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European Commission

Directorate-General for Agriculture and Rural Development

'Putting rural development to work for jobs and growth'

1. Introduction

On 2 February 2005, the European Commission relaunched the **Lisbon strategy** for the European Union (EU). The strategy seeks to tackle the EU's urgent need for higher economic growth and job creation and greater competitiveness in world markets. It is a major EU policy priority. The Lisbon strategy aims to provide people with a better standard of living in an environmentally and socially sustainable way.

The Lisbon strategy: key elements of the Commission's relaunch

- Extend and deepen the single market
- Ensure open and competitive markets inside and outside Europe
- Improve and expand EU infrastructure
- Boost investment and improve the tax environment for R & D
- Facilitate innovation, the uptake of ICT (information and communication technologies) and the sustainable use of resources
- Step up promotion of environmental technologies
- Combat youth unemployment
- Gear EU Cohesion and Structural Funds more towards innovation, training and infrastructure
- Improve regulation and cut red-tape

The guiding principles for the contribution of the CAP to the Lisbon strategy were set by the European Council in Gothenburg in 2001 and confirmed in the Lisbon strategy conclusions in Thessaloniki in June 2003: **Strong economic performance** that goes hand-in-hand **with the sustainable use of natural resources**. These principles have shaped recent CAP reforms.

European Council in Gothenburg (2001) — Presidency conclusions

'Strong economic performance must go hand-in-hand with the sustainable use of natural resources and levels of waste, maintaining biodiversity, preserving ecosystems and avoiding desertification. To meet these challenges, the European Council agrees that the common agricultural policy and its future development should, among its objectives, contribute to achieving sustainable development by increasing emphasis on encouraging healthy, high-quality products, environmentally sustainable production methods, including organic production, renewable raw materials and the protection of biodiversity.'

Without the CAP, many rural areas of Europe would face major economic, social and environmental problems. Rural development measures, in particular, can play a significant role in fostering and maintaining prosperity in rural areas. The CAP will continue to make a concrete contribution to more growth and jobs in the future.

2. Agriculture — the heartbeat of rural areas

The agricultural and rural constituency is important. Rural areas ⁽¹⁾ cover 90 % of the EU's territory and are home to approximately 50 % of its population. Agriculture and forestry are the main land users and play a key role in the management of natural resources in rural areas and in determining the rural landscape. Agriculture makes a valuable contribution to the socioeconomic development of rural areas and full realisation of their growth potential.

Agriculture's wider contribution to the EU's prosperity is considerable. The agri-food sector (including beverages) accounts for 14.7 % of total EU manufacturing output, with EUR 792 billion worth of production ⁽²⁾. It is the third largest employer in Europe ⁽³⁾ and the second biggest exporter of foodstuffs globally, with agricultural exports worth EUR 61.088 billion in 2002.

Europe's citizens are deeply attached to the diversity of landscape created by the wide variety of agricultural structures and farming types in the EU. Safeguarding this means investing in the future, creating new employment possibilities and encouraging rural diversification. People must be offered opportunities to create wealth as well as long-term rewarding job prospects. That is why the Lisbon strategy is as important and relevant to rural areas as it is to urban Europe.

3. Making the new CAP work for Lisbon

The CAP has been in a process of ongoing reform since the early 1990s. Reforms have focused mainly on increasing the competitiveness of agriculture by reducing support prices and compensating farmers by the introduction of direct aid payments. A decisive step came in the 2003/04 CAP reform with the decoupling of direct aid from production and a realignment of the CAP with consumer concerns. This reform was a key step towards a more market-oriented and sustainable CAP.

⁽¹⁾ As defined by the Organisation for Economic Cooperation and Development (OECD).

⁽²⁾ In 2002, Source: Eurostat.

⁽³⁾ Providing 16 million jobs in the EU-25 in 2002, Source: Eurostat.

The new CAP, post 2003/04, is a fundamental contribution to the Lisbon process.

The contribution of the CAP reform of 2003/04

Decoupling of direct aid from production will improve the overall **market orientation** of agriculture, and will encourage farmers to make the most of market opportunities. In addition, it will contribute to **environmental sustainability** by removing production incentives, which potentially lead to environmental damage, and by linking subsidies to the fulfilment of environmental services. Under the new system, **innovative agricultural products** should flourish as farmers have much greater freedom to adapt to new market opportunities.

For consumers, the 2003/04 CAP reform represents a major step forward in integrating food safety, food quality and animal health and welfare concerns into the CAP. The reinforcement of support for **quality production** and improved standards will help farmers to respond better to consumer demand.

The reform reinforces rural development through the transfer of resources — amounting to around EUR 1 billion per year (from 2007) — from CAP direct aid to rural development measures. These measures can target competitiveness, land management and the rural economy.

The new CAP focuses farmers on their businesses and places emphasis on market orientation rather than market support. It removes many of the negative incentives within the old CAP. A more entrepreneurial approach will require a change of culture and working habits in many organisations and will require support and encouragement (both political and financial). This will remain a major challenge in the coming years. For these reasons, the instruments of rural development will grow in importance.

4. Rural development is central to the Lisbon process

Rural development is the key tool for the restructuring of the agriculture sector and to encourage diversification and innovation in rural areas. Enlargement has changed the agricultural map, and getting the restructuring process right is essential for macroeconomic growth. Rural development policy can help steer this process towards a higher value added, more flexible economy — in line with the Lisbon strategy.

In all Member States, rural development can help promote competitiveness in the agricultural and food processing sectors. Innovation and ICT must play their role. As in other sectors, valuable R & D must be moved out of the lab and on to the farm.

Local initiatives such as Leader ⁽⁴⁾, which has contributed to the creation of new jobs, to the improvement of incomes and to the promotion of equal opportunities in rural areas and support for diversification (on farm and off farm), can play an essential role in connecting people to European ideas and encouraging innovation and entrepreneurship. The environment and associated tourism are a major source of income and employment potential in rural areas.

⁽⁴⁾ One of four 'Community initiatives' financed by EU Structural Funds and designed to help rural actors improve the long-term potential of their local region. It is aimed at encouraging the implementation of integrated, high-quality and original strategies for sustainable development.

The prizes are there for those who are determined and imaginative, as practical experience in the Member States already shows (see 'success stories' — in the box below).

Rural development — recent success stories

- **ICT and diversification — creation of call centres (Spain)**

A network of centres was set up in order to bring together people in a sparsely populated rural area and, *inter alia*, to develop collective tourism enterprises.

- **Village renewal and rural diversification — bakery (Netherlands)**

Aid for renovation of village buildings, and creation of a local bakery, helped provide additional local employment and renewal of village life as well as improvements in amenity value.

- **Diversification of production — flax fibre processing (Austria)**

Assistance was given for the growing, collection and processing of fibres for the production of thermal and noise insulation slabs (produced organically using only natural raw materials).

- **Farm diversification and local services — creation of a children's home (Germany)**

Aid was given to assist in the conversion of a barn into accommodation, providing a social service as well as an alternative farm enterprise.

- **Farm diversification — (organic) aromatic and medicinal plants (France)**

Feasibility studies and investment aid allowed establishment of a specialist agricultural holding, with plant cultivation, processing (e.g. distillation of essential oils) and marketing and educational facilities.

- **Environmental performance — water conservation, flood measures and quality actions (Greece)**

Assistance was given to measures relating to water quality and quantity, thus improving farmers' production capacity (in a more environmentally sustainable manner).

- **Competitiveness — investment in dairy hygiene (Denmark)**

Aid to a cooperative dairy helped update buildings, provide new machinery and improve quality control and the working environment, leading to job creation and more value-added products.

5. EU priorities for rural development

The Commission will develop strategic guidelines ⁽⁵⁾ for rural development, for approval by the Council. These will set rural development priorities and EU-level objectives for spending. EU priorities for rural development will be translated into national strategies and programmes for rural development, allowing Member States to link them to their national Lisbon strategies.

Rural development policy does not operate in a vacuum. Many measures are relatively small-scale. But rural development actions can ensure that small-scale local infrastructure is put in place to connect rural communities with major investments under regional and cohesion policies. The significant EU Structural Funds invested in telecommunications, transport, energy and water infrastructure can be capitalised on via local strategies for diversification and development of agricultural and food sector potential. Rural development can help supply the multiplier effect.

⁽⁵⁾ 'European strategy document for rural development', to be issued in 2005.

The Lisbon strategy focuses, among other things, on improving education and training, research and development and the promotion of innovation and sustainability. These are exactly the results the rural development toolbox can deliver. The box below shows areas where rural development tools can be used to help meet the Lisbon strategy's aims.

Investing in human capital and skills is crucial to exploiting opportunities for growth and employment in rural areas. These factors cut across the full range of rural development activities as they can contribute to:

- * helping people adapt to more market-oriented agriculture;
- * promoting new ways of selling/dealing with risk in competitive markets;
- * raising economic and employment activity rates;
- * encouraging development of micro-businesses;
- * facilitating innovation and R & D take-up;
- * fostering dynamic entrepreneurship;
- * improving management of processes in the agri-food chain;
- * encouraging the take-up and use of ICT;
- * making use of opportunities from improved local infrastructure, and environmental land management.

How rural development tools can meet the Lisbon strategy's aims

• Investment in the information society and development of ICT

ICT take-up by farms and smaller food processing firms is relatively low. Penetration of ICT remains low in many rural areas. Investment can help by:

- * encouraging take-up/diffusion of ICT (e.g. by extension of broadband coverage) to help promote new ways of selling and dealing with risk;
- * assisting village ICT initiatives by providing combinations of computer equipment, networking and training;
- * facilitating on-farm tourism through ICT use (e.g. by improving booking systems, promotion and links with recreational activities).

• Facilitating innovation in the supply chain

Innovation is increasingly important for the competitiveness of Europe's farming and agri-food sectors. The full range of product and process development opportunities can be offered to smaller processors and farm businesses through:

- * targeted investment in equipment, management processes and training;
- * innovation initiatives focusing on individual farms or on the agri-food chain (particularly for quality products), thereby achieving a multiplier effect.

• Cooperation in R & D

Cooperation between research facilities, the food industry and farmers facilitates take-up of new technologies and processes. Rural development can promote a more strategic approach to innovation through networking and exchange of experience.

• Public and private sectors working together

The Leader initiative has and will continue to play an important role in encouraging innovative approaches to rural development and bringing the private and public sectors together, providing local services.

• Increasing competitiveness

Recent CAP reforms have done much to promote open and competitive markets. Rural development measures can help to:

- * improve information about product availability and quality;
- * encourage farmers, particularly in the new Member States, to adopt management systems that are more responsive to market trends;

- * foster entrepreneurship, which is the key to developing dynamic farm businesses, exchanges of best practice, advice on development of business strategy and management systems, and planning, networking and coaching;
- * improve product quality (there is considerable potential for the growth of high-quality agricultural and processed products); investment and training in up-to-date production and stock management can significantly improve opportunities for small firms in rural areas;
- * develop quality schemes and labelling and niche products (e.g. through the development of geographical indications) and provide scope for increased cooperation between producers, processors and retailers.

• Employment creation and rural diversification

On-farm and off-farm diversification can contribute to growth and employment in rural areas. Tourism, crafts and the provision of rural amenities are growth sectors in many regions. Rural development measures can help by:

- * assisting agricultural restructuring, particularly in the new Member States;
- * encouraging semi-subsistence farmers to move into the market and increase earned income (again important in new Member States);
- * supporting development of micro-businesses (e.g. via purchase of equipment, training and coaching) and building on traditional skills;
- * helping to provide childcare facilities; lack of childcare facilities in rural areas can hinder the entry of women into the labour market;
- * aiding cooperation initiatives; in many rural areas, rural women have developed cooperation initiatives to provide advice and promote high-quality farm and regional products.

6. Environmental win-win situations

Agriculture and forestry remain by far the largest land users, shaping the rural environment and landscape. The provision of environmental goods, particularly through agri-environmental measures, can form a basis for growth and jobs provided through tourism and rural amenities. There is particular scope for innovative approaches that add value to the rural economy by remunerating farmers for environmental services and linking these to diversification into tourism, crafts and training. Similar linkages can be made in the non-food sector.

The adoption of precision-farming techniques can improve the economic and environmental performance of farms. Environmental projects, including management of Natura 2000 sites⁽⁶⁾, can provide important spin-off effects by acting as demonstration/tourism/training projects.

There are opportunities to expand production of biomass and renewable energy sources. This would not only create new economic opportunities in rural regions, but would help Europe respect its greenhouse gas reduction targets under the Kyoto Protocol. Measures to develop renewable energy raw materials and processing capacity already operate under the CAP. One example is the aid of EUR 45 per hectare available to farmers who produce energy crops.

⁽⁶⁾ Natura 2000 sites are those identified as sites of EU importance under the habitats directive (Council Directive No 92/43/EEC of 21 May 1992, OJ L 206, 22.7.1992), or classified as special protection areas under the birds directive (Council Directive 79/409/EEC of 2 April 1979, OJ L 103, 25.4.1979).

7. Cost-benefit analysis

Recent surveys ⁽⁷⁾ show that European citizens appreciate the benefits of changes in the ways the CAP supports farmers and rural areas. Some 66 % of EU citizens consider the adjustment of the CAP from a system based on production-linked subsidies to one which funds the protection and development of the overall rural economy (as well as providing direct support to farmers) as a good thing.

Although EU public opinion clearly perceives the CAP as continuing to provide value for money, improvements can still be made. The Commission has proposed an amount of EUR 88.75 billion for the new single rural development fund over the period 2007–13. These amounts are necessary to achieve the declared objectives of rural development policy, to permit innovation and diversification outside traditional agri-businesses, and to be able to respond to society's expectations for a competitive agricultural, forestry and food sector which is environmentally sustainable and underpins the socioeconomic fabric of EU rural areas.

Rural development policy involves the cofinancing by the EU and Member States of a variety of measures. Member States decide on the most appropriate measures for their rural areas from a menu of measures proposed at EU level. The policy epitomises the 'partnership' element of the Lisbon strategy, and is essential due to the wide diversity of the EU's rural areas.

⁽⁷⁾ For example the February 2005 Eurobarometer report: (http://europa.eu.int/comm/agriculture/survey/index_en.htm).

8. Conclusion: the CAP and rural development policy 'make a difference'

In the agricultural sector, and in rural areas, the EU is pursuing balanced economic growth and technological improvement, and the creation of new jobs, but without jeopardising the future standard of living of any region and, above all, in a way that is environmentally sustainable. A market-oriented CAP and a growth-oriented and innovative rural development policy are central elements of this.

Quote from the European Commissioner for Agriculture and Rural Development, Mariann Fischer Boel

'The CAP reforms represent a major contribution to the Lisbon strategy. We need an innovative farming sector that can look to the future with confidence. We must provide the rural environment that Europe wants and we must maintain the diversity of farming structures. Our policy must continue to improve market orientation, competitiveness and sustainability. We now have to turn rural development into a central element of the Lisbon process. This means investment in the future, creating new employment possibilities and rural diversification. The possibilities are enormous — extending broadband coverage, improving training, helping small businesses, assisting the food processing and service sectors, and extending childcare so that more rural women can get back into the workforce. But to do this, we need funds. Cutting the budget proposed by the Commission would hit rural areas hard. We cannot afford to let this happen.'

Sources of further information

EU Commission websites:

Lisbon strategy

http://europa.eu.int/growthandjobs/index_en.htm

Agriculture

http://europa.eu.int/comm/agriculture/index_en.htm

Rural development

http://europa.eu.int/comm/agriculture/rur/index_en.htm

Postal address: European Commission, Agriculture DG, Internal and External Communication, 200 Rue de la Loi, B-1049 Brussels.

E-mail: agri-library@cec.eu.int