has declined in others. Moreover, despite this relatively positive growth in rural employment, most rural areas within reasonable proximity of urban centres suffer an employment deficit, in that there is a net outflow of commuters from rural to urban areas [Bollman & Bryden 1997; OECD 1996].
- **Tourism and recreation** have been key rural growth areas. This and the desire of many urban people to live (and sometimes establish enterprises) in rural areas is linked to the notion that the countryside is increasingly a place of consumption as well as production, including consumption of non-material and non-tradable attributes and public goods which the countryside has - or is believed to have - in greater abundance than urban areas.
- The **globalisation** of many key elements in the economy, especially finance capital which is highly mobile, the exposure of these elements to increased competition, and the related restructuring of enterprises brings both threats and opportunities. There are opportunities to tap new markets worldwide, to develop new service based activities including knowledge and information based activities which are, in principle, less dependent on location as a result of the extension of markets and the introduction of Information and Communications Technologies (ICT). However, the threats to rural areas' existing activities, often based on natural resources and low-skill manufacturing, are also evident.
- Many rural areas (and enterprises) seek to protect themselves from increasing global competition by creating **local products** which depend on **local identity** for their market niche. Indeed, **social and environmental capital** can play an important rôle in emerging models of plural economy at micro-level. Local identity is often closely linked to (perceived or real) local cultures or environments, which in essence are non-tradable 'public goods' and can underpin new forms of rural competitiveness and, in some cases, new international market linkages. This does not of course deny the importance of more 'mobile' resources; rather it suggests that such mobile resources are more likely to remain in - or come to - a rural area which successfully develops its indigenous social, cultural and environmental capital.
- The introduction and spread of **new technologies**, especially ICT is also linked with processes of globalisation and restructuring. Some rural areas, such as the Highlands and Islands of Scotland, have tried to capitalise on the distance reducing effects of ICT, developing new **information-**

based activities which depend on digital telecommunications. Others have sought to widen markets and capture a higher share of 'value-added', for example by using ICT to cut out 'middle-men' in distribution and retailing systems or by using the 'information highway' to market local goods and services directly to consumers and businesses.

- Rural areas normally experience **demographic changes** associated with the ageing of the population and which, when combined with the labour market changes, lead to increased dependency ratios, declining activity rates and less job-security. There is a fall in annual hours worked per person, an increase in self-employment and part-time working especially amongst women, as well as a rise in long-term unemployment. There is, at the same time, an increased opportunity for leisure and recreation and longer periods of retirement or lower activity, which often spill over into new demands on the countryside as mentioned earlier.
- **Population deconcentration** is perceivable in some countries in the form of population outflow from metropolitan areas. This is partly due to lifestyle choices, partly related to what Newby (1979) called 'the village in the mind', partly to housing costs, labour market changes, and partly to the perceived crisis of the urban life. The latter is linked to economic and social changes including increased crime, long-term unemployment and decay of urban public goods. Actually the rural and urban population movements and social changes are often inter-linked via a circular flow involving different social classes and age-groups.
- **Personal mobility** is constantly increasing. It includes commuting, tourism and recreation linked with the emergence of new ('consumption' related) uses for rural space, and new societal demands in relation to the land and landscape. Thus movements of people are a key aspect of rural change and development, and underpin many recent planning and other disputes in the countryside. Immigration, out-migration, retirement, the retention or loss of young people, the return of 'diaspora', commuting, recreation and tourism are all dimensions of this movement.
- The processes of economic change have resulted in the **emergence of new winners and losers**. The appearance and/or recognition of 'excluded groups' suffering from poverty and/or various other forms of 'deprivation' is a growing problem. Studies have demonstrated that **poverty, deprivation and exclusion** are as much rural as urban problems, although they take specific forms in rural areas. Reforms in social policies suggest that localities and regions will have to play a bigger role in this respect in future. The potential role of culture as a **social inclusion** factor in rural areas ought to be recognised.
- **Environmentalism** has emerged as a powerful ethic and political force. This has broadened into the sustainable development debate - the Brundtland ideas are now widely accepted even if the integration of environmental, economic and social sustainability is still disputed in practice.

3.2. *A new approach to rural development*

The issue of economic diversification in rural areas is not at all new. In the early 1960s it was perceived and explored by various authors (e.g. Priebe in Germany), and it was a driving force in new rural regional development agencies such as the Highlands and Islands Development Board in Scotland, established in 1965. Moreover, the practice of local development emerged in many European rural areas both in the 1930s and the 1970s as a 'bottom-up' response to policy and market failures [Bassand, Brugger *et al.* 1986]. However, it took a long time before such ideas and practices found a place in the mainstream political agenda. This clearly illustrates the gap between the development of theories and social practice and their political acceptance.

The European Commission has been active in promoting a new approach to rural development in the last ten years. The origins of this new approach lie in:

- the new structural policies of 1987 onwards (Structural Fund Reforms following the Single European Act);
- the subsequent 1988 discussion paper 'The Future of Rural Society';
- the introduction of the LEADER programme in 1991 (as a 'Community Initiative', part of the new structural policy);
- the 1992 CAP reform (the 'MacSharry Reform');
- the Cork Conference in 1996;
- Agenda 2000 in 1997.

The key elements of the new approach are summarised below.

3.2.1. A shift from agricultural to rural preference in the CAP

The issue here is whether 'rural preference' could be a feasible potential replacement for 'agricultural preference' in the Treaty of Rome. It refers both to the balance between agriculture and other activities and occupations within rural space and to the issue of rural-urban balance. Many commentators favour a re-focusing of attention, away from agriculture and towards other activities in rural areas, and the subsuming of sectoral policies like agriculture within a more inclusive and integrated rural policy founded on over-arching goals of social, environmental and economic sustainability. If this is accepted, it might be argued that 'rural preference' should replace 'agricultural preference'. However, farmers' interest groups might resist a transference of resources away from those policy measures formerly directed at them toward measures under which the whole rural population, including those in villages and small towns in selected target rural areas, is the client group.

The rural development aspect has been gaining some influence over the agricultural policy agenda since the late 1980s. Integrated rural development retained a strong position with the MacSharry reform of the CAP (1992). Experience with the LEADER programme is considered positive and the Cork Declaration (1996) brought proposals for radical changes and hence new challenges. Even if the process was set back somewhat with Agenda 2000, the circumstances suggest that rural development and agriculture are coming closer together.

However, a word of caution is needed in the debate about shift of policy preferences towards rural development. There is a danger that shifting from agricultural support to rural development support could result in traversing from one type of distortionary payments to another. New types of budget expenditure need to be justified on different grounds, and more strongly. Conceptual differences between rural and urban visions of regional policy need to be considered carefully, and it is in the mutual interest of the rural and urban worlds that potential collisions between them are avoided.

3.2.2. Rural development in light of the EU regional and cohesion policies

With regard to the urban-rural balance, one can note from the opinion of DG XVI, responsible for regional and cohesion policies, that the balance needs to swing from sectoral to spatial policies rather than vice-versa. Clearly this is a response to the fact that at present about half of the EU budget goes to about six million farmers (and 80% of that goes to 1.6 million or so of them, representing less than 2% of the EU population). The position of DG XVI does not adequately recognise that there are

significant proportions of the non-farming rural population who are unemployed, underemployed and poor, nor that rural areas have significant development potentials and produce significant public goods which are not, or are under, remunerated by the market.

The high and often increasing unemployment rate is the most acute problem in the EU. There is a need to revise the social contract. A question arises as to whether the CAP is entitled to use 50% of the EU budget whilst unemployment rises and not enough is spent to create new jobs.

3.2.3. *Rural policy as a spatial rather than a sectoral policy*

The shift from sectoral to spatial policy is necessary for an EU policy addressing both rural and urban spaces and societies. The main reasons are:

- i. the articulation of over-arching policy goals (sustainable development in economic, social and environmental terms including 'cohesion') since the Structural Funds reform and the Maastricht and Amsterdam Treaties means that sectoral policies must be subsumed by - and contribute to - these goals;
- ii. because rural and urban Europe are increasingly diverse;
- iii. because of the principle of subsidiarity.

Whereas the Cork Declaration was clear in calling for an integrated and holistic approach (see below, 3.2.5), Agenda 2000 is less clear, with rural policy in danger of becoming merely a branch of sectoral agricultural policy, or even agri-environmental policy. The Commissioner for Agriculture, Franz Fischler, has made a distinction between 'rural' and 'regional' policy which has been criticised as owing more to intra-institutional rivalries than to logic. On the other hand, the statements of the DG XVI on urban policy have not always been helpful either.

These tensions between agricultural, rural and regional development policies are characteristic of the debates about sectoral and spatial policy approaches. The problematic nature of these relationships is reflected in Agenda 2000 proposals for the Structural Funds and the CAP. It is further recognised that agricultural, rural, structural and environmental policies at EU level have spatial impacts at all levels. Moreover, national, regional and planning policies have impacts on neighbouring regions and countries, as well as at EU level. There is a need for greater recognition of these facts, whilst also recognising that physical planning and many other relevant policies (transport, infrastructure, housing etc.) are largely dealt with at national levels, and the EU has no legislative 'competence' in these areas. Hence the ideas for a 'voluntary' approach to integrating policies, and considering spatial impacts of all the various policies at EU and national levels, within the European Spatial Development Perspective (ESDP).

3.2.4. *Sustainability and fiscal austerity*

Sustainable development is mentioned in several places in the Cork Declaration and we must assume that it refers generally to the Treaty of Union, which uses a Brundtland type definition and makes it an objective of all EU policies. The Declaration states that policies should promote rural development which 'sustains the quality and amenity of Europe's natural resources, biodiversity and cultural identity so that their use by today's generation does not prejudice the options for future generations'. The question of whether all rural and regional development programmes and sectoral policies in relation to agriculture, transport etc. are sustainable in terms of preserving of the natural, social and cultural capital emerges.

The environmental legislation framework concerning implementation of agricultural policy needs to be reassessed. A lack of evaluation and control over the implementation of Accompanying Measures is evident. Besides, the linkages between protective mechanisms (e.g. environmental regulations) and the decisions about the menu of Accompanying Measures and the agricultural reform proposals in general remain unclear.

There is an increasing emphasis placed on the need for 'self-sustaining' private and public initiatives. This may reflect a concern in some quarters that some initiatives funded by the Structural Fund programmes, and perhaps also LEADER, may not be viable following the ending of public support. Alternatively, many such initiatives may have recurrent expenditure implications which are not sustainable in the longer term, especially in an era of fiscal austerity.

3.2.5. *The scope and range of the Cork principles¹*

The Cork Conference aimed to redefine the issues which should be included in the future rural policy framework although the Declaration did not make clear what was to be integrated within the framework. The discussion suggested that it should include the Accompanying Measures to the CAP reform and Structural Funds spent in rural areas (at least Objective 5b, 5a, LEADER and probably parts of Objectives 1 and 6). Simplification meant reducing the large number of programmes, and combining funds into one set of regional programmes, with one 'pipe' for Structural Funds, a 'global grant', and one set of rules. Questions about integration with national policies, and mechanisms for regional and local programming remained open.

The idea from the Conference was that there should be a single 'Integrated Rural Development' programme for each rural 'region', and this also links (although not necessarily so) with the concept of the Single Rural Fund which was widely discussed at Cork, if not explicitly called for in the Declaration. The issue of the role of small towns and villages and mention of village renewal is also significant given their place in diversified rural labour markets and service provision. However, important questions remained about how rural regions are going to be defined and delimited for policy purposes, and how these will relate to urban areas with which they have important (but not necessarily mutually reinforcing) economic and other relations. Moreover, the conference failed to unite the interests of agriculture and other rural partners.

Ideas agreed in the Cork Declaration seem to be broadly right in principle. However, there appears to be no grassroots for rural lobbying comparable with agricultural and environmental lobbying. The failure is both political and institutional. Political failure is perceivable through lack of intellectual support on rural development issues between Brussels and national ministries. Institutional failure is a result of the alienation of senior policy officials from academic life and from practice on the ground. Decentralisation of institutional structures has a major role to play in reducing failures and mobilising the rural population².

Not even the Commission itself is unanimous upon the issue of rural development. Views of the main players, DG VI and DG XVI differ significantly. The issue of competence within the Commission plays a crucial role on both levels - EU and national. Different standpoints of DG VI and DG XVI

¹ Outcomes of the European Conference on Rural Development, held in Cork (Ireland) in November 1996 are summarised in the Cork Declaration (Annex 1).

² The question about absence of rural lobbies is complex. Not only conflicts between the interests of agricultural and regional policies, but also other factors such as opposition of national financial ministries to increase government spending, have to be taken into consideration. Clearly the importance of sectoral agricultural policy has reinforced the strength of the agricultural lobby, whilst the growing importance of regional policy is strengthening regional policies. The rural lobby remains highly fragmented.

were clarified at the Cohesion Forum (Brussels, April 1997)³. The principles of rural development agreed in the Cork Declaration mostly did not find their way into the Cohesion Forum concluding documents (Annex 2). Therefore it must be stressed that rural policy is an essential part of regional policy. In this view, which stresses 'growth-pole' and 'trickle-down' ideas, there is no conflict between urban and rural. However, rural areas should not be regarded just as a synonym for decline, but as areas with actual and potential comparative advantages and a wide array of development perspectives.

Factors which represent or reinforce comparative advantage in today's globalised world are various - economic and non-economic⁴. It is not just cheap labour that is in abundance in the world market; information is getting increasingly accessible at decreasing cost. It must be assumed, in a world of decreasing barriers and mobility of capital, information and skills, that competitive advantage in areas where the (real) cost of labour is high will increasingly depend upon attributes or assets of a region or country which are not mobile. These will include elements of economic, social and environmental 'capital' which are particularly associated with specific countries and/or regions and which underpin or reinforce particular 'qualities' of goods or services produced in those localities. Thus, Scotch Whisky, Irish Music, Roquefort Cheese, Parma Ham, Shaker Furniture, Harris Tweed are globally recognised brands which rely upon a predominantly rural set of images, demonstrating a way in which regional identity plays a prominent role in creating a comparative advantage in the world market.

3.3. *The future challenges*

3.3.1. *Agenda 2000 proposals through a rural development perspective*

Issues raised at the Cork Conference have not found their way through the Commission's proposal for future rural development policies in Agenda 2000. However, it can be asserted that the elements of the Cork Declaration are present in the EU political agenda, and seem likely to guide future development of rural policy. The principles of 'integration' and 'co-ordination', identified in the Cork Declaration, have found their place in the new Objective 1 and 2 proposals under Agenda 2000. Outside these designated regions, a 'horizontal' rural development measure is proposed, as an additional 'accompanying measure' (often called 'Objective Zero').

The Agenda 2000 strategy can be seen as a step towards global competitiveness. However, in terms of integrated rural development it represents a step backwards in some important aspects, namely:-

- Beneficiaries are discriminated against (only, or largely, farmers are eligible for support in most areas of rural development, at least outside the Objective 1 and 2 designated areas);
- The scope for diversification of rural economies outside Objective 1 and 2 areas is restricted by the definition of measures eligible for support and by limitations on public sector support;
- The emergence of EMU will have deep consequences also on rural development in terms of reduced competitiveness of economically fragile rural areas in the Community, leading either to

³ Bringing together more than 1200 people with responsibilities in the field of economic and social cohesion policy in the EU, the Cohesion Forum (Brussels, 27-30 April 1997) organised by DG XVI attempted to pave the cornerstones of the future regional and cohesion policy. Indeed, the Agenda 2000 proposals on regional development and cohesion policy reflect the principles agreed on the Cohesion Forum.

⁴ Non-economically quantifiable factors, such as social capital, play a prominent role in creating regional comparative advantages. The case of HIE support for Gaelic language and cultural investment can serve as an example of building of comparative advantages through local capacity. On the other hand, non-economic measures can have indirect negative effects on local economies (e.g. closing down of the local school).

higher unemployment, greater outward migration, or downward adjustments in wage rates and this is not reflected in the proposals;

- A growing focus on the competitiveness of agricultural production will additionally affect small producers and will have a negative effect on natural biodiversity.

It also has to be stressed that in the present rural development debate, there is an over-obsession with the Community dimension of the issue. Agenda 2000 is pulling the problem back to the national/regional level, by emphasising the principles of subsidiarity and concentration. The relative decline of the sectoral approach is mirrored by the increasing importance of the spatial approach. This allows the member States to develop national and regional specific policies and then combine these with EU policies and measures in a more integrated and coherent set of spatial strategies. This is in fact being actively debated in many EU nations including Scotland, Ireland and Germany.

3.3.2. *Some Budgetary Issues (Agenda 2000)*

A few salient points concerning the forward budget of the EU are summarised in Table 1, derived from the Agenda 2000 document.

Table 1: Overview of the new financial framework (1997 prices: bECU)

Appropriations for commitments	1999	2000	2001	2002	2003	2004	2005	2006
Agriculture (guideline)	43.3	44.1	45.0	46.1	47.0	48.0	49.0	50.0
Structural operations	36.1	35.2	36.0	38.8	39.8	40.7	41.7	42.8
of which:								
Structural funds	31.4	31.3	32.1	31.3	30.3	29.2	28.2	27.3
Cohesion Fund	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9
New member States	0.0	0.0	0.0	3.6	5.6	7.6	9.6	11.6
Pre-accession aid	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Internal policies	6.1	6.1	6.4	7.3	7.5	7.7	7.9	8.1
External action	6.6	6.8	6.8	7.0	7.1	7.3	7.5	7.6
Administration	4.5	4.5	4.6	5.1	5.2	5.3	5.4	5.5
Reserves	1.2	1.0	1.0	0.8	0.5	0.5	0.5	0.5
Appropriations for commitments (total)	97.8	97.5	99.8	105.1	107.1	109.5	112.0	114.5
Appropriations for payments (total)	92.5	94.1	96.6	101.1	103.9	106.5	108.9	111.4

(Source: CEC 1997a)

As can be seen from Table 1, total structural spending in the EU-15 is expected to decrease to 27.3 bECU, whereas total agricultural spending is projected to rise to 50.0 bECU. This includes 3 bECU for the three existing Accompanying Measures (agro-environment programme, farmer retirement, farm forestry), and 2 bECU for the 'new' rural development measure. Agricultural spending in the new member States and in pre-accession aid is expected to increase from 1.3 bECU in 1999 to 3.0 bECU (1997 prices) in 2006, much smaller than the sum allocated to structural operations.

The 2 bECU allocated to the new rural development measure includes the existing Objective 5a outside Objective 1 regions, and Objective 5b, as well as the LFA compensatory allowances, totalling approximately 1.9 bECU. This means that there is, in effect, no new money for rural development, unless the expected 'room' within the agricultural guideline materialises and, further, that this is utilised for rural development.

It is possible that the Rural Community Initiative following LEADER will be proposed as a horizontal measure, as indicated by the Commissioner at the November 1997 symposium '800 LEADERs give their views'. As the Community Initiative will be a 'single fund' initiative, it is probable that 'LEADER III' will be managed by DG VI. It is speculated that the budget will be between 2 to 3 bECU, which compares with 1.7 bECU for LEADER II. However, although the Commission services are keen to retain the basic principles of LEADER (bottom-up, integrated partnership approach, experimental nature) there will have to be some form of prioritisation in order to limit the number of actions and the area covered by them.

Bringing together the different types of EU support for the accession countries of Central and Eastern Europe, total pre-accession support over the period 2000-2006 is proposed at 21 bECU at 1997 prices (3.5 bECU for structural assistance for agriculture; 7 bECU under the Cohesion fund, and 10.5 bECU under PHARE). In addition, 53.8 bECU is allocated for the new member States between 2002 and 2006, most of which is for structural operations. The total of 74.8 bECU for both of these items compares with the overall budget for 2000-2006 of 772.5 bECU at 1997 prices.

3.3.3. *Rural development policy on 'vertical level' (New Objectives 1 and 2)*

Amalgamation of previous Objectives 2 and 5b into a single Objective (Objective 2), as proposed in Agenda 2000, is the subject of political controversy. Many questions remain open. Areas are delineated by a set of different criteria and it is unclear how the Structural Funds assistance will operate under the new rules. The concept of simplification of structures, also proposed in Agenda 2000, in fact transfers the core functions from the Commission level back to the member States. As such, it gives scope for a (limited) re-nationalisation of the rural development policies.

The choice of territorial level in analysing the differences in performance of regions is of crucial importance. NUTS 2 remains the basis for selection of the new Objective 1 areas. There are vast differences in development between the core and peripheral regions and these problems are not always properly addressed. The new Objective 1 areas should cover a smaller proportion of overall population (20% instead of today's 25%). The GDP calculation for the previous Objective 6 areas and for the new German Länder remains an open question. There is also a possibility of different interpretations of the GDP calculation, especially in the regions that are likely to lose their eligibility (Ireland, Highlands and Islands...).

The new Objective 2 areas will cover 15-20% of the population, but only 5% in rural areas (as compared with 9% covered by Objective 5b). Criteria for designation of Objective 2 and 5b areas were too loose, and are being tightened up. However, there are certain difficulties about the criteria for the new Objective 2 areas and some open questions remain unresolved:-

- Does the designation basis on the territorial level NUTS 3 offer enough information about the local specific needs and development potentials?
- There are large differences in the share of agricultural employment between the member States. How will the Commission address that problem in order to find equitable criteria?
- Population decline is not a typical rural problem. The figures in many regions show a strong cyclical trend and not every type of migration pattern has the same characteristics (e.g. migration of retired people to rural areas vs. migration of young families, daily migration (commuting) from rural to urban areas).

Although the assumptions of the model used are not specified, the first estimates of future designation of the new Objective 1 and 2 areas, according to the criteria proposed by the Commission, reveal very interesting results:

Table 2: Distribution of the eligible areas by member state

Member state	Objective 5b regions		Agenda 2000 – Rural areas eligible by the new Objective 2 criteria	
	Population (000)	Share of total population	Population (000)	Share of total population
Austria	2,310	7.0	301	1.7
Belgium	454	1.4	60	0.3
Germany	7,792	23.6	308	1.7
Denmark	363	1.1	45	0.3
Spain	1,720	5.2	1,976	11.0
Finland	1,089	3.3	3,047	17.0
France	9,974	30.3	7,190	40.0
Greece	0	0	0	0
Ireland	0	0	3,061	17.6
Italy	4,800	14.6	1,222	6.8
Luxembourg	31	0.1	0	0
Netherlands	826	2.5	0	0
Portugal	0	0	0	0
Sweden	750	2.3	580	3.2
United Kingdom	2,851	8.7	72	0.4
Total	32,959	100.0	17,961	100.0

(Source: AgraEurope (German version), 9th February 1998)

In practice, the Commission has introduced a 'safety net' to limit the effects of loss of present Objective status suffered by any one country. Nevertheless, the fact remains that the proposals inevitably mean that fewer rural areas will be eligible under Objectives 1 and 2 than are currently eligible under Objectives 1, 5b and 6. There will also be transition measures for areas losing status and the importance of this should not be underestimated. Outside the 'Objective' regions, there is an option for member States to build rural development policies around the horizontal measures in the new rural development regulation. This provides for the combination of the 1992 CAP reform's Accompanying Measures (agri-environment, afforestation, early-retirement), existing Objective 5a measures and the new horizontal 'Article 31'⁵ rural development measures into 'Single Rural Plans'. Since only agri-environment is compulsory, the other measures may be combined in different ways according to regional and national needs (the so-called 'menu approach').

⁵ Article 31 of the draft Regulation implementing the rural development elements of Agenda 2000, which deals with a menu of items concerning farm and rural diversification, village renewal, rural infrastructure, etc. formerly funded by EAGGF under Objective 5b and 5a.

It can be anticipated that regional policy framework as proposed in Agenda 2000 will if anything increase the urban emphasis in Structural Funds spending. This emphasis was already evident in the two previous planning periods.

3.3.4. *Rural Development as a 'Horizontal' policy ('Objective 0')*

The Cork Declaration proposed that rural development policy should apply 'to all areas', and not simply those designated as priorities under the Structural Funds suggesting, in one sense at least, a 'horizontal' policy. The proposed regulations for this policy were published in March 1998⁶. It is expected that this measure will be implemented through regional or national programmes, depending on the approach of different member States. However, the scope and content of the proposed rural development regulation implementing Agenda 2000 is more restricted than was proposed at Cork in terms of scope to assist rural diversification, and is overly targeted at farmers as the 'client group'. In that respect, the concept of 'Objective 0' can be seen as a threat to the integrity of rural development by focusing on the agricultural sector (leading role of DG VI in policy design, EAGGF financing, reference to Article 39 of the Treaty of Rome) rather than providing more integrated solutions.

While the horizontal element may give some assurance to farmers that reductions in CAP support will be 'compensated' by new rural policies, those in richer regions may doubt whether there will be a *juste retour* in terms of financial flows. The relevance of this problem can be seen from the current experience, where the funds available for the CAP Accompanying Measures are not spent in total. Since participation in these measures is voluntary, their effectiveness depends upon whether they are sufficiently attractive to farmers compared to the price support policies. In most cases, returns from the market support of production still outweigh those from participation in structural programmes. Thus, farmers, as economically rational producers, prefer to choose the option which brings them higher financial returns.

As we have seen, (3.3.3 above) the draft rural development regulation provides a 'menu' of activities eligible for support. Within this menu, only agri-environment will be compulsory, leaving member States to 'mix-and-match' measures at national or regional level according to their needs and circumstances. The choice of 'rural development' measures under 'Objective 0' will thus depend to a greater extent than previously on the independent choice of individual states/regions, which will be involved in their co-financing.

Price support schemes allow no discrimination between farmers. However, there is a political constraint in the Structural Funds expenditure, since the rural development support schemes, financed from the EAGGF Guarantee have to limit their expenditure exclusively to measures which benefit the agricultural population⁷. Therefore, the proposed Rural Development Regulation also leaves a sense of doubt in strictly financial terms. The future EAGGF Guarantee expenditure on rural development measures (previously Objectives 5a and 5b plus the 1992 Reform 'Accompanying Measures'), enlarges the box but limits beneficiaries almost entirely to farmers. The difference in magnitude between the funds available for the new Rural Development Initiative ('LEADER III: 2 to 3 bECU over seven years) and the new Rural Development Measures (Objective 0: 35 bECU over seven years) eloquently demonstrates the ambiguity of the future situation.

⁶ This occurred after the Arkleton Seminar, although several participants had obtained the draft regulations prior to their publication, and these were discussed.

⁷ Both sections of the EAGGF are subject to Article 39 of the Treaty of Rome.

National expenditure for non-agricultural rural development programmes outside Objectives 1 and 2 is to be more strictly regulated by the Commission under the competition rules. Although national/regional governments will gain greater room for manoeuvre in designing their development policies as a result of the amalgamation of rural policy schemes under Objectives 1, 5a, and 5b under the common policy framework, they may lose room for manoeuvre on levels and rates of support, especially outside Objective 1 and 2 regions.

Nevertheless, it is not clear whether member States and the European Parliament will accept the Commission's proposals. A growing proportion of the EAGGF Guarantee expenditure on rural policy measures and consequently greater freedom to the Commission in related budgetary expenditure may influence the European Parliament's decision that would (in the case of the acceptance of the Commission's proposal) actually vote for a decrease in its executive power.

3.3.5. A bottom-up, participatory approach (Local Initiatives)

For most nations and regions in Europe, integrated, local, bottom-up development is a new paradigm, representing a complete change from previous centralised and 'top-down' sectoral structures. It requires more accountability and transparency at local levels than is usually evident, and different forms and styles of support. Awkward questions arise about relationships between local development bodies and democratic institutions and processes. These issues need to be tackled, if serious imbalances in the integrated rural development planning and implementation processes are to be avoided. Several countries (Scotland, Finland, Spain) have introduced national schemes to support integrated, bottom-up partnership approaches to rural development at sub-regional level, and these usually apply in areas which do not have LEADER programmes.

LEADER I and II experiences

An innovative approach with promotion of bottom-up oriented rural development was launched by the LEADER I Community Initiative in 1991. The two generations of LEADER projects have proved to be successful in many respects, although the growing bureaucracy in LEADER II has been criticised. Above all, LEADER has strengthened the principle of partnership. The rural development programmes are not so much about money as they are about the process. Working in a wider policy network, the regions are not just pursuing their own narrow development objectives but also contribute to the achievement of wider policy objectives.

However, the two generations of LEADER Initiative have also shown some important deficiencies. One such deficiency is a lack of sufficient transnational co-operation between projects. This co-operation is essential in terms of innovations and good practice and also in the catalytic effect successful programmes can have on other rural areas. More importantly, the LEADER Community Initiative is not as efficient as usually thought and the financial uptake of LEADER II in many countries is so far rather poor. In the future, the Commission suggests a stricter evaluation of the quality of programmes, concentrating on the number of jobs created or retained and on their sustainability.

Negative experiences from LEADER II derive from an abundance of approved projects (over 900 vs. 217 LEADER I Local Action Groups) which has logically resulted in the watering down of their financial and other resources as well as its transformation from an experimental scheme to one which is more mainstream. The LEADER Observatory proposes that the new Rural Development Community Initiative insists on a ceiling of 300-350 approved programmes. However, this approach may appear to violate the principal strength of the LEADER objectives, which is not in financial or direct employment terms but rather in the stimulation of innovative approaches in diversification of rural economies and in local capacity building. Therefore, programmes under the new Rural Development Community Initiatives should not be approved purely on administrative selection

criteria. The decision making process should involve the existing information and evaluation of the LEADER network which has achieved positive results.

Prospects for 'LEADER III'?

The need for bottom-up development involving both horizontal and vertical co-operation and partnership, suggests a combination of Structural Fund (Objective 1/5b) and LEADER mechanisms for planning and implementation of integrated rural programmes. This is reinforced in the Cork Declaration (Point 6), which stresses decentralisation, subsidiarity, and the need for flexibility. However, in many regions there is little sign of a bottom-up approach or of public participation in development planning and processes, despite the rhetoric.

Moreover, administrative regions, which we must assume for the present to be the level at which the European Commission will direct the new policies, are usually too large to make bottom-up participatory approaches feasible. Most likely, bottom-up will be a philosophy or approach to development on the one hand, and a set of eligible measures (on the LEADER model) on the other. There is no reason why LEADER type local development measures should not in future be supported by mainstream Objective 1 and 2 programmes, although there remains a good case for a selective, experimental scheme which focuses on socially fragile rural areas, stresses integrated (social, economic and environmental) development and emphasises partnership, participation and innovative methods. However, the bottom-up approach also has its hindrances. It is hard to expect that the bottom-up orientation of rural development policies will be efficient if all the remaining public structures are top-down oriented.

Agenda 2000 proposes a rural 'Community Initiative' which the Commission wants to be 'at least as innovative as LEADER I'. Informally, this is being called LEADER III. It is understood that the Commissioner favours LEADER III being available in all rural areas, albeit with a mechanism for prioritising eligible areas or themes such that the total number of such areas will be reduced. Moreover, since the initiatives will be 'single fund' financed, 'LEADER III' will be financed by EAGGF Guidance. Such an outcome presents many of the same issues as the proposed rural Accompanying Measure regarding: scope and content, eligible clients, modulation of EU support, etc. Funding of the rural 'Community Initiative' explicitly from EAGGF on a 'horizontal' basis would aggravate the cohesion principle of its implementation, although this objection could be alleviated by a tighter system of prioritising economically and socially fragile areas.

The discussion did not result in a clear answer about the future of Community Initiatives as far as the viability of the LEADER programmes are concerned. However, it succeeded in highlighting various elements of rural 'cross-complexity'.

4. Rural development policy in the context of EU enlargement

The future European rural development policy will be considerably influenced by its enlargement to include the CEECs, which brings a new set of development requirements and needs. Despite considerable differences between the CEE applicant countries, relatively high proportions of rural population still engaged in agriculture and low levels of diversification in rural economies can be depicted as common denominators. Adjustment must surely be concerned with the development of alternative forms of work and income in (or at least being accessible from) the rural areas.

As discussed in the previous section, a new approach to rural development has been emerging in the context of the existing EU-15. Whilst rural development is clearly a priority for many of the CEECs, it is not clear whether or how this new approach is applicable in the CEE countries, although the pre-accession programmes should inform us on this point in due course. In this respect, the proposed EU

pre-accession programmes were discussed in terms of their ability to address the complexity of the rural needs of the CEECs.

4.1. *Rural development issues in the CEECs*

4.1.1. *Common problems*

There is a diverse 'clientele' in rural development. In both the EU-15 and CEECs the problem of overlapping structures involved in rural development can be perceived. A key problem is that none of those structures is willing to give up any of its control over the situation using financial means. There is a lack of solidarity between rural actors and strong rural alliances are missing, which contrasts with the situation in agriculture.

Initial decline in agricultural output in most of the CEECs has been followed by a constant increase in output. There is an open dilemma about the role of agricultural policy - should it encourage further increases in output or re-orientate towards promotion of non-agricultural activities in rural areas? Additional problems arise from the lack of government resources to regulate agricultural production in environmentally sensitive areas.

Rural development was a non-existent concept in the formerly centrally-planned economies, thus rural programmes have not so far been developed. Moreover, today the rural-urban mobility of labour is limited by a lack of employment opportunities and housing in the urban areas. Collapse of public structures (services, social care) and no alternative employment for skilled labour has resulted in an increase in the rural population. The social buffer role of agriculture should not be underestimated. However, this role can interfere with the development of competitive agriculture.

Despite frequent (mainly legitimate) criticisms regarding existing Community support programmes for capacity building assistance in the CEECs (PHARE programmes), some of its positive aspects also have to be recognised. A positive aspect of the PHARE programmes is that they introduce the principles of subsidiarity and co-financing in the policy-making process of the CEECs. In addition, PHARE programmes have been important in enhancing co-operative networks.

4.1.2. *Country cases*

Poland

Political and structural preferences can be observed in the EU assistance to Poland. Dual agricultural structures (prevailing - often small scale - private farms on one side and large agricultural enterprises on another) are a characteristic of Polish agriculture. This structure also reflects in the duality of its agricultural policy. Rural development is one of the secondary issues in EU support. There is a need within the national administration to switch that trend. The existing PHARE support in structural adjustment was lacking in flexibility; it has been implemented in the terms of existing CAP principles which, at least from the CEEC viewpoint, are going to be drastically reformed.

Estonia

Estonian agricultural policy with zero or even negative levels of agricultural support can be seen as an antidote to CAP. However, the existing agricultural policy has resulted in a rapid decline of agricultural population and in an increase in unemployment. Estonia is trying to drive its agricultural policy as cheaply as possible. It aims at restructuring and modernising agriculture in order to enhance

its competitiveness on the international market. However, the market itself is distorted, mostly due to the subsidised EU exports of agricultural commodities.

The long-term objective is also to enable the rural areas to become attractive places for the non-farming community to work and live. In this respect, effective mechanisms of rural development policy have to be set up. Preparation of a legislative background for rural development can be seen as a first step in this direction. Estonia does not rely solely on the future support of Structural Funds in rural development, but is also developing its own structures.

Slovakia

For Slovakia, the importance of creating rural development policies based on the bottom-up principle was stressed. New employment opportunities for people who leave agriculture have to be provided. However, the unstable present political situation hinders development of an integrated rural development policy.

Lithuania

Whilst Lithuania was a part of the USSR, the traditional village structures were demolished. With the decline of state farms, new players are entering the rural economies. The objective of rural support measures is to decrease the reliance of farmers on public support and to stimulate the local communities into organising themselves. The existing rural development policy framework should be simplified, with clear priorities and enrichment of corresponding funds and the principle of partnership.

The Lithuanian experience provides an interesting example. While the EU Structural Funds support still builds upon redistribution of the public resources, Lithuania has decentralised the policy making process and reduced the role of the Government in providing policy guidelines. The state is promoting rural development with lump-sum financial assistance, while decisions about development priorities and co-financing are taken at the regional level. When/if the EU Structural support does come, it will be just an additional financial source for the implementation of existing policies. This appears to be similar to the structure being proposed for post-Agenda 2000 measures in some of the existing EU member States.

Romania

The Land Law (1990) restored private ownership of land, but only up to 10 ha, and no financial or other kind of support for the land owners has been provided. This generated a high degree of land fragmentation and large number of subsistence farms (the average farm size in Romania is now 2.4 ha). Industrial restructuring - especially in the mining industry - increased unemployment in rural areas. In addition, Romania has an ageing rural population resulting from out-migration by young people to the cities. High unemployment rates are particularly evident in regions which were artificially industrialised, where the transition has led to a spectacular collapse of the industrial base and provoked high levels of out-migration.

Since 1997 a policy for rural development has been worked on and a fund for rural development will be coming into operation during 1998. Four Rural Observatories (newly established NGOs around four Universities) will carry out studies and research related to rural development activity. Partnerships between MAF - DGDR and different institutions and bodies involved in rural area development (Ministry of public works and territorial planning, Ministry of labour and social assistance, Ministry of industry and commerce, Ministry of water, forests and environmental protection, etc.) have been studied and are currently in the process of approval.

The institution building and legal harmonisation process in the field of agriculture and rural

development is in progress in preparation for the EU accession. However, it seems to be slow and difficult because, on the one hand, specialists are neither prepared nor trained for it and, on the other hand, there is a lack of communication both between the applicant countries and the EC and between different directorates of the Commission, for example: DG I, DG VI, DGXXVI, etc.

Hungary

Farm co-operative networks have been established within the county organisational level. With the opening of the land market, a problem of land speculation by foreign owners has emerged. Partly as a consequence, lively environmental lobbies have developed. It has been stressed that EU rural policy should provide a flexible policy framework to embrace the wide variety of country/region specific development problems. The problem of regional absorption capacity was raised, highlighting the importance of capacity building.

Slovenia

At present, the competence for policies and programmes with rural impact is dispersed between different ministries. The existing rural development policy in Slovenia can be described as top-down, sectoral, poorly co-ordinated and lacking in reconciliation of tasks between the ministries which often brings an overlapping of functions. Public support in the most remote regions (which are, as a rule, determined also by difficult conditions for agriculture) is almost exclusively limited to infrastructural investment support and agricultural price support measures.

The existing Slovene rural development policy concepts are challenged by far more comprehensive and structured EU policy mechanisms. In this respect, redefinition of rural development policy in Slovenia should not be seen as an imperative of simple adoption of the EU policy framework but rather as an opportunity to design its own set of guidelines, to provide an institutional framework that would match the corresponding EU structures and to encourage enrichment of public funding with private funding.

4.2. *The pre-accession support*

Agenda 2000 proposed three priorities for the EU pre-accession support to the applicant countries. The PHARE expenditure (1.0 bECU) will be used mainly for **capacity building**. This scheme also includes pilot rural development projects with stronger participation of national experts. The ERDF support (by the Cohesion Fund principles) for **infrastructural investments** will amount to 1.5 bECU. Prompter progress in **improvement of agricultural structures** will be supported with 0.5 bECU by EAGGF. The range of measures builds mostly on those used in the existing EU-15 policy framework. However, priority will be given to structural development actions (such as promotion of marketing, producer groups and technical assistance), whereas implementation of LFA support is not anticipated within the pre-accession measures. The present regulations (DG XVI) also do not anticipate any launching of the LEADER-type pilot rural development projects in the applicant countries.

The partnership agreement with the applicant countries will be renegotiated every year. The Structural Funds assistance can contribute up to 75% of project value, as for the Objective 1 areas. The EAGGF assistance will provide 10% of the assistance in advance, followed by monthly payments, in order to ease financing problems. As soon as an applicant country becomes a full member of EU, it will no longer qualify for the pre-accession assistance. The remaining funds will be redistributed to the remaining candidates. The CEE applicant countries are recommended to start immediately with the preparation work. Restitution of the nationalised land to private ownership and improvement of competitiveness of the food industry are identified by the Commission as the tasks of primary importance.

4.3. *Relevance of the pre-accession measures for rural needs of the CEECs*

The proposed programme of the pre-accession assistance seems to be lacking in flexibility. Pre-accession support for the applicant CEECs focuses on structural operations and rural development issues seem to be disregarded. Emphasis on infrastructure building can result in growth of rural-urban development disparities. As a result there has been some negative experience with the actual Structural Funds spending and even where funds were spent in rural areas, the programmes were not always appropriate. The objectives of structural policy need to be addressed: are these merely about redistribution of public money to reinforce the growth poles, or is the need and scope for diversification of rural economies fully recognised?

Since the CEECs are a heterogeneous group in the terms of agricultural structures, it is necessary that the Community assistance offers enough flexibility to the individual states/regions to decide upon the most appropriate measures. However, it appears that the mechanisms for the CEE accession countries, proposed by the Agenda 2000, do not offer enough flexibility to run a rural policy specific to the needs of individual countries. In the EU, it is often the case that the structures and capacities at regional level are not capable of delivering development plans. Constraints are present in both financial and human resources terms. That problem will be more evident in the accession candidates from CEECs. The pre-accession support should therefore focus on capacity building, training and the development of structures and not merely on financial support for 'hard' infrastructural development. The emphasis on capacity building and improvement of agricultural structures in the existing support programmes was oriented to the existing EU structures, which are (especially in the case of the CAP) moving targets for the CEEC candidates.

5. Rural development issues in relation to the likely WTO Trade Talks outcomes

5.1. *CAP and the WTO Trade Talks*

The conclusion of the GATT Uruguay Round of 1986-1994 is given in Council Decision of 22 December 1994 [O.J. L366 Vol 37: 94/800/EC]⁸. The implementing period for the agreements reached was six years, ending December 2000 (except for Art. 13, which has a nine year implementing period ending in 2003). It was further agreed that the reform process would be continued 'one year before the end of the implementation period', i.e. early in 2000 [Art. 20].

The long-term objective for agricultural trade reform negotiations was set out in the Mid-Term Review of the Uruguay Round as: 'to establish a fair and market-orientated agricultural trading system' which would be reinforced both by commitments on support and protection, and 'strengthened and more operationally effective GATT rules and disciplines'. This long-term objective also involved 'substantial progressive reductions in agricultural support and protection sustained over an agreed period of time, resulting in correcting and preventing restrictions and distortions in world agricultural markets'. There were commitments to 'achieving specific binding commitments in market access; domestic support; export competition; and to reaching an agreement on sanitary and phytosanitary issues.' Nevertheless, it was noted that commitments should be equitable, 'having regard to non-trade concerns, including food security and the need to protect the environment'.

It should be noted that all subsidies paid to, or revenue foregone from, agricultural producers with respect to production of food and most raw materials (both crop specific and non-crop-specific) are included in the assessment process, including regionalised aids. Exceptions listed are:

⁸ The references which follow in square brackets refer to the various Articles in this Decision.

- i. support not exceeding 5% of the value of production of a basic agricultural commodity or, for non-crop-specific support, 5% of total agricultural production,
- ii. 10% *de minimus* for developing countries,
- iii. certain direct payments in production-limiting programmes where payments are based on fixed areas and yields, and such payments are made on 8% or less of the base area of production, and livestock payments made on a fixed number of head.

It is argued by some that the Agenda 2000 proposals on agriculture, which essentially involve a widening and a deepening of the 1992 CAP reforms, represent an 'opening position' of the Community on the next trade round. Many commentators argue that the proposals do not go far enough to meet the probable demands of our trading partners, and that the EU will be isolated on the protection issue (with the possible exception of support from Japan) at the start of the talks in 1999. To take one example, the FAPRI Policy Working Paper 03-97 which is a 'first look' at the CAP reforms in Agenda 2000 argues that these would adversely affect future US and EU trade relations [page 5]. At first sight, it seems the reforms do not go as far as the FAIR Act does in the U.S.

It is, on the face of it, a fair working assumption that the trade round starting in 2000 will eventually give rise to the need to reduce EU agricultural subsidies by a significantly larger amount than is proposed in Agenda 2000, which actually increases the level of budgetary payments to farmers in the existing EU-15. It is at this stage that 'non-trade issues' come to the fore, and these will clearly need to be better articulated in future as the basis for agricultural, agri-environmental, rural, and related 'green box' supports, especially those with agricultural producers as the sole policy clients. In this context, we can note that the Commission's 1997 document 'Rural Developments' raises three main sets of arguments for a rural development policy:-

1. 'Rural development is essential to agriculture' (this is exactly the message of our large comparative study of farm household dynamics in 12 EU countries between 1986 and 1992 [Bryden *et al.* 1994])
2. 'Rural development is essential to the environment and quality of life'
3. 'Rural development is essential to economic development and cohesion' [CEC 1997b: 72-74]

5.2. *Anticipated course of events*

5.2.1. *Negotiation standpoints*

It can be anticipated that the USA and the Cairns group, the two most important opponents of the EU in the agricultural part of the WTO negotiations, will demand a complete revision of the measures agreed in the Uruguay round as the 'Green box' and 'Blue box' measures⁹. Their argumentation could

⁹ According to the GATT Uruguay Round agreement on agriculture (URAA), the agricultural policy instruments are classified in three groups, popularly called 'boxes':

'Red box' - measures that are directly subject to decisions, agreed in the URAA. They include market support measures, such as import levies, export subsidies and intervention purchases. They represent a significant part of the AMS calculations and have to be reduced substantially over the implementation period.

'Blue box' - conditionally permitted measures. Compromise solution that includes measures, such as compensation payments.

'Green box' - recommended measures without direct market influence, such as decoupled direct payments, rural development support, R&D, marketing channels support, sanitary & phytosanitary improvements...

be that at least some present measures (e.g. compensatory allowances for producers in the LFAs) do not meet the requirements of the agreement since they have (at least) indirect effects on the agricultural production and are therefore trade distorting. Support measures, agreed in the 'Green box' and 'Blue box' are a result of consensus at the time of the termination of the GATT Uruguay Round negotiations. As a consequence, the next round could start from scratch, as if there were no previous agreement.

LFA compensatory allowances, especially direct payments per LU, have clearly contradictory effects. However, that problem may be overcome by the new Commission proposal, which foresees only direct payments per hectare which are linked to environmental conditions (cross-compliance). It is likely that the proposed switch of the LFA measures to area payments may cause income problems for the farmers of the extensive pastures in large areas of the Mediterranean, in the west of Ireland and in the Highlands and Islands of Scotland, unless there is sufficient modulation and differentiation within the scheme. Although such modulation and differentiation is included within the proposals, it will be necessary to avoid 'discrimination' by appealing to an objective basis.

The 'Millennium Round' of WTO Trade Talks will concentrate primarily on the issues of free market access and trade. However, they are likely also to raise dilemmas about the externalities of production. This issue will be raised particularly by the EU since their negotiation starting-point on the trade issues tends to be weaker. Commitment of the European side will be devoted to environmental and rural development considerations (e.g. decoupling subsidy according to the environmental aspects and incorporation of rural diversification measures). It is also likely that the European side will raise the questions of food safety, animal welfare and consumer protection (e.g. genetically modified agricultural products and use of growth hormones in animal production etc).

In its promotion of rural development issues, the EU has to be aware not only that the reaction of its opponents will be negative, but also that some of the member States will react in the same way. A switch from strictly agricultural to rural development support in the budgetary expenditure could also trigger demands for inclusion of specific commitments from the rural development measures in the AMS calculations. The Commission's proposal for horizontal rural development measures, financed from EAGGF with the farming population as the main beneficiaries of public support might also be questioned by the opposing groups. These are all non-trade issues and the response from the negotiating partners could be that they do not have their place in the trade talks.

The environmental aspects of international agricultural trade will have to be clearly defined. All the negotiating parties have given their commitments on the UN environmental forum. Therefore, some issues can be raised, such as:-

- i. Sanitary and phytosanitary aspects, use of GMOs in agricultural production;
- ii. Does non-sustainable use of water resources in south-west USA have economic (and trade distorting) impacts on production?
- iii. Is use of growth hormones in animal production in accordance with the concepts of sustainability and animal welfare, let alone human health?

The interests of the Less Developed Countries (LDCs) should also be seriously taken into consideration. It can be anticipated that LDCs will refuse to sign the agreement if the questions of greater access to the world market with less trade and non-trade distortions (e.g. taxes, food labelling), especially from the EU side, are not solved. They will also open the question of food security.

If the Trade Talks of the Millennium Round come to a deadlock on the agricultural issues, strong external pressures can be expected from other sides (e.g. participants industrial and intellectual property rights talks) to come to an agreement as soon as possible (2003?).

Procedural complications

Procedural complications stemming from different interpretations of the legal text of the GATT Uruguay Round Agreement from the negotiating parties can be expected.

EU Enlargement

The WTO talks will take place at the same time as the pre-accession negotiations with the first group of candidates from the CEECs. Double standards of the CAP (e.g. absence of income support for farmers in new CEE member States) will additionally weaken the EU argument for the need for agricultural income support. In addition, some of the CEECs that are applying simultaneously for membership of both the WTO and the EU are exposed to pressures from both sides.

Environmental considerations

As has already been suggested, environmental issues are likely to be raised in the WTO Trade Talks by the EU negotiators in particular, mainly as a contra-argument of the agricultural countries with higher levels of agricultural protection. The OECD agri-environmental indicators have been prepared explicitly to establish a standardised instrument to guide the debate about sustainable use of agricultural areas. These indicators were originally designed to assess aspects of ecology and cultural integrity. However, in the later stages of negotiation, discussion about these indicators was 'hijacked' by the agricultural secretariat (influenced by the Cairns group) which proposed to develop only indicators such as soil, water and farm financial resources. The EU reacted with a proposal to include landscape and habitat, but this was both weak and late. The present definition of (synthetic) OECD agri-environmental indicators corresponds to the interests of the USA and the Cairns group and they will probably insist on their use as a basis for the WTO agricultural trade talks.

Rural development issues

There is a threat that European rural development will be trapped in the Brussels - Geneva prison. There is a distinction between the rural and urban package of economic assistance. Agriculture in regional economies is becoming only a narrow area of concern. Structural Fund (ERDF, ESF) actions in designated rural areas are not problematic from the point of view of the WTO Trade Talks. However, the same cannot be said for the EAGGF Guarantee expenditure, especially if 'rural development' assistance turns out to be only or mainly for farmers. On the other hand, the WTO pressure can be seen as a positive catalyst for the European rural development debate which is always in danger of becoming sectoral. In the EU, too little attention has been devoted to the theoretical and methodological basis of its rural policy measures. Ultimately, this reflects the relative strength and organisation of the farming and rural (territorial) lobbies.

'Greening of CAP'

According to the commitments of CAP, agreed in the GATT Uruguay Round, the dilemmas about future agricultural policies have a dual character. The question is how to make these policies greener - in both policy and environmental senses of the term.

Un-utilised opportunities

The set of measures agreed in the 'Green box' includes farm income and crop insurance. This measure has never been seriously discussed in the CAP agenda, whereas it is widely used in some of the WTO trade partners (e.g. Canada).

Rural development issues as a subject of separate talks?

An idea to launch the rural development issues as an 'own negotiation' theme emerged at the Seminar. However, launching such an idea demands bringing together allies, which takes a lot of political effort and time. In addition, the legal terms of such a move have to be reconciled.

6. Conclusions

Rural development policy is clearly in transition both within the existing EU-15 and in the CEECs. Underpinning this transition in both cases is the enlargement agenda on the one hand, and the trade liberalisation agenda on the other. Whilst there is now greater understanding that rural and agricultural development are not the 'same thing', they increasingly need to be considered together in an integrated, spatially differentiated frame, aiming for sustainable economic, social and environmental development in rural territories.

Not all conditions in rural areas are the same, even within the existing EU-15 and even more so when the CEECs are considered. However, most of them share a need to diversify rural employment and income earning opportunities in ways which cause least harm to the environment, and indeed which build upon synergies between the environment, quality of life, and new sources of income and work.

Critical issues for Rural Development therefore concern:

- Institutional frameworks, especially the respective roles and responsibilities of the EU, existing and applicant member states, regions, and localities. These need effective and democratic governance; flexibility to deal with diversity; integration and co-ordination of sectoral policies; participation of local people; and support for local initiatives, as well as policy efficiency and effectiveness at all levels.
- New ways of retaining and enhancing rural competitiveness in an increasingly globalised economy. Public support should focus more on non-mobile assets - environment, social and economic capital, including capacity building and improving institutional effectiveness. Rural development policies should allow enough flexibility to cope with growing diversity and should encourage multi-sectoral and bottom-up participation. A climate of innovation and entrepreneurship should be broadly supported. Diversity of rural areas should be encouraged in a sustainable manner.
- Tackling inequalities of opportunity and access, at CEEC-EU, national, regional, local, rural-urban, and interpersonal levels. This clearly includes the cohesion agenda, but goes beyond it.

Whilst Agenda 2000 takes us some way towards the right kind of framework, weaknesses remain. The rural policy framework remains fragmented and incomplete, as well as underfunded compared with the agricultural policy. The shift to a spatial and integrated rural policy will now depend heavily on the individual member states, since it very largely hinges on their decisions about implementation of the options for a 'single rural plan' for all structural type measures in the rural development proposals, and the ways in which they will integrate national measures with these. For most member States this raises fundamental institutional and structural issues which are likely to remain un-resolved in the medium term if only because there will be insufficient time to address them in the time between approval of the regulations and the need to implement them, which is now likely to be less than one year. This issue is even more critical with respect to the CEECs, where EU measures are often implemented separately from national structures.

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Annex 1: The Cork Declaration - a living countryside

The European Conference on Rural Development

Having met at Cork, Ireland from 7th to 9th November, 1996

Aware that rural areas - which are the home of a quarter of the population and account for more than 80% of the territory of the European Union - are characterised by a unique cultural, economic and social fabric, an extraordinary patchwork of activities, and a great variety of landscapes (forests and farmland, unspoiled natural sites, villages and small towns, regional centres, small industries);

Believing that rural areas and their inhabitants are a real asset to the European Union, and have the capacity to be competitive;

Mindful that by far the largest part of rural Europe is covered by agricultural land and forests, which have a strong influence on the character of European landscapes, and that agriculture is and must remain a major interface between people and the environment, and that farmers have a duty as stewards of many of the natural resources of the countryside;

Recalling that agriculture and forestry are no longer predominant in Europe's economies; that their relative economic weight continues to decline, and that, consequently, rural development must address all socio-economic sectors in the countryside;

Conscious that European citizens pay growing attention to the quality of life in general, and to questions of quality, health, safety, personal development and leisure in particular, and that rural areas are in a unique position to respond to these interests, and offer grounds for a genuine, modern development model of quality;

Recognising that the Common Agricultural Policy will have to adapt to new realities and challenges in terms of consumer demand and preferences, international trade developments, and the EU's next enlargement; that the shift from price support to direct support will continue; that the CAP and the agricultural sector will have to adjust accordingly, and that farmers must be helped in the adjustment process, and be given clear indicators for the future;

Expecting that the justification for the compensatory payments of the 1992 CAP reforms will be increasingly challenged;

Persuaded that the concept of public financial support for rural development, harmonised with the appropriate management of natural resources and the maintenance and enhancement of biodiversity and cultural landscapes, is increasingly gaining acceptance;

Recognising that, while successive reforms of the Common Agricultural Policy and European rural development policies have improved transparency and effectiveness, a number of inconsistencies and overlaps have developed and legal complexity has grown;

Determined to promote, in all possible ways, local capacity building for sustainable development in rural areas, and, in particular, private and community-based initiatives which are well-integrated into global markets;

Announces the following ten point rural development programme for the European Union:

Point 1 - Rural Preference

Sustainable rural development must be put at the top of the agenda of the European Union, and become the fundamental principle which underpins all rural policy in the immediate future and after enlargement. This aims at reversing rural out-migration, combating poverty, stimulating employment and equality of opportunity, and responding to growing requests for more quality, health, safety, personal development and leisure, and improving rural well-being. The need to preserve and improve the quality of the rural environment must be integrated into all Community policies that relate to rural development. There must be a fairer balance of public spending, infrastructure investments and educational, health and communications services between rural and urban areas. A growing share of available resources should be used for promoting rural development and securing environmental objectives.

Point 2 - Integrated Approach

Rural development policy must be multi-disciplinary in concept, and multi-sectoral in application, with a clear territorial dimension. It must apply to all rural areas in the Union, respecting the concentration principle through the differentiation of co-financing for those areas which are more in need. It must be based on an integrated approach, encompassing within the same legal and policy framework: agricultural adjustment and development, economic diversification - notably small and medium scale industries and rural services - the management of natural resources, the enhancement of environmental functions, and the promotion of culture, tourism and recreation.

Point 3 - Diversification

Support for diversification of economic and social activity must focus on providing the framework for self-sustaining private and community-based initiatives: investment, technical assistance, business services, adequate infrastructure, education, training, integrating advances in information technology, strengthening the role of small towns as integral parts of rural areas and key development factors, and promoting the development of viable rural communities and renewal of villages.

Point 4 - Sustainability

Policies should promote rural development which sustains the quality and amenity of Europe's rural landscapes (natural resources, biodiversity and cultural identity), so that their use by today's generation does not prejudice the options for future generations. In our local actions, we must be aware of our global responsibilities.

Point 5 - Subsidiarity

Given the diversity of the Union's rural areas, rural development policy must follow the principle of subsidiarity. It must be as decentralised as possible and based on partnership and co-operation between all levels concerned (local, regional, national and European). The emphasis must be on participation and a 'bottom-up' approach, which harnesses the creativity and solidarity of rural communities. Rural development must be local and community-driven within a coherent European framework.

Point 6 - Simplification

Rural development policy, notably in its agricultural component, needs to undergo radical simplification in legislation. Whilst there should be no renationalisation of the CAP, there must be greater coherence of what is presently done through many separate channels, a limitation of EU law on general rules and procedures, more subsidiarity in decisions, decentralisation of policy implementation and more flexibility overall.

Point 7 - Programming

The application of rural development programmes must be based on coherent and transparent procedures, and integrated into one single programme for rural development for each region, and a single mechanism for sustainable and rural development.

Point 8 - Finance

The use of local financial resources must be encouraged to promote local rural development projects. More encouragement must be given to using financial engineering in rural credit techniques in order to mobilise better the synergies between public and private funding, reduce financial constraints on small and medium size enterprises, promote productive investment, and diversify rural economies. Greater participation by the banking sector (public and private) and other fiscal intermediaries must be encouraged.

Point 9 - Management

The administrative capacity and effectiveness of regional and local governments and community-based groups must be enhanced, where necessary, through the provision of technical assistance, training, better communications, partnership and the sharing of research, information and exchange of experience through networking between regions and between rural communities throughout Europe.

Point 10 - Evaluation and Research

Monitoring, evaluation and beneficiary assessment will need to be reinforced in order to ensure transparency of procedures, guarantee the good use of public money, stimulate research and innovation, and enable an informed public debate. Stakeholders must not only be consulted in the design and implementation, but involved in monitoring and evaluation.

Conclusion

We, the participants at the European Conference on Rural Development assembled in Cork, urge Europe's policy-makers:

- to raise public awareness about the importance of making a new start in rural development policy;
- to make rural areas more attractive to people to live and work in, and become centres of a more meaningful life for a growing diversity of people of all ages;
- to support this ten-point programme and co-operate as partners in the fulfilment of each and every one of the goals, which are embodied in this declaration.
- to play an active role in promoting sustainable rural development in an international context.

Annex 2: Results of the Cohesion Forum

(Source: Info regio News, May 1997)

On 28, 29 and 30 April this year, the Commission organised a forum in Brussels attended by more than 1200 people with responsibilities in the field of economic and social cohesion policy across the Union. Here is a summary of some of the main conclusions drawn by Monica Wulf-Matthies, The Commissioner for cohesion policy.

Mrs Wulf-Matthies reminded her audience that mutual solidarity is the cornerstone of the Community's cohesion policy and that the poorest regions of the Union should remain the main recipients of the Community structural assistance.

The accelerating pace of structural change, affecting not only industrial regions but rural and urban areas as well, means that the Community needs to step up its efforts, the Commissioner said. The regions have to be helped to diversify the fabric of their local economies and increase their capacity to innovate, in particular by developing information technology and encouraging R&D activities.

People are the Union's principal resource. It is essential, She said, that the Structural Funds provide more support for the acquisition of skills and life-long training, as well as stimulating the jobs market and fleshing out Community employment policy. Regarding the operation of the Structural Funds, some of the participants at the forum proposed reducing the number of objectives under the Funds to two. Mrs. Wulf-Matthies tended to favour three Objectives for the period after 1999, namely:

1. one Objective centred on reducing development disparities and confined to the least prosperous regions of the Union, defined according to the strict application of current statistical criteria (i.e. where GDP per capita is less than 75% of the EU average)
2. one Objective concerning the necessary flanking measures for structural change in urban and rural areas
3. one Objective focusing on human resources (training and employment policy).

Similarly, in terms of simplifying procedures and concentrating assistance, the participants in the forum called for a reduction in the number of programmes, in particular by cutting back the variety of Community initiatives.

The debate also confirmed the necessity of assessing the results of Community assistance. Simply checking that money had been disbursed is not enough. Objective criteria need to be set for measuring the efficiency of expenditure. The assistance provided by the Structural Funds should be regarded less as an entitlement and more as an incentive to running efficient and effective development programmes. With budgets tight everywhere, more diverse ways of providing assistance have to be considered, such as: combinations of subsidies and loans, interest-rate subsidies, loan guarantees, etc.

The likely milestones for the review of the Structural Funds after period 1999, are as follows: during the summer of 1997, the Commission will present its overall financial perspective for 2000-06 ('Santer package'); the European Council to be held in Luxembourg should adopt this in December 1997; in the spring 1998, the Commission will submit its proposals for new Structural Fund regulations and these should be adopted in the course of 1998¹⁰.

¹⁰ At the time of final writing of this report, this is now considered to be March 1999.

