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**The on-going CAP-reform –
incentive for a shift towards rural development activities?**

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1. Introduction

The Common Agricultural Policy (CAP) is linked to the origin of the establishment of European Union and constitutes one of the main common policies of the European Union. In the light of substantial technological, economic and social changes it is subject of a permanent reform process since about two decades already. The core aspect of the long lasting discussion is about how agricultural practices can be better integrated into other policies objectives, like environment, nature protection and spatial policies, which are particularly relevant for land use development. It has been repeatedly highlighted that a stronger focus on a rural development approach, including different policy tasks and focusing on a viable rural economy, would reflect more appropriately the new societal demands. Agriculture is thus understood not just as the production activity for food but increasingly as fulfilling multiple tasks in the rural economy and society. Moreover, with the integration of rural development policies CAP has extended its objectives beyond a sector policy and is directly concerned with the spatial development of Europe. However, the territorial dimension implied by its activities is not yet taken sufficiently into account and are *the* challenge for all the observed reform steps of CAP and probably also for the future ones.

These development trends influencing agricultural production and policy do not affect all regions in the same way. Hence the analysis of territorial impacts is gaining importance. Due to CAP organisation, national policies and the national implementation of the Community policy play a key role in the agricultural land use. The substantial variety of rural areas in Europe in terms of environmental and climate conditions, population density and dynamic, employment and farm structure, accessibility, peripherality and farm management systems applied, underline the need for differentiation and territorial specification of analysis.

The paper is based on the findings of a two year EU-project on the territorial impacts of the CAP (ESPON project 2.1.3). This analysis shall address the issue of the contribution of the different components of the CAP to territorial cohesion and underpin the effect of the changes of recent reforms towards rural development policy. The paper will thus draw from the study results and seek to interpret the recent reform proposals, including the installation of the European Agricultural Fund for Rural Development for the next programming period (2007-2013). As outlined, a meaningful assessment can only be achieved by addressing the significance for and the differences of the application in the various national contexts. Currently there is considerable scope and uncertainty due to still missing agreement on the European Union's Budget framework and the open national implementation strategies. Nevertheless the political agreement on the rural development support for the next programming period, reached recently in June 2005, sets the scene for the national adaptations to the new guidelines. In addition to the national and regional breakdown of disposable funds the continuation of the LEADER approach and improvements in the integration of sectors of the rural economy are the key concern for assessing the real contents of the impending application of the next reform step.

2. Spatial relevance of CAP support

So far, the design and implementation of the CAP has been little touched by the territorial concepts of balanced competitiveness, economic and social cohesion, and polycentricity set out in the ESDP (EC, 1999) and in the Third Cohesion Report (EC, 2004a), although it has begun to address the goal of environmental sustainability. Neither have the Agenda 2000 or MTR reforms of the CAP, into pillar 1 and pillar 2, been based on cohesion or other territorial criteria. Even in the implementation of



pillar 2 through the rural development programmes of Member States almost all measures have been horizontal across the whole nation or region, except for less-favoured areas and areas designated for agri-environmental programmes. The CAP thus remains focused on its own historic objectives, set out in the Treaty of Rome, and its subsequent evolution has reflects other internal and external objectives and pressures.

With rising reference to the European model of agriculture and including multifunctional tasks for farming, and integration of environmental concerns (Baldock et al., 2002) and the rural economy, the contribution of agricultural policy to territorial cohesion has become a core issue. The discussion of the regional dimension of agricultural production and support has been intensified (Sotte, 1995) and recently an EU-wide survey on the territorial impact of the CAP and rural development policy has been commissioned (ESPON 2.1.3; Arkleton Institute for Rural Development Research, 2004). Albeit consistent data on agricultural support is hardly available for regional analysis, the main spatial findings provide quite clear effects of the different CAP components.

Pillar 1

Simple two-variable correlation analysis suggests that total pillar 1 support does not support territorial cohesion, with higher levels of CAP expenditure per hectares UAA being associated with more prosperous regions. Direct income payments appear to more strongly support cohesion objectives but are dwarfed by the market price support element of pillar 1. This may not be surprising, since pillar 1 has never been claimed to be a cohesion measure.

If the distribution of support was distributed in a manner consistent with cohesion, the level of support received by a region and its level of GDP per capita would be negatively correlated, support levels and unemployment rates positively correlated, and support levels and population change (an indicator of social cohesion) would be positively correlated. In contrast, the correlation coefficients shown in Table 1 suggest that total Pillar 1 support is distributed in such a way that it tends to benefit richer regions with lower unemployment rates and higher than average population growth.

Table 1: The relationship between level of Pillar 1 support and cohesion indicators: Correlation coefficients for EU15 at NUTS 3, 1999

	GDP per capita	Unemployment rate	Population change, 1989-99
Total Pillar 1 support per ha	.088(**)	-.305(**)	.216(**)
Market price support per ha	.113(**)	-.371(**)	.199(**)
Direct Income payments per ha	-.156(**)	.209(**)	-.028

** Correlation is significant at the 0.01 level (2-tailed).

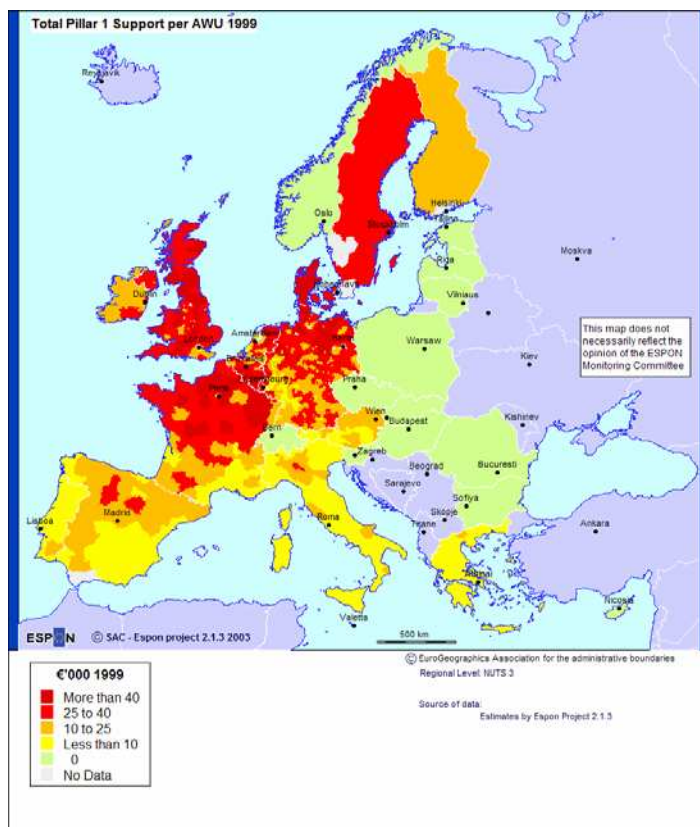
Source: Dax et al., 2005

Table 1 also indicates that the spatial distribution of support through the two policy instruments that comprise Pillar 1 – market price support and direct income payments – is distinct. While market price support (like total Pillar 1 support) was distributed in such a way that richer regions tended to receive higher levels of support, direct income payments were found to be generally higher in areas with a low GDP per capita and with high unemployment rates. The correlation coefficient between direct income payments and population change was not statistically significant.



Further regression analysis showed that the geographical incidence of Pillar 1 support is largely explained by the distribution of farm types and sizes across Europe. These findings reflect the differing levels of market price support and direct income payments for different agricultural products.

- Regions with larger farms tend to get higher levels of support, as do regions with a high percentage of land cover accounted for by irrigated land, complex cultivation and pasture.
- Regions with large areas of agricultural land dedicated to fruit of vine production tend to have lower levels of Pillar 1 support *ceteris paribus*.
- Pillar 1 support is positively correlated with accessibility at an EU level: more accessible regions of Europe tend to get higher levels of support (see also Map 1). The distribution of support thus runs counter to the ESDP’s call for a shift from core-periphery patterns of development towards a more balanced polycentric system which will “help to avoid further excessive economic and demographic concentration in the core area of the EU” (ESDP, 1999, para 67).
- However in terms of micro accessibility level (reflecting connectivity to transport terminals by car in both time and cost), there is a significant negative coefficient, i.e. those NUTS 3 regions most distant from transport terminals tend to get higher levels of CAP support.



Map 1: Total Pillar 1 support per AWU, 1999. (Source: Arkleton Institute, 2004)



Pillar 2

In comparison, Pillar 2 of the CAP, often hailed as representing a fundamental departure in the nature of the CAP towards a more integrated rural development policy, might be expected to be distributed more in line with cohesion objectives.

Simple correlation analysis, summarised in Table 2, showed that, like Pillar 1 support, at the EU level the incidence of Pillar 2 support is not consistent with cohesion objectives, favouring the more economically viable and growing areas of the EU. The differences in the two sets of correlation coefficients are that one is based on FADN data and the other on RDF data. Although statistically not significant, the time dimension inherent to the use of the two different data sources may be reflected in the results. The current programmes would thus indicate a shift in Pillar 2 support allocation more in line with cohesion policy objectives (GDP per inhabitant).

Table 2: Pillar 2 support and cohesion indicators: Correlation coefficients for EU15 at NUTS 3

	GDP per capita	Unemployment rate	Population change, 1989-99
Total Pillar 2 support per ha (FADN data)	.143(**)	-.244(**)	.048
Total Pillar 2 support per ha (RDF data)	-.026	-.048	.032

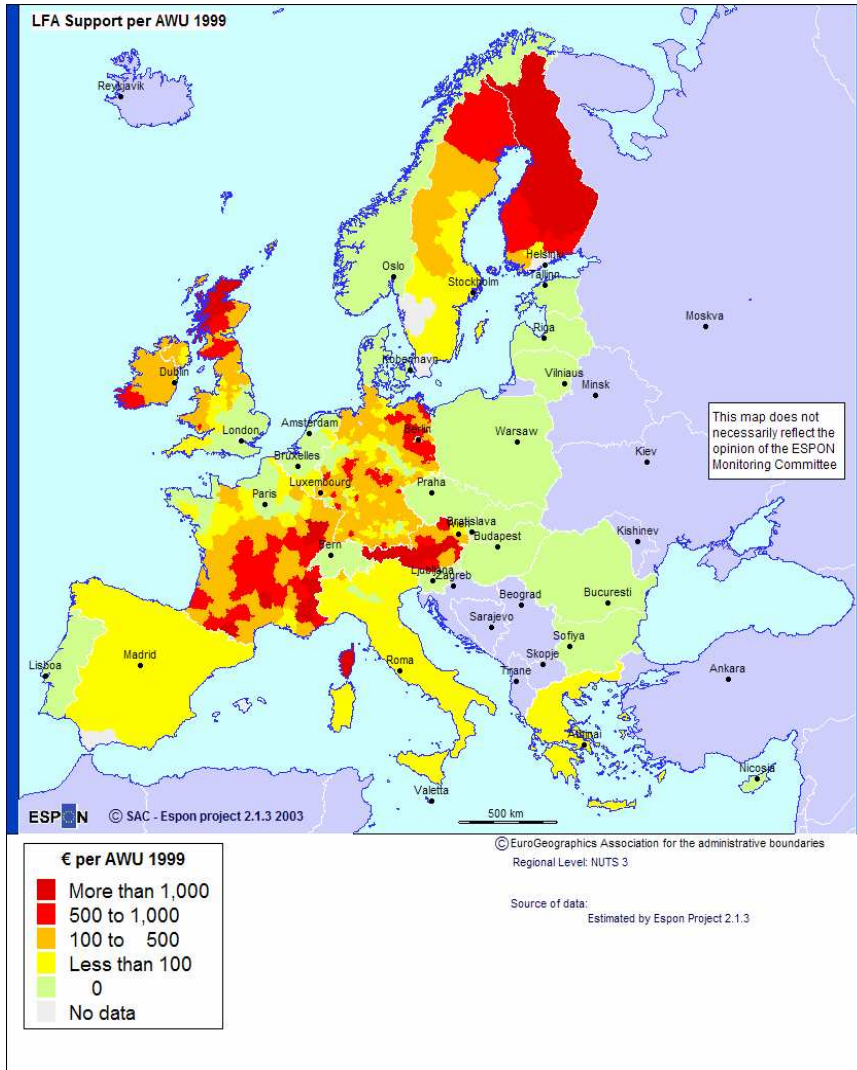
** Correlation is significant at the 0.01 level (2-tailed).

Source: Dax et al., 2005

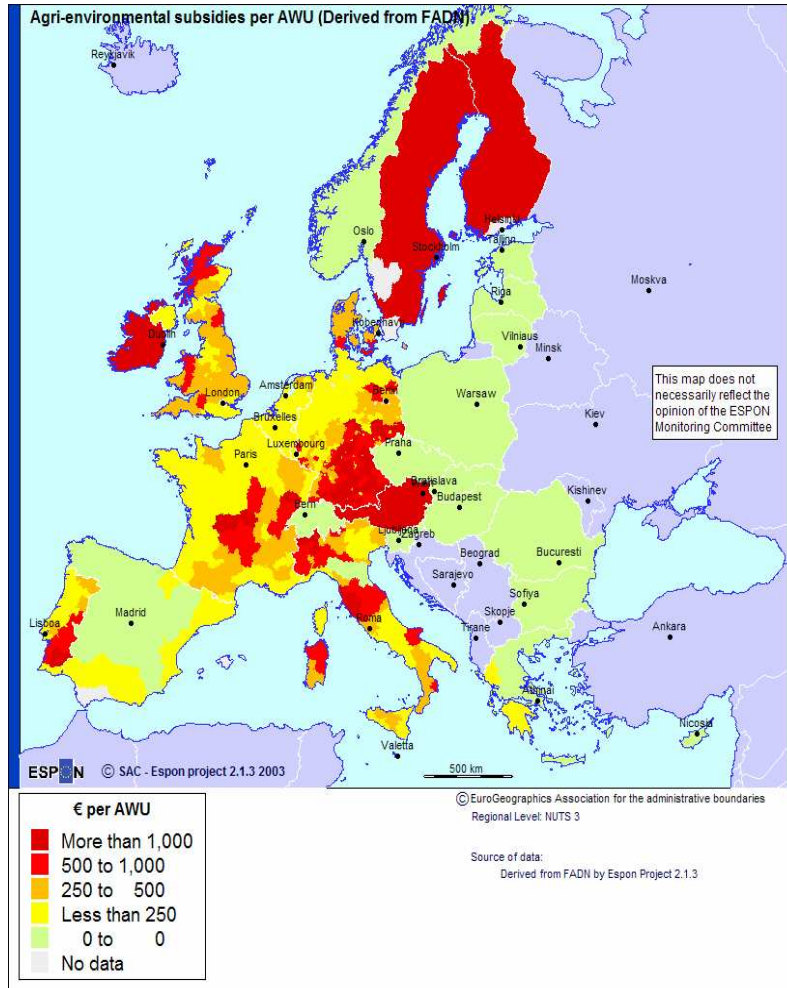
Firstly, there are marked differences between those countries and regions for whom the RDR is seen and used as a tool to promote environmental land management and those for whom it is a means for the modernisation of agriculture (Dwyer et al., 2002). The richer regions of northern Europe tend to prioritise agri-environment and LFAs, whilst the poorer regions of the south and the accession countries prioritise agricultural development. This difference is not only between countries but is also evident between the east and west regions of Germany, for example, and between the north and south of Italy (INEA 1999).

Another source of regional and national disparities is the uneven allocation of EU RDR funds (based on historical spend) together with the co-financing requirements for Pillar 2 spending. Under the Agenda 2000 agreement, the RDR has allocated only modest funds for the period 2000-06, and this will remain the case after the MTR 2003 agreement. Countries with arguably the greatest environmental and rural development needs remain very short of funds (Dwyer et al. 2002). As Mantino (2003a) relates, "one of the most relevant criticisms emerging from the debate on MTR was linked to the difficulty of various Member States in national and regional co-financing new rural development measures." In short, the RDR measures may be used least in the poorer areas of the EU because of the lack of match funding.

Maps 2 and 3 show the distribution of two elements of Pillar 2 of the CAP – LFA support and agri-environmental subsidies. Both are expressed on a per AWU basis. The latter shows a clear northern state bias and results from regression analysis found a positive association between the level of agri-environmental support received by NUTS 3 region and its level of per capita GDP. However no significant relationship between LFA support and per capita GDP or unemployment rates was found.



Map 2: LFA support per AWU, 1999. (Source: Arkleton Institute, 2004)



Map 3 Agri-environmental payments per AWU, 1999. (Source: Arkleton Institute, 2004)

When comparing up-take of Pillar 1 and Pillar 2 measures by farm size groups, we can, however, discern a quite contrasting distribution between the two parts of CAP (Figure 1). The stronger relevance of Pillar 2 support for smaller farm sizes suggests that the different allocation criteria actually matter and that the orientation of Pillar 2 instruments towards more environmental sound farm management and diversification strategies is reflected in the higher participation of small farm size groups in support of these measures.

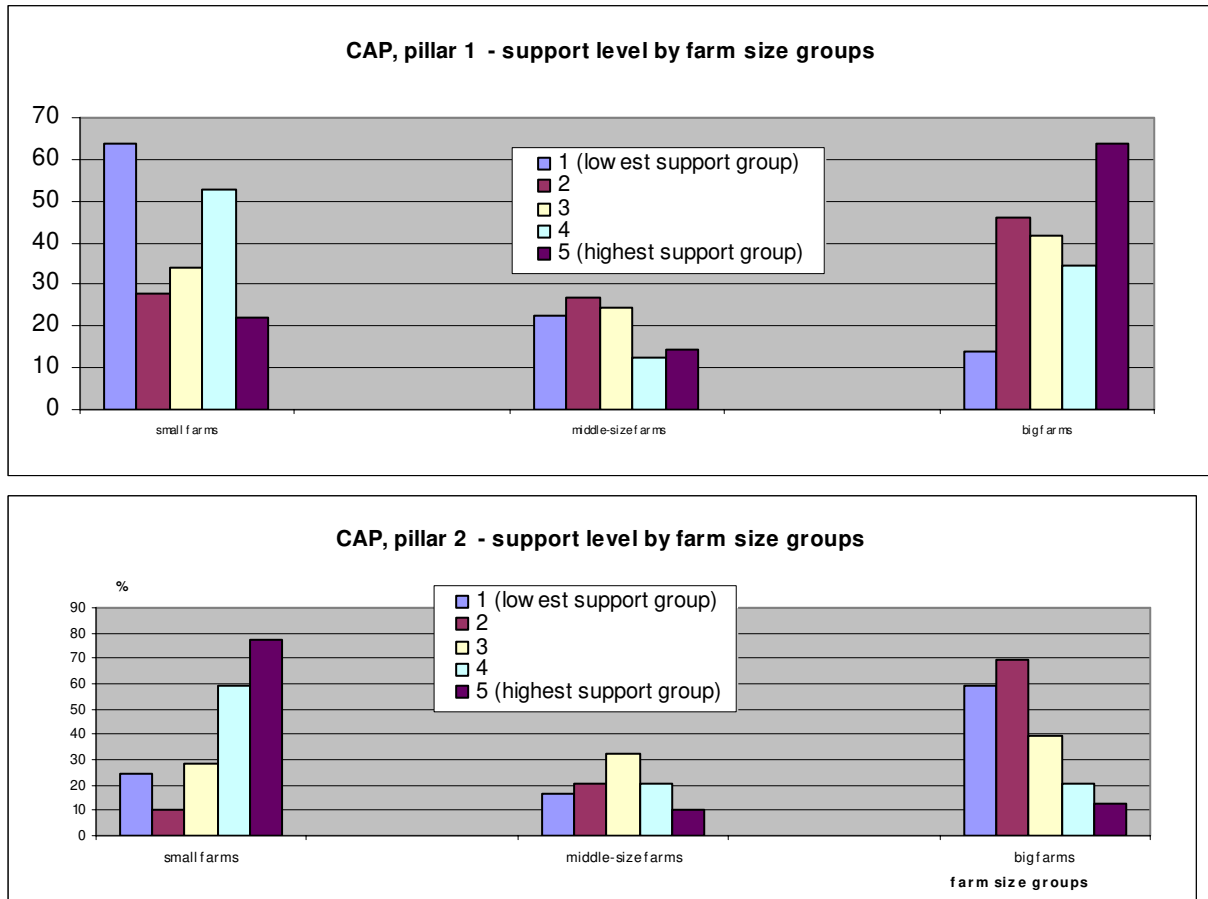


Figure 1: Support level by farm size groups, pillar 1 and pillar 2. (Source: Dax et al., 2005)

3. The shift towards rural development support

The historical (and current) structure of the CAP and its instruments are largely non-territorial in nature. The major regional CAP designations – the Less Favoured Areas (LFAs) – are primarily oriented at agricultural potential and aim to compensate for production difficulties.

Only since the discussion of the reform of regional policy and the increased awareness of the linkages seen in rural development initiatives has been reached concepts for more integrated approaches and extension of spatial focus of measures has been developed. The new design of policy measures at the beginning of the 1990s, expressed in the installation of the objective 5b areas for rural development, the Community Initiative Leader and the orientation of the accompanying measures signify this trend. However, until the approval of Agenda 2000 the funds for these measures remained limited.

The thrust of that policy reform concentrated on the shaping of a unified programme for rural development as demanded by the Cork Declaration (1997) which was integrated to CAP at the occasion of the reform in 2000. In order to highlight the relevance of these measures for the provision of the multiple tasks of agriculture and the changes underway, it was conceived as the Second Pillar of CAP. The idea brought up by Agenda 2000 was that this newly set up part of CAP should be a



particular focus of national and regional agricultural policies and develop to a significant element of policy, as has been anticipated in much of the analysis on rural development strategy (see concept of “Common Agricultural and Rural Policy for Europe” – CARPE, Buckwell et al. 1997). Also at that time proposals were behind the reform discussion with regard to the needs for rural development focus and particularly the requirement to open up to non-agricultural actors (Dax 1999). The reform momentum seen at that time was even experienced at a wasted opportunity which resulted in a policy structure where the main thrust and effects of agricultural support has remained more or less unaltered (Lowe and Brouwer, 2000). Even if the process of shifting funds towards the Second Pillar has been slowed down by administrative constraints and stakeholder intervention, rural development support will account for about 19 % of CAP in 2006.

Table 3: Rural development programming types and Community financial support (current period)

EU-15, 2000-2006	Number of programmes	Co-financed by EAGGF section	EU contribution (EUR billion)
Rural development programmes	68	Guarantee	32.8
Objective 2 programmes with RD Measures	20	Guarantee	
Objective 1 programmes with RD Measures	69	Guidance	17.5
Leader + programmes	73	Guidance	2.1
Total	230		52.5
New Member States (EU-10), 2004-2006			
Rural development programmes	10	Guarantee	5.8
Objective 1 programmes with RD Measures	9	Guidance	2.0
Total	19		7.8

Source: EC, 2003a

The integration of the rural development programmes into CAP and the different programming types (see table 3) have rendered it rather difficult to arrive at a concise survey and comparison of the state of application across Member States and regions. As has been outlined above, application is driven by historic experiences and priorities and reflects national co-financing decisions. These are linked to budgetary concerns and the public awareness of the need for integration of environmental and rural economy concerns, so that large parts of pillar 2 measures are spent in more prosperous countries. There is also a quite significant variety on the predominant measures selected for rural development between the Member States (Dwyer et al., 2002). In particular, rural programme budgets devoted about half of the funds to agri-environmental measures and Less-Favoured Areas support. In several countries (Austria, Finland, Sweden) these two measures even made up for more than 75 %.

As the rural development programmes were understood to include some of the measures which had been dealt with in the prior period by integrated regional programmes on rural areas (objective 5b) there was the expectation that the programme would open up to non-farming actors as well. However, even the plan to spend up to 10 % for rural economy measures (group 3) was not fulfilled and the



realised expenditure, at least in the first half of the programming period, was down at about 6 %, with a strong concentration on objective 1 areas.

Table 4: Allocation of funds to the three policy strands of rural development programmes

	Austria		Germany		EU - 15	
	Programme 2000-2006	Performance 2000-2003	Programme 2000-2006	Performance 2000-2003	Programme 2000-2006	Performance 2000-2003
group 1	20	11	23	22	38	29
group 2	78	86	69	53	52	64
group 3	2	3	8	25	10	6
total	100	100	100	100	100	100

Source: EC, 2003a, 2003b; Knöbl 2005

Table 4 also highlights the trends of the application in the two countries Austria and Germany, for the 3 groups of policy measures which will be decisive for the coming programme period. Whereas Austria has focused its means on the environmental and land management measures (group 2), Germany has achieved a much more balanced outcome. It is the only country that largely has put funds into rural economy measures (group 3). However, this situation is true just for parts of the German Länder, since the “new” Länder are hardly involved in these activities.

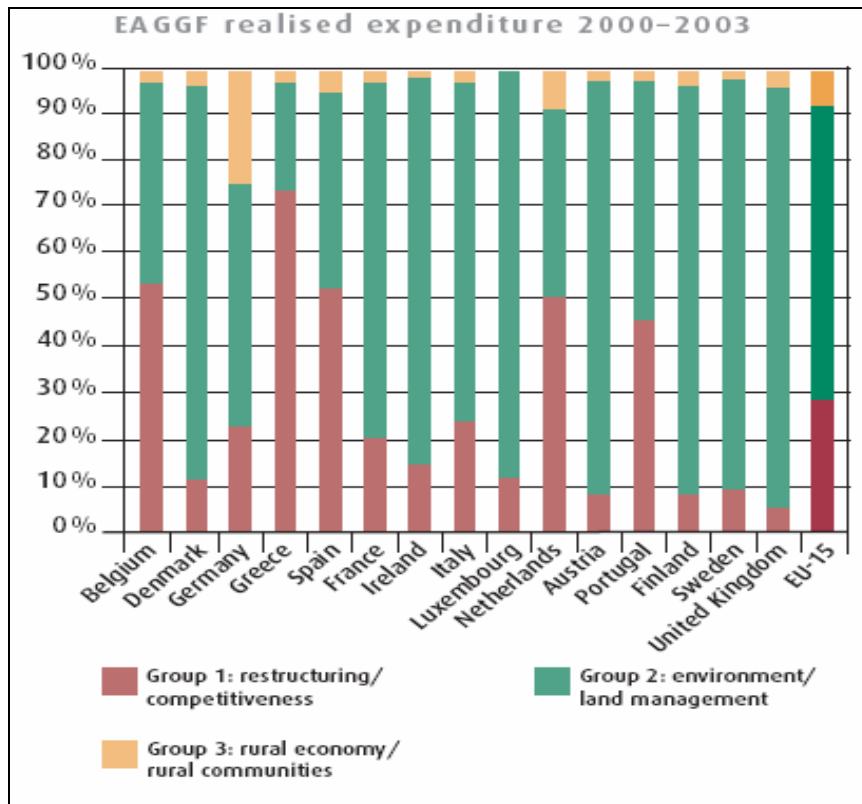


Figure 2: EAGGF realised expenditure 2000-2003 (Source: EC, 2003b)



The current implementation, as outlined in the analysis of Dwyer et al. (2002) on the programmes priorities and by the EU Commission on the realised expenditure in 2000-2003 (Figure 2: EC, 2003b) underpins the variance of national approaches (which are for some countries even larger for their regional programmes). At the national level the following types appear:

- The greatest priority is put on environmental and land management measures (group 2). As this group takes up 64 % of the expenditure for EU-15, for most countries this is a particularly important part of the programme. For Denmark, France, Ireland, Italy, Luxembourg, Austria, Finland, Sweden and the UK the share is even above the EU-average.
- The second group of measures are those for restructuring and competitiveness (group 1) with about 29 % of expenditure at EU-level. Belgium, Greece, Spain, the Netherlands and Portugal are spending considerably more on these measures.
- For the last group (3) on rural economy and rural communities measures, hardly any country is exceeding the low level of funding (6 % at EU-level). Only Germany and the Netherlands have given substantial funds to these measures up to now.

4. Current reform proposals

Following on the Mid-Term Review (MTR) the discussion on the further policy reform focused on the issue how to shift resources towards the second pillar. This concern integrated the demand of local and regional actors to address the territorial dimension of CAP reform more directly and to involve key players of rural development from non-agricultural sectors (Dax et al., 2003). This would allow to build on the valuable local initiatives, set up through a bottom-up approach, as experienced in local action groups of the Leader+ initiative, complemented through national rural action programmes, like PRODER in Spain, POMO+ in Finland, Regionen Aktiv in Germany, PITAR in Portugal, PIARS in Calabria, Italy (CNASEA 2003, p. 57), and numerous other local activities focusing on sustainability issues through a participatory approach (Local Agenda 21, Community Alliances etc.). The considerable commitment revealed in the initiatives is very often directly related to landscape development, environment, economy and cultural issues. However, the separation of sectors hampers to make use of the potential for rural development as actors of different sectors, including agriculture, tend to conceive specific strategies, taking account just the experiences and options of the respective sector.

Starting from the MTR (CEC, 2002) the EU Commission has presented in July 2004 proposals for CAP policy reform (CEC 2004). In line with the orientation of the MTR, they already show reduced reform intensity. In particular, the modulation of funds from pillar 1 to pillar 2 has been decreased and would attain according to the proposal just about 7 bio Euros for the EU-15 (about 2 % of total CAP-support). Rural development support currently attains just about a fifth of the total CAP budget which runs against the widespread presence of and the priority attached by policy to the issue in the media. According to the financial provisions this share is going to rise from 19.3 % in 2006 to 23.8 % in 2013. One has to note that the increase is due exclusively to the integration of the new Member States. As no agreement on the European Union's Financial Framework has been reached until now the level of rural development is particularly endangered, since cuts in overall EU budget would probably imply reduced rural development funds. Even in quantitative terms this gradual shift of rural development support confirms the interpretation of Sotte (2005) that CAP reform steps follow the usual script where sector stakeholders' interests prevail over reform changes towards a policy actually deserving the re-labelling of the policy into CARPE, as has been called upon years ago.

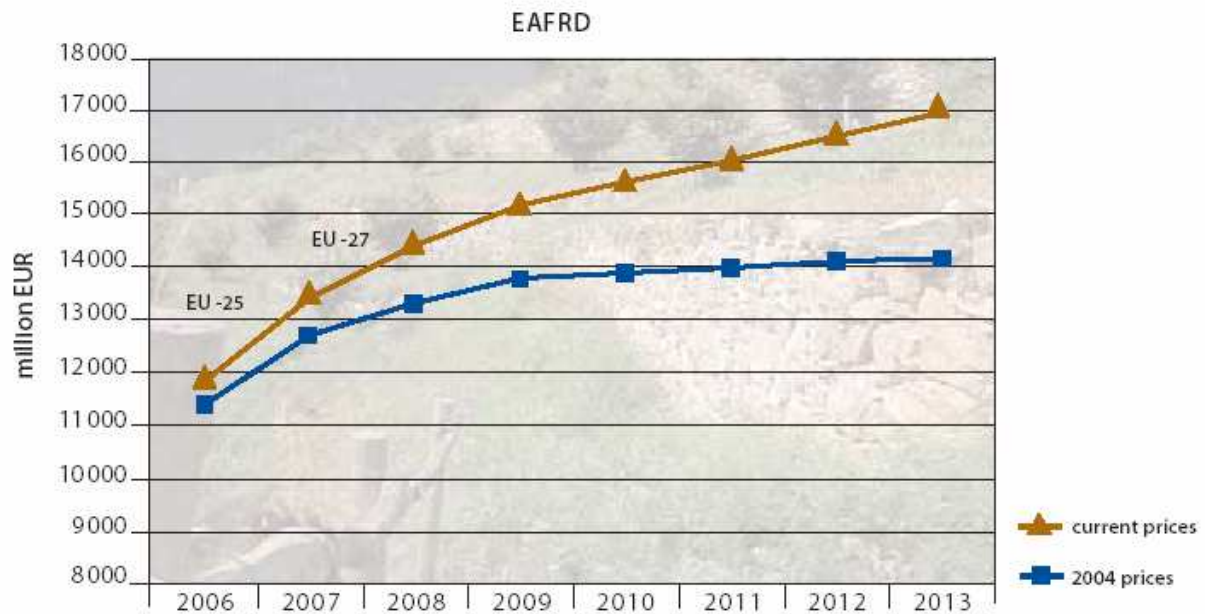


Figure 3: European Agricultural Rural Development Fund (EARDF), 2006-2013. (Source: EC, 2004a)

Nevertheless in June 2005 the Agricultural Council in Luxembourg reached political agreement on a Regulation on rural development support for the next programming period (Council of the European Union, 2005). It confirmed the financial plan to extend the rural development programmes to a total sum of 88.5 bio Euros and clarified the rules for the main features of the new rural development policy:

- One funding and programming instrument, the European Agricultural Rural Development Fund (EARDF)
- An enforced strategic approach with clear focus on EU priorities
- A strengthened bottom-up approach where Member States, regions and local action groups will have more say in attuning programmes to local needs
- Measures will address the four main objectives:
 - axis 1: Improving competitiveness of farming and forestry
 - axis 2: Environment and countryside
 - axis 3: Improving quality of life and diversification of the rural economy
 - axis 4: the Leader approach
- For each of these groups of measures a minimum of the national envelope has to be spent, and also co-financing rates are defined:
 - axis 1: minimum 10 % of national envelope (maximum 50 % co-financing, and 75 % in convergence regions)
 - axis 2: min. 25 % (max. 55 % co-financing, and 80 % in convergence regions)
 - axis 3: min. 10 % (max. 50 % co-financing, and 75 % in convergence regions)
 - axis 4: min. 5 %



This reflects the current priorities of the rural development support and implies the continuity to put the main concern on axis 2 measures. However, the comparison of the programmes budgets of the current period and the realised expenditures with these minimum support levels reveals the need for changes in the budgetary structures for the majority of Member States. Most significant adaptations and reassessment of national (regional) strategies are required for the following fields:

- Almost all countries fall short of the minimum support level of 10% to be reached for axis 3 measures, the rural economy support. Only Germany has put much more effort on these measures (about 25%), and the Netherlands also have spent about 10% for this kind of measures. All other countries will have to increase their support for the rural economy substantially. The level of 10% (down from 15% demanded in the original Commission's proposal), which was agreed in June 2005, is fixing that level which had already been targeted at for the period 2000-2006. With a stronger obligation and reinforced commitment it should now be possible to realise this objective and have an impact on the implementation towards measures of diversification, linking to non-agricultural economy.
- Many countries will have to extend also the funds for the Leader axis. This applies particularly to the new Member States, as these have only recently started with Leader-like measures in the current programme phase, and Germany, Ireland, Italy, Luxembourg, Austria, Finland and Sweden. It is remarkable that these are countries with highly developed Leader programmes and a strong priority for the bottom-up approach. The low share of the actual programmes results from the fact that they are also highly committed to the rural development programmes and have installed substantive programmes. It appears also that there is high pressure from the local and regional scene to extend Leader programmes (both geographically, and in intensity and actors from all economic sectors), as most countries could only finance a portion of LAG applications through the EU initiative's programmes. Moreover, in a number of countries complementary national programmes have been established to harness the additional regional potential in a similar bottom-up approach.
- The other two axes (1 and 2) are covered by the main priorities and, in general, there won't be any difficulties for future programmes to fulfil the minimum budgetary requirements. Just for some countries, like Finland and the UK it seems that their current rural development expenditures are at the margin of the new threshold of a minimum of 10% of the national envelope (for axis 1).
- The countries with regional programmes (D, E, I, UK) will have a particular need to achieve a balance at the national level and take account of the regional priorities. When negotiating regional programmes it will be important to refer to national strategies and be open to changes within the regional strategies.

The new programmes will have to be conceived over the year 2006 to be available at the start of the programming phase. They have to address both rural development and spatial strategies and show the interrelation of territorial oriented programmes. Only if this can be communicated, the overall support levels currently discussed will be retained in the mid-term, and the contribution to rural economy assessed appropriately.



5. Conclusions

The next programming period will be the fourth generation of rural development programmes in the European Union. It is thus of special interest to take account of experiences reached so far and communicate the objectives even more clearly. The main question is whether they will become programmes of an actually new dimension or continue to extend a practise of re-labelling agricultural policies. Research and policy assessment repeatedly call for a rural development concept focusing on an attitude going well beyond production aspects, safeguarding the provision of public goods linked to agriculture and forest activities. This means that the support of less-favoured areas and the territorial dimension will take a central role in rural development policy in the future (Mantino, 2003b).

However, the analysis of the territorial impact of CAP and rural development policy suggests that agricultural policy still does not favour the EU cohesion policy objectives (Arkleton Institute for Rural Development Research, 2004). Although there remain considerable administrative and political constraints to alter the situation, the great number of best practise examples can be taken as reference how to nurture local initiatives and enhance the widespread potential in a creative way. The new framework enlarges the scope and even requests countries to make use of the innovation potential, assuming a wide variety of untapped amenities in rural areas.

In contrast to the political rhetoric which attributes a key role to the integrated rural development with regard to spatial development of large parts of the EU, the assessment of the relevance and progress of the concept in policy application is more mixed. The changes noticed in the theoretical concept, the logic, the contents and realisation of the programmes underpin the gradual absorption of the new understanding of rural policies. This is expressed in an increased integration of the economic sectors of rural areas, the focus on issues of participation, coordination and networking, the diversification of rural activities, a particular relevance of local contexts and the importance attributed to the “bottom-up” approach and long-term processes and capacity building (Bryden, 2000). Many of these issues relate to policy formulation and institutional processes and constitute intangible factors or rural development.

On the other hand, the actual impact and the relation to other policies have been affected only to a limited extent. In many cases, there is the threat of a creation of a parallel structure of spatial programmes besides the regional programmes of Structural Funds. This assessment is supported by the observation that many measures and involved actors are still restricted to the agricultural sector. In contrast to the actual implementation of most programmes, the second pillar ought to “become a container of two different policy objectives: the first addressing the structural needs of the agricultural sector in a reformed CAP (the sectorial function); the second addressing the development of rural areas with a multi-sectorial, integrated approach (the territorial function)” (Saraceno, 2005).

If rural development is to go further than accompanying the agricultural policy it has to reflect some basic aspects of regional policy (Dax et al., 2003). The most important is to address the changes in structures and capacity of actors. Networks and clusters, service provision and marketing relations, including food production chains, are core issues in order to shape learning processes and regional development. Moreover innovative programmes for rural areas should also take account of the following aspects:

- There is a need for intermediary institutions which have to be largely independent from sector interests. Their main tasks are the mobilisation of local potential, enhancing regional participation and avoiding an exclusively internal focus of actors.



- Success and failures of programmes are linked to the information made available and understanding of new policy objectives. The negotiation of national spatial strategies and the discussion process to determine the programme priorities are critical. A wide participation and discourse beyond the agricultural sector is essential already in the programming phase.
- The examples of innovation oriented approaches and local action, like the Leader programme are one of the main drivers of programme development. The mainstreaming of the Leader approach takes account of the momentum for new local action and provides a challenge to the Member States to extend innovative concepts for rural development. It is a precondition to achieve this objective that the quality and strategic impetus of the local activities is retained in the next programming period.

The gradual shift towards rural development measures underpins the need to integrate the territorial dimension into agricultural policy. Such a concept has to address the linkages to regional policy, economic development and the cultural landscapes. Particularly in the field of spatially designed protection areas, agriculture has to prove its ability to contribute to landscape development and territorial effects. To achieve this, integrated concepts for rural development policy will have to further increase innovative regional development processes.

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