

Opinion of the European Economic and Social Committee on 'The CAP second pillar: outlook for change in development policy for rural areas' (follow-up to the Salzburg conference)

(2004/C 302/13)

On 29 January 2004, the European Economic and Social Committee, acting under Rule 29(2) of its Rules of Procedure, decided to draw up an opinion on: 'The CAP second pillar: outlook for change in development policy for rural areas (follow-up to the Salzburg conference)'.

The Section for Agriculture, Rural Development and the Environment was responsible for preparing the Committee's work on the subject.

In a letter to the Committee from Mr Silva Rodriguez of DG Agriculture dated 3 May 2004, the European Commission asked to have the EESC's views on the subject as quickly as possible. Given the urgency, the European Economic and Social Committee, at its 410th plenary session of 30 June and 1 July 2004 (meeting of 30 June 2004), appointed Mr Bros as rapporteur-general and adopted the following opinion by 127 votes in favour, with nine abstentions:

1. Introduction

1.1 In November 2003, the European Commission organised a conference in Salzburg on the future of Community rural development policy against the backdrop of EU enlargement. Like the Cork conference, which had called for a 'living countryside', ⁽¹⁾ the Salzburg event was an opportunity:

- to bring together the key players involved in framing and implementing rural development policy;
- to issue a declaration, putting forward key policy guidelines for rural development players;
- to lay down priorities for assistance under a 'rural fund' ahead of the budget debate on the financial perspectives for 2007-2013.

Thus, the Committee is proposing that any consideration of changes to rural development policy for the period 2007-2013 should build on the conclusions of this conference.

1.2 Given the increasing diversity of rural areas in the wake of EU enlargement, but above all recognising that social issues and employment are of paramount importance in the new Member States, the Committee feels it is essential to focus on the consistency and interlinkage between regional policy and the second CAP pillar.

1.3 The Commission has published two documents: one sets out the financial perspectives for the future programming period ⁽²⁾, the other is the third cohesion report ⁽³⁾. As these documents show, regional policy plays a full part in the Lisbon strategy, which is designed to put in place a competitive and knowledge-based economy. Future rural development policy

⁽¹⁾ The European Conference on Rural Development, Cork, Ireland, 7-9 November 1996;

http://www.europa.eu.int/comm/agriculture/rur/cork_en.htm

⁽²⁾ COM(2004) 101.

⁽³⁾ COM(2004) 107.

is dealt with under the section on Sustainable management and protection of natural resources which refers to the sustainable development strategy. This section also covers the first CAP pillar and Community environment programmes.

1.4 The Gothenburg European Council of 15 and 16 June 2001 ⁽⁴⁾ provided, in its conclusions, for the adoption of a European sustainable development strategy and, as part of that, agreed that the common agricultural policy '... should, among its objectives, contribute to achieving sustainable development by increasing its emphasis on encouraging healthy, high-quality products [and] environmentally sustainable production methods.' ⁽⁵⁾

1.5 The conclusions of the June 2003 Agriculture and Fisheries Council in Luxembourg confirm that the second CAP pillar is to be strengthened in order to '... promote the environment, quality and animal welfare and to help farmers to meet Union production standards starting in 2005.' ⁽⁶⁾ This own-initiative opinion will thus have to consider — and examine in greater depth — the three lines of action taken up in Salzburg, i.e. the competitiveness of the farming sector, environmental protection and the contribution to economic and social cohesion in rural areas.

1.6 In the Salzburg conference final declaration, rural development players also stressed that a significant simplification of EU rural development policy was both necessary and urgent. As part of that simplification, more responsibility must be given to programme partnerships to define and deliver comprehensive strategies.

⁽⁴⁾ Gothenburg European Council, 15-16 June 2001; see:

http://europa.eu.int/comm/gothenburg_council/sustainable_en.htm

⁽⁵⁾ Gothenburg European Council, presidency conclusions, 15 and 16 June 2001, point 31. document no: 200/1/01.

⁽⁶⁾ 2516th Council meeting — Agriculture and Fisheries — Luxembourg, 11, 12, 17, 18, 19, 25 and 26 June 2003; 10272/03 (Presse 164), page. 7, point 3.

1.7 In this own-initiative opinion, therefore, the Committee proposes (i) examining the consistency between future regional policy and future rural development policy in order to limit the number of grey areas; (ii) taking a closer look at the three main lines of action put forward for future rural development policy and (iii) focusing specifically on the various facets of administrative simplification.

A. INTERLINKAGE BETWEEN REGIONAL AND RURAL DEVELOPMENT POLICY

2. Regional policy: from the principle of economic cohesion to the principle of territorial solidarity

2.1 The 1986 Single European Act accelerated the integration of the Member States' economies. However, the widely differing levels of regional development within the Union and the introduction of interregional competition gave rise to a proper cohesion policy, designed to offset single market constraints in southern European countries and less-favoured regions. Economic and social cohesion policy was subsequently placed on an institutionalised footing by the Maastricht Treaty on European Union, which entered into force in 1993.

2.2 At the same time, the EU's growing trade relations and the gradual opening-up of the single market intensified competition between the European regions despite the fact that they did not all enjoy the same advantages. Thus, in the 1990s, structural policy sought to address the following key concerns:

- to reduce the development gaps by supporting job creation in less-favoured areas;
- to compensate for the handicaps facing regions that do not have the same advantages or the same access to the global market;
- to support wealth creation in less-favoured areas.

2.3 Building on elements of existing structural policy, the reform adopted in 1999 (Agenda 2000) sought:

- to increase financial transfers from the regions with the greatest advantages to regions with lagging growth (fewer objectives and 75 % of funding earmarked for Objective 1);
- to expand economic links between these regions (Interreg III); and

- through the Cohesion Fund, to help regions with lagging development integrate into the single market.

2.4 The declaration of the EU Member States' spatial planning ministers (Potsdam, 10 and 11 May 1999) ⁽¹⁾ and the June 2001 Gothenburg European Council conclusions setting out a European sustainable development strategy underscored the need for territorial cohesion in the interests of balanced and sustainable regional development within the EU. This process culminated in the Convention's proposal to include territorial cohesion as a Union objective (see Article 3 of the draft Constitution for Europe). ⁽²⁾

2.5 Moreover, Regulation 1260/1999 laying down general provisions on the Structural Funds ⁽³⁾ recognises that building on local potential in rural areas remains a key objective for promoting the development and structural adjustment of regions whose development is lagging behind.

2.6 Given the way in which the principles underpinning structural policy have evolved — i.e. in providing support for growth and sustainable development — the Committee asks the Commission and the Council to make it clear, in the interests of territorial cohesion, that rural development must remain one of the top priorities of regional policy. Hence, this policy must fully address the difficulties rural areas face in the fields of job creation, continuing training and access to new information technologies.

3. Rural development policy: from the 'Green Europe' to the Luxembourg compromise

3.1 In the space of almost fifty years, farming has undergone major changes which, over time, have shaped the Community's agricultural structural policy. From 1962 to 1972, the Community was involved only in coordinating the nascent market management measures. From 1972 to 1985, activities fell into two further main categories: (i) horizontal measures applicable in all Member States (vocational training, early retirement etc.) and (ii) regional measures designed to mitigate natural structural handicaps and promote agriculture as a whole.

⁽¹⁾ Potsdam, May 1999, http://europa.eu.int/comm/regional_policy/sources/docoffic/official/reports/som_en.htm

⁽²⁾ Article 3: The Union's objectives: '3. The Union [...] shall promote economic, social and territorial cohesion, and solidarity among Member States.'
http://europa.eu.int/futurum/constitution/part1/title1/index_en.htm#Article3

⁽³⁾ Council Regulation (EC) No. 1260/1999 of 21.6.1999 laying down general provisions on the Structural Funds; OJ L 161, 26.6.1999, pp. 1 - 42.

3.2 From 1985 to 1999, agricultural structural policy evolved into the agricultural dimension of the new regional policy strategy as a result of a number of factors, i.e. the search for a balance between the necessary improvements in the competitiveness of Europe's farming sector on the one hand and matching production potential with market requirements on the other, environmental protection and the development of less-favoured regions. Structural policy therefore not only involves horizontal measures, but also includes actions designed to conserve rural areas, protect the environment and develop rural and tourist infrastructure and farming activities.

3.3 Building on the Cork conference, Agenda 2000 made it possible to establish an integrated rural development policy using two legal instruments (EAGGF-Guarantee and EAGGF-Guidance). These instruments are designed to secure greater consistency between rural development policy (second CAP pillar) and market policy (first CAP pillar) among other things by promoting a more diversified rural economy.

3.4 The option of direct aid modulation was also introduced. This tool makes it possible to increase funding for agri-environmental, early retirement and afforestation measures, and measures to support less-favoured areas, through a levy on the compensatory support for reductions in institutional prices adopted under the common organisations of the markets in agricultural products.

3.5 Regulation 1257/1999 on support for rural development from the EAGGF ⁽¹⁾ makes the following key points:

- rural development measures must accompany and complement market policy;
- the three accompanying measures introduced by the 1992 CAP reform must supplement the scheme for less-favoured areas (natural constraints) and areas with environmental restrictions;
- other rural development measures may form part of integrated development programmes for Objective 1 and Objective 2 regions.

3.6 For the 2000-2006 programming period, the twenty-two measures that Member States may include in their rural development programming divide up as follows: ⁽²⁾ 39.2 % for improving competitiveness and promoting change in the farming sector, 35 % for less-favoured areas and agri-environmental measures and 25.8 % for adapting and developing rural areas.

3.7 The CAP reform adopted in June 2003 reinforced one of the tasks of regional development policy, namely to back moves to adapt agriculture to the needs of society. The scope

of measures has been widened to include promoting product quality, improving production standards (environment, animal welfare), implementing Natura 2000 and stepping up measures for the setting-up of young farmers.

3.8 Moreover, modulation is now mandatory at European level and should mean the transfer of almost EUR 1.2 billion over the whole year from market policy to rural development policy.

3.9 In the light of these developments, the Committee would stress that the primary purpose of the second CAP pillar must be to support agriculture as it adapts to meet the underlying changes in public expectations.

3.10 The Commission communication on the 2007-2013 financial perspectives presents a stable and modest budget, maintaining EU own resources at 1.24 % of GNP. The Committee backs the Commission's proposal and stresses that cutting Community resources would send out the wrong signal just as EU enlargement was taking effect.

3.11 The same also applies to rural development policy. The only 'extra' resource for this policy would be the application of modulation. This basically means allowing financial transfers only between the first and second CAP pillars. Hence, the Committee would urge the Council and the European Parliament to ensure that adequate financial resources are made available for this policy as otherwise it would be devoid of substance.

3.12 Furthermore, future rural development policy will be implemented by a new and probably 25-strong Commission. There would be a real risk of these two policies becoming disjointed if the two CAP pillars were each managed by a different commissioner. The Committee reiterates its opposition to any move to establish separate directorates-general and appoint different commissioners for agriculture and sustainable development issues.

4. Multifunctional agriculture: its role in rural development policy

4.1 In its earlier opinions ⁽³⁾, the Committee has already reiterated the point that agricultural markets are, by their very nature, unstable and frequently subject to price fluctuations. Hence, the mechanisms in place to regulate supply and the market are essential for farms to be able to meet the conditions of sustainable agriculture. The Committee would stress that maintaining a policy that supports the regulation of markets in agricultural products is also conducive to the success of any rural development policy.

⁽¹⁾ Council Regulation (EC) No. 1257/1999 of 17 May 1999 on support for rural development from the European Agricultural Guidance and Guarantee Fund (EAGGF) and amending and repealing certain Regulations; OJ L 160, 26.6.1999, pp. 80 - 102.

⁽²⁾ Fact Sheet: Rural Development in the European Union, page 9, Office for Official Publications of the European Communities 2003.

⁽³⁾ A policy to consolidate the European agricultural model, CES 953/99, OJ C 368, 20.12.99, pp. 76-86.
The future of the CAP, CES 362/2002, OJ C 125, 27.5.2002, pp. 87-99.

4.2 Moreover, the last CAP reform of 26 June 2003 broke the link between production and public support for agriculture. This change reinforces the need to secure farming's economic development in order to better reflect new requirements — such as biodiversity, the conservation of specific landscapes, and job creation by this sector. The Committee therefore notes that agricultural production is a prime factor in securing a living countryside, as it establishes a direct link between human activities and the local area.

4.2.1 Regionally-based production systems and measures to enhance the value of farm products — including the expansion of protected designations of origin (PDOs), protected geographical indications (PGIs) and direct sales — are elements of multifunctional agriculture that help promote rural development.

4.3 In a Union of 25 Member States, farming will employ more than 13 million people directly, and more than 5 million indirectly in its upstream and downstream sectors. By their very nature, these jobs are firmly rooted at regional level. Processed agrifood products also make up a growing share of intra-Community trade, strengthening the link between the farming and the agrifood sectors. The maintenance and distribution of farming activities across rural areas is thus becoming a priority if their integration into the regional economy is not to be held back.

4.4 In an EU of 27 Member States, 190 million hectares — 45 % of the land mass — will be given over to farming. In 2001, more than 10 % of the utilised agricultural area (UAA) was subject to agri-environmental measures. Agricultural land makes up 15 % of areas classified under the habitats and birds directive. 38 % of agricultural land in the fifteen 'old' EU Member States has also been designated as 'nitrate-vulnerable zones'. These measures meet local environmental protection and/or spatial planning requirements. Clearly, then, farming will always play a key role in land management.

4.5 The Committee would again make the point that one aim of multifunctional agricultural production is to maintain a living countryside. The Commission and the Council must make that clear before embarking on any new departure in rural development policy.

4.6 While backing the Salzburg conference conclusions on diversifying the rural economy, the Committee would stress

the need to avoid any 'rurbanisation' of the countryside, i.e. the application of the same development measures in rural as in urban areas. The Committee is currently working on an own-initiative opinion on agriculture in peri-urban areas⁽¹⁾. Moves to diversify the rural economy as part of rural development policy should therefore focus on a few issues closely linked to farming, including services to the farming community designed to improve people's quality of life, promote agri-tourism and support agriculture-based multiple jobbing.

5. Rural development policy: its features and limits

5.1 The conclusions of the third cohesion report show that disparities in sustainable output, productivity and job creation which persist between regions stem from structural deficiencies in the key factors of competitiveness. The Committee would stress that rural development policy must also be guided by these principles in order to help foster structural developments in rural areas.

5.2 EU enlargement exacerbates the issue of economic development in rural areas because of the high level of 'hidden unemployment' in the new Member States. This further complicates the distinction between regional policy and rural development policy. The Committee proposes that the issues common to regional policy and rural development policy should be set out clearly in a new Structural Funds regulation and that the number of measures eligible for funding under one or other of these policies should be limited so as to establish greater clarity between them.

5.3 While agriculture cannot claim to be the sole guarantor of rural development, it does remain a sine qua non of any successful rural development policy. The link between jobs — both direct and indirect — and the local region and the sheer size of the areas concerned mean that back-up for agriculture as it adapts to meet changing public expectations remains a priority. Moreover, the first and second CAP pillars are also conducive to achieving rural development targets by maintaining or strengthening farming activity.

5.4 EU enlargement also presents a key challenge for the future of the CAP. The Committee stresses that exchanges of experience and the transfer of good practice should also play a special role in establishing the conditions for implementing the second CAP pillar for the future period.

⁽¹⁾ Draft EESC opinion on agriculture in peri-urban areas, CES 1324/2003 (to be adopted at the September 2004 plenary session)

5.5 The Committee would also stress that because of their permanent natural handicaps sparsely populated regions such as islands, Arctic areas and upland areas are still pursuing the goal of completing the single market. Regional policy and rural development policy must reflect this in the way in which they are implemented, not least by proposing a higher level of co-financing to take account of these constraints. The Committee is also currently working on an own-initiative opinion⁽¹⁾ looking more specifically at how to better integrate regions suffering from natural handicaps into the regional economy.

5.6 The Committee would also stress that rural development policy and regional policy are not the only ways in which the authorities can promote harmonious territorial development within the European Union. The Committee notes that firmly implanting public services in a region also helps secure territorial cohesion.

B. A CLOSER LOOK AT THE PROPOSED IMPROVEMENTS

6. Measures adopted under the Luxembourg compromise of 26 June 2003

6.1 The CAP reform of June 2003 highlighted the stronger link between the second pillar (rural development) and the changes to the first pillar. A series of new first-pillar flanking measures have been introduced, taking the total number from 22 to 26.

6.1.1 Two new measures have been introduced in the area of food quality (voluntary participation in recognised national quality indicator schemes and actions to promote these products and inform consumers about them). The two other new measures seek to adapt production methods to European standards of environmental protection, animal welfare and animal and plant health.

6.1.2 A number of existing measures have been adapted (the incorporation of animal welfare considerations into agri-environmental measures, the consolidation of public support for the setting-up of young farmers, implementation of the habitat and birds directive and the funding of forest investments to promote environmentally and socially sound forest management).

⁽¹⁾ Preliminary draft EESC opinion on how to achieve better integration of regions suffering from permanent natural and structural handicaps, R/CESE 631/2004 (to be adopted at the September 2004 plenary session)

6.2 For the new Member States, a temporary rural development programme has been adopted for the period 2004-2006. As well as the four new flanking measures, this programme will provide support to encourage farming partnerships, support for semi-subsistence farms, technical assistance, and top-ups to direct aid under the CAP first pillar.

7. New approaches in the three areas focused on at the Salzburg conference

7.1 As the single market consolidates and the internal market gradually opens up to farming economies with comparative natural advantages or lower environmental standards, it is essential that the European agricultural model continue to become ever more competitive.

7.2 The Committee therefore feels that support for farming investments as part of rural development policy should continue to be strengthened. It is important to support investments that enable farms to take account both of environmental requirements and of improvements in animal welfare and working conditions, especially where they help reinforce farming activity in a particular area.

7.3 The Committee considers that the provision of agricultural advisory services to support the switch to new production standards should be brought forward. The scheme may not actually be implemented in the Member States until 2006, while conditionality will apply from 2005.

7.4 Over the past few years a number of factors — including the slackening of market regulation in agricultural products, climatic changes and action to tackle health crises — have highlighted the importance of bringing farm turnover under control. Under the 2003 CAP reform, the Commission undertook to draw up a report to examine the possibility of allowing a percentage of modulation to be used at national level for specific measures designed to meet risks, crises and natural disasters. The Committee notes that the Commission has to submit this report before the end of 2004 and should also look at national and Community approaches to developing agricultural insurance systems. The Committee asks that, if need be, input from the second CAP pillar might be considered as a flanking measure.

7.5 The second plank of future rural development policy should be environmental protection and spatial management, with agri-environmental measures and compensation for natural handicaps as a key main tool, drawing on common yardsticks in the interests of maintaining territorial balance.

7.6 CAP reform has introduced the principle that direct aid to agriculture is conditional on compliance with European legislation (nineteen directives and regulations) on the environment, public health, animal and plant health and animal welfare. The Committee stresses that this new element of the first CAP pillar must not be confused with agri-environmental measures (AEM). AEM are not regulatory, but support farmers' voluntary, participatory activities aimed at using farming methods designed to protect the environment and conserve natural areas.

7.7 The Committee feels that the administrative arrangements for AEM implementation should be simplified. The objectives of the measures should thus be decided in line with subsidiarity. Mindful of budgetary stability, the Committee also questions the need to further widen the scope of these measures to include other environmental issues. However, particular emphasis should be put on AEM, which focus on the diversity of agricultural production systems in order to maintain balanced agri-systems.

7.7.1 In the light of the declaration of the Gothenburg European summit, agri-environmental measures should be made mandatory in each of the national programmes.

7.7.2 The Committee would stress that Natura 2000 should not be financed to the detriment of existing measures. Hence, it would like to see the Commission identify new avenues of finance to offset the costs involved in implementing the habitat and birds directive.

7.8 The third plank of future rural development policy should focus on diversifying the farm-linked rural economy in order to help maintain rural populations.

7.9 In its third cohesion report, the Commission states that three kinds of measures — tourism, the craft trades and rural heritage — should be covered jointly by regional policy and rural development policy. The Committee wants to see this balance maintained. Apparently, rural infrastructure should no longer be financed by the Structural Funds. The Committee rejects any transfer of funding for this type of investment from regional policy to rural development policy.

7.10 The Committee also proposes that, to carry regional policy forward, rural heritage renewal or regeneration schemes not undertaken as part of an agri-tourism project should no longer come under rural development policy.

7.11 The Committee also proposes that measures to strengthen the rural economy should include a number of services designed to improve quality of life for the farming community (e.g. farmer replacement services).

C. IMPROVING THE MANAGEMENT OF RURAL DEVELOPMENT POLICY

8. The first area in which management conditions have to be improved is in the continuity of rural development planning. The Committee therefore supports Commission efforts to frame the new rural development policy in order to limit as far as possible the 'latent period' between two programming periods.

8.1 The administrative difficulties in some Member States in implementing rural development policy show that using a number of financial instruments that are subject to different rules may run counter to moves to make public administration easier to understand. Thus, the positive move to bring rural development measures together into a single regulation has potentially been perceived as a source of extra red tape by those it was intended to benefit.

8.2 Simplifying planning means having no more than one fund for managing rural development activities. That said, the Committee would stress that this single fund must be managed in a way consistent with the management of the Structural Funds.

8.3 The future three-pronged structure of rural development policy (agricultural competitiveness, spatial management and diversification of the rural economy) should also be reflected when drafting the forthcoming rural development regulation. This regulation could lay down the principles for support and the goals of the three strands. It might also list possible types of activity (investment aid, subsidised loans, multiannual public support to meet certain specifications, technical assistance, financial engineering etc). The arrangements for implementing each of the measures should be subject to national subsidiarity. The Committee feels that if the Member States had to manage a single decision on the basis of a strategic document, this would have the advantage of establishing a fixed Community framework for the programming period.

8.4 The current way of adopting amendments to measures in the Committee on Agricultural Structures and Rural Development (the STAR Committee) is not flexible enough since the ex-ante assessment procedure is still too long. The Committee proposes that the new provisions should be based on the State aid procedure. This means that, when the rural development plan is adopted at the start of programming, the changes to the measures could be submitted to the Commission to check their legality (ex-post evaluation).

8.5 Operational programmes should be subject to national or infra-national subsidiarity, depending on the way each Member State is organised. The Commission would thus be responsible for ensuring that the measures taken did not distort competition in any way, for verifying the legality of the support arrangements and ensuring consistency with the Structural Funds. The Committee would also point out that, given its past record in this field, the Commission could support moves to pass on experience as part of technical assistance, not least for the new Member States.

8.6 The Committee wants to see a cut in the number of steps involved in ratifying programmes by having clear-cut responsibilities for each level of decision-making: Commission, Member States and regional and local authorities.

8.7 Having a single fund for rural development measures is also designed to simplify financial management. This new fund should share the same main features as the Structural Funds, i.e.:

- it should be based on a projected yearly timetable;
- it should be subject to multiannual planning;
- its payment methods should be more flexible than those of the EAGGF — Guarantee Section (commitment appropriations — payment appropriations).

8.8 Moves to simplify the administrative management of rural development policy also cover monitoring. The Committee backs the Commission's approach set out in the third cohesion report, particularly as regards proportionality in monitoring. Below certain thresholds, the Member State would have the option of using its national control systems for the programmes concerned. The Committee would stress that these guidelines should apply to rural development policy management, provided they secure the same effective monitoring — and thus sound use — of Community funds.

8.9 The performance reserve for the Structural Funds introduced as part of Agenda 2000 is seen more as a measure used in frustration when the administrative implementation of programmes is not going according to plan. Moreover, allocations of this reserve based solely on appropriation take-up could be harmful by encouraging rapid planning followed by a strict monitoring of implementation. This is not consistent with multiannual rural development programming. The Committee therefore feels that the performance reserve principle should not be applied to future rural development policy.

8.10 Partnership is also consistent with simplifying programme implementation. The Committee hopes that each Member State, mirroring what is happening in regional policy, will strive to secure cooperation both between the various administrative tiers and also with the social partners and organised civil society representatives in the framing, implementation and follow-up of the programmes.

8.11 Since it was launched in 1989, the Commission's Leader initiative has proved successful, not least thanks to the priority it gives to seeking out new avenues for development in rural areas. The current programming phase has also highlighted the multiplier effect of sharing experiences in facilitating partnerships between local action groups in the different countries. The Committee feels that the Leader initiative should continue backing local initiatives by exploring new avenues for development in rural areas, not least through the inclusion of a specific strand in rural development policy: how to foresee training needs in a specific area, the search for new outlets for farm products, the development of synergies between economic players operating in the same area: these are just some of the other subjects that might shed new light on future rural development policy. The Committee therefore backs the continuation of the Leader initiative as part of development policy with a view to identifying innovative solutions for rural development areas.

Brussels, 30 June 2004.

The President
of the European Economic and Social Committee
Roger BRIESCH