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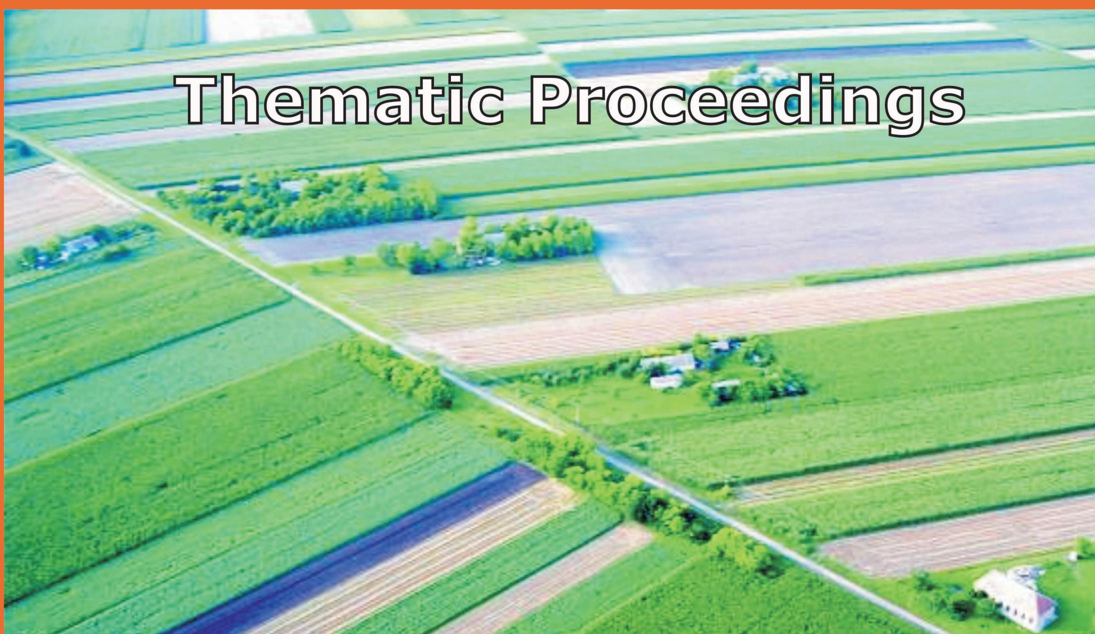

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THE INTRODUCTION OF EU RURAL DEVELOPMENT POLICY IN CENTRAL AND EASTERN EUROPE

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INTRODUCTION

The accession of ten countries from Central and Eastern Europe (CEE) has dramatically increased the rural population and territory of the European Union (EU). The success of EU enlargement will thus depend to a significant extent on the resources of rural areas in the NMS and the ability of rural policy (EU and national level) to ameliorate the socio-economic problems that are acute in many of these countries. This paper evaluates the introduction of EU Rural Development Policy in the NMS and is organised as follows. Section 2 presents a brief overview of the evolution of the Second Pillar of the CAP and its transfer to the NMS. Section 3 outlines the emerging agendas and choices made regarding rural policy in the NMS, highlighting similarities and differences with the EU15. Concluding remarks concerning the appropriateness of EU rural development policy are drawn in Section 4.

THE RURAL DEVELOPMENT REGULATION AND THE NMS

The need for a 'sustainable and integrated' EU rural development policy was first stressed by Commissioner Fischler at the 1996 Cork Conference, but it was not until 1999 that a specific policy framework was instigated. Agenda 2000 established rural development policy as the second pillar of the CAP alongside the EU's agricultural market policy (the first pillar) (CEC, 2006a; Dwyer et al., 2002). As a result, the Rural Development Regulation (RDR) was adopted, and incorporated all previous (nine) instruments (e.g. agri-environmental measures, forestry, Less Favoured Areas (LFA) payments, and investment in farm modernisation) into a package of measures for the whole EU (CEC, 2006b; Ward and Lowe, 2004; CEC, 2003). Although, the financial resources allocated for 2000-2006 were limited (10.2% of CAP expenditure) the RDR was novel in terms of its mechanism for implementation. Member states were entitled to initiate their own Rural Development Programmes in accordance with their specific requirements of rural areas, but following a 'Europeanized approach' (Ward and Lowe, 2004).

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In parallel, in preparation for enlargement, Agenda 2000 initiated two additional pre-accession financial instruments, namely ISPA (Instrument for Structural Policies for Pre-Accession) and SAPARD (Special Accession Programme for Agriculture and Rural Development). Designed to function on similar principles as those of the European Guidance and Guarantee Fund (EAGGF)-Guarantee Section, SAPARD was created specifically to support the applicant countries (except Malta and Cyprus) make structural changes to their agricultural and rural areas, and help them comply with and implement the *acquis communautaire* (the EU's legislative corpus) concerning the CAP and related policies. In this regard, pre-accession assistance implied *de facto* that it was the responsibility of the NMS to align to the EU15, rather than some form of mutual adaptation. The instruments were designed for the NMS to effectively implement the plethora of already existing EU measures, instead of promoting new national policy measures. Unlike the other two pre-accession instruments, SAPARD, emulating the RDR, brought a new dimension to Community aid, namely a decentralised financial management system, with the Commission's responsibilities for managing Community funds being passed on to the applicant countries. Each candidate country was invited to develop its own national seven-year (2000-2006) agricultural and rural development plan.

In principle, SAPARD funds were distributed across the countries on the basis of their agricultural area, rural population, national income and specific territorial situation (CEC, 2001b). A maximum amount of €520 million per year (1999 prices) was allocated for all ten countries for the period 2000-2006, with Poland (32%) and Romania (29%) as the biggest recipients, and Slovenia (1.3%) the smallest. In contrast, for the same period, the funds allocated through the EAGGF – Guarantee for rural development for EU15 represented €32,906 million. The Community could contribute to a maximum of 75% of the total eligible public expenditure and, for certain measures, cover the entire costs. Despite programmes differing from country to country according to the specific agricultural and rural development characteristics and needs, three measures were dominant for all countries: processing and marketing of agricultural and fisheries products (26% of the expected total EU contribution); investments in agricultural holdings (22%), and development and investment of rural infrastructure (21%) (CEC, 2001).

With the 2004 enlargement imminent, the Mid Term Review (MTR) reforms (2003) sought to provide a framework for the post-enlargement CAP which would allow accession to be accomplished within the agreed budgetary framework and provide a basis for dealing with challenges facing rural areas in CEE. The reforms strengthened rural development policy by transferring some funds from the first to the second pillar of the CAP through modulation, making cross-compliance compulsory, and adding new measures such as the promotion of food quality and animal welfare and help for farmers to comply with new EU standards (CEC, 2003; CEC 2006a). The decision to implement these new measures resides with the Member States. However, these reforms have been far more modest than what many initially envisaged would be necessary to successfully integrated CEE into an enlarged Europe (Buckwell et al., 1995).

RURAL DEVELOPMENT AGENDAS IN AN ENLARGED EUROPE

Some broad similarities and differences in the agendas for rural development between, and within, the EU15 and the NMS from CEE are summarised in Table 1.

Table 1 Comparing Policy Agendas in the EU15 and the NMS from CEE

	EU15	**NMS**
Attitudes to Agricultural Policy (Pillar 1)	Conflict between protection of status quo and reform groups of EU15	Expansionist strategies for commercial production during preparations for accession.
Attitudes to Rural Development Policy (Pillar 2)	Economic importance of agriculture to rural economies declining and in many cases now marginal. Conflict between agricultural and wider models of rural development.	Historical weakness /absence of wider rural development policy. Agriculture still seen as backbone of rural economy. 'Import' of RD policy to fulfil EU demands.
Relationship between Pillar 1 and Pillar 2 policy.	Conflict between agrarian led rural policy and wider territorial initiatives.	Historical weakness of rural development units within Agricultural ministries.

SAPARD was followed by a Temporary Rural Development Instrument (TRDI), for those countries that joined the EU in 2004, which lasted until the beginning of the next financial programming period (2007-2013). The arrangements for the 2007-2013 programming period were finalised in September 2005, when the European Council adopted a new RDR which officially embedded the MTR decisions. The 2005 RDR has been hailed by the European Commission (EC) as a fundamental reform that simplifies the content and delivery of rural development policy (CEC, 2006a). It introduced a new financial discipline through the creation of the European Agricultural Fund for Rural Development (EAFRD). The new RDR focuses on three key elements, i.e. the agri-food economy, the agri-environment and the rural economy and population, and future policy will develop around four major axes: (i) improving competitiveness of the agricultural and forestry sector; (ii) improving the environment and the countryside; (iii) quality of life in rural areas and diversification of the rural economy; and (iv) Leader (Article 2.3, Council Decision, 2006/144/EC). The amount proposed by the EC for the EAFRD for 2007-2013 accounts for €96 billion (at 2004 prices) (CEC, 2006a). To obtain funding, Member States are obliged to draw up their strategy plans "at the most appropriate geographical level", justifying their choice of measures from the menu of agricultural and rural development schemes available for inclusion under the four axes, based on the rural development needs of particular regions. The programme therefore grants a degree of flexibility on the choice of measures from a common menu.

Agendas for Agricultural Policy (Pillar 1)

The debate over CAP reform in Western Europe has focused on two groups of states: those which have broadly sought to preserve as far as possible the status quo of significant protectionism to Europe's farmers and those which have advocated a more liberal regime. The first group has been led by France and includes most of the net beneficiaries of the CAP (e.g. Spain and Ireland). These states seek to retain the position of the CAP within the EU's overall budget and have been more reticent in their support for enlargement. Market liberalisation has been most consistently advocated by the UK, with some support from Sweden, and, to a lesser extent, the Netherlands and Denmark (Lowe et al., 2002). While the 'CAP preservationists' outnumber the liberalisers in the EU15, the challenge of meeting WTO commitments and the financial costs of enlargement, particularly the cost of extending the CAP to CEE, have presaged some reforms. The latter issue has exercised net EU contributors, particularly Germany. Although Germany has traditionally been part of the first group it has also advocated a form of 'renationalised CAP', so that Member States would pay a greater proportion of the costs of financing their share of the CAP.

During the 1990s, CEE was characterised by significantly lower levels of real protection to farmers compared to the EU (OECD, 2001). During the same time period, agricultural production, particularly in the livestock sector, fell significantly in CEE due to the collapse of the COMECON market, unfavourable terms of trade, declining consumer purchasing power and instabilities induced by privatisation in food supply chains (Swinnen and Rozelle, 2006). These patterns moulded the responses of Ministries of Agriculture in CEE prior to accession, which in general, promoted two sets of agricultural policies. First, they sought to rebuild commercial agricultural production, seeking to establish 'viable family farms'. These attempts were often linked to initiatives to increase the output of milk and other commodities to raise the bargaining power of the NMS in their negotiations with the EC over quotas and other structural decisions. As part of SAPARD, acceding countries were offered a menu of potential support measures with the most popular (both in terms of how well they were received by NMS governments and the share of funding allocated to them) being investment in agricultural holdings and support for the processing and marketing of agricultural products. These choices anchor the NMS in the protectionist rather than market liberalisation wing of the enlarged EU. Second, most CEE states prior to accession introduced direct payments for farmers, albeit at a substantially lower level than the EU equivalents. It was this expansion in direct payments and other agricultural supports, which accounted for the 'lion's share' in the growth of agricultural budgets in CEE prior to accession rather than experimentation with wider measures of rural development.

Agendas for Rural Development Policy (Pillar 2)

In general, non-agriculturally based rural development policy has historically been less developed in the NMS than the EU15. During the mid-1990s rural development departments of Ministries of Agriculture in the NMS were typically peripheral entities controlling few resources and having little influence within the Ministry (Elliott, 2005; Zellei et al., 2005). This is apparent regarding both environmental schemes and programmes to stimulate the non-farm rural economy. Concerning the former, while the NMS have a long history, and extensive network, of protected areas, these have largely been controlled through 'command and punish' measures with very little experience of payments for the provision of environmental goods and services. Moreover, the productionist tendencies that predominate in most NMS Ministries of Agriculture have tended to override environmental agencies with NGOs similarly having little influence (Zellei et al., 2005). As part of SAPARD, agri-environmental schemes were included as a compulsory measure, but this was due to pressure from Western NGOs and the EC rather than enthusiasm from NMS Ministries of Agriculture. Problems at the national level have also been compound by local government being typically weak in rural areas of CEE, a problem which has its roots in the pre-reform socialist system.

The NMS have had to develop their capacity in EU rural development measures through three instruments: first, during the pre-accession period, SAPARD, then, between 2004 and 2006 the TRDI and, for the period 2007-2013, implementation of the RDR. Experiences from the first two sets of rural development measures suggest that capacity to implement agri-environmental schemes and measures to stimulate the non-farm rural economy remain weak. For example, as accreditation of SAPARD proved more difficult than expected, agri-environment measures were dropped from most plans with resources reallocated to others measures (Elliot, 2005). In total only 62% and 68% of Community finances available under SAPARD and TRDI for the period 2000-2005 were actually utilised (calculated from DG Agriculture and Rural Development, 2006).

Table 2 Indicated Distribution of EAFRD Funding between Axes for NMS and Selected EU15 Regions (%)

Country	Axis 1 (Competitiveness of Agriculture and Forestry)	Axis 2 (Environment)	Axis 3 (Quality of life / diversification of the rural economy	Axis 4 (Leader)
Bulgaria	31	27	42	3.5% within Axis 3
Czech Republic	23	54	18	5
Estonia	40	39	21	10
Hungary	47	32	11.5	5.5
Latvia	50	30	20	
Lithuania	43	40	3-13	
Poland	46	35	17	
Romania	45	25	30	2.5
Slovakia	20	62	14	
Average NMS	38.4	41.7	15.5	
Flanders	65	25	10	5% within Axis 3
Frankfurt/Rhein-Main	25	50	20	5% within Axis 3
Nord Pas De Calais	53	23	24	5% within Axis 3
Randstad, Netherlands	30	30	30	10
South East England	10	80	10	5% in other axes
Stockholm	15	75	10	5% in other axes
West Midlands, UK	10	80	10	5% in other axes
Average EU15 regions	29.7	51.9	16.3	5.7

Sources: Keenleyside (2006); Keenleyside *et al.* (2006), reports from National Ministries of Agriculture

Table 2 presents a breakdown of intended resource allocation between the axes for the NMS and selected EU15 regions. These figures should be treated with caution as, at the time of writing, national strategy documents had not been endorsed by the EC, so that further revision may occur. Table 2 highlights significant differences in the distribution of resources between the axes amongst the EU15 and NMS. The programmes for the UK and Sweden are heavily weighted to environmental stewardship, particularly agri-environmental schemes. The plan for Nord Pas De Calais reveals, in contrast, that the majority of EAFRD funds are intended for Axis 1 measures, principally concerned with agricultural competitiveness. This reflects France's continued preference for an agrarian model for rural development under the 2000-2006 RDR (Lowe et al., 2002). For the NMS as whole, the share of funds attached to Axis 1, specifically those measures focussing on agricultural competitiveness, is higher than the mean for the EU15. Expenditure under Axis 2 is predominantly for rather simple LFA payments, directed at farmers, rather than supporting the provision of specific biodiversity and environmental objectives. Implementing the fourth axis also remains a major challenge given the general lack of experiences with Leader-style programmes in the NMS. This has been reflected in the rules governing Axis 4: for the NMS (except the Czech Republic) the minimum Community financial contribution of 5% may be phased in over the programming period, in such a way that for this axis only 2.5% of the EAFRD total contribution is allocated to it during the period 2007-2013.

CONCLUSION

As enlargement has made the EU substantially more rural and agricultural, the appropriateness of implementing the CAP is central to the challenge of effectively integrating the NMS into the Union. At the outset of this process the EU15 clearly stated that it was for the NMS to align to the EU, and fit into existing programmes, rather than for accession to become a process of mutual adjustment. However, three key sets of problems obstruct the emergence of an effective rural development policy in the NMS.

a) Balance between Pillar 1 and Pillar 2. While Pillar 2 spending is increasing in the NMS, the financial flows under this stream are minor, and will increasingly be so as direct payments are phased in, compared to Pillar 1 measures. Little attention has been paid to the consistency of impacts between Pillar 1 and Pillar 2 measures. For example, survey work in the NMS concerning the intentions of farmers towards the expansion of direct payments suggests that rises in such support will lower their propensity to seek off-farm jobs or create non-agricultural businesses (Chaplin et al., 2005). Consequently, the transfer of Pillar 1 support is likely to lock farmers into agriculture, rather than stimulate the non-farm rural economy, which is a key objective of Axis 2 of the EAFRD.

b) Impact of CAP Direct Payments. CAP direct payments, which were first introduced as temporary measures for compensating farmers in the EU15 for price cuts, have become an established support mechanism, which seeks to play "a central role in ensuring a fair standard of living and stability of income for the agricultural community" (CEC, 2002: p.7). It is questionable whether this assistance, which is based on a family farming model of agriculture, will deliver such welfare benefits in the NMS. Those that lack a 'fair standard of living' in rural CEE are characterized by being either landless or restricted to small plots. The latter groups will benefit least from the introduction of direct payments, typically being ineligible for the receipt of such funds. The main gainers from Pillar 1 will be large, corporate farms and it is unclear whether transfers to such institutions will trickle down to small-scale land owners (Latruffe and Davidova, 2006).

c) Capacity to Implement Policy. Capacity to introduce Pillar 2 measures has been historically weak in the NMS, which has delayed their implementation and led to Ministries of Agriculture choosing to focus on options that are bureaucratically easiest to administer with a preference in most cases for productionist supports (Axis 1). Even though Axis 2 will receive substantial funds, most of this will go to simple LFA payments and it is questionable whether these can accurately be classified as 'multifunctional support', as they remain a farm-centric measure that is insufficiently fine tuned to achieve specific environmental objectives.

These difficulties suggest that EU enlargement was a missed opportunity for a more fundamental reform of the CAP and enhancement of rural development measures. Accession provided a suitable point for reviewing the impacts of current supports and how their transfer to the NMS would affect an enlarged union. However, rather than mutual adjustment, accession was accompanied by a process of only modest reform in the EU15, with the weight of adjustment being on the NMS to align to the established frameworks of existing Community arrangements. This implied the transfer of a model of agricultural support based on a family-farm model which fails to account for the varied nature of farm structures, rural incomes or bureaucratic systems and power bases that are present in CEE. As a result, the adoption of the CAP in CEE is unlikely to help, at least in the short run, those most in need in rural areas, with the Second Pillar being implanted in a manner that neither leads to a truly multifunctional nor integrated rural development policy.

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