



**A 'SECOND PILLAR' FOR THE CAP?
THE EUROPEAN RURAL DEVELOPMENT REGULATION
AND ITS IMPLICATIONS FOR THE UK**

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Abstract

In July 1997, the European Commission published its 'Agenda 2000' proposals for reform of the Common Agricultural Policy and Structural Funds. Detailed draft regulations were published in March 1998 and are the subject of negotiations between the Member States which are likely to be concluded in the spring of 1999. This working paper considers the nature of the proposals for a new Rural Development Regulation, hailed as a "second pillar" of the CAP, and the possible implications for rural development policy in the UK.

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1. Introduction

This working paper considers the implications of the new draft Council Regulation on rural development. The Regulation is the most radical feature of the European Commission's Agenda 2000 proposals for the reform of the Common Agricultural Policy (CAP). It would establish an integrated legal framework for farm and rural development and agri-environmental measures, to be co-financed by the Guarantee Section of the European Agricultural Guidance and Guarantee Fund (EAGGF) which traditionally funds farm commodity subsidies. The Regulation would be applied across the whole of the European Union, and European funds would be allocated on the basis of multi-annual programmes prepared "at the most appropriate geographical level" within Member States in a similar way to the Single Programming Documents for Objective 1 and 5b Structural Fund areas. This represents a shift in emphasis and funding responsibilities to make rural policy a central feature of the CAP: the proposals refer to rural development becoming the CAP's "second pillar".

Initially, though, there are few additional resources for rural development. Indeed, the reduced emphasis in the Structural Funds on rural development, compared with the current Objective 5b programmes, may mean an actual reduction of total European monies for rural areas in the short term. Later in the 2000-2006 programming period, however, additional resources may be available for the rural development Regulation (to take it beyond the 14% of the CAP that is currently being budgeted for it for the year 2006) as agricultural spending falls short of overall permitted levels. In the longer term (*i.e.* beyond 2006), there is the possibility that monies saved from

agricultural support be made available for rural development. What is being set up, therefore, is a mechanism whereby, as the CAP is liberalised, some of the resources saved may be retained in the countryside to support the wider rural economy as well as agri-environmental measures.

In the short and medium term, the most significant implications concern potential changes in procedure and implementation arrangements that could lay the basis for new institutional structures for rural development programming and support. The draft Regulation, though, strikes an uneasy and sometimes contradictory balance between continuity and change. Although a novel departure, it incorporates several existing CAP measures, including: structural adjustment of the farming sector (investment in agricultural holdings, establishment of young farmers, training, early retirement); support for farming in less favoured areas; remuneration for agri-environmental activities; support for investments in processing and marketing facilities; and forestry measures. Indeed, all but one of the sets of measures are not new at all. The distinctly new set of measures is that for promoting “the adaptation and development of rural areas” (Article 31). This appears to extend both the scope of, and the eligibility for, CAP supports to make them of wider benefit, including the prospect of non-farmers and non-agricultural activities having access to the central part of the CAP budget. However, while there are certain precedents for what is being proposed, there is also some ambiguity surrounding the degree of broadening out of the CAP.

In keeping with a commitment to simplify Community legislation, the various farm, rural development and agri-environment measures are to be brought together within one Regulation. They are also to be subject

to new decision-making and resource-allocation procedures (programming, subsidiarity, co-financing and flexibility across measures) intended to provide “Member States with an opportunity of defining their priorities themselves and making their own choices among the schemes contained in the Regulation” (CEC, 1998, p.3, para 2.2). This raises a number of issues.

2. The Scope and Purpose of the Regulation

The purpose of the Regulation is defined in the Explanatory Memorandum as “to accompany and complement the proposed reforms in market and price policy” (CEC, 1998, p.16, para 8.1). Its preamble refers explicitly to “the need for rural development to be based partly on non-agricultural activities and services” (p.137) and specifies that “a rural development policy should aim at restoring and enhancing the competitiveness of rural areas and, therefore, contribute to the maintenance and creation of employment in these areas” (p.134).

Article 1 of the Regulation then specifies its primary objective as being to establish “the framework for sustainable rural development” (p.139). Article 2 defines the scope of the measures to be supported under the Regulation and seems to return to a narrower specification with its generic reference to “rural development, related to farming activities and their conversion”. However, among eligible measures it includes “the diversification of activities with the aim of complementary or alternative activities”; “the maintenance and reinforcement of viable social fabric in rural areas”; and “the development of economic activities and the maintenance and creation of employment with the aim of ensuring a

better exploitation of existing inherent potential” (p.140). Article 2 seems to be particularly badly phrased.

Article 31 is entitled “Promoting the adaptation and the development of rural areas”. It specifies that “support shall be granted for measures, related to farming activities and their conversion and related to rural activities, which do not fall within the scope of any other measure referred to in this Title” (p.152). The Article itself therefore covers both farming related development and development related to rural activities. This is reflected in the list of measures that is given (see Section 8 below).

The role of the rural development Regulation is “to accompany and complement the proposed reforms in market and price policy” (CEC, 1998, p. 16, para 8.1). There is a precedent for this in the MacSharry reforms which also included a set of so-called accompanying measures — for agri-environmental, farm forestry and early retirement schemes — that were incorporated (despite the opposition of some Member States) into the Guarantee Section of the EAGGF and which the new Regulation will subsume.

3. The Significance of the Shift from EAGGF Guidance to Guarantee Funding

The EAGGF was set up in 1962. The role of the Guarantee Section is to support the market in agricultural products in order to stabilise prices and ensure an adequate income for European farmers. The role of the Guidance Section is to improve agricultural and rural structures, and it is therefore often classed with the Community’s Structural Funds such as

the European Regional Development Fund, the European Social Fund and the Cohesion Fund.

The initial, and still the primary, legal basis of the EAGGF are Articles 38-47 of the Treaty of Rome. Article 39(1) lays down the five objectives of the CAP as follows: to increase agricultural productivity; to ensure a fair standard of living for the agricultural community; to stabilise markets; to assure the availability of supplies; and to ensure that supplies reach consumers at reasonable prices. Article 39(2) goes on to say that “In working out the common agricultural policy and the special methods for its application, account shall be taken of: the particular nature of agricultural activity, which results from the social structure of agriculture and from structural and natural disparities between the various agricultural regions; the need to effect the appropriate adjustments by degrees; the fact that in the Member States agriculture constitutes a sector closely linked with the economy as a whole”. This has been the basis of efforts since the late 1970s to integrate agricultural structural policy into the wider economic and social context of rural areas. Significantly, the Treaty makes no distinction between the purposes of the Guidance and Guarantee Sections.

The development of the Guidance Section, though, has been shaped by the rules governing the use of the Structural Funds, based on Article 130a of the Treaty. The Structural Funds have evolved from an initially modest regional policy first devised in the mid-1970s. They were significantly expanded as a result of the Single European Act which added a new title — “Economic and Social Cohesion” — to the EU Treaty. In striving for a single, united economic area in the EU, the

need to address differentials between the most prosperous and the most backward regions was recognised. Hence the new Article stipulated that “In order to promote its overall harmonious development, the Community shall develop and pursue its actions leading to the strengthening of its economic and social cohesion. In particular, the Community shall aim at reducing disparities between the levels of development of the various regions and the backwardness of the least-favoured regions”. This Article (Article 130a) was completed in 1992, with the Maastricht Treaty, when the words “including rural areas” were added to the end, so underlining, according to the Commission, “the specific case represented by most rural areas in terms of infrastructure, services and maintenance of their competitiveness” (CEC DGVI, 1997, p.3).

The Guidance Section therefore embodies the cohesion principle and is concerned with narrowing the economic gap between regions, including rural areas. It is on this legal basis that the coverage of the Guidance Section has evolved from agricultural structures to embrace rural structures also, in recognition, in the words of the current Regulation for the Guidance Section, of “the need for rural development to be based also on non-agricultural activities” (Council Regulation 2085/93, preamble).

The proposed shift of rural development supports (except for those in Objective 1 areas) from the Guidance to the Guarantee Section in the Agenda 2000 reforms therefore represents an important change, with implications for the legal basis, funding and mechanisms of Community involvement. The most radical and determinant aspect lies in the change in the strategy of CAP funding both internally and in relation to the

overall EU budget. This is essentially a political development whose logic needs to be understood as the other implications follow from it.

The political priority throughout the 1980s was to bring the growth of the agricultural budget under control. The budget grew very rapidly as self-sufficiency was reached for more and more agricultural products, incurring increased costs on subsidised exports and the acquisition, maintenance and disposal of surpluses. The first steps to curb the increase in expenditure were the restriction of production by introducing milk quotas (1984), maximum guaranteed quantities for cereals and oilseeds (1987), restricting intervention periods and slowing down the increase in guaranteed prices or freezing them. However, these measures proved insufficient and in 1988 it was decided to impose an overall budgetary discipline through programming ceilings on expenditure, intended to reduce the proportion of the Community's budget spent on agriculture over time. EAGGF Guarantee expenditure may, therefore, not exceed a given guideline, which is calculated on the basis of growth and inflation rates. The current annual limit on expenditure growth is 74% of the Community's GNP growth. This ceiling has allowed scope for the expansion of other Community policies. In particular, as part of the same set of decisions by the European Council that imposed the agricultural guideline in 1988 it was also decided to double the resources allocated to the Structural Funds between 1987 and 1993. The EAGGF Guidance Section was allowed to expand more than four-fold, largely through the new Objective 1 and 5b programmes. As a proportion of EAGGF expenditure, the Guidance Section rose from 3% to 9% between 1987 and 1993. Increasingly its role was emphasised as that of easing the economic adjustment and diversification of farmers and rural areas as budgetary constraints and

international trade pressures brought about major changes to the CAP. The MacSharry reforms of 1992 saw significant moves to reduce guaranteed prices and therefore scale down intervention and refund costs, and give more emphasis to direct income aid, alternative forms of production and structural development. The resources allocated to the Guidance Section were therefore significantly increased again for the 1994-1999 period.

As we approach another round of CAP reform it is important to recognise the significant shifts in the financial constraints prevailing. On the one hand, the agricultural budget has effectively been brought under control. This was becoming apparent by the early 1990s, which allowed scope for the accompanying measures to be included in the MacSharry reforms and to be funded from the Guarantee Section. The current proposals to extend the principle of supporting farm incomes largely by direct income aid paid on a fixed area or livestock headage basis imposes even greater certainty on the future financing of the CAP. Not only should EAGGF Guarantee expenditure stay well within the agricultural guideline, but it is projected that from 2003 onwards the margin left will widen considerably, reaching about 7 billion ECU by 2006. Of course, it would be possible to renegotiate the guideline. The existing formula, though, was the product of a hard battle and there seems to be no political will to reopen the issue. The Commission's position is that now is not the right moment but that the issue should be reviewed in about 2005. The Commission, for its part, is anxious to have some slack in the budget not only to allow for market uncertainties but also to leave it room for manoeuvre in the Agenda 2000 and pre-accession negotiations. Although such contingencies may incur additional expenditure there is likely to be a large and growing surplus

on the permissible agricultural budget in the years to come. (Indeed, without BSE, that would have been the case now also).

On the other hand, the prospect for the Structural Funds is one of increasing pressures. The Funds will have to deal with enlargement of the Community, but Member States have been unwilling to countenance an increase in the proportion of the Community's budget for this purpose. In consequence, it is proposed that spending on structural policies will remain pegged at 0.46% of the Community's GNP. By the end of the financial period 2000-2006 it is projected that new Member States will account for 30% of the expenditure under the Structural Funds.

The proposed switch of support for agricultural and rural development from the Guidance to the Guarantee Section of the EAGGF must be seen in the context of this reversal of the relative positions of the agricultural and structural funds in the current round, compared with the previous two rounds of reform and budget setting. There is simply more room in the agricultural budget to accommodate the relevant structural measures and their expansion in the medium term.

In essence, what this shift will have done is to collapse the distinction between agricultural market support and the improvement of production structures. If this were all that was involved, it would have occasioned little controversy. (In the past, for example, various measures have been transferred from the Guidance to the Guarantee Section such as the grubbing up of vineyards). However, some of the broader scope (incorporating rural development) and the procedures (programming, co-financing, subsidiarity) that have developed around the EAGGF

Guidance Section in the context of the Structural Funds are thereby also being imported into the Guarantee Section.

The incorporation of rural development policy as a second pillar of the CAP represents a new twist in the institutional relations of rural policy. The first champions of a rural policy within the European Community were the Regional Policy Directorate (DGXVI) who, in the mid-1980s, proposed the establishment of a new Rural Fund. The proposal was resisted by the Agricultural Directorate (DGVI) and Agricultural Ministers. Instead, an expanded EAGGF Guidance section was subjected to the common rules of the Structural Funds, with a concentration of funds and administrative focus on those largely rural regions — Objective 1 and 5b — identified as priorities for the Structural Funds. Significantly, the title of the Commissioner was expanded to that of “Agriculture and Rural Development” though DGVI’s title was not. DGVI assumed lead responsibility for Objective 5b and DGXVI lead responsibility for Objective 1, both of which drew down the other Structural Funds (ERDF and ESF). In this way, rural development policy evolved in a close relationship with regional policy, and a division of DGVI emerged devoted to the implementation of rural policy within a regional framework.

The new proposals would seem to weaken this relationship and to represent the ultimate triumph of DGVI and the agricultural establishment in the control of rural policy. Agricultural and rural development within Objective 1 regions will still be financed under the Guidance Section of EAGGF. Otherwise, for DGXVI — with an overstretched budget, with a wish to concentrate the regional allocation of the Structural Funds and with a growing preoccupation with the

challenges of enlargement — rural development policy no longer seems a priority.

This institutional resolution can be seen from one perspective as a reactionary move but from another perspective as a progressive one. In agricultural circles, it is being promoted as a means of absorbing the potential spending shortfall under the agricultural guideline and of retaining this strand of funding and responsibility for rural development in the hands of agricultural interests. The risk is that the role of structural funding will be narrowly interpreted and it will return to the Cinderella status it enjoyed under the CAP through the 1970s and early 1980s. At the same time, though, the move potentially opens up the EAGGF to wider interests and purposes in the context of rural development. It also draws into the operation of the Guarantee Section some of the modern procedures — of programming, subsidiarity and co-financing — that have contributed to the much greater transparency, responsiveness, flexibility and accountability of the Structural Funds compared with the EAGGF. In this way, the shift may help catalyse a much needed modernisation of the administration of the CAP.

The shift to the Guarantee Section does refocus on Articles 38-47 of the Treaty of Rome as the primary legal basis for Community policy. The agriculturally oriented objectives of these Articles are seen by some as severely circumscribing or even precluding the wider rural development perspective. Fundamentally, however, this does not seem to be a legal obstacle, although it may prove to be a political obstacle. If the Council of Ministers agrees to the proposed rural development Regulation and the means to finance it, then it will be that which will provide the legal basis for Community involvement. There are other elements within the

Treaty on which such a decision could be justified (*e.g.* Article 130a on economic and social cohesion).

The European Court, moreover, has tended to take a progressive view of the evolution of the Community's competences, reasoning, in effect, that Community action in a field presumes an implicit competence in that field. There is also a much more blatant case of going beyond the letter of Articles 38-47 in the proposed allocation of pre-accession aid for candidate countries where EAGGF resources will actually be allocated outside the Community.

The administration of the Guarantee Section of the EAGGF is subject to long-standing procedures which insulate it from the other structures of the Community. This gives considerable autonomy to agricultural decision making. For example, the budget for the Guarantee Section is not subject to the approval of the European Parliament as are the Structural Funds. The European Commission and the European Parliament, though, would like to include the proposed rural development Regulation under 'non-obligatory measures' which would make the Regulation's budget subject to Parliamentary co-decision. Such an arrangement, however, will depend upon negotiations with the Council as part of the Agenda 2000 package to establish a new Inter-Institutional Agreement. Although Parliamentary approval would deny to rural development expenditure some of the flexibility otherwise conferred by the Guarantee Section, the consequences could be beneficial in harnessing Parliamentary approval to rural development policy and its funding. This could help provide popular backing to the expansion of the measure and help safeguard it from being squeezed by the demands of commodity funding in the future.

4. Funding

One of the main criticisms levelled at the new arrangements for rural development support concerns the limited new resources that are to be available. For example, the only *new* element of resource is an additional 180 million ECU per annum to be spent on the agri-environment accompanying measure. Funds allocated to accompanying are therefore planned to increase from 2.62 billion ECU in 1999 to 2.8 billion per year for the 2000 to 2006 period — a one-off increase of less than 7%.

The Agenda 2000 reforms propose that overall spending on the CAP increase from 43 billion ECU in 2000 to 53 billion in 2006 in order to accommodate the reforms and the accession of new Member States. Spending on rural development and the accompanying measures is planned to expand from 4.75 billion ECU in 2000 to 7.5 billion in 2006, representing a growth from 11.13% to 14.06% of the total CAP budget. However, this growth is more than fully accounted for by the additional expenditure on rural development in the new Member States post accession. Indeed, if enlargement were not to occur, then the proportion of the CAP budget devoted to rural and accompanying measures for the EU15 would actually *fall* from 11.13% to 10.11% between 2000 and 2006.

In the UK, expenditure on EAGGF Guidance and accompanying measures has been relatively low compared to other Member States. This is in part because the UK has not taken up certain discretionary measures (such as the early retirement scheme, for example) or because

it has taken a restrictive view of their scope (such as the agri-environment measure). Currently, expenditure on EAGGF Guidance and accompanying measures makes up only approximately 6% of total CAP expenditure in the UK.

However, the broadening of the measure incorporates many actions which, in the past, have been strongly supported in the UK but from domestic resources. Examples include rural development and regeneration spending by the Rural Development Commission and countryside management schemes funded by the Countryside Commission and the National Park Authorities. Apart from the small growth in agri-environment funding, the Commission's spending proposal is for no overall increase in expenditure on these measures which is to be based on 'historical spending' commitments. The UK, therefore, risks being locked into a pattern of low spend even though it can clearly demonstrate significantly greater objective needs for rural development expenditure. Although a political difficulty might arise if the UK sought significantly to expand its expenditure under the Regulation within an overall level funding programme for the EU and this was seen to be at the expense of what was available for other Member States, it is important that the UK presses for an adequate share of whatever funds are agreed upon for the rural development Regulation.

5. Principles for Programming and Implementation

The proposed administration of rural development aids embodies a number of principles:

- Decentralisation: The need is recognised for a much more decentralised administration of the CAP to address properly the diversity of agriculture and rural conditions in an expanding Union. To avoid any risk of distorting competition or renationalising the CAP, the greater freedom granted to Member States is to be exercised “within a framework of shared, clear and precise ground rules, using a Community financing system and based on rigorous controls” (Explanatory Memorandum, p.3, para 1).
- Simplification of Community legislation: “This new decentralisation needs logically to be accompanied by a major effort at simplifying the rules” (Explanatory Memorandum, p.5, para 2.2). The new Regulation on rural development recasts all the rural development schemes within a single legal framework. Not only does this do away with a large number of complicated and not always consistent regulations, but it also provides Member States with an “opportunity of defining their priorities themselves and making their own choices among the schemes contained in the Regulation” (p.3, para 2.2).
- Programming: A key means in achieving a balance between a Community framework of controls and accountability and increased decentralisation is an overall programming approach whereby Member States set out their plans for using Community measures and funding in multi-annual programmes that are approved by the Commission. The radical simplification of Community legislation thus allows for greater flexibility and subsidiarity, with details

“decided at programming level, rather than by overloading the Council Regulation” and laying down “only certain basic eligibility criteria ... for most measures” (Explanatory Memorandum, p.16, para 8.3). To ensure consistency between regions and countries, rural development is to be a horizontal measure: “the framework of a reformed rural development policy should cover all rural areas in the Community” (Draft Council Regulation, p.135).

The preamble to the draft rural development Regulation urges that “given the diversity of the Union’s rural areas, rural development policy should follow the principle of subsidiarity; ... it should, therefore, be as decentralised as possible” (p.135). The Regulation itself, however, specifies that “Rural development plans shall be drawn up at the geographical level deemed to be the most appropriate” (Article 39, p.155, para 1). This leaves it entirely to the Member States to decide on the appropriate internal level for implementing the Regulation. Conceivably, the programming could be done at the national level if states chose to do so, although this would not be in the spirit of the decentralised approach the Commission is promoting. Within the UK, the existing measures being absorbed into the Regulation present different precedents. The rules for the implementation of the LFA scheme, for example, are determined nationally. The agri-environment Regulation has been implemented at a country level, with different programmes for England, Scotland, Wales and Northern Ireland, and Objective 5b has been implemented at the regional level.

Article 39 also specifies that “Rural development support measures to be applied in one area should be integrated, whenever possible, into a single plan” (para 2, p.155). This is in keeping with the injunction of

Article 37 that “Member States shall take all necessary steps to ensure compatibility and coherence of rural development support measures” (para 1, p.155). That Article specified that “the plans submitted by Member States shall include an appraisal of the compatibility and the coherence of the rural development support measures envisaged and an indication of the measures taken in order to ensure compatibility and coherence” (Article 37, p.155, para 2). The model being put forward is clearly that of single integrated plans for rural development for appropriate geographical areas. Ultimately, though, Member States will not be forced to pursue this integrated model, and Article 39 admits the possibility of separate plans for different measures, though Member States will still need to demonstrate how their “compatibility and coherence shall be ensured” (Article 39, p.155, para 2).

Of course, there are persuasive arguments in principle in favour of integrated planning for an area, not least to ensure the most efficient and appropriate use of the measures and resources available. But administrative upheaval will be involved, and vested interests that benefit from the existing arrangements are likely to resist change. Initially also, there are little if any additional resources. Member States may therefore be tempted not to reorganise the administration of the existing measures but simply to seek a loose co-ordination between them nationally, to satisfy the Commission’s requirement for integration. That would be a disappointing outcome and would certainly not realise the potential flexibility that is intended to arise from combining a range of measures into a single legal framework.

Provided States are convinced of the necessity of an integrated approach to rural development planning, the question still remains of the level at

which this should be done. Sensitivity to geographical differences in rural development problems would suggest a sub-national level and maybe even a sub-regional level, in a State like the UK. But administrative expediency must be another consideration. That could imply, for the UK, country-level implementation. Although that might be appropriate for Northern Ireland and perhaps for Wales, it would seem unwieldy for Scotland and certainly for England. In contrast, a regional level could cope better with geographical variability and would be in keeping with the general movement of operational programmes out of central departments to the regions.

6. Implementing Authorities

Such considerations about the level of implementation cannot be divorced from the question of who will be the responsible implementing authorities. In the UK, the agricultural structure funds (including all the existing measures that will be absorbed into the new rural development Regulation) have always been administered by the agriculture departments, but applied to farm development, whereas rural development funds (mainly from domestic sources) have been administered by regional and country agencies, not responsible to agriculture departments.

Given the provenance of the rural development Regulation and the source of its funding, the likelihood must be that the agriculture departments would be deemed the competent authorities, at least in terms of administration. This would certainly be the most practical way forward, but not necessarily the most desirable. MAFF is a farm-client ministry. It is not used to dealing either with non-farmer or non-farming

activities. Its experience of diversification is limited to on-farm and land-based measures. The traditional outlook, responsibilities and experience of MAFF could lead to a narrow interpretation of the scope of the new rural development Regulation.

In pursuing its responsibilities, however, MAFF will increasingly have to operate within the context of the Labour Government's new regional agenda (Lowe and Ward, 1998a;b). The RDAs in England will have responsibility for rural development as it has been conventionally understood in the UK. They are also to take "a leading role" on EU Structural Funds (Department of Environment, Transport and the Regions, 1997, p.44). Recently, the UK Government has reaffirmed this point, in responding to the Select Committee on Environment, Transport and the Regions, by emphasising that "the Government is committed to promoting the interests of rural areas and believe that this can best be done by addressing their particular needs within an overall framework for the economic development and regeneration of a region as a whole" (House of Commons Select Committee on Environment, Transport and the Regions, 1998, p.ix).

It would seem strange to completely detach the preparation of the rural development programmes under the proposed new Regulation from the work and responsibilities of the new Regional Development Agencies (RDAs). Some input from the RDAs would draw them in, however marginally, to agricultural policy-making in the English regions. Clearly there are wider implications here, particularly concerning the geographical boundaries of MAFF's regional service centres and their relationships with Government Regional Offices and RDAs.

On the one hand, MAFF — with its narrow farm-oriented perspective on rural development and its traditional conception of who should benefit from agricultural and rural development funds — may begin to take a lead more generally in rural development planning in regions. Alternatively, the RDAs represent the prospect of access for rural interests to larger sources of domestic and European funds for regeneration and rural development and the ability to manage agricultural and rural economic change within an integrated territorial framework. The risk is of ‘the tail wagging the dog’, with whoever turns out to be the minor partner in the MAFF-RDA relationship playing a distorting and disproportionate role.

7. Consultation and Programme Preparation

Article 41 of the rural development Regulation sets out the proposed requirements for the drawing up of rural development plans. In many respects, the approach is similar to that for current Objective 5b programmes. Plans would be required to include a quantified description of the current situation in the territory, a description of the strategy proposed, a prior appraisal spelling out the expected impacts of the programme, financial tables summarising the breakdown and use of resources, the designation of competent authorities, provisions for monitoring and evaluation and the results of consultations with economic and social partners. Member States must include agri-environment measures throughout their territories but are only required “in accordance with their specific needs” to “ensure the necessary equilibrium” between the other measures contained in the Regulation (Article 41).

The preamble to the draft Regulation says “emphasis must be on participation and a ‘bottom up’ approach”. Article 41 actually specifies that rural development plans should include “the results of consultations and steps taken to associate competent authorities and bodies as well as the economic and social partners at the appropriate level”.

The 11 Objective 5b programmes currently underway in the UK have been devised and implemented by rural development partnerships which involve a wide range of actors and agencies. (The SPD for the East Anglia programme lists 65 different organisations consulted during its preparation, for example — see Ward and Woodward, 1998). But in specifying that the *results of consultations* be required in rural development plans, Article 41 goes further than the existing requirements for Objective 5b programmes under the Structural Funds. However, in other respects the proposed requirements are narrower. The Structural Fund Regulation requires that the Single Programming Documents (SPDs) for Objective 5b areas include “the arrangements made to associate the competent environmental authorities ... in the preparation and implementation of the operations foreseen in the plan” (Article 11(5) of Council Regulation 2081/93), but no such requirement is spelt out for the proposed rural development plans.

More generally, the opportunity has not been taken to build upon the experiences of partnership and participation under Objective 5b and LEADER. For example, it will be important to ensure that rural development interests at the sub-national level (including organisations such as the UK Local Authority Objective 5b Partnership, the Community Councils, Wildlife Trusts etc.) are consulted on the contents of rural development plans. The LEADER Community Initiative was

devised on the premise of developing *innovative and participatory approaches* to rural development policy at the local level to inform future EU policy and has demonstrated the practical benefits of such approaches, and yet the lessons of LEADER are not apparent in the new Regulation.

One serious omission in the rural development Regulation is that, unlike for Objective 5b, no strategic environmental assessment is required in the rural development plans under Article 41. The Regulation governing the operation of Objective 5b stipulates that “an assessment of the environmental situation of the region concerned and an evaluation of the environmental impact of the strategy and operations ... in accordance with the principles of sustainable development” (Article 11(5) of Council Regulation 2081/93). Given that the proposed rural development Regulation is couched in the terms of ‘*sustainable rural development*’, it is crucial that such environmental safeguards be explicitly built into the programming procedures.

If, as expected, the Agenda 2000 proposals are not finally agreed by the Community until spring 1999, this will only leave a six to nine month period for the rural development plans to be drawn up and agreed. The production of Single Programming Documents under extremely tight timetables was one of the notable shortcomings associated with the operation of the current Objective 5b programmes in the UK (see, for example, Ward and Woodward, 1998). Therefore, those who are to be responsible for drawing up rural development programming documents would be well-advised to begin preparatory work well in advance of the final agreement of the texts of the Agenda 2000 Regulations.

Finally, it is worth noting that the Regulation's procedural characteristics, imported from the Structural Funds, will require radical changes in practice for regional agricultural staffs across Europe if the full potential of erecting rural development as the CAP's 'second pillar' is to be realised. The administration of agricultural support at the sub-national level tends to be rather narrow and traditional in its approach. Much needs to be learnt from the experiences of LEADER and Objective 5b partnerships in developing integrated and territorial approaches to rural development. The requirements are for capacity-building and institutional learning within regional administrative structures around such issues as programming, partnership, participatory approaches, environmental assessment and policy integration.

8. The Scope of Article 31 Measures for Rural Development

Article 31 contains the 'new' rural development measures in the Regulation. The Explanatory Memorandum accompanying the draft regulations defines this set of measures rather narrowly referring at one point to "measures promoting the adaptation of rural areas insofar as these are related to farming activities and to their conversion" (CEC, 1998, p.16 para 8.2), and at another point even more narrowly to "measures promoting the adaptation and reconversion of agriculture in the context of rural development" (p.17 para 8.5). This would seem to imply that the measures were intended essentially for *agricultural* diversification. The actual text for the Regulation (which is, of course, the crucial document) clearly envisages something broader. The explanation for the discrepancy would seem to be in the fact that the draft of the Regulation, specifically of Article 31, was subject to some last minute lobbying to ensure that they could indeed support *rural* (and

not just farm) diversification. Even within the Regulation itself there are some ambiguities, particularly between its broad intentions, as expressed in the preamble and Article 2 which defines the scope of the measures to be supported, and in the text of Article 31 itself. It is important that these ambiguities be resolved and the justification and intention for non-farm rural development be expressed clearly and unambiguously.

The list of measures is closely based on the list of measures currently eligible for EAGGF Guidance funding in Objective 1 and 5b areas as laid down in Council Regulation 2085/93. The strictly farm development measures — land improvement, re-parcelling; setting up of farm relief and farm management services; agricultural water resources management; and restoring agricultural production potential damaged by natural disasters and introducing appropriate prevention instruments — are well within the tradition of improving and adjusting agricultural structures.

The non-farm, *rural* development measures that are included are the following: renovation and development of villages and protection and conservation of rural heritage; development and improvement of rural infrastructure; and encouragement for tourist and craft activities. Significantly, two of these measures refer to facilities and infrastructure. The only non-agricultural economic activities that are specifically recognised are tourism and crafts. These *rural* development measures, however, are not explicitly tied to agricultural and forestry developments as they are in Regulation 2085/93.

There remains then a number of measures where it is unclear whether or not they apply solely to farm-related developments or could be applied

to non-farm activities. These are: marketing of quality products; improvement of living conditions; diversification of activities, to provide multiple activities or alternative incomes; preservation of the environment and management of rural areas; and financial engineering.

Each does relate to previous measures supported from the perspective of *farm* diversification. Any intention (if that, indeed, is the intention) to extend these beyond farming related activities remains implicit. A liberal interpretation of Article 31 would accept that they now could embrace *rural* activities (conversely, a conservative interpretation would not). Significantly, the coverage of these measures under the EAGGF Guidance funding is restricted specifically to agricultural and forestry development and products. Such qualifications are removed in the new draft regulations which would suggest a deliberate intention to broaden their application.

In conclusion, even Article 31, which is the only novel set of measures within the new Regulation, includes conventional measures for the adjustment of agricultural structures. The only economic activities not specifically farm-related that are explicitly recognised for support are tourism and crafts. Article 31 remains set within the overall logic of Agenda 2000 which sees rural development as taking agriculture as its point of departure and thus conceiving of rural development as very land-based. Even the concession towards tourism and crafts could be seen as being cast conventionally and comfortably within the mould of agri-tourism (which in a number of Member States has its own planning and financial regulations that wed it closely to farming).

However, it is important to recognise that this still represents an important opening up — that the legitimacy of support for non-farming rural activities is explicitly recognised. There are also ambiguities, probably deliberately so in a policy that is consciously evolving towards something different. These ambiguities could open up possibilities or, alternatively, could close them down, depending upon how they might be resolved in the negotiations to come and interpreted in the subsequent implementation. The preamble to the Regulation says that “the list of measures should be defined on the basis of experience” (p.137) which would suggest a pragmatic and experimental way forward. But it is not clear, then, whether the list that is given is meant to be prescriptive or illustrative. The preamble does apparently set out governing criteria in identifying “the need for rural development to be based partly on non-agricultural activities and services so as to reverse the trend towards the economic and social decline and depopulation of the countryside” (p.137). Such criteria, interpreted inclusively, could in principle cover a range of measures to do with rural regeneration, improving rural services and combating rural deprivation. Equally, the injunction in the preamble that “a rural development policy should aim at restoring and enhancing the competitiveness of rural areas and, therefore, contribute to the maintenance and creation of employment in these areas” (p.134) would imply attention to non-farming sectors of the rural economy going beyond tourism and crafts.

It is important to note, however, that there is a dilemma faced by those wishing to clarify these ambiguities in a progressive direction. Such a move could risk a counterattack from those interests opposed to expanding the scope of CAP expenditure. However, if the ambiguities are not clarified, there is a risk that the new Regulation be interpreted

narrowly and conventionally by those charged with implementing it. An alternative or complementary approach could be to specify general criteria concerning the socio-economic benefit to rural areas (*e.g.* jobs safeguarded/created) from expenditure under the Regulation.

9. Article 31 Measures: Recipient Eligibility

In detailing the scope of the proposed rural development Regulation, the preoccupation is with activities and functions, not with who should be the agents to carry them out. The eligibility of recipients for rural development funding is not specified. Of course, for most of the measures, especially those related to farm development, the recipients will be farmers. But nowhere does it specify that non-farmers can or cannot be recipients of those measures with a wider effect.

A proposed anti-fraud measure does seek to exclude bogus claims for CAP support from individuals or groups masquerading as farmers. The Explanatory Memorandum comments “Member States will be given a legal basis for awarding direct aids only to farms that are genuinely engaged in farming” (CEC, 1998, p.7 para 2.7). Significantly, though this measure is part (Article 8) of a draft Regulation establishing common rules for direct support schemes under the commodity regimes and specifically excludes the rural development Regulation. It could not therefore be used to exclude non-farmers from rural development supports.

There are extensive precedents for support for non-farmers under the EAGGF Guidance Section in Objective 1 and 5b areas, as well as under 5a programmes (for example, for food processing and marketing

initiatives). Even under the Guarantee Section there are some precedents. Conservation organisations, for example, have received agri-environment payments and non-farmers have received farm forestry supports.

Outside of Article 31, other measures in the new draft Regulation also open up the possibility of non-farmer beneficiaries. For example, non-farmers can specifically be indirect beneficiaries of the early retirement scheme which has as one of its objectives the reassigning of agricultural land by retiring farmers to non-agricultural uses where it cannot be viably farmed. Para 4 of Article 11 specifies that:

“A non-farming transferee may be any other person or body who takes over released land to use it for non-agricultural purposes, forestry or the creation of ecological reserves in a manner compatible with protection or improvement of the quality of the environment and of the countryside” (p.143).

In addition, non-farmers are clearly envisaged as the recipients of funds for improving processing and marketing of agricultural products. Article 24 specifies “support shall be granted to those persons ultimately responsible for financing investments in enterprises”. Significantly also, it adds a rider that agricultural producers must derive indirect benefits from the investments. Furthermore, support for forestry is specifically allowed for “investments in forest holdings owned by private forest owners, associations thereof or municipalities” (p.150 Article 28), and support for the afforestation of agricultural land is granted to “farmers or their associations who worked the land before its afforestation or for any other private law person” (p.151 Article 29).

Many people, including farming leaders and agricultural officials, however, regard the CAP as a pot of money for farmers. The question then arises of established practice. Significantly, there has been some resistance to opening up EAGGF resources under Objective 5b to non-farmers even when they have eligible projects. In the UK, MAFF has taken a restrictive view limiting its own support, where match funding is needed, to farmers. Customary practice, therefore, may well be the crucial limiting factor.

10. Concluding Points

- The proposed reforms lay the basis for a Community rural development policy, with considerable implications for national rural development policies.
- Rural development is established as a “second pillar” (to that of commodity management) within the CAP which serves to significantly alter its architecture. This establishes a new and closer relationship between agricultural policy and rural policy, and potentially opens up access to a much larger and more flexible budget for rural development measures in the long term.
- The proposed reforms extend considerably the discretion of individual Member States in deciding how elements of funding for farm development, agri-environment and rural development initiatives can be re-prioritised and programmed holistically and in ways responsive to the diversity of rural conditions and circumstances.

- Initially, there are little additional resources for rural development, and those are ear-marked for agri-environment measures. Between 2000-2006, the proposed budget for the Regulation is set to rise from 11% to 14% of the CAP, but this increase is entirely due to the projected expenditure on rural development measures in the new Member States post-accession. (Indeed, if accession did not take place, the proportion of CAP expenditure on rural and accompanying measures would fall for the EU15 from 11.13% to 10.11%). Later in the programming period, though, additional resources may become available as agricultural spending falls short of overall permitted levels. In the medium term, there is the possibility that monies saved from agricultural support be made available for rural development. The success of the proposed Regulation and the procedural and institutional changes it is to catalyse depend upon it being adequately resourced from the start.
- The shift from EAGGF Guidance to Guarantee Section funding for rural development measures draws into the operation of the Guarantee Section some of the modern procedures — of programming, subsidiarity and co-financing — that have contributed to the much greater transparency, responsiveness, flexibility and accountability of the Structural Funds compared with the EAGGF. In this way, the shift may help catalyse a much needed modernisation of the administration of the CAP.
- Rural development plans will cover a seven year period from 1 January 2000. If the Agenda 2000 proposals are not finalised until spring 1999, this will only leave a six to nine month period for the plans to be drawn up and agreed. Those who are to be responsible for

rural development programming documents would be well-advised to begin preparatory work well in advance of the final agreement of the texts of the Agenda 2000 regulations.

- As currently drafted, Article 41 of the proposed Regulation contains no requirement for a strategic environmental assessment and evaluation of rural development plans. From an environmental perspective, this represents a significant weakening of development programming compared to the current Objective 5b programmes. Requirements for wider public consultation and grassroots participation in devising and implementing rural development programmes also need to be introduced, drawing on the lessons learned from the experience with Objective 5b and LEADER.
- Ambiguities over the extent to which the Article 31 measures are to be aimed narrowly at farmer recipients, or to be used to foster *rural* diversification and so be directed to non-farmer recipients too, need to be resolved in the negotiations around the proposals. To maximise the benefit and the opportunities for the UK, the range of measures needs to be expanded to include those typically funded by bodies such as the Countryside Commission and the Rural Development Commission but previously not eligible for Community support (*e.g.* countryside management projects, redundant building grants, rural business advice etc.).
- The conception of rural development implicit in the reform proposals — a distinctly land-based notion that intimately associates ‘rural’ policy with ‘agricultural’ policy — is different from the way rural development has conventionally been regarded in England. Here,

farm development and rural development have been treated quite separately. While the EU's conception of rural development is a narrower one which needs to be broadened, there are distinct advantages to be gained in overcoming the rather artificial divide between agricultural and rural development, particularly if, as a result of the new regional agenda in the UK, agriculture comes to be regarded more from the perspective of its contribution to regional economies.

- The change in the architecture of the CAP holds out the promise, in the medium to long term, of fundamentally redirecting resources from commodity supports to rural development and environmental measures. The challenge in the meantime is to establish the institutional structures and procedures which will facilitate that redirection. However, the limited additional resources initially on offer provide little incentive to alter existing arrangements along the lines provided for in the proposed Regulation. It is important, therefore, to make the most of the current window of opportunity in the UK to reshape the machinery of government regarding agriculture and the countryside, and to do this in a forward-looking manner. In particular, structures need to be established for the decentralised and integrated programming of agriculture and rural development within a framework of regional economic and physical planning.

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