Rural Development in the European Union: Issues and Objectives

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1. Introduction

Based on population density, rural areas represent 93% of the territory in EU-27. 20% of the population live in predominantly rural areas and 38% live in significantly rural areas.[1] These areas are experiencing widespread changes in many parts of Europe. The reform of the Common Agricultural Policy with its consequences for agriculture has been an important factor. But it is only one. Changes in technology, lifestyles, consumer expectations and communications are also profoundly affecting rural areas.

Europe's rural areas are diverse and include many high-performing regions. However, some rural areas, and in particular those which are most remote, depopulated or dependent on agriculture face particular challenges as regards growth, jobs and sustainability in the coming years. Rural areas are characterised by lower levels of income (in EU-27 the income per capita of predominantly urban areas is almost double that of predominantly rural areas), an unfavourable demographic situation, lower employment rates and higher unemployment rates, a slower development of the tertiary sector, weaknesses in skills and human capital, and a lack of opportunities for women and young people, compared to urban areas. Rural development policy seeks to establish a coherent and sustainable framework to assist the future development of these rural areas.

The primary responsibility for assisting rural areas to cope with the challenges they face lies with EU member states, and there is a long tradition of regional policies in Europe. To make this paper manageable, we focus on EU rural development policy as implemented by the European Commission under the direction of the European Council. This narrowing of the agenda can be justified partly by the fact that national rural development interventions increasingly take place within the framework of, and are moulded by, EU rural development legislation. National strategies also converge to a common model through the diffusion of best practice in successful case studies encouraged by the EU framework. Second, the paper makes a distinction between rural development policy as defined in the EU's Rural Development Regulation (RDR), and broader regional development strategies for rural areas. RDR policies are just one instrument, and maybe a relatively minor one, in the portfolio of measures to address rural problems. Other instruments available to the EU and the Member States to address these problems include the Structural Funds, transport, communications, innovation and employment policies. Third, we concentrate the discussion on policy objectives, and leave the question whether current policies achieve these objectives to another day.

The Commission's approach to EU rural development policy has been extraordinarily consistent. Back in 1988, in its first formal statement of rural policy, it stated that its approach to rural development was guided by three fundamental considerations:

(i) economic and social cohesion, in an enlarged Community of very pronounced regional diversity:
(ii) the unavoidable adjustment of farming in Europe to actual circumstances on the markets and the implications of this adjustment not only for farmers and farmworkers but also for the rural economy in general;
(iii) The protection of the environment and the conservation of the Community's natural assets.

There is an uncanny resemblance between the themes identified in this statement and the three objectives for EU rural development policy set out in Article 4 of the 2005 Rural Development Regulation, the most recent statement of EU rural development policy.

> Support for rural development shall contribute to achieving the following objectives:
> (i) improving the competitiveness of agriculture and forestry by supporting restructuring, development and innovation;
> (ii) improving the environment and the countryside by supporting land management;
> (iii) improving the quality of life in rural areas and encouraging diversification of economic activity.

[1] These categories are described more fully below.

These three core areas of intervention – agricultural competitiveness, environmental protection and the promotion of rural amenities, and strengthening and diversifying the economic base of rural communities – are at the heart of the EU's understanding of rural development. However, it would be wrong to give the impression that the apparent stability in the aims and objectives of this policy over time means that this has been an uncontested concept. Rural policy in the EU was originally defined as a set of accompanying measures for farmers. There has been a continual tension between, on the one hand, what agriculture-based rural development involves (managed alongside the common agricultural policy) and, on the other hand, what economic and technological development in the countryside involves (managed under EU regional policy as part of the policy of territorial cohesion). The struggle to transform the policy from a sector-based to a territorial-based policy has been one of the defining themes in the evolution of the policy.

This paper first emphasises the diversity of rural areas and their economic performance in Section 2, highlighting that rural areas feature among leading as well as lagging regions in Europe when considered as a whole. Section 3 describes current EU rural development policy as set out in the 2005 Rural Development Regulation. Section 4 of the paper raises a number of issues and questions about the justification and scope of EU rural development policy. Section 5 concludes.

2. The Diversity and Characteristics of Europe's Rural Areas

A distinguishing feature of Europe's rural areas is their diversity, in geographical and landscape features, in demographic composition, in the composition of economic activities and the different challenges they face. This diversity was, of course, accentuated by the recent accession of twelve new member states from central and eastern Europe. The diversity of Europe's rural areas has obvious implications for the formulation of rural development policies, and is seen in the ways in which even the highly centralized EU rural development policy tries to build in flexibility and scope for the expression of local preferences in the way this policy is pursued.

An early typology of rural regions can be found in the Commission's first statement on rural policy (Commission, 1988). Three types of rural regions were defined based on the problems they faced.

The first standard problem was designated the pressure of modern development, encountered in rural areas which are near to or easily accessible from the big conurbations, particularly in the centre-north of the Community and in many coastal areas. The problem identified was one of land use in the face of competing interests, transformation of the countryside, threats to the stability of the environment, unplanned and scattered settlement of holiday homes and factory plants, and heavy seasonal influxes of tourists.

The second standard problem was that of rural decline which was seen as a particular problem in the outlying Mediterranean parts of the Community. The problem here was identified as one of development and economic diversification.

The third standard problem was that faced by those areas furthest from the mainstream of Community life and with difficult access, such as mountain regions or islands. These areas were characterised by rural decline, depopulation, and the abandonment of land, and the scope for economic diversification is extremely limited. The problem was to maintain a minimum level of population as well as minimum levels of business and social activity to protect the fragile environment from the threats of erosion and desertification and to maintain the countryside.

For the purposes of statistical analysis, the EU relies on the OECD definition of rural areas. This distinguishes between predominantly urban, significantly (or intermediate) rural and predominantly rural regions according to population density and the share of population living in rural communes (i.e. with less than 150 inhabitants per km^2) in a given region. The 1284 NUTS III regions of the EU-27 are broadly evenly divided between the three rural-urban categories. The Commission commenced the publication of a Rural Development Report in 2006 which now makes it easier to draw comparisons between the performance of regions of different types (Commission, 2006a).

Many rural regions in the EU – and in particular the most rural ones - are more strongly affected by population decline than other types of region. Although the proportion of the rural population in EU total population has remained fairly constant in recent decades, this relative stability at an aggregate level masks significant variations between and within individual Member States. The Commission identifies two large scale processes of demographic change taking place in Europe: a long established "urbanisation" trend drawing population and economic activity out of more remote rural areas into urban and accessible rural areas, and a more recent "counter-urbanisation" flow out of urban areas into accessible rural areas (made possible by new transport and ICT infrastructure) increasingly under pressure from an urbanised lifestyle. Thus, if attention is focused on rural regions in the EU-15, although population growth in its predominantly rural areas has been slightly below that of its significantly rural or predominantly urban areas, one quarter of the predominantly rural areas and about half of the significantly rural areas in the EU-15 had a growth above the average national level (Commission, 2006a). Two other demographic trends are the out-migration of many young qualified people from rural areas which accelerates the ageing of the population, and which is particularly noticeable in the Southern member states, and the gender bias of this out-migration. This has been described as the "masculinisation" of sparsely populated Nordic rural areas and less developed rural areas of the New Member States, due to the out-migration of younger women (Commission, 2006c).

In all member states of the EU the per capita income of rural areas generally lies below the national average. They also suffer from high unemployment and low activity rates. Declines in agricultural employment are often accompanied by those in other traditional branches of industry and there is no or only a very partial compensation through the creation of new jobs in other fields. The service sector is the biggest employer in Europe's rural areas but is smaller compared to urban areas and tends to be dominated by the public sector. This is due to the underdevelopment of private services which remain largely urban. In 2002 the services sector accounted for 57% and 65% of employment respectively in predominantly rural and intermediate rural areas, compared with 75% in predominantly urban areas. This is reflected in the slower shift to activities centred in the knowledge-based economy.

Skills and human capital are generally lower in rural areas than in urban areas. In many Member States education beyond primary or lower secondary education is more generalised in urban areas. In urban areas almost 20% of the adult population has tertiary education, while in rural areas the proportion is only around 15%. Tertiary education can often lead to out-migration of skilled individuals from rural to urban areas, who stay on after their studies due to better employment opportunities.

In most rural areas the primary sector accounts for less than 10% of total employment. In a third of rural areas its share is less than 5% (around the EU-25 average). However, in some rural areas – particularly in the East and South of the EU – its share is above 25%. There are also considerable differences in farm structures, land use and production methods across the EU-25, with particularly unfavourable structures in many of the new member states. Moreover, agricultural productivity is far lower in most predominantly rural areas. At present less than 10% of farm holders in EU-25 are younger than 35 and more than 24% are over 65 years old. The decreasing number of young people in the agricultural sector can create specific difficulties for generational renewal. Rates and patterns of farm household pluri-activity also vary widely between regions. One study found that the strength of the regional economy was found to be negatively related to rates of part time farming: in other words, part time farming was more prevalent in poorer regions of the EU than richer regions (ESPON, 2003).

These statistics suggest that rural areas suffer a consistent pattern of disadvantage when compared to urban regions. There are nevertheless a number of rural regions, which contradict this picture completely, which enjoy not only economic growth, but also achieve significant job creation. In particular, if one looks at GDP growth, some rural regions rank among the most dynamic regions in Europe. It would be therefore wrong to equate rural areas automatically with disadvantages in economic development and the labour market.

An obvious research question is to understand better what the key factors are explaining success or failure. The RUREMPLO research project undertaken over the period 1997-99 examined why some rural regions (termed leading regions) performed very well in employment terms while others (termed lagging regions) performed poorly (Terluin and Post, 2001). The distinction was drawn using the criterion whether growth in non-agricultural employment in the rural region was a certain level (0.5 percentage points) above or below the national growth rate. In their conceptual framework they try to distinguish between the contributions of local resources, the existing base of economic activities and the role of internal and external actors in explaining differences in growth performance. The overall finding was that actors are the essential and decisive factor in rural development.

The Commission reports every three years on the progress made towards achieving economic and social cohesion, and on the manner in which the various means provided in that Article (Member States' and Community's policies) have contributed to it. The Fourth Report was published in March 2007. One of its conclusions is that economic prosperity in the EU is becoming less geographically concentrated. Traditionally, the core area of Europe, bounded by the agglomerations of London, Paris, Milan, Munich and Hamburg, accounts for only 20% of the area and 40% of the population of the Community but provides 50% of its GDP. The emergence of new growth centres such as Dublin, Madrid, Helsinki and Stockholm as well as Warsaw, Prague, Bratislava and Prague has reduced the share of EU-27 GDP originating in the traditional economic 'core' even though its share of the population remained stable. However, while the differences in economic performance between "prosperous" and "poor" regions at EU level are declining slightly, those between regions at national level are increasing in most countries (Commission, 2007).

3. EU rural development policy

EU rural development policy has its roots in socio-structural measures to promote greater efficiency in agricultural production, processing and marketing. In addition, the EU had pursued a parallel cohesion policy aimed at reducing disparities and promoting economic and social cohesion between regions (Hill, 2007). Cohesion policy is aimed at supporting three main areas of investment: infrastructure (mainly transport and the environment), productive investment (largely SMEs and RTD and innovation) and investment in people. We describe here the structure of EU rural development policy introduced by the new Rural Development Regulation agreed in 2005 (Council, 2005).

The RDR focuses on three major objectives which are reflected in three thematic Axes:

- Increasing the competitiveness of the agricultural sector through support for restructuring;
- Enhancing the environment and countryside through support for land management
- Enhancing the quality of life in rural areas and promoting diversification of economic activities through measures targeting the farm sector and other rural actors

These thematic Axes, and particularly the third, are complemented by support for Local Action Groups (public/private partnerships) under the LEADER programme.

The competitiveness aim, according to the Commission, means on the one hand an improvement in the economic performance of agriculture by factors such as reduction of production costs, increasing the economic size of holdings, introduction of innovation and more market orientation. Support measures for both physical investments (farm investments, processing/marketing; agricultural infrastructure) and investments in human capital (early retirement, young farmers, training and advisory services) are available for this purpose. On the other hand, improving competitiveness also means assisting farms to take advantage of new market opportunities by diversifying their production, gearing more to meeting quality and value added products demanded by consumers, including non-food products or biomass production, as well as cleaner or more environmentally friendly production techniques (Commission 2004). The forestry sector is also included under this heading.

The main aim of the land management objective is to ensure the delivery of environmental services including preserving the natural space and landscape, protecting and improving environmental resources, ensuring the sustainable use of forestry resources, and preventing the abandonment of agricultural land use through payments to compensate natural handicaps or handicaps resulting from environmental restrictions. The Commission envisages a targeted territorial strategy with different kinds of measures. Two specific targeted measures are focused on areas with natural or physical handicaps, and areas of particular environmental relevance as defined under EU legislation, such as Natura 2000 sites. Other targeted payments can be made in areas of particular environmental value or vulnerability (sites important to protect against erosion or fire are examples). In addition, a horizontal scheme of agri-environment payments is available to farmers and other land managers to cover the additional costs and income foregone of delivering environmental services on a voluntary basis going beyond the statutory minimum baseline. These include organic farming, the protection of rare breeds or endangered species, conservation of genetic resources and adopting animal welfare standards higher than those mandated. Payments under this objective should respect the polluter-pays principle and cover only those commitments going beyond the relevant mandatory standards (Council, 2005).

The central aim of the third objective is to have a 'living countryside' by making rural areas more attractive and improving their economic and social fabric. Promoting economic growth and generating new employment opportunities, particularly in the more remote rural areas facing depopulation, is clearly a necessary perquisite. However, the specific contribution of this measure is not global regional development as such, but rather the encouragement of local development strategies, either developed in close collaboration between national and local authorities or through a bottom up approach using LEADER groups. Two sets of measures are available under this objective. One set targets local development strategies enhancing the quality of life in rural areas, and includes basic services aiming to provide small scale economic, social and environmental infrastructure in rural areas as well as the renovation and development of villages and protection of rural heritage. The other set targets economic diversification, including both on-farm diversification as well as encouragement for small scale tourism and small and micro enterprises in rural areas.

In its Extended Impact Assessment of the proposed RDR, the Commission sketched out three options for the implementation of this rural development policy (Commission, 2004): an improved status quo (Option 1), a more strategic approach (Option 2) and a more territorially based approach (Option 3). Under Option 1, Member states would be free to draw up rural development programmes choosing any combination of the menu of measures available under the three policy axes. None of the measures would be compulsory with the exception of agri-environment and animal welfare in Axis 2. Under Option 2, the Community would first draw up a strategy document outlining EU priorities for the three policy axes, and minimum levels of spending under each Axis would be required to ensure a balanced outcome. Option 3 was seen as similar to Option 2 in its strategic approach, but in addition would introduce territorial targeting for all three policy axes. For example, aid to improve agricultural competitiveness would be confined to lagging rural areas rather than available to all rural areas. A relatively low maximum limit would be placed on Axis 1 in order to focus expenditure on axis 2 and particularly axis 3 which would be implemented through the LEADER approach and thus confined to selected territories.

The extensive stakeholder consultation around these options revealed that there was little support for territorial targeting (Option 3) but the Commission felt encouraged to pursue the more strategic approach of Option 2 in its proposal for a new Rural Development Regulation. The Member States held out for as much flexibility as possible and in the agreed Regulation, the minimum expenditure requirements for each of the four axes were lower than what the Commission had originally proposed (Council, 2005). However, the new Regulation did require the preparation by the Commission of a strategy document setting out EU priorities for rural development as the first step in the programming of rural development plans. The Council adopted these strategic guidelines in February 2006 (Council, 2006). The stated purpose of these guidelines is to identify and agree the areas where the use of EU support for rural development creates the most value added at EU level; to make the link with the main EU priorities (Lisbon, Göteborg) and to translate these into rural development policy; as well as to ensure consistency with other EU policies, in particular in the fields of cohesion and environment. They are also intended to help accompany the implementation of the new market-oriented CAP reforms and the necessary restructuring this will require in both old and new Member States.

Thus, in addition to the objectives and measures set out in the RDR, the strategic guidelines focus on a set of priorities and key actions in support of these objectives. Member States are required to prepare a national strategy plan on the basis of these strategic guidelines as the reference framework for the preparation of their rural development programmes.

There are six strategic guidelines in all, three of which elaborate on priorities within the three thematic axes, while three address more horizontal concerns. For example, the strategic guideline for Axis 1 is that the resources helping to bring about a strong and dynamic European agrifood sector should focus on the priorities of knowledge transfer, modernisation, innovation and quality in the food chain, and on priority sectors for investment in physical and human capital. Suggested key actions include support for agricultural adjustment, including training and retraining farmers, improving integration in the agrifood chain, facilitating innovation and access to R&D, encouraging the take-up and diffusion of information and communication technologies, fostering entrepreneurship and developing new outlets for agricultural and forestry products.

The resources under Axis 2 should contribute to three EU-level priority areas: biodiversity and the preservation and development of high nature value farming and forestry systems and traditional agricultural landscapes; water; and climate change. The resources under Axis 3 should contribute to the overarching priority of the creation of employment opportunities and conditions for growth, and there should be a particular emphasis on promoting capacity building, skills acquisition and organisation for local strategy development, and also help to ensure that rural areas remain attractive for future generations. The list of key actions suggest the Commission envisages a series of small scale interventions in tourism, infrastructure, ICT and microbusinesses to complement the major investments made by the Structural Funds and other sources. The other strategic priorities refer to support for community-led local development strategies, consistency in programming with other EU programmes, and the need to ensure complementarity with other Community-supported investments.

4. Issues and questions for EU rural development policy

Justification for rural development policy

In general, these objectives appear to be legitimate and well thought-out. With respect to Axis 1, the need for public funding for measures such as early retirement, young farmer programmes, training and the improvement of rural infrastructure as well as investment subsidies has been questioned on the grounds that they are not public goods (Grethe, 2006). On the other hand, it appears reasonable to provide transitional support and adjustment assistance to farmers to improve their physical and human capital in the context of the winding down of price and income supports under Pillar 1. These policies are especially justified in the New Member States for a transitional period to enable them to upgrade their technological level to be able to compete in the common market. The measures under this objective take two forms: either they are designed to improve the efficiency and competitiveness of resources remaining in farming, or they are intended to encourage the movement of resources out of farming. Measures directed at the first objective potentially raise competition policy concerns as well as the need to show WTO compatibility given their potential to distort trade.

Article 36 of the EC Treaty provides that the Treaty rules on competition apply to production and trade in agricultural products only to the extent determined by the Council. In contrast to other sectors, therefore, the Commission's authority to control and supervise State aids in the agricultural sector does not derive directly from the Treaty, but from legislation adopted by the Council. The provisions of rural policy which do not relate directly to agriculture would not be covered by the Article 36 exemption, and would be subject to the full rigours of the competition provisions (O'Neill, 2000). In practice, however, all the agricultural CMOs as well as the Rural Development Regulation (Article 88) expressly provide that Articles 87, 88 and 89 (the competition policy articles) of the Treaty apply to aid for the products concerned or granted by the Member States to support rural development. It follows that, subject to any specific limitations or derogations in the RDR in the case of agricultural products, the provisions of the Treaty are fully applicable to State aid granted to rural development.

The entry into force of the RDR led the Commission to revise, update and consolidate the rules used to assess proposals from Member States to grant State aid in the agricultural sector. The starting point for the new guidelines is that any State aid for the agricultural sector must be compatible with the Community's common agricultural and rural development policies and with the Community's international obligations, in particular the WTO Agreement on Agriculture. What this means is that, in principle, provided a State aid meets the criteria laid down in the RDR, it cannot be subject to challenge as distorting competition. Importantly, rural development measures of Member States which are not necessarily co-financed by the EU in the framework of rural development programmes are still required to be coherent with the conditions set down in the RDR. In effect, the RDR criteria define those aids which are deemed not to distort competition and those that do.

While there is thus a certain circularity in the way in which EU rural development aids relate to competition policy, it is not so easy to define away compatibility with WTO rules. To ensure that investment aids are eligible for Green Box status and thus not subject to reduction commitments, they must meet the fundamental requirement that they have no more than a minimally trade-distorting effect as well as the policy-specific criteria that they "should be designed to assist the physical and financial restructuring of a producer's operations in response to objectively demonstrated structural disadvantages, and should be limited to the amount required to compensate for the structural disadvantage. No production conditions can be attached to investment aid." This might appear to put a question mark over generalised investment aid schemes open to all producers or to producers of specific products.

Turning to the justification for land management payments, there is broad public support in Europe for the main objectives of supporting farming in marginal areas, compensating farmers for restrictions imposed if they farm in designated zones, as well as paying farmers and other land managers for the provision of environmental services and rural amenities which go beyond the minimum statutory requirements. This latter objective is considered part of the European Model of Agriculture which became the cornerstone of EU agricultural policy at the European Council in Luxembourg in 1997. The European Model of Agriculture is comprised of a set of shared values of the Member States of the European Union. As defined by the Agricultural Council in November 1997 (document 12509/97) when discussing the Commission Agenda 2000 proposals for CAP reform, "[European agriculture] must be capable of maintaining the countryside, conserving nature and making a key contribution to the vitality of rural life and must be able to respond to consumer concerns and demands regarding food quality and safety, environmental protection and the safeguarding of animal welfare." What is critical is that many of these multifunctional benefits are public goods, thus justifying the continued support of society for European agriculture.

> "This means that together with competitive food, fibre and energy production farming also delivers other services for society as a whole. These services, which are closely linked to food and fibre production, include safeguarding viable rural societies and infrastructures, balanced regional development and rural employment, maintenance of traditional rural landscapes, bio-diversity, protection of the environment, and high standards of animal welfare and food safety. These services reflect the concerns of consumers and taxpayers. As European farmers provide these multifunctional services for the benefit of society as a whole, which often incur additional costs without a compensating market return, it is necessary and justified to reward them through public funds" (Government of Finland, 2006).

There is considerable confusion as to whether the European Model of Agriculture is a normative or policy concept. As a normative concept, it has a lot of value. It sets out a clear set of policy objectives for agricultural production and rural areas. It encourages farmers to think of themselves as "rural entrepreneurs", who produce a whole range of goods in addition to agricultural commodities, as well as providing services, including the environment. Its value as a policy concept is much more dubious. It is often abused to justify general support to European agricultural production in the face of evidence that this support does little, and indeed may be counter-productive, to obtaining the desired multifunctional benefits. However, it is not necessary to draw on the somewhat discredited concept of multifunctionality to justify the principle espoused in the land management objective of the RDR, that there should be a mechanism to pay farmers and other land managers who provide valued environmental services or rural amenities which otherwise would not be remunerated through the market. In heavily-populated Europe, there is considerable evidence of public demand for the landscape and nature values which are often concentrated in the more sparsely-populated and marginal farming areas.

In implementing this principle, the EU must also be conscious of its WTO obligations. To avoid payment disciplines, environmental payments should be determined as part of a clearly-defined government environmental or conservation programme are dependent on the fulfilment of specific conditions, including conditions related to production methods or inputs; and the amount of payment should be limited to the extra costs or loss of income involved in complying with the government programme. The EU has already redefined the conditions of eligibility for its agri-environment payments to satisfy this condition. Similarly, in the case of Regional Assistance payments, eligibility for such payments should be limited to producers in disadvantaged regions, and the amount of such payments must not be related to, or based on, the type or volume of production or prices undertaken by the producer in any given year after the base period. Where payments are linked to a production factor, some element of degressivity above a certain threshold is required. Payments of this nature are generally available to all producers within such regions, and must be limited to the extra costs or loss of income involved in undertaking agricultural production in the prescribed areas. Again, the EU has reformed its system of payments to producers in less favoured areas to be compatible with these criteria.

Finally, there is also justification for local development strategies based on public/private partnerships as a complementary measure to mainstream regional development programmes to deliver economic diversification and to help improve the quality of life in rural areas. The main argument here is that these area-based, 'bottom-up', endogenous development approaches can add value in ways which are not available to mainstream agencies. This may arise because local involvement generates voluntary commitment; because the partnership of local groups, statutory agencies and private interests increases the coordination and effectiveness of policy; because information and consultation can improve the design of national policy; and because the coordination of individuals, enterprises and groups encourages the identification of new opportunities for economic activity. Local development strategies may also have a more pronounced focus on combating the disadvantage and social exclusion which may result from conventional market-based approaches to economic development. Evaluations of, for example, the LEADER programme have been generally positive, although transactions costs can be high and governance arrangements difficult (Commission, 2003).

Subsidiary and the role of the EU in rural development policy

While the specific objectives of EU rural development policy appear justified, it is a different question to ask why these measures should be pursued at EU level rather than left to Member States. This raises the question of subsidiarity, which is a principle which was enshrined in the Treaty following the Treaty of Amsterdam. The principle states that "in areas which do not fall within its exclusive competence, the Community shall take action, in accordance with the principle of subsidiarity, only if and in so far as the objectives of the proposed action cannot be sufficiently achieved by the Member States and can therefore by reason of the scale of effects of the proposed action, be better achieved by the Community".

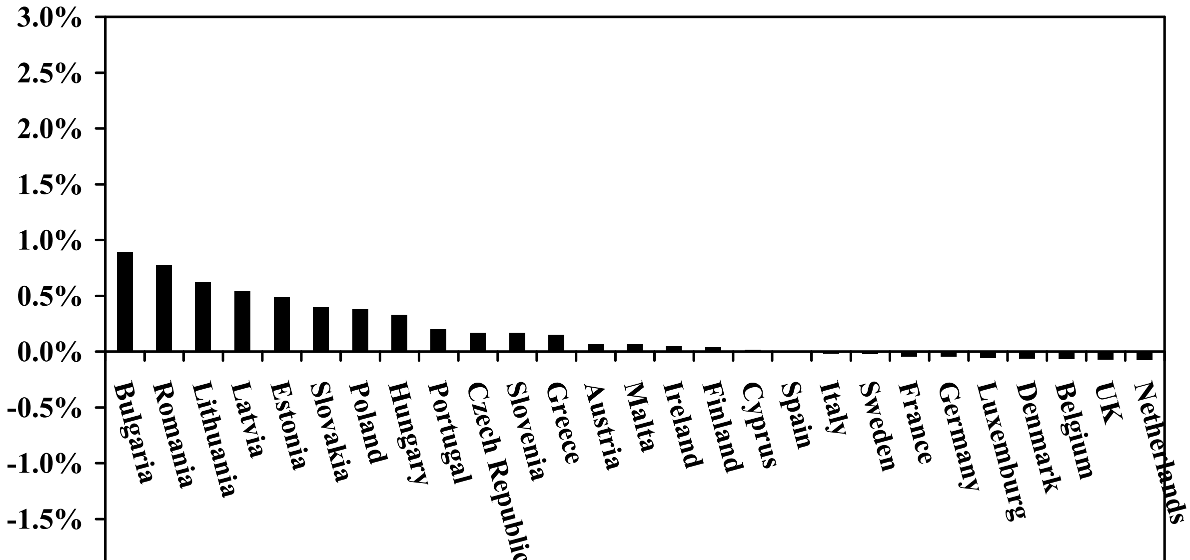
Recital 5 of the 2005 RDR justifies making rural development policy an EU competence because "the objective of this Regulation, namely rural development, cannot be achieved sufficiently by the Member States given the links between it and the other instruments of the common agricultural policy, the extent of the disparities between the various rural areas and the limits on the financial resources of the Member States in an enlarged Union, and can therefore be better achieved at Community level through the multiannual guarantee of Community finance and by concentrating it on its priorities…". This is a rather weak justification, as it is not derived from the substantive characteristics of the policy but is rather based on an argument of financial solidarity which could, in principle, justify giving the EU competence in any policy which could involve a redistribution of resources between Member States.

Indeed, most rural development measures are of a rather local nature in their effects and in the problems they address and it is difficult to see why the responsibility for the design and funding of these measures should be at EU level. Rural planning, for example, which is a crucial determinant of settlement patterns, or deciding the designation of environmentally sensitive areas, are pre-eminently local matters. A number of arguments to justify EU involvement with decentralised (local) rural policies can be advanced (ARL/DATAR 2003). First, within the context of a single European market, from a competition policy perspective, all policies need to be coordinated and have common rules of the game, even if they are designed and implemented at national or regional levels. Second, the transfer of resources between Member States can be legitimised as a redistribution policy aimed at territorial cohesion as in the current RDR.

Third, there can be environmental spillovers concerning water, air and ecology between member states which justify a trans-boundary approach to environmental issues, although it is hard to know how important this argument is in the specific context of agri-environment schemes. Fourth, the transfer of experience, cooperation and networking that takes place in the course of designing and implementing RD programmes is unique to the EU mode of governance and has been a positive benefit of EU intervention.

It can be argued that the current RDR provides so much flexibility to Member States that it hardly constrains their preferences (agri-environment and animal welfare measures remain the only compulsory measures), and that the main contribution of the EU competence in this area is to allow a financial redistribution from rich to poor member states (Figure 1). Grethe (2006) criticises this system of co-financing rural development policies because it leads to policy design which is more determined by the intention to ensure a good flow of resources from the EU budget than by the preferences of local or regional residents. It is not at all clear, for example, that Ireland would have such an extensive and well-resourced agri-environment scheme were it not for the co-financing element of the RDR. He also argues that in the current setup the Commission is torn between its role as competition policy umpire and its desire to see rural development funds spent, and that leaving responsibility for the design of rural development programmes to the Member States would allow the Commission to concentrate more effectively on its competition policy watchdog role.

Figure 1. Net Financial Flow Resulting from Rural Development Measures in 2013 (% of GDP)



Source: Grethe (2006)

The balance between sectoral and territorial emphases

The brief chronology of EU rural development policy above showed how the policy has moved away from a sole concern with socio-structural problems of farming to also address territorial issues to do with land management and particularly broader rural development. Nonetheless, for many observers this evolution has not gone far enough. The policy is criticised for remaining largely an extension of agricultural activities and there are calls for a clearer focus on territorial cohesion. The Cork Declaration had already in 1996 called for "Rural Development [to] address all socio-economic sectors of the countryside" and that "Rural development policy must be multi-disciplinary in concept, and multi-sectoral in application." The ESPON (2003) report on the spatial implications of the CAP and rural development policy also argued that the RDR should be broadened to focus less on agriculture and more on sustainable rural development.

The 2005 RDR makes a significant step in this direction by explicitly adding economic and social cohesion as a rationale for rural development policy. Its opening recital states:

> "A rural development policy should accompany and complement the market and income support policies of the common agricultural policy and thus contribute to the achievement of that policy's objectives as laid down in the Treaty. Rural development policy should also take into account the general objectives for economic and social cohesion policy set out in the Treaty and contribute to their achievement, while integrating other major policy priorities as spelled out in the conclusions of the Lisbon and Göteborg European Councils for competitiveness and sustainable development."

Only the first of these two sentences appeared in the 1999 RDR, so the second sentence is a new addition. To that extent the 2005 RDR represents an extension of the scope of EU rural development policy. However, this addition is better understood as making an explicit cross-reference between RD policy and cohesion policy and other EU policies rather than extending its mandate. Cohesion policy is the term for EU efforts to reduce disparities in the EU at the territorial level. The commitment to achieving cohesion was laid down in the Single European Act of 1987 in response to fears that the move to a single market would exacerbate disparities between backward regions facing structural handicaps and more successful and prosperous regions within the European Community. This commitment was strengthened in the Maastricht Treaty (1993) which also provided the legal basis for EU rural development policies. Already at this point, these were firmly anchored in the context of EU efforts to achieve economic and social cohesion by adding the words 'including rural areas' to Article 130A. It is noteworthy that, in the Draft Treaty establishing a European Constitution, the notion 'economic and social cohesion' was enlarged to include also the notion 'territorial cohesion' (Part III, Article 116). This Article would require the Union to "develop and pursue its actions leading to the strengthening of its economic, social and territorial cohesion. In particular, the Union shall aim at reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions or islands, including rural areas." While the ratification of the Draft Treaty has been suspended in the wake of the negative outcomes of the Dutch and French referenda, the 2005 RDR would appear to take its sentiments into account.

At issue is whether the pursuit of territorial cohesion with respect to rural areas in line with the European Spatial Development Perspective should be made the sole responsibility of EU rural development policy as currently implemented by DG AGRI or whether it is not more sensible to see the latter as simply one instrument in an integrated regional development strategy directed towards this objective.

DG AGRI notes that that the focus of EU rural development policy will inevitably be conditioned by the context in which it has evolved, and that it cannot be divorced from its role as the 2nd pillar of the CAP. Continued CAP reform implies a need for a continued sectoral component in EU rural development policy. It also highlights that the duality of farm structures and often still high share of agriculture in employment in many of the new Member States implies a further important need for the policy to accompany restructuring in agriculture and in rural areas. It goes further and argues that the territorial components of the policy to respond to the economic, social and environmental challenges facing rural areas lie in accompanying agriculture and forestry in their important land management function and in embedding agriculture and forestry in a diversified rural economy (Commission, 2004).

In part, this rationale can be dismissed as part of the inter-services rivalry between DG AGRI and DG REGIO. An extension from agricultural measures to measures covering the whole rural economy implies an extension of the competence of DG REGIO at the expense of DG AGRI, and the latter might be expected to block this. In addition, the farmers' lobby has been heavily opposed to spending money from the EAFRD, which they consider as 'money for farmers', on other groups in the rural economy. Nonetheless, DG AGRI is correct to point out that an EU rural development policy cannot hope to deal with the full range of problems facing rural areas, and that some are best tackled in the framework of other EU policies, including cohesion policy. This is not to deny the relevance, indeed necessity, of a territorial approach to promoting rural area viability and competitiveness. In nearly all rural areas, the share of primary agriculture in economic activity has become increasingly marginal and agriculture no longer has the potential to be the leading motor of growth in rural areas. However, EU rural development policy has a remit to address three specific objectives, and it seems important not to overburden it with expectations that it should not be asked to fulfil. It would indeed be desirable to transfer more EU resources from agricultural policy to promote territorial cohesion, but it is not at all obvious that the most effective way of spending this money is to enhance the two territorial components of current EU rural development policy or to extend further the territorial scope of EU rural development policy under the responsibility of DG AGRI. To achieve the goal of territorial cohesion, it would seem more fruitful to adopt a higher level strategic approach which would align the rural development measures under the RDR more closely with interventions under the many other cohesion instruments available under an integrated regional development strategy.

Indeed, there is a considerable emphasis in the 2005 RDR on the importance of achieving consistency and coordination between the various national, regional and local actions contributing to the Community's priorities. Particular mention is made of the need to ensure coordination between the assistance from the different Structural Funds and the interventions of the European Investment Bank and of other Community financial instruments. Article 5 provides that this consistency "shall be provided by the Community strategic guidelines referred to in Article 9, the national strategy plan referred to in Article 11, the rural development programmes referred to in Article 15 and the Commission report referred to in Article 14." However, this is only a partial substitute for the fact that the EAFRD is no longer seen as a Structural Fund, meaning that it is no longer integrated with other Structural Fund programming in Objective 1 regions.

A specific question is this context is the extent to which past RDR spending has been aligned with the objective of territorial cohesion. The recent ESPON study on the spatial implications of the CAP concluded that, if this objective is defined at the EU level, this spending is poorly aligned (Schucksmith et al, 2005). Their analysis of the territorial incidence of RDR support in 1999 across the EU-15 suggested that total Pillar 2 support (comprising of LFA payments, agri-environmental schemes and other RD measures) was distributed in such a way that it tended to benefit richer regions with lower unemployment rates. The study does not investigate the relationship if cohesion is defined at Member State level, and some of the perverse relationship at EU level is due to large differences in RDR spending per Member State. The report notes that, even including national and regional co-financing and modulation receipts, the levels of RDR expenditure per ha of UAA vary enormously from €3-400 pa in Finland and Austria to around €50 pa in the UK and Denmark. The study concludes that the uneven allocation of EU RDR funds together with the cofinancing requirements for Pillar 2 spending may contribute to the poorer uptake of RDR measures in the poorer areas of the EU. This suggests that one way to improve the effectiveness of RDR spending in terms of territorial cohesion would be to provide greater differentiation in the co-financing rates to encourage greater uptake among the more disadvantaged regions, and co-financing rules in the 2005 RDR have been made more generous than in the 1999 Regulation for this reason.

5. Conclusions

This paper has discussed the objectives and some issues in EU rural development policy. Three limitations were imposed at the outset in order to make the task manageable. First, the paper focuses on rural development policy implemented at EU level rather than attempting to cover the rich history of rural policy interventions in the Member States. Second, the paper focuses on rural development policy as now articulated in the Rural Development Regulation, rather than the broader set of interventions addressed to territorial cohesion as part of integrated regional development strategies. Third, the paper has focused on an examination of stated objectives, and no attempt has been made to evaluate the success of the Community's policy in meeting those objectives.

With over half of the population in EU-25 living in rural areas, which cover 90% of its territory, rural development undoubtedly remains an important policy domain. Although the economic weight of agriculture and forestry in terms of contribution to GDP and employment has become small even in the predominantly rural regions, farming and forestry remain vitally important for land use and the management of natural resources in the EU's rural areas, and as a platform for economic diversification in rural communities (Commission, 2004). The EU's rural areas face a range of economic, social and environmental challenges. Rural areas have a significantly lower income than the average, higher unemployment, an ageing working population, and a greater dependency on the primary sector. Low population density and depopulation in some areas increase the risk of problems such as poor access to services, social exclusion, and a narrow range of employment options. There are complex links between farming practices and the natural environment. While pollution of soil, water and air and loss of habitats and biodiversity can be the result of inappropriate farming practices and land use, abandonment of farming activities can also endanger the EU's environmental heritage through loss of semi-natural habitats and the biodiversity and landscape associated with them.

Under Agenda 2000 rural development policy officially became the 2nd pillar of the CAP and there has been a gradual broadening of the scope of the policy from a predominantly agricultural structures policy dealing with the structural problems of the farm sector to a policy which recognises the multiple roles of farming particularly in land management and which also seeks to promote the economic diversification of rural areas. The 2005 Rural Development Regulation, which was introduced after extensive consultation with stakeholders, sets out three objectives for EU rural development policy – support for agricultural competitiveness and restructuring, promoting environmental services associated with land management, and encouraging economic diversification in rural areas through local development strategies – and underlines that the policy is also intended to contribute to economic and social cohesion through tight integration with the Structural Funds and other EU and member state interventions as part of integrated regional development strategies.

The paper concludes that there is considerable justification for these three objectives of EU RD policy, but much greater debate about whether they should be pursued at EU or more local level. The paper argues that applying the subsidiarity principle would assign most rural development policy to local actors. In practice, despite its centralised structure, there is considerable local autonomy. Although the Community sets the menu – which now covers a rather diversified range of measures – it is the Member States (or their regions) which make the choices. Thus we observe strong differences in the pattern of RD expenditure across countries. Northern Member States put more emphasis on less favoured area and agri-environment measures, while southern and eastern Member States focus more on agricultural restructuring. Nonetheless, common financing of the policy through the EU budget does create an incentive for countries to structure their rural development policies not in line with local preferences but with a view to drawing down the maximum of EU funds. Further, not all observers are satisfied with the range of measures on offer. Many commentators have sought to extend the scope of the policy to put greater emphasis on the purely territorial functions of the policy and to reduce the role of agricultural interventions. There is undoubtedly a need for a range of multisectoral policies to promote sustainable rural development. However, if some responsibility for these policies continues to be assigned to the EU level, the paper argues against overburdening existing EU RD policy by extending the scope of its responsibilities. Instead, RD policy should be integrated into wider regional development strategies directed at the objective of territorial cohesion.

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