

European Rural Development Policy and Territorial Diversity in Europe*

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Abstract

There is a contradiction in Europe affecting the design of an efficient and effective rural development policy. It originates with the fact that the rural development subject is discussed prevalently in agricultural circles and influenced by sectorial interests. The outcome is that CAP reform proceeds too slowly and concentrates prevalently on agricultural aspects, neglecting to take into due consideration the wider complexity and variety of rurality. Thus the integration with the other European structural policies is scarce.

The paper first presents an analysis of the role of rural areas in the elaboration of non-agricultural specialists and in the definition of a sustainable development and cohesion policy across Europe. It continues to examine how the CAP reform process has still only partially converged towards an integrated rural policy, maintaining substantially a sectorial character and a redistributive role.

The Fischler reform of June 2003 and the Salzburg Conference should be considered as important steps in the right direction. However, while the Commission is still working on the new rural development policy, in the framework of the new Financial Perspectives and structural policy for the years 2007-2013, much remains to be done.

The paper presents an evaluation of the effectiveness of the shift produced so far from the old sectorial CAP to a new rural development policy and considers the further steps that are necessary for making the future rural development policy reform successful.

Keywords: CAP reform, integrated rural development, rural development policies

JEL: R - Urban, Rural, and Regional Economics, **R58** - Regional Development Policy

1. Introduction

There is a contradiction in Europe which for a long time has affected the political and technical debate on the reform of the CAP and on the initiation of a policy of rural development. On the one hand, there is the need of the EU to organize itself in order to better address the goals identified by the Treaties: *"promote (...) a harmonious, balanced and sustainable development of economic activities, a high level of employment and of social protection, equality between men and women, sustainable and non-inflationary growth, a high degree of competitiveness and convergence of economic performance, a high level of protection and im-*

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provement of the quality of the environment, the raising of the standard of living and quality of life, and economic and social cohesion and solidarity among Member States.”¹.

The keywords are *convergence, cohesion, sustainability, solidarity, employment, environment*. Moving the Union towards these goals is all the more important now that enlargement is increasing the gap between highly developed regions and underdeveloped ones and there is a growing awareness of the impact, as well as of the opportunities, of the collocation of Europe in a network of international political and economic relations much thicker than in the past. As for economic and social cohesion, the Treaties specify that: *“In particular, the Community shall aim at reducing disparities between the levels of development of the various regions and the backwardness of the least favored regions or islands, including rural areas”².*

On the other hand, there is the system adopted by the EU which is marked by profound imbalances and deeply seated interests and privileges consolidated in time but at odds with the need to provide adequate resources for the new functions of Europe. Clearly there is a need for large and complex changes which must be pursued firmly but gradually, without sharp breaks and without penalizing those whose past choices have been oriented by European policies themselves. It is necessary to remain within the boundaries set by the modest financial resources of the EU and the willingness of MSs to commit towards them, integrating the actions of the EU through national policies which have and will continue to have much greater resources at their disposal³.

The greatest contradiction from this perspective is found in agricultural policy whose impact on the budget is way too excessive compared to the actual contribution of agriculture to the European gross product and to employment. The most evident sign of this disproportion is the quota of overall spending still reserved for this policy in the financial budget of the EU (around 46 %). This disproportion is a consequence of the founding role that agricultural policy had from the start of the European experiment. The 1957 Rome Treaty would have remained an international agreement among many if it had not been followed by the 1958 Conference of Stresa, and if a true European policy had not been born along with the CAP, which in fact remained the only true European policy, at least till the reform of structural policies towards the end of the 80s⁴.

Europe was thus built on the CAP. Its institutional system, its procedures, its language largely derive from the CAP. Because of this, the CAP's influence on the EU extends way beyond its technical domain. Consider, for example, the impact of the agricultural package on enlargement, international commercial agreements, competition policies and cooperation for development.

The overall weight of the CAP and its foundational role strongly influence neighboring issues, such as rurality, the environment and food quality. The political debate on the definition and realization of a rural development policy in Europe takes place largely in the context of agriculture where interests at stake and available resources are greatest. This is good for agriculture but can produce significant distortions especially if the debate was closed to outsiders and there was insufficient awareness of the general importance of the rural question in relation to the greater goals of the Union: economic and social cohesion, enlargement and integration, the conservation of the territory and the environment, the coordination of European space.

The present paper represents an effort to interpret CAP reform from this perspective. It addresses the question of rurality and rural development, trying to move beyond the specialist domain of agricultural economics and policy, to offer a strategic reflection on European economic development toward the solution of regional unbalances, and the correct administration

¹ EUROPEAN UNION

² *Ibidem*, Title XVII: “Economic and Social Cohesion”, art. 158

³ The overall budget of the EU is limited to a ceiling of 1.24 % the GDP of the EU. This compares to 47 % of GDP that Member States reserve for public funding in total.

⁴ In 1985 the incidence of the CAP on the European budget amounted to 72.8 %.

of spatial and territorial resources. It takes into account the evolutionary trends that influence spatial relations in regards to globalization processes, the emergence of new needs and the influence of new technologies (especially ICT). The ultimate goal of the first part of the paper is to provide an overall evaluation of the extent to which regional policies, particularly cohesion policies, offer, for the present and the future, viable solutions and procedures for rurality and the development of rural territories.

The second part is dedicated to reviewing, albeit summarily, the development of the CAP in the last twenty years, particularly in reference to the more recent reforms, in order to evaluate the extent to which the contribution of agricultural economics and policy was consistent with the more general policies and expectations within the EU.

2. The rural question in the context of regional issues in Europe

The importance of rural development in Europe is to be inferred, first and foremost, from the analysis of the peculiar relations in the EU between central regions, traditionally rich and characterized by high population density, and peripheral regions, sometimes on the very borders of the Union, characterized by underdevelopment and low population density. If one were to connect by imaginary lines London, Paris, Milan, Munich and Hamburg, the resulting pentagon is the heart of the Union. This area contains 20 % of the surface, 40 % of the population, 50 % of the GDP and harbors all the global functions of the EU-15. With enlargement, the areas outside of the pentagon grew considerably, and the gaps increased: while the ratio between average GDP per capita in PPP between the first and last ten NUTS2 regions in 2000 was 2.6 in the EU-15, it was 4.4 in the EU-25 and 6.0 in the EU-27 (including Romania and Bulgaria). Evidently economic and social convergence, the main goal of EU cohesion policy, is becoming the fulcrum of its entire initiative.

It is evident that economic and social convergence, the main goal of EU cohesion policy, is to become the fulcrum of its entire initiative. It is in this context that the relation between rural and urban areas becomes relevant. A relation where old and new factors are at play and which deserves to be well analyzed in the light of the developments that have taken place over time.

In the past, cities - thanks to their centrality and the advantages of agglomeration - were the privileged sites of beauty, scientific, artistic and cultural production, good government and security, identity and diversity. Their geographical centrality and large and growing population ensured a number of advantages in terms of economic efficiency and geographical opportunities. The rural territory, on the other hand, was limited by underdevelopment and dependency due to its remoteness, poor communications, climatic disadvantages, lack of infrastructures and technology. In this situation, rural areas (devoted almost exclusively to agriculture) were a place of economic and social difficulty, where livelihood depended on a one-way redistribution of wealth from center to periphery, operated mainly, when not exclusively, through agricultural policies. In exchange, the countryside, in its subordinated relation to the city provided the latter with rent from land ownership, food security, low-cost labor, and, when needed, soldiers for armies. This subordinate position has been a characteristic feature of our society for a long time, which has disappeared only recently in Western Europe and retains some residual importance in some CEECs.

A new system of relations has developed as cities, first through industrialization and then through the development of services, have become enormous. Their form has been standardized. The costs of their concentration often have become unacceptable. They are often today a place of unhappiness, traffic, danger. Homologation has affected them to the point that, for many human activities, they are a place to escape from, if and as soon as possible.

On the other hand, rural areas have shed off excess population and lost the homologating character of agrarian rurality and marginality. Some have begun to develop an economy based on SMEs which, in some cases, have been successful to the point of competing in the international market. This is the case, for example, of industrial districts in many European rural areas. Others have centered their development on tourism and cultural, historical, and

environmental resources. Others yet have focused on the industrial and commercial promotion of typical food and other kinds of products.

These processes are the result of a combination of endogenous and exogenous development factors. Among the latter, technological improvements have played a crucial role, limiting the negative impact of physical distances, making small-scale productions convenient and improving economies of scope. At the same time, average income growth and increasingly rapid changes in demand have led people to replace old standardized productions with new personalized productions rich in non-codified innovation, for which rural areas have discovered they possess a competitive advantage due to their redundant knowledge, “face-to-face” relationships and learning capability. The success of these experiences was the result of greater flexibility, polymorphism, and the typical resilience of rural areas in contrast with the rigidity of the old systems based on Tayloristic-Fordistic organization.

Naturally, only some rural areas have had the ability or luck to reap the benefits of this change. Others still lag behind. Sometimes due to endogenous limitations. Sometimes because of severe geographic and environmental limitations. Sometimes because available resources were not strategically exploited or because the wrong policies were adopted. But the tendency is clear. The relation between urban and rural is now much more balanced. The most evident sign of this is the general decline in population in larger cities and the demographic inversion that occurred in many rural areas, especially those better endowed in terms of transport and the attractiveness of the environment⁵.

Thus economic, social and cultural relations, which were once unidirectional along the country – city axis (thus justifying an agricultural policy based on income redistribution in the opposite direction), are now multidirectional and connect also secondary centers, without necessarily going through the larger cities. On the other hand, places of residence, work and consumption no longer coincide. Residence, work and consumption can take place in multiple and completely different areas, spread out among urban and rural localities, sometimes at a great distance from one another.

The relation between urban and rural is now based on interdependence and mutual exchange of services. Rural areas, which rightly include the small and medium sized towns they contain, no longer provide food supplies exclusively but also residential and recreational services, localities for industrial and service SMEs, quality environment and landscape, biodiversity, clean water and, increasingly, clean and renewable energy of various origin: solar, wind, hydroelectric, biomass. The border between rural and urban is blurred, and the urban-rural relationship is increasingly complex, creating a need for common strategies and integrated policies on a regional scale.

In summary, the border between rural and urban is being blurred and the two realities interpenetrate one another. The urban-rural relation is characterized by increasing complexity and interdependence, creating a need for common strategies and integrated policies on a regional scale.

3. Success stories and the role of agriculture

The key factors in rural development are found in the interaction between enterprises, productive sectors, institutions and territory, and the exploitation of the latent potential of rural areas. They depend on the geographic contexts and the specific structural, infrastructural, historical, environmental, social and human resources. Rural areas vary in accessibility, residential-touristic importance, land fertility, typical food products, presence of an artistic-historical tradition, etc..

The problem is how to orient interests towards a common normative and behavioral horizon and a common political agenda. How to create and improve the relational capital both in

⁵ F.i. the first ten cities in Italy in the 1971-2001 period have lost two mio. inhabitants (from 10 to 8 mio.), while in France, between 1975 and 2000, areas defined as “rural” have gained 500.000 inhabitants.

terms of internal governance and of the capacity to attract external demand, investments and public spending. The challenge is therefore first and foremost one of organization.

The goal of rural development policies must be to create the preconditions for organizational development by removing or attenuating the effect of physical barriers (through better transport, telecommunications, energy distribution), increasing human and social capital (by creating an efficient institutional and administrative network) and creating conditions for producing innovation and sustainability on the basis of existing know-how and new technologies.

A crucial factor is the establishing in rural areas of an adequate service system for citizens and enterprises, suited to the peculiarities of the new distribution of functions over the territory. This is because it has not been uncommon for emigration, due to agriculture restructuring and the lack of job alternatives, to be accompanied by the elimination or centralization of services essential to quality of life and development: hospitals, post-offices, commercial and administrative activities, transport, energy distribution and maintenance. The problem is one of reorganizing the distribution of services over the territory in relation to a new distribution of needs and new technologies, through a unitary vision of the territory and a flexible and integrated rural-urban approach in order to avoid creating unbalances or dangerous conditions of either congestion or isolation.

From this perspective it is obvious that the definition of rurality goes well beyond agriculture and the countryside⁶. After all, empirical evidence on the Western world, including agriculturally more advanced areas such as the ones found in the US, indicates that a sectorial approach rooted exclusively on agriculture, especially if based on price protection and generic financial support to markets and incomes (and land rents), is not only incapable of producing a lasting and sustainable development but is often accompanied by even greater population decrease, loss of collective services, aging and marginalization⁷.

Furthermore, when enormous public resources⁸, such as the ones of the CAP, are concentrated mainly, as is often the case, on commodity agriculture - produced with standardized capital-intensive and labor-saving techniques - they become an obstacle to rural development because this type of agriculture, on the one hand, is incapable of keeping within rural areas a population and workforce sufficient to justify adequate collective services; on the other hand, it has a negative impact on the environment and landscape, on extra-agricultural economic activities (tourism), and is met with the hostility of non-farmer residents. It is telling that farmers themselves, when possible, choose the city as a place of residence, inverting the usual commuting pattern.

The relation between agriculture and rural development would be entirely different if agriculture were diversified in relation to local specificities and vocations, integrating itself with other sectors and orienting itself towards multifunctionality, quality production and service agriculture. This approach is in fact, under the surface, already deeply rooted in Europe⁹. This type of agriculture provides greater employment opportunities, can respond more adequately to the demand of consumers and tax payers and succeeds much better in integrating itself with rural development. Not only does it not produce conflict, it promotes the integration of farmers and non-farmers needs by contributing to rural development and benefiting from it

⁶ In France, though to be the foremost agricultural country in Europe, 90 % of families residing in rural areas are not employed in agriculture; in no region does the number of persons employed in agriculture exceed 20 % of the total workforce.

⁷ DRABENSTOTT (2003)

⁸ The *Total Support Estimate* (total support for agricultural productions in terms of public transfers and prices paid by consumers) in OECD Countries was of 338 bio. € in 2002. (OECD 2003a).

⁹ The IMPACT research carried out through a survey of 3 264 professional farms in six European countries, found that "For only 17 of the surveyed farms is there no expression of rural development activity. (...) On the large majority of (professional) farms, the farm family income depends on a range of sources: on commodity production, but also in deepening and broadening activities, on pluriactivity and on new forms of cost reduction. In short: multifunctionality is not a political project, it is already a well established and widespread reality". (OOSTINDIE et al. 2002)

through the exchange of productive factors (especially workforce) and knowledge and through demand for products and services.

4. The goals of the EU for cohesion and convergence

Looking for clues on cohesion and structural policies and on the outcomes of LEADER European initiative, in European documents (analyses, evaluations, norms) and in the debate on the European Spatial Development Perspective (ESDP¹⁰), it becomes evident that the EU has a clear view of the problems. Also, over time and especially after the reform of structural policies in 1988, the EU has consolidated an equally consistent methodology. Clearly, this observation is tempered by the limited resources and the inevitable political compromises that policies have been subjected to. On the other hand, as has been repeatedly observed, no European cohesion and convergence policy will suffice unless it is accompanied by substantial and complementary national policies.

The strategy adopted has common features, consolidated by European praxis and acknowledged as guidelines for MSs: (a) an overall action program based on the territory; (b) a territorial and intersectorial view of development; (c) concentration and additionality; (d) partnership and co-financing; (e) bottom-up approach in defining strategies and fine-tuning the implementation; (f) selection of projects on the basis of public call for tenders; (g) contractualization of interventions; (h) evaluations on all stages of projects: ex-ante, in progress and ex-post.

The recent *Third report on economic and social cohesion*¹¹ confirms these statements. The strategy has produced positive results in terms of: economic convergence of cohesion countries; positive changes in Objective 1 regions in general; growth in GDP, employment and productivity higher than European average; modernization of economic structures and management methods; better governance on a regional level; and cooperation between regions on a European level¹².

The European Commission shows signs of intending to consolidate this strategy for the near future, adjusting the goals on the basis of new priorities¹³ but basically confirming strategies and modes of implementation and reinforcing them on a financial level. In the proposal presented by the Commission for the new 2007-2013 Financial Perspectives, the resources assigned to this policy, under the heading "Sustainable development", have gone from the initial 39.4 % to 48.7 % at the end of the period¹⁴, exceeding spending for the CAP, which at the moment is by far the greatest, by 10 percentage points¹⁵. This orientation goes hand in hand with the parallel evaluation of the LEADER Initiative throughout its history. In spite of the limited financial resources assigned to it, LEADER has had positive results in terms of experimenting and anticipating strategies specifically oriented towards rural areas¹⁶.

¹⁰ EUROPEAN COMMISSION (1999)

¹¹ EUROPEAN COMMISSION (2004)

¹² "Since 1994 when the Structural Funds were strengthened, GDP per head in Objective 1 regions has converged towards the EU average. Between 1994 and 2001, growth of GDP per head in these regions taken together averaged almost 3 % a year in real terms as against just over 2 % a year in the rest of the EU". The statement is confirmed by the fact, from 1990 to the present day, the ratio of the GDP of the ten most rich regions of EU-15 to the 10 poorest ones, has changed, albeit slightly, from 2.8 to 2.6. (*ibidem*)..

¹³ The new priorities are: "convergence and competitiveness" for all regions with GDP per capita lower than 75 % of EU average (78 % of the budget); "regional competitiveness and employment" for the rest of the EU (18 % of the budget); "European territorial cooperation," maintaining the strategic function of the present INTERREG program (4 % of the budget).

¹⁴ The total amount reserved for structural policies in 1988 was only 17 % of the EU budget.

¹⁵ COMMISSION DES COMMUNAUTES EUROPEENNES (2004)

¹⁶ "LEADER was an efficient initiative. It proved to be adaptable to every rural socio-economic and governance context. It brought local actors, administrations and support structures closer together and mobilised the potential of voluntary work among local people. It fitted well to small scale area-based activities and projects in lagging regions and vulnerable rural territories" (...) "LEADER was an effective initiative. It closed the gap be-

Although the general strategy for structural policies seems consolidated, the debate (on the potential of further reforms) is going on. The Sapir Report¹⁷ is a most interesting document, also because of its radical nature. Taking its moves from the Lisbon agenda, it advocates a substantial reinforcing of the above strategy through a more substantial requalification of tools and a corresponding increase in the budget in order to concentrate resources on three objectives: economic growth, convergence and restructuring. In the latter area, in reference to agricultural expenditure, it is particularly critical and explicit arguing for the need to “*shift away from the agricultural expenditure*”¹⁸. The EU should not assume redistributive functions (price support, direct payments, and market policies in general have indeed taken on this aspect) but reassign these to national policies. Consequently the proposal involves a sharp cut to the agriculture budget and a restriction of the EU role to restructuring of agricultural systems and farms, especially in relation to structural problems of the new MSs of CEECs. It is also true that there have been many negative reactions to the Sapir report, even within the Commission itself. The fact remains, however. It stands for a strategic vision shared by many within the EU, which should be taken into serious account by those responsible for the CAP and its reform.

5. Isolation of the CAP and the fight over the reform

Historically, the reform of the CAP has been treated as a sectorial issue, independent of other policies, and, in the absence of consensual strategic guidelines, has followed an uncertain route. This had a negative impact on European policies for rural development: rather than being treated as a general question, related to general development strategies, and especially to territorial policies of cohesion and convergence, rural development has been treated as a basically sectorial problem, to be discussed in agricultural negotiations, rather than integrated into other structural policies.

The reasons for this can be found in the conflict that, during the last twenty years, has opposed two camps within the CAP: the first, which we shall call the “CARPE”¹⁹, is the reformist front, characterized by a higher ideal profile and a long-term strategic vision; the second camp is decidedly conservative, and is guided by the material interests associated with the old CAP. The battle is being fought before our very eyes.

The upholders of the reformist front believe that, though some of the goals of the old CAP (such as: food security in quantitative terms, income redistribution to compensate the economic and social difficulties of country life) have lost their original relevance in the course of the decades, other goals (rural development, environment, quality and variety of food, food safety) have become prominent. Further pursuing them requires big resources, which hardly can be demanded *ex-novo* from taxpayers because they are associated with weak interests (a general desire to make the environment cleaner and food safer does not imply a willing-

tween a top-down programme and the local people, their needs, aspirations and potential. It conveyed responsibility to local partnerships and contributed by re-linking public and private, profit-making and non-profit activities, as well as infrastructural and entrepreneurial activities. It induced a mentality change among local actors from passive to active attitude”. (EUROPEAN COMMISSION 2003)

¹⁷ SAPIR A. et al (2004)

¹⁸ “The structure of the budget (...) implies a very sizeable reduction in the amount devoted to agriculture. This is a radical step away from the present situation. Four reasons justify this reduction. First, the present share of the CAP is so large that unless it is brought under tighter control, no significant reallocation of resources within the current budget of the current size is possible. Second, the CAP moved away from being an allocative policy, promoting efficiency and production, towards being a distributive policy for a particular group of citizens, (...) Third, the large spread of income, population density and climate across the enlarged Union implies a large heterogeneity of preferences that makes it very difficult to conduct a single rural policy from Brussels. (...) Fourth, the CAP does not seem consistent with the Lisbon goals, in the sense that its value-for-money contribution to EU growth and convergence is lower than what is targeted for most other policies. Continuing to fund the CAP at present levels would amount to discounting its reduced contribution to the Lisbon goals compared with potentially much greater contributions from the other growth-enhancing policies” (ibidem).

¹⁹ BUCKWELL A. et al (1998).

ness to actually pay for it) and weak representation (after the agricultural exodus, rural areas carry little political weight in terms of voters).

Therefore, the existence of the CAP and its budget represents an opportunity that must be seized in order to pursue two important goals. The first: establishing (without any further burden to taxpayers and for the benefit of consumers) a policy aimed at promoting collective interests, achieving social goals with weak political representation, and narrowing the gap between regions along the new EU strategic lines, such as environment and employment; pursuing, on the basis of agricultural-rural specificities, the goals of cohesion policies through rural-urban integration and convergence between EU regions. The second: support European agriculture in its switch from highly standardized products and techniques to the so-called “new European model of agriculture”, ensuring a soft transition that will not discriminate those who currently enjoy CAP support (and have in the past invested according to the indications provided by European policy makers). This entails focusing agricultural policies on the *behaviors* (the *projects*) of farmers (considered as entrepreneurs, no different from other entrepreneurs in other sectors).

The intentions of the conservative front are very specifically to maintain the *status quo*. Their various interests share the goal of preserving privileges accorded to the current *status* of farmer, privileges that are awarded to *subjects* rather than to *projects*. Over time, this special status of farmers has, compared to other citizens, translated into a series of tax-benefits and financial support awarded as a subjective right, associated with status and exempt from tight controls and requirements in terms of behavior. Now that the old corporate and sectorial justifications are gone and that a substantial and articulated cohesion policy has been elaborated and initiated, which over time is destined to become the main axis of EU strategy, the problem for this group is to preserve these advantages as long as possible (and consolidate them if possible). From their perspective, the reform of the CAP is not a goal as much as a convenient cover for old privileges, thanks to its greater political and social acceptability.

The world of farmers’ associations and agricultural lobbies (product organizations, landowners, farmers’ unions, service institutions, related industries, academics of related fields, etc.) divides and merges around the two principles underlying the two fronts while new social actors have emerged over time, f. e. environmental and consumers’ associations, rural residents, tourist organizations. The struggle between these two fronts over the CAP tends to conform to the following script: in the initial phase when the goals and strategies of CAP reform are being discussed the reformist principle generally prevails. In the following phase, when the actual regulations and procedures are elaborated and implemented, the conservative camp comes out on top. Traces of past battles are left on the field, f. i. in terminology, in the gap between proclaimed goals and resources allocated to their achievement, in the way decisions have been banalized, measures have been made ineffective, controversial decisions have been demanded from MSs.

5.1. The battle over the “Green Book”

Though one could go further back in time, one of major battles took place in July 1985 when the Commission, in the so-called “Green Book” [COM (85) 333], recommended the adoption of environmentally compatible practices, such as temporary suspensions of cultivation, productive reconversion, afforestation, and proposed, for the first time, to favor the general economic development of rural areas by encouraging employment and income producing activities alternative to agriculture. The opposition of all member governments, under pressure from farmers’ organizations, was practically unanimous (only Great Britain and the Netherlands supported the Commission). The reform of the CAP proposed in the “Green Book” was set aside and price support was maintained, though with greater control over agricultural supply (budget stabilizers). Only later some secondary alternative measures were introduced: a first set-aside experiment, forestation, nonfood crops²⁰.

²⁰ Respectively with regulations n. 1094/88, 1609/89, 2176/90.

5.2. The battle over the Mac Sharry reform

The conflict blazed up anew when - following the 1987 Delors Memorandum²¹ and the beginning of structural policy in February 1988²² - the Commission published the document "The Future of Rural Society"²³ in which it affirmed that "*Rural development should be not simply a byproduct of agricultural markets policy but a legitimate concern in its own right*" and, a few months later in January 1989, commissioner Ray Mac Sharry was made responsible for *Agriculture and Rural Affairs* rather than *Agriculture* as in the past. The goal of an autonomous rural development was confirmed in 1991 with the approval of the new LEADER initiative²⁴. The debate over CAP reform revolved around the Mac Sharry proposal which contained a number of significant points taken from the 1985 "Green Book": lowering of guaranteed prices, introduction of compensatory payments, establishing of accompanying measures. The initial proposals also established a time limit on compensations and their gradual reduction. Proposals were also advanced to set a ceiling on total payments per farm.

The conservatives attacked on various fronts: exclusion of a few fundamental CMOs from the Mac Sharry reform, which was limited to the so-called COP products (cereals, oilseeds, protein crops) and bovine and ovine meat²⁵; elimination of all time limits and progressive reduction of compensations; elimination of the ceiling on payments per farm; limited financing of the LEADER initiative²⁶, thus made marginal to agricultural interests.

All the reformist camp obtained was the partial decoupling of payments per hectare in proportion to the average regional yield, a significant but modestly financed group of accompanying measures and the LEADER initiative²⁷. Another great victory of the conservative camp, however, was the full compensation for price reduction, which preluded to a potential over-compensation which actually began shortly thereafter.

5.3. The battle over Agenda 2000

A third period of conflict began in 1995. Much before the deadline of 1999 of the six year term of the Mac Sharry reform, the "Study on Alternative Strategies for the Development of Relations in the Field of agriculture between the EU and the Associate Countries" by Commissioners Fischler and Van den Broek²⁸ reopened the debate on the reform in the light of the impending enlargement to the East. The guidelines chosen for CAP reform were a development of the "approach of 1992," i.e. a continuation of the strategy begun with the Mac Sharry reform, aimed at three objectives: *greater competitiveness, simplification and subsidiarity*, and an *integrated rural policy*.

In order to lay down a coherent proposal, in December 1995 an "*Integrated Rural Development Working Group*" presided by Allan Buckwell²⁹ was set up in Brussels, which after a few months produced a document which for a long time remained (and perhaps still is) an essential reference for the transition from CAP to CARPE. The document met with strong approval from the DG AGRI. It proposed to combine market policies into a single policy for stabilizing the market and ensuring sufficient food supply (*Market Stabilization: MS*); to introduce *Transitory Adjustment Assistance [TAA]*, which (through a gradual decrease in financial support) would reorient farmers towards non-over productive activities without penalizing them and

²¹ EUROPEAN COMMISSION (1987)

²² Particularly with Regulation (EEC) n. 2052/88 of the Council of 24 June 1988.

²³ COMMISSION OF THE EUROPEAN COMMUNITIES (1988)

²⁴ COM 91/C73/14.

²⁵ Excluded CMOs are such as milk, sugar, olive oil, tobacco, and cotton.

²⁶ 400 mio. ECU for the 1991-1993 period.

²⁷ COM 94/C180/12 of 1 July 1994 in which funding was raised to 1,500 mio. ECU (for EU-12). A small increase compared to LEADER I for the 1994-1999 period.

²⁸ EUROPEAN COMMISSION (1995)

²⁹ The group included among others Jan Blom, Patrick Commins, Bertrand Hervieu, Markus Hofreither, Heino von Meyer, Ewa Rabinowicz, Franco Sotte, José M. Sumpsi, and functionaries of DG AGRI.

thus raising their hostility; and to transfer the substantial savings to *Rural Development Incentives (RDI)* and *Environmental and Cultural Landscape Payments (ECLP)*. This was to be accompanied by a consistent budget transfer from the first pillar of the CAP (MS plus TAA) to the second (RDI plus ECLP). 2002 (six years from the publication of the study) was indicatively set as the deadline for achieving the budget balance between the two pillars, and 2008 for a 1 third to two third ratio in favor of the second pillar. The expectations of Commissioner Fischler and DG AGRI were more or less the same.

The 7-9 November 1996 Cork Conference confirmed this strategy. Its final declaration still reads as particularly enlightened, evidencing a full awareness of the importance of a territorial approach to rural development³⁰. It can be viewed as the moment of least distance, at least on the level of strategic planning, between agricultural and structural policy. After it the conservative line began once more to prevail, to the point that it soon was labeled as a *non-event*, an initiative with no political relevance on account of the conflicts it engendered and its inability to attract converging interests. The conflict revolved specifically around three “Cork fears”: the fear of agricultural lobbies that the benefits of agricultural policies would be distributed to non-agricultural actors in rural areas; the fear of DG REGIO that DG AGRI would intrude in the territorial and regional policy for which it was responsible³¹; and the fear of MSs which most benefited from the CAP (France) that Cork could be used as a vehicle by the main payers (Germany) to re-discuss the distribution of the budget.

Thus, for the reformist camp, Cork was at the same time the high-tide of the debate and a political *flop*. It was followed by a long period of revision. The Buckwell Report was published, after much uncertainty, only one and a half years later, in March 1998, and Agenda 2000 contained only a few much watered-down references to it.

Indeed, the deconstruction of the original reform proposals were clearly evident during the whole elaboration of Agenda 2000, from the so-called “Santer package” presented to the European Parliament on 17 July 1997, to the CAP reform Regulation proposals of 18 March 1998, all the way to the Berlin summit of 24-25 March 1999. The original version of the “Santer Package” was already the result of a difficult mediation of which the text bore evident traces. The introductory chapter, especially, heavily influenced by the Buckwell report, referred to a “European model of agriculture” oriented towards multifunctional agriculture, quality production and service agriculture, and advocated a growing support for rural development in its larger, territorial, acceptance. Yet it is difficult to detect this line in the rest of the document. In any case, the original version of the “Santer Package” called for cuts of 30 %, 20 % and 10 % in support prices of, respectively, meat, cereals and milk; 50 % compensatory payments in the sector of arable crops; and the maintenance of the milk quota system till 2006. A mandatory upper limit was set beyond which modulation measures were to be activated, i.e. a reduction in overall direct payments³². Rural development measures were to be increased to provide for structural improvements and diversification³³. The overall result of the reform of the policy on crops, meat and milk would have saved 5 bio. ECU to be used for accompanying measures. It is worthwhile noting that the “Santer Package” was explicitly associated with the proposals for the reform of the structural policy. On more than one occasion it was recommended that measures for rural development in the CAP reform be integrated with those found in Objective 1 and 2, focusing particularly on areas outside these objectives.

The final decisions of Agenda 2000 turned out in favor of the conservative camp: guaranteed prices reduced much less than originally proposed: crops –15 %, bovine meat –20 %, and the reform of the milk CMO postponed. Proposals for an upper limit on payments per farm

³⁰ EUROPEAN COMMISSION (1996)

³¹ After that, all acts concerning the reform of agricultural policy and rural development policies were more evidently collective acts of the entire Commission: Agenda 2000, the Mid Term Review; the Salzburg conference.

³² In the initial proposal, the mandatory modulation consisted in a reduction of 20 % for support above 100 000 ECU and of 25 % of support exceeding 200 000 ECU.

³³ In the preparatory work for the proposal the suggestion was advanced for a suppression of the FEOGA and the incorporation of all measures in a single rural development fund.

were relegated to an optional criterion for MSs to adopt (partially applied only by France, Great Britain and Spain). Even cross-compliance, which was initially adopted as a justification for the possible transfer of direct payments from the blue box of the WTO to the green one³⁴, was relegated to MSs who applied it as a non-mandatory measure. Consequently the budget allocated to the second pillar (which by that time had become more a secondary prop than an actual “pillar”) was limited to 4.3 bio. euros (including accompanying measures), little more than 10 % of the overall budget.

The defeat of the reformist line was clearly perceived by experts when the proposals for Agenda 2000 were first advanced³⁵ and Commissioner Fischler was well aware of it³⁶. There was also a clear perception of the problems left unsolved, problems whose full brunt would be felt both in the course of the negotiations at the WTO and after enlargement when it would be difficult not to award to Eastern farms the privileges already given to their richer Western colleagues. The ensuing rise in expenditure for the first pillar would inevitably confine the second pillar to a modest role at odds with actual needs and expectations.

The influence of the conservative front continued after approval of Agenda 2000 at its implementation on national levels. MSs generally avoided taking advantage of the opportunities offered, and often chose among various possible measures those more easily controllable and oriented towards the distribution of funds over the realization of innovative projects. Victims of this approach were measures aimed at non-agricultural projects which were allotted a nominal percentage of overall resources, confirming the agricultural and sectorial character of the second pillar.

5.4. The battle over the Fischler reform

While technically only a *review* of the normative system established by Agenda 2000 for the period 2000-2006, the proposals advanced in the *Mid Term Review* (MTR) in July 2002³⁷ represent in fact a brave attempt to make the most of the options offered by Agenda 2000. In any case, after the failure of the WTO Seattle summit (November 1999) and the resumption of negotiations in Doha (November 2001), Europe had to do something to avoid being isolated on agriculture, with strong negative repercussions on its negotiating strength in all other sectors. Another factor was the pressing *redde rationem* of the enlargement which would involve 10 countries in the “first wave” rather than just 5, as previously planned.

The novelties in the Fischler proposal are decoupling and a single payment per farm, mandatory *cross-compliance* and the revision of some CMOs. “*For the purpose of achieving a better balance between first and second pillar in order to further promote sustainable agriculture,*” two mandatory measures were introduced: 1) dynamic modulation (an annual decrease of 3 % on all payments exceeding a 5,000 euro franchise, up to a reduction of 20 % in the final stage, and 2) an upper limit of 300,000 euros of payments per farm. The savings were to be used to finance the second pillar, leading , after 5-6 years, to an estimated 100 % increase in funds for rural development.

The conservative reaction peeked in September 2002 with an open letter on CAP reform signed by seven European ministries of agriculture guided by French minister Hervé Gaymar. It called the proposals unnecessarily radical and aroused a sarcastic response of the

³⁴ The old “compensatory indemnities” were renamed “direct payments” to stress their presumed environmental goals.

³⁵ “*The CAP is a grotesque policy which has long out-lived its usefulness. It wastes scarce resources which could be better deployed in other activities, imposes heavy financial burdens upon consumers and taxpayers, contributes to the despoiling of the countryside, and discredit the EU in the world economy. The Mac Sharry reform of 1992, and the Agenda 2000 package, if adopted, represent timid steps in the right direction. But these measures do not amount to fundamental reform, and they will not be adequate to address the challenges the CAP will face in the new millennium*”... “*This is protectionist poppycock, and will not win the EU friends in the WTO*”. (SWINBANK 1998).

³⁶ After the Berlin Council, Fischler declared at Agra Europe: “*This deal is less ambitious than both the proposal of the Commission and the one that emerged from the farm Council*”.

³⁷ EUROPEAN COMMISSION (2002)

press³⁸. The resulting deadlock was broken by the Chirac – Schroeder agreement a few hours before the European Council in Brussels. They decided that there would be no cuts on CAP spending until 2006, but overall expenditure for the first pillar of the CAP in the 2007-2013 period and for the 25 member EU had to remain within the limits imposed by Agenda 2000 for 2006 and 15 MSs (with a 1 % variation per year). Chirac's farmers would not be damaged in the short term, and Schroeder's taxpayers would benefit from a drastic limitation of expenditure in the medium term³⁹. No limit was set on the budget for rural development, but evidently the latter could consistently grow only at the expense of the first pillar.

After the agreement, in the formal documents on the MTR⁴⁰, the modulation quota assigned to rural development was reduced to 6 % (instead of the original 20 % at full implementation) and the share of the budget assigned to modulation itself was limited to 5 % at full implementation, while the upper limit on payments per farm had been scrapped. The thrust of the reform remained the same but the measures had been toned down substantially for some CMOs (5 % reduction of cereals prices abolished, reform of the sugar CMO postponed again, the CAP burdened with considerable expenditure for others⁴¹).

An overall judgment on the final Fischler reform has to acknowledge its importance, especially in respect of the decoupling of support through the single farm payments scheme⁴². This can be read as a victory for the reformist front: there is far more innovation in the “revision of the reform” than there was in the reform (Agenda 2000) itself. On the other hand, there are limits to what has been achieved. Decoupling was obtained only through a costly concession and sacrifice: The acceptance of the direct payments system to last till 2013 which will drain most of available resources, and the postponement till after 2013 of the balancing of resources assigned to first and second pillar and the actual implementation of an effective policy of integrated rural development, as described above.

It was in this context that the Second European Conference on Rural Development took place in Salzburg⁴³. This time the conference was a political success, especially for Commissioner Fischler, who, a few months before the end of his second and last mandate, may rightly declare himself satisfied with his achievements. After the success of the first pillar reform, the “Cork fears” are also a thing of the past. The support of the Commission was demonstrated by the participation of Commissioner for Regional Policies Michel Barnier, and by the agreement of all representatives on the final document whose main points do not differ much from the ones of the Cork declaration: rural development is in the interest of society as a whole and a vital goal for rural areas of the EU; the role of agriculture is essential to the vitality of rural areas; diversity is the salient feature of rurality and it must be preserved by encouraging a multifunctional and competitive agriculture; rural development policies must serve the needs of the entire rural society involving public and private actors in the bottom-up construction of consensual strategies; for this purpose, the proposal is to mainstream the

³⁸ *“It is widely asserted that the CAP costs too much” they say, deeply puzzled. How could anybody regard €40 billion a year of direct subsidy (plus twice as much again in higher prices demanded of European consumers) as too much to pay for producing food nobody wants, keeping third-world farmers poor and wrecking Europe’s rural environment? Cheap at the price they say. (...) Optimists may say that CAP reform is not dead, merely delayed. Again. But right now is Europe’s best chance to sort-out its farm-policy mess before enlargement admits new farm-heavy countries whose governments will have an ever bigger political stake in defending the status quo. The setback on CAP reform is a scandal. And Mr Gaymard and his fellow farm ministers are a disgrace.”* The Economist: “Scandalous. Europe’s agricultural policy should be scrapped, not defended”, October 5th, 2002.

³⁹ The share of the agricultural policy budget in European GDP was 0.61 % in 1993, 0.43 % in 2003, and is expected to be 0.33 % in 2013.

⁴⁰ EUROPEAN COMMISSION (2003a).

⁴¹ The milk CMO now entails expenditures of 4 171 mio. € (2 936 of which due to Agenda 2000); milk quotas have been prolonged until 2015.

⁴² The innovative character of the MTR continues to depend on decisions by member states in the field of regionalization, choice between various forms of decoupling, possible reserving of 10 % of national funding to specific types of agriculture, use of the national 3 % reserve, etc.

⁴³ EUROPEAN COMMISSION (2003b)

LEADER approach; financing methods must be simplified and adequately monitored; there should be a single financing system for a single planning approach, subject to a single control procedure.

One wonders what happened between Cork and Salzburg to make all resistance vanish and let this new consensus emerge. Certainly time has done its work, allaying suspicions and tempering extreme positions in both camps, but there are two specific elements that may have had a role in the process. The first was the more clear-cut separation between regional and cohesion policies on the one hand, and agriculture and rural development on the other. Once the budget was redistributed in favor of structural policies and at the expense of the CAP, following the Chirac – Schroeder agreement, not only the French-German controversy was resolved but the one between the General Directorates as well. The DG AGRI was left with the responsibility for rural development policy (significantly the question of rural development remained rather vague in the proposal for structural policy for the 2007-2013 period) but the latter was defined in strictly “agricultural” terms⁴⁴.

This more restrictive definition tempered the third Cork fear that CAP funds might be directed to non-agricultural subjects. On the other hand, with the cuts to the agricultural budget and the decisions to maintain high direct payments and extend them progressively to new MSs, resources left for rural development are quite modest (in 2013 only one fifth of the diminishing overall budget will be dedicated to rural development, counting the two sections of EAGGF and the expenditure for the ex-LEADER program).

6. Overall balance

In 2005 it has been twenty years since the publication of the “Green Book” and the start of a process to integrate the CAP into European structural policies and reorienting it towards reconciling sectorial (agriculture) and territorial (rurality) goals. During that period structural and cohesion policy has been adjusted correspondingly. It has grown in budget and will eventually become the primary tool of EU policy. Its importance will further increase with the enlargement and the consequent increase in regional gaps within the Union.

In this context we must take stock of the results achieved in CAP reform, evaluating the degree of convergence between these two policies in terms of goals, tools, methods of intervention, results. In other words, what is our conclusion twenty years after the beginning of the transformation of CAP into the CARPE? The overall balance, notwithstanding the significant progress achieved by the Fischler reform, is still not positive. And if one considers the enormous struggle it took to achieve these results, one cannot help having serious doubts about the future. This final paragraph is dedicated to motivating this position.

A reform of the CAP should meet four conditions. Firstly, it must be acceptable to the sectors of society that are penalized by change. The force of those who oppose change in CAP is evident. It is necessary to neutralize this opposition, overcome path dependency and resulting resistance to change. Second, it must find a new distribution and orientation of resources in the pursuit of new goals. Third it must switch from a policy of financial support based on subjective status to a policy based on objective criteria, i.e., programs and projects producing contractual relations aimed at promoting behaviors. If the reform process is too slow, the overall resources assigned to the CAP will be eroded, as is in fact happening. The last condition is that of the shift of rural development policy from a still separate and sectorial (agricultural) policy to an integral part of regional development EU policies.

The impression is that the first condition has been basically achieved, but at a cost so high that there is not much left to meet the second condition. The third and fourth conditions are still largely unachieved: the CAP is not yet the CARPE, has basically retained its sectorial character and, unlike other EU policies, links financial support directly to status. With decoupling and the single payments scheme, the connection between support and market has been

⁴⁴ The words “agriculture” and “farming” recur ten times in the Salzburg brief final document while only twice in the Cork declaration.

severed (the first condition), but the greater part of the CAP budget in 2013 will still be assigned (barring unexpected changes) to the same beneficiaries of the 80s: 80 % of support will go (with modest variations) to the same 20 % of twenty years ago. Apart from some redistribution of funds in those MSs which have adopted the regionalization option, the farms will be more or less the same: mostly the larger ones, the ones oriented towards protected productions, mostly commodities, produced with capital intensive standardized techniques, requiring little labor, ill-compatible with environmental protection, with little diversification and low capacity to respond to market changes. These are not the type of farms one thinks of when speaking of a "European model of agriculture," multifunctionality and diversification.

Similarly, the benefits of the CAP continue to be concentrated on the same areas: the plains, the areas with better structural and infrastructural resources, those oriented towards "continental" products, while Mediterranean areas, especially ones located in mountains and hills, continue to be excluded, even though they are more diversified and more suited to typical and quality productions. Thus the type of agriculture more compatible with rural development is not supported by the current policy, and rural development is not encouraged in the regions and areas where it would be most crucial. Current spending promotes forms of agriculture foreign (and sometimes in conflict with) a balanced rural development, diverting farms from the market instead of directing them towards it.

Decoupling runs the risk of producing yet another distortion. The subjects and regions that most benefit from the CAP were previously required to focus on specific protected productions. With decoupling, instead, they can focus on different products and markets, competing (as subsidized subjects) with market-oriented farms and enterprises, which had given up on support from the CAP, entering instead the free market (without enjoying any direct payments and often without any support whatsoever). The result is an increase in supply to the disadvantage of non-subsidized regions and enterprises, retarding their development.

Decoupled support, on the other hand, remains a privilege recognized to the status of the farmer. The decoupled payments are unselectively recognized, as a rent, to all the old beneficiaries. The past support is accepted as a crucial reason for receiving further support. This is evidently another barrier to entry⁴⁵.

Another concern regards the enlargement. The unsolved problem with the last CAP reform consists in the different treatment between farmers in the East and in the West during the so-called phasing in period, which might cause further delays and problems in the convergence process. In the meantime, on an international level, the European position at the WTO remains weak, notwithstanding the Fischler reform, with serious consequences both economic (in all other sectors subject to negotiation) and political: relations with the G-20, Mediterranean countries, the US, and the LDCs.

The second pillar package continues to receive modest resources, often insufficient to correct the distortions created by the first, directed at a long list of measures only partially coordinated and, in any case, not consistent with the overall strategy of structural and cohesion policies nor with national and regional policies on local development. Instead of a single policy of regional, local, and cohesion convergence development, the trend seems to be a further separation of structural policies from the CAP. There is a tendency towards a dangerously reductive view of rural development and rurality, entirely inadequate to the needs of the enlarged Union and the progress made in structural and cohesion policies. Given this situation, one can easily foresee that if the next battle over the CAP is fought independently of the other great European policies, with the same actors and according to the same script, the result will be its further decline, with a further dramatic cut in resources allocated to it and an increased marginalization of the role of rural areas in territorial development and of farmers in rural development in Europe. In this context, radical solutions such as the one presented in the Sapir Report could become popular.

⁴⁵ SOTTE (2003)

Final considerations

For all the reasons outlined above, I do not share the widespread satisfaction I perceived after the approval of the Fischler reform and during the Salzburg conference. In both cases the EU undoubtedly took some steps in the right direction which it had not taken on previous occasions. Thus the mandate of Commissioner Fischler has ended with a positive result. But it is wrong to think that the goal of a European agricultural and rural policy fully consistent with the needs of the EU is anywhere near, not to mention achieved.

It is necessary, then, first of all to exploit the opportunities offered by the Fischler reform (the national decisions present a wide variety of solutions) and the implementation of regulation 1782/2003). It is necessary as well to substantiate the Salzburg final statement in order to promote a policy that moves to CARPE. This concerns also the management of the second pillar which is all too often simplistically considered as above criticism. It is also necessary to continue to insist on the need for further reform, especially now that the EU is expanding its periphery and new regions (mostly rural) will be demanding a policy of both convergence and integration.

Decoupling, on the other hand, cannot be other than a temporary policy, associated with the transition from old to new objectives. It is necessary to immediately propose explicit forms of a new re-coupling between payments and common goods and services provided by agriculture, defending the interests of all citizens and ensuring their willingness to support the objectives as taxpayers. Thus, the second pillar must be reinforced and qualified, besides more substantially financed, and, at the same time, its goals must be better defined by extending contractualized forms of intervention.

Thus much remains to be done and can be done. On the other hand, several changes will affect the future of the EU after the enlargement, the election of the new European Parliament, and the nomination of the new European Commission. This will take place in the context of new international relations, economical and commercial as well as political. The debate over the planning of structural policies and new financial perspectives for the 2007-2013 period has already started. With the Fischler reform the march towards the CARPE has resumed, but it is necessary to go on. And there is no time to lose.

After the Fischler reform and the Salzburg Conference in fact, the debate on rural development policy has been re-launched by the recent proposal for a Council Regulation on support for rural development by the European Agricultural Fund for Rural Development (EAFRD) presented by the Commission in June 2004. The discussion that has resumed around this proposal is going to be implemented when, early in 2005 as declared, the Commission would publish a framework proposal on "strategic priorities for rural development". The purpose of the Commissioner Fischer Boel is to reach a political agreement during the first semester 2005. This agreement is expected to produce a final decision before the end of the year 2005. It is evident that the design of the new rural development policy for the seven year period 2007-2013 will depend on the evaluation of the results produced in the meanwhile by the Fischler reform (both under the 1st and 2nd pillar). It will also be strongly influenced by the ongoing discussion on the financial perspectives and legislative proposals on cohesion for the years 2007-2013.

Within few months then, the redesign of the European RDP will be on top of the political agenda. In concrete terms, the Commissioner Fischer Boel has already referred to the importance of innovation in rural development, and other issues have been mentioned, such as the basic local infrastructure, improved access to broadband internet access in rural areas, and encouraging the creation of rural businesses outside agriculture. It remains unclear at present, however, how much she will push for greater flexibility in using rural development funds for non-farming interests in rural areas. In more general terms, the Commission appears to prefer a rural development policy concentrated on fewer priorities, i.e. growth and job creation, more so than the environment & social aspects of the Lisbon Agenda.

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Abbreviations

CAP Common Agricultural Policy

CARPE Common Agricultural and Rural Policy for Europe

CEEC Central and Eastern European Countries

CMO Common market organisation

ESDP European Spatial Development Perspective

MS Member State

MTR Mid-term review

PPP Purchasing power parities

SME Small and medium enterprises

WTO World Trade Organization