



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 21.12.2006  
COM(2006) 857 final

**COMMUNICATION FROM THE COMMISSION  
TO THE COUNCIL AND THE EUROPEAN PARLIAMENT**

**Employment in rural areas: closing the jobs gap**

{SEC(2006)1772}

## 1. INTRODUCTION

At its meeting in Lisbon in 2000, under the European employment strategy launched in 1997, the European Council set the goal of full employment and, as a medium-term target, an employment rate of 70% by 2010. As part of this process, the Agricultural Council of July 2003 agreed conclusions on "Employment in rural areas under the European Employment Strategy". The Agriculture Council identified several challenges for the future of rural employment such as the ageing of the farming population, the participation of young people and women in the rural economy, the enlargement of the European Union and the switch from product to producer support under the revised CAP. It called on the Commission to carry out an in-depth assessment of employment prospects in rural areas and to initiate the discussion on the creation of statistical tools for rural areas.

## 2. THE CAP, RURAL DEVELOPMENT AND THE EU PRIORITY FOR EMPLOYMENT

On 2 February 2005, the Commission proposed a new start for the Lisbon Strategy focusing on two principal tasks – delivering stronger, lasting growth and creating more and better jobs<sup>1</sup>. Under the European Employment Strategy there is need to improve the adaptability of workers and enterprises and to increase investment in human capital through better education and skills. The guiding principles for the contribution of the CAP – markets and rural development – to the Lisbon Strategy were set by the European Council in Göteborg in 2001 and confirmed in the Lisbon Strategy Conclusions in Thessaloniki in June 2003 – ***Strong economic performance must go hand in hand with the sustainable use of natural resources***. This was reaffirmed in the renewed EU Sustainable Development Strategy adopted by the European Council on 16 June 2006.

The new CAP is based on a market policy where intervention is a safety net, income stabilisation is delivered through decoupled aids subject to cross-compliance, and on a reinforced rural development policy focused on jobs, growth and sustainability. The Community strategic guidelines for rural development identify the areas key to the realisation of EU priorities for the period 2007–2013, in relation to the renewed EU Sustainable Development Strategy and to the Lisbon Strategy for growth and jobs.

## 3. THE JOBS GAP

Europe's rural areas are diverse in terms of population, demography, economic and social structures and labour markets. It is this diversity that is part of their richness. Nevertheless, many of Europe's rural areas face a common challenge – their capacity to create high quality, sustainable jobs is falling behind urban areas.

### 3.1. The characteristics of rural areas

Based on population density, rural areas represent 93% of the territory in EU-27. 20% of the population live in predominantly rural areas and 38% live in significantly rural

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<sup>1</sup> COM(2005) 24.

areas<sup>2</sup>. Rural areas generate 45% of gross value added in EU-27 and 53% of the employment, but tend to lag compared to predominantly urban areas. In EU-27 the income per capita of predominantly urban areas is almost double that of predominantly rural areas. Low levels of income make it harder to retain and attract skilled individuals. This gap is reflected in other key indicators (see Annex).

### **An evolving demographic situation**

The proportion of the rural population in EU total population has remained fairly constant in recent decades. This relative stability at an aggregate level, however, masks significant variations between and within individual Member States and hides important population developments over the last 15 years at regional level.

Two large scale processes of demographic change are taking place in Europe: a long established “urbanisation” trend drawing population and economic activity out of more remote rural areas into urban and accessible rural areas, and a more recent “counter-urbanisation” flow out of urban areas into accessible rural areas (made possible by new transport and ICT infrastructure) increasingly under pressure from an urbanised lifestyle. As a result, accessible parts of significantly rural areas represent a zone of growth, with an economic structure increasingly similar to that of urban areas. In contrast, predominantly rural areas, especially in the more remote parts of the EU are still being depleted of population and economic activity<sup>3</sup>.

In terms of age structure, Southern Member States exhibit the greatest signs of demographic ageing in their rural areas. As regards gender, the most important trend is a “masculinisation” of sparsely populated Nordic rural areas and less developed rural areas of the New Member States, due to the out-migration of younger women<sup>4</sup>.

### **Lower employment rates and higher unemployment rates**

Across the EU-25, in the period 1996–2001, employment has increased fastest in urban areas. The employment rate has increased by 3.6% in predominantly urban areas compared to 1.9% in predominantly rural areas. This suggests a widening urban-rural employment rate gap<sup>5</sup>. In 2004 employment rates in EU-27 were almost 5% higher in predominantly urban (64.7%) than predominantly rural areas (60.1%). However, the diversity of rural regions should be stressed. Some rural regions, in particular in peri-urban areas have experienced high rates of employment growth, in line with a general trend in OECD countries<sup>6</sup>. At a sub-regional level, trends can be

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<sup>2</sup> This definition of rural areas has been adopted in the context of Council Decision of 20 February 2006 on Community strategic guidelines for rural development (programming period 2007 to 2013) (2006/144/EC). The OECD defines areas as predominantly rural, significantly rural or predominantly urban according to population density and is based on the share of population living in rural communes (i.e. with less than 150 inhabitants per km<sup>2</sup>) in a given NUTS II or III region. See Extended Impact Assessment SEC(2004) 931 and SEC(2005) 914. The 1284 NUTS 3 regions of the EU-27 are broadly evenly divided between the three rural-urban categories. The Commission is currently undertaking work on alternative definitions that better reflect the diversity of significantly rural areas, including peri-urban areas.

<sup>3</sup> Study on Employment in Rural Areas (SERA), p. 214  
[http://ec.europa.eu/agriculture/rurdev/index\\_fr.htm](http://ec.europa.eu/agriculture/rurdev/index_fr.htm)

<sup>4</sup> SERA, p. 34

<sup>5</sup> SERA, p. 44

<sup>6</sup> OECD 2006. Rural Policy Reviews. The New Rural Paradigm. POLICIES AND GOVERNANCE, p. 27.

very different compared to those at a regional level, notably where labour moving out of agriculture in the countryside has been absorbed in market towns and large villages.

Unemployment rates are generally significantly higher in rural than in urban areas. Urban-rural differences are particularly pronounced in countries characterised by high unemployment rates. Long-term unemployment is relatively high only in significantly rural areas, which could indicate growing exclusion of low-income groups. It is estimated that “hidden unemployment” (involving underemployed farmers and farm workers) probably accounts for around 5 million people in rural areas.

### **A slower development of the tertiary sector**

The service sector is the biggest employer in Europe's rural areas but is smaller compared to urban areas and tends to be dominated by the public sector. This is due to the underdevelopment of private services which remain largely urban. In 2002 it accounted for 57% and 65% of employment respectively in predominantly and intermediate rural areas, compared with 75% in predominantly urban areas. This is reflected in the slower shift to activities centred in the knowledge-based economy.

### **Skills and human capital**

Skills and human capital are generally lower in rural areas than in urban areas. In many Member States education beyond primary or lower secondary education is more generalised in urban areas. In urban areas almost 20% of the adult population has tertiary education, while in rural areas the proportion is only around 15%<sup>7</sup>. Tertiary education can often lead to outmigration of skilled individuals from rural to urban areas, who stay on after their studies due to better employment opportunities.

### **A lack of opportunities for women and young people**

The situation of women and young people in rural areas remains precarious often resulting in the out-migration of females and youngsters in economically active age groups. In some rural areas, the lack of training infrastructure and appropriate child-care facilities prevent entry or upskilling in the labour market. Female and youth unemployment rates tend to be relatively high in rural areas. For women the rates for rural areas were 10.6% but male rates were relatively lower at 7.9%. In urban areas female (6.8%) and male rates (6.2%) were more similar. Youth unemployment was significantly higher in both predominantly and significantly rural areas, 17.6% and 16% respectively, compared with 11% in urban areas.<sup>8</sup>

## **3.2. The place of agriculture**

In most rural areas the primary sector accounts for less than 10% of total employment. In a third of rural areas its share is less than 5% (around the EU-25 average). However, in some rural areas – particularly in the East and South of the EU

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<sup>7</sup> SERA, p. 133

<sup>8</sup> SERA, pp. 47-48.

– its share is above 25%. Moreover, agricultural productivity is far lower in most predominantly rural areas<sup>9</sup>.

The integration of the agricultural sector of the New Member States into the CAP has taken place in a generally smooth and positive manner, particular as regards incomes. But successful agricultural adjustment, as in other parts of the EU, will be key to improving the competitiveness and environmental sustainability of the agricultural sector and boosting jobs and growth in related areas of the economy.

At present less than 10% of farm holders in EU-25 are younger than 35 and more than 24% are over 65 years old. Over the period 2000–2005, EU-25 agriculture has shed labour mainly in the prime-age group (25–54), followed by younger workers (15–24) and only then by older workers (55–64). The decreasing number of young people in the agricultural sector in can create specific difficulties for generational renewal.

Farmers' training levels are highly variable between Member States. Many farmers do not have the skills necessary to take advantage of the potential of the new environment for innovation, provision of environmental services, diversification, and development of local services and bioenergy production.

The Agricultural Council has highlighted the need to promote research and development, vocational training, advisory services and innovation, and human capital<sup>10</sup>.

### **3.3. The impact of CAP reform and rural development policies**

The main determinants of labour adjustment in the farm sector are technological change, returns on capital and the relative remuneration of agricultural labour compared to other sectors. Through successive reforms of the Common Agricultural Policy over the past twenty years, labour outflows from the agricultural sector have been broadly constant at around 2-3% per year. The introduction of direct aids as compensation for price support reductions over this period ensured that this restructuring process has taken place in a socially acceptable manner. Without direct aids many rural areas of Europe would have faced major economic, social and environmental problems. Rural development has played an important role in preventing depopulation and land abandonment in many rural areas.

The impact of decoupling introduced in the 2003 CAP Reform is expected to be broadly neutral with respect to employment. Adjustment in production structures will be balanced by a more efficient use of capital and land leading to more economically sustainable activities. Increased market orientation is expected to bring new income opportunities through both agricultural and non-agricultural diversification by farmers.

Evidence suggests that adjustments that took place in the agricultural sector and their impact upon employment have in part been absorbed through the creation of new employment opportunities on the farm or the combination of part time farm employment with off-farm employment. Rural development measures have been

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<sup>9</sup> Source: Rural Development in the European Union – Statistical and Economic Information – Report 2006, [http://ec.europa.eu/agriculture/rurdev/index\\_fr.htm](http://ec.europa.eu/agriculture/rurdev/index_fr.htm).

<sup>10</sup> Informal Agricultural Council, Krems 2006.

instrumental in accompanying and supporting this process, leading to the creation or the maintenance of a significant number of jobs.

Evaluations suggest that on-farm investment, training, forestry measures, and measures promoting the adaptation and development of rural areas are generally considered to have had been effective in creating employment. On-farm investment contributed on the whole to securing employment through improved productivity while economic diversification measures contributed more to new employment creation.

Although few quantitative estimates are available at EU level, it has been suggested that in the course of the LEADER II initiative up to 100 000 jobs were created or maintained in Europe's rural areas (in social and health care services, landscape preservation and cultural heritage). Half of the jobs concerned women. Rural diversification measures helped to safeguard many agricultural jobs and at the same time temporary jobs were created in environmental and village renewal activities.

However, measures aimed at job creation and diversification into non-agricultural activities remain a relatively small part of programmes. Estimates suggest that in the current period 2000–2006 only around 10% of the mainstream programmes for EU-15 was spent on measures which directly or indirectly generate employment outside the agricultural or first-processing sectors. This suggests that in the new period, there is considerable scope to improve the contribution of rural development programmes.

#### **4. THE CHALLENGES FACING RURAL AREAS**

Europe's rural areas are diverse and include many leading regions. However, some rural areas, and in particular those which are most remote, depopulated or dependent on agriculture face particular challenges as regards growth, jobs and sustainability in the coming years. These include:

- lower levels of income,
- an unfavourable demographic situation,
- lower employment rates and higher unemployment rates,
- a slower development of the tertiary sector,
- weaknesses in skills and human capital,
- a lack of opportunities for women and young people,
- a lack of necessary skills in parts of the agricultural sector and food processing industry.

Furthermore, the continued restructuring and modernisation of Europe's agriculture will place a heavy burden on many rural areas. On the basis of current trends it is to be expected that in EU-15 some 2 million workers on a full time basis will leave the sector by 2014. In addition, 1-2 million full-time workers may potentially leave the sector within the ten New Member States, and 1-2 million workers in Bulgaria and Romania<sup>11</sup>. To this must be added around 5 million hidden unemployed persons on

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<sup>11</sup> SERA, p. 84.

farms. These changes will touch most rural areas. In significantly rural areas, the challenge will be to avoid the risk of exclusion associated with lack of skills and low incomes. In remoter areas with higher levels of agricultural employment, the management of the restructuring process will play a significant role in the broader rural economy.

But rural areas offer real opportunities in terms of their potential for growth in new sectors, the provision of rural amenities and tourism, their attractiveness as a place to live and work, and their role as a reservoir of natural resources and highly valued landscapes. Europe's agriculture offers many high quality products. The agricultural and food sectors must seize the opportunities offered by new approaches, technologies and innovation to meet evolving market demand both in Europe and globally. This will require the development of new skills, entrepreneurship and the capacity to adapt to delivering new types of service.

In short, Europe's rural areas must exploit their potential or risk falling further behind urban areas in meeting the Lisbon targets, particularly in the remotest and most agricultural areas.

## 5. CONCLUSIONS: CLOSING THE JOBS GAP

There are significant challenges for employment in rural areas in Europe. At the same time there are a broad range of instruments at European and national level that can be used to close the jobs divide between rural and urban areas. Multi-sectoral, area-based approaches based on a partnership approach going beyond agriculture, the agri-food industry and farm tourism should be encouraged. In particular, rural development measures should be fully exploited for employment and growth.

### **Examples of job creation under the European Agricultural Fund for Rural Development<sup>12</sup>:**

- tourism, crafts and the provision of rural amenities are growth sectors in many regions and offer opportunities both for on-farm diversification outside agriculture and the development of micro-businesses in the broader rural economy;
- local initiatives to develop childcare facilities can facilitate access to the labour market. This can include the development of childcare infrastructure, potentially in combination with initiatives to encourage the creation of small businesses related to rural activities and local services;
- integrated initiatives combining diversification, business creation, investment in cultural heritage, infrastructure for local services and renovation can contribute to improving both economic prospects and quality of life;
- developing micro-business and crafts, which can build on traditional skills or introduce new competencies;
- training young people in skills needed for the diversification of the local economy
- encouraging the take-up and diffusion of ICT. developing the provision and innovative use of renewable energy sources;
- small-scale local infrastructure, supported within rural development programmes, can play a vital role in connecting major structural fund investments to local strategies for the diversification and development of agricultural and food-sector potential.

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<sup>12</sup> Key actions identified under Council Decision 2006/144/EC of 20 February 2006 on Community strategic guidelines for rural development (programming period 2007 to 2013) (OJ L 55, 25.2.2006, p. 20).

In the light of these future challenges, an integrated approach of Community and Member State policies combined with a strong focus on human capital and skills will be key elements in exploiting the opportunities for growth and employment that exist in rural areas. The Commission therefore recommends that:

- the process of CAP reform, with increased market orientation and income stabilisation through direct aids, should be maintained and consolidated;
- Member States should use existing opportunities to encourage and support the cultivation of energy crops and the development of renewable energy enterprises, which can help stabilise employment in rural areas and greatly contribute to promote sustainable development;
- given the special challenges confronting many of their rural areas, the integration of the new Member States and the restructuring of their agriculture will remain a priority over the coming years;
- in line with the Community Strategic Guidelines for rural development, Member States should use their rural development programmes to deliver the priorities of knowledge transfer, modernisation, innovation and quality in the food chain, investment in human capital and the overarching priority of the creation of employment opportunities and conditions for growth;
- as rural development can only play a part in closing the jobs gap, the full range of Community instruments should be used to promote and growth employment in rural areas. Member States should ensure that the synergy between structural, employment and rural development policies is maximised<sup>13</sup>;

**Examples of support from the European Regional Development Fund and European Social Fund for the diversification of rural areas<sup>14</sup>:**

- the provision of a minimum level of access to services of general economic interest;
  - support for an integrated approach to tourism;
  - encouragement for process and product innovation in existing economic activities;
  - investment in development poles in rural areas and by developing economic clusters based on local assets.
- actions in these fields of human development should be implemented in full compliance with the objectives of the European Employment Strategy, as set out in the Integrated Guidelines for Growth and Jobs. All Member States should promote the anticipation of change within the agricultural sector in the context of restructuring, and develop a proactive approach to training and retraining of farmers, particularly as regards transferable skills;
  - the Rural Development Network should establish, as its central work theme in 2008, job creation in rural areas.

The Commission will reinforce the use of statistical instruments in assessing the employment effects of rural development policies in the context of the Common Monitoring and Evaluation Framework for Rural Development.

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<sup>13</sup> Ibid. Section 3.6.

<sup>14</sup> Council Decision 2006/702/EC of 6 October 2006 on Community strategic guidelines on cohesion (OJ L 291, 21.10.2006, p. 11) Annex, Section 2.2.

## Annex: Key Characteristics of Rural Areas in EU-27

### Territorial Characteristics

	<i>EU-27</i>	<i>Predominantly Rural</i>	<i>Significantly Rural</i>	<i>Predominantly Urban</i>	<i>Definition of region</i>	<i>Year</i>
% Territory	100,0	57,0	35,7	7,3	NUTS 3	2003
% Population	100,0	20,5	37,8	41,7	NUTS 3	2003
% GVA	100,0	13,2	31,7	55,0	NUTS 3	2002
% Employment	100,0	18,7	34,6	46,7	NUTS 3	2002
% Utilised agricultural area (1)	100,0	43,2	46,8	10,0	FSS District	2003

(1) excluding ES, SL

### Demographic Characteristics

	<i>EU-27</i>	<i>Predominantly Rural</i>	<i>Significantly Rural</i>	<i>Predominantly Urban</i>	<i>Definition of region</i>	<i>Year</i>
Population density (per km <sup>2</sup> )	114,8	40,9	118,2	638,7	NUTS 3	2003
% people aged 15–64 in total population (1)	67,2	65,9	67,1	68,0	NUTS 3	2001
Net migration rate(2)	3,9	1,8	4,0	4,8	NUTS 2	2003

(1) excluding BE, DK, LV, MT, SI

(2) excluding EE, CY, LU, MT

### Economic Characteristics

	<i>EU-27</i>	<i>Predominantly Rural</i>	<i>Significantly Rural</i>	<i>Predominantly Urban</i>	<i>Definition of region</i>	<i>Year</i>
GDP/capita (EU-25 = 100)	95,5	64,5	82,3	122,8	NUTS 3	2001
Primary sector as % total GVA (1)	2,3	5,1	2,8	0,9	NUTS 2	2002
Tertiary sector as % of total GVA	71,1	62,4	67,9	74,5	NUTS 3	2002

(1) excluding MT

### Employment Characteristics

	<i>EU-27</i>	<i>Predominantly Rural</i>	<i>Significantly Rural</i>	<i>Predominantly Urban</i>	<i>Definition of region</i>	<i>Year</i>
Employment rate %	62,7	60,1	61,9	64,7	NUTS 2	2004
Rate of unemployment (% active population)	9,2	9,9	10,1	7,8	NUTS 2	2004
Long-term unemployment (% active population)	4,1	4,5	4,7	3,3	NUTS 2	2004
Self employment as % of total employment	15,3	19,3	15,2	13,8	NUTS 2	2004
Adults participating in education and training as % of population (1)	8,5	8,2	7,8	10,1	NUTS 2	2004
Employment in primary sector %	6,7	20,6	6,9	1,7	NUTS 2	2002
Employment in tertiary sector % (2)	66,8	57,1	65,0	74,7	NUTS 3	2002

(1) excluding EL

(2) excluding NL, RO

Source: Rural Development in the European Union – Statistical and Economic Information – Report 2006, [http://ec.europa.eu/agriculture/rurdev/index\\_fr.htm](http://ec.europa.eu/agriculture/rurdev/index_fr.htm)