

Communications & Opinions



A viable countryside for YFCS. Taking a look at medium and long-term policies that will affect rural business*

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24 June 2006

*Speech at the meeting of the Young Friends of the Countryside

The viability of the countryside depends on eight factors: climate, water resources, past and present private initiative, public policy, financial support, the international trade context, relative lobbying capacity and public opinion.

All these eight factors are essential components of the viability of our, as well as everybody else's countryside in the future.

Climate

The countryside is strongly affected by climate. Our temperate zones are privileged in that respect, or have been so far. But the long-term trends are worrying. The recent "Millennium Assessment" of the UN concludes that 60 per cent of the services provided by the planets ecosystems have been degraded by human activity, and global warming threatens to further perturb the ecosystems reducing and polluting water resources, increasing soil salinization, reducing the forest cover, particularly in the tropics, reducing the number of plant and animal species and promoting genetic uniformity in several respects.

Water resources

Two billion people lack water sanitary networks. Only slightly less has no access to clean water. Hundreds of million women and children spend hours a day collecting water. Nine million die every year (25,000 a day) from water-linked illnesses, half of whom are children. In 2005 more people died from lack of clean water than all the life casualties of wars running then. Water scarcity and absence of sanitation favor malnutrition, sickness, ignorance, poverty and inequality. Without water there is no development¹.

Clean water shortage is a much greater threat to the future of humanity than depletion of oil reserves, because there are current and potential substitutes for oil, but none for water, and no food can be produced without lots of it.²

Falling water tables are the consequence of population growth, increases in food supplies and changing diets,³ accelerating depletion of underground water resources diversion of irrigation water from food

¹ See: Loïc Fauchon, President of the World Council on Water, *Le Soir*, 22/03/2006, Brussels

² Average daily food consumption requires 2,000 liters of water per day to produce it. Water shortage leads to food shortage. It is estimated that by 2020 two to three billion people are likely to experience serious water shortages, that is three to five times as many as to-day, and that some forty countries may become water-stressed, double as many as to-day (See Lester Brown, *Outgrowing the Earth*, Norton (2004).

³ In the U.S. alone the consumption of grain food and feed (for animals) averages 800 kg. per person annually. A modest reduction in beef consumption could cut grain use per person by 100 kgs., cutting grain use per person by 100 kgs., grain use by 30 million tons and water use by 30 billion tons! As it is estimated that some 5 billion people in the world want to move up the food chain towards more livestock-intensive products, one can well imagine what impact that would have on food production and use of water.

production to the cities, growing pollution, climate change with rising temperatures, deforestation, over-use of aquifers, and finally leaks and wasteful practices regarding irrigation water as well as the use of urban water. All these factors are related to receding bio-diversity and growing eco-system losses, which worsen the human living conditions. These phenomena are present in both developed and developing countries. They have a negative impact on life in rural areas and of poorer communities also in Europe..

The future of rural business requires new technologies to increase water productivity on the ground, new technologies to increase sustainable clean water resources, provide more efficient desalinization processes to remove salt from seawater, and develop drought resistant crop varieties;

Other requirements for sustainable business in rural areas are: water safety and sanitation, waste disposal, water infrastructure investment, improved management of water systems and related women education, water savings shifting energy production from fossil-fuel-powered thermal plants⁴ to renewable energy sources such as solar and wind power, reducing running-off water, and limiting the use of non-renewable inputs such as pesticides and fertilizers. Nature protection also helps preserve clean water supplies. These requirements cannot be met as long as only 5% of public support is devoted to tackling water scarcity.

Continuing neglect of water conservation and management, which is the crucial prerequisite for sustainable development, would make sustainable development eventually impossible and also lead to a dramatic reduction in food production as water reserves are increasingly shifted from the countryside to the urban areas.

Private Initiatives

Most European landscapes, whether they appear created or natural, have been shaped and influenced by sophisticated forms of human activity, mostly private initiatives. Alpine pastures, dry meadows, marshes, hedges and terraces are just a few examples how agriculture has formed our natural environment. Forests too have often been subject to human influence, as in former times they were closely integrated into agricultural production systems.

As a result of past behavior, most of Europe' territory is still rural. If one uses the OECD threshold of 150 inhabitants per km² at the municipality level to identify rural communities, three types of regions can be identified:

- Predominantly rural regions with over 50% of the population living in rural communities
- Significantly rural regions with 15 to 50% of the population living in such communities, and
- Predominantly urban regions (all others)

Predominantly rural regions cover 47% of the EU-15 territory and contain 10% of the EU-15 population. If one adds significantly rural regions, more than 80% of the EU-15 area can be classified as rural and about 40 % of the total population lives in rural areas. These percentages are higher in the newly enlarged EU.

Many rural areas in Europe are experiencing particular difficulties due to declining employment possibilities and a declining population in more than 40% of the predominantly rural regions of the EU-15 (but also 30% of the urban regions are losing population). In many rural areas the exodus to the towns has made it difficult to maintain a critical mass for essential facilities and services.

At the same time, there are rural regions that have succeeded in generating a higher level of employment opportunities than the national economies as a whole. This is not just because they enjoyed particular comparative advantages, including location, but also because they benefited from local leadership and dynamism, a good entrepreneurial climate, educational level and cultural and natural environment. Agriculture has increasingly interlocked with other economic sectors such as crafts, commerce, industry, tourism and other services, making a basic contribution to diversifying the rural economy. A sustainable use

⁴ These require enormous amounts of water for cooling, which comes from a river and is returned to the river as hot water with negative ecological effects.

of agriculture has helped rural areas to provide the better services society needs. It has also often contributed to improve the environment, ensuring the upkeep of the countryside, protecting vital resources, maintaining bio-diversity and fostering a balanced ecology.

But there have obviously been failures. Agriculture has continued to contribute to pollution. Rural depopulation has not been stopped. The market system has proved insufficient to ensure the proper distribution of activities without an appropriate public policy and corrective mechanism.

Public Policy

A new approach was called for. It resulted in the Fischler reforms of 2003-2004. It addressed head-on the relationship and interaction between agriculture and rural development. Agriculture remains fundamental to rural development, but does no more represent in most of Europe the largest part of value added in the rural areas. The prospects of the agricultural sector are closely intertwined with the other sectors of the rural economy, particularly in places with marginal returns, where natural and structural handicaps restrict agricultural potential but where there are often few alternative opportunities for employment. Conversely, the development of rural areas cannot be treated separately from changes in agricultural policies and structures. All this called for a better coordination of agricultural market policy and rural development policy.

The Fischler reform aims at helping EU farmers to better meet the pressures of competition deriving from increasingly open international market, make the necessary structural adjustments, diversify their activities and seriously address the environmental challenge by actually applying existing environmental directives and principles in order to preserve our farming landscape and culture in rural areas intact. The agro-environmental measures become compulsory for every regional development programme and represent at least one half of rural support. New measures include the improvement of product quality and off-farm diversification (micro-enterprises). The system has been simplified as rural development will benefit from one fund instead of two (with the FEDER), one system for financial management and control instead of three systems, and one programming system instead of five.

Because the CAP and its reform process affects all regions and the countryside is called to perform a widening range of functions, the new rural development policy, unlike the regional fund (FEDER) could not be restricted to particular problem regions, but had to be applied to all rural areas. Moreover, the financial means available deserved an increase by transferring a part of market support to rural development via the so-called "modulation". By 2013, according to the Fischler Reform, the financial resources for rural development should have amounted to some 17 billion a year for the EU 27. But this expectation, which is based on the CAP reform agreed in June 2003 has now been betrayed by the recent agreement of the European Council of heads of State and Government regarding the New Financial Perspectives for 2007-2013, of which more later.

The necessary EU rural development strategy document providing guidelines for the regional development strategies for the future has just been elaborated. It sets out the EU priorities for the three thematic axes for rural support: increasing competitiveness, land management and diversification of the rural economy and quality of life in rural areas

Financial Support

The Council deliberations regarding the New Financial Perspectives (NFP 2007-2013) have penalized most budget chapters including rural development and, somewhat less, CAP market support. We call the latter the first Pillar of the CAP and the former the second Pillar of the CAP.

This time, the negotiations on the financial perspectives up to 2013 has been more acrimonious than any time before, and they are far from finished as the European Parliament has refused the Council's conclusions and attempts to gain greater powers in, EU budgetary matters. In Council, the so-called net-beneficiaries (Portugal, Greece, Ireland and Spain) did not want to lose their traditional benefits, despite the accession of 12 newcomers. The so-called net-contributors wanted to pay less. The UK did not want to give

up its budget rebate, and France, also a net-contributor, wanted to freeze EU payments, but leaving the CAP untouched as the biggest heading.

Faced with the budgetary constraints, which are part of the so-called “Maastricht Criteria” on European Monetary Union, the richer Member States, including those who consistently fail to respect those criteria, affirm that the EU budget should by implication be frozen at its current level. More generally, the EU paymasters tend to pay lip service to the solidarity concept at the European level, which was part and parcel of the Single Market agreement and remains a fundamental element of Europe’s socio-economic model. In order to get agreement on the Single Market in 1985, it became necessary to provide increased financial support to those Member States that were less able to compete in such a market.

The solidarity concept whereby the richer M.S. are ready to pay for the poorer ones has seriously weakened. Fact is that the stance, which member States take in EU affairs, is increasingly dictated by narrowly defined self-interest instead of collective advantage, regardless of the merits of the case.

(In this context, the enemies of the CAP in whatever form, have geared up support against the proposal tabled by the Prodi Commission on the NFP. The latter proposed an annual overall budget growing to €158.450 billion in 2013 in constant (2004) prices, or 1.24% of Gross National Income. This proposal is actually only 0.10% of GNI higher than that of Agenda 2000 (both adjusted for enlargement). This is not much considering the substantial policy commitments made by the Council since 1999. It is moreover relatively modest if one considers that the 1.24 %-of GNI EU budget ceiling had been established in 1984 when the Community consisted only of 10 Member States and further enlargements were not on the cards except for Spain and Portugal.)

This has led the Council to slash the budget proposed by the Prodi Commission to an annual level, which is nearly ten percent below the level planned for this year, despite the accession of ten new members. As the Council had agreed beforehand to preserve Pillar 1 of the CAP, its cuts were concentrated on those budget items which regarded the decision to boost the EU competitiveness. As a result, the share of agriculture, which according to the Commission’s proposal should have decreased from 45% of EU expenditure in 2006 to less than 35% in 2013, due to the growth in the outlays devoted to new policies notably connected with the Lisbon commitment on competitiveness, growth and employment will remain about the same as today. This will in turn provide a better opportunity for the anti-CAP coalition to further cut its budget on the next occasion.

(The accession of 15 (soon at least 17) more countries over the last decade, most of whom are major net recipients of EU money, inevitably means major expenditures, but only minor revenues for the EU budget. The “gang of six” countries, who favored a budget freeze, could not be unaware that enlargement to the East had substantial financial implications. Anyway, they ignored that they had only recently signed-up for a freeze in agricultural market spending up to 2013, and that the biggest agricultural reform in the Community’s history had been made in accordance with the CAP budget freeze agreed in 2002 in Brussels. Nor did they care to remember how difficult it had been to reach agreement on reforming the CAP, and in particular on decoupling support from production. It was this provision that made the CAP more market – oriented and less trade-distortive, and hence more acceptable to the WTO. This result would not have been achievable without guaranteeing farmers their historical support levels, which the European Council has agreed in 2002).

The demand of the Gang of Six (Austria, Denmark, France, Germany, Sweden and The Netherlands) to impose a lower budget ceiling in terms of GNI (Gross National Income) than agreed in 1984, therefore betrays prior political commitments and objectives by the Council. A 1%-GNI inevitably reopened the Brussels 2002 framework on the CAP by reducing the money promised then. Further cuts in outlays are expected from the Doha Round of the WTO. This means slashing market expenditure below the freeze level agreed in 2002 and the 2003 CAP reform, and chopping rural development support even more, by as much as € 39 billion (if co-financing by MS is taken into account) up to 2013. The result is in stark contradiction with the Council agreement to reduce market support to the advantage of rural support. Rural money was cur even more than market money. Instead of expanding, rural development policy will therefore contract so

that spending on environmental measures, animal welfare and food quality, and the sustainability of agricultural production will suffer.

That there was no mobilization against this approach bears witness of the weakened initiative and influence of agricultural interests in public policy making, both nationally and internationally.

We Friends of the Countryside must take greater interest in the wider EU budget debate, because it seriously impacts on the rural areas. We must do more to dispel the conventional contention that agriculture makes up too large a part of public expenditure. It is indeed worth reminding the anti-agriculture lobby that there has been a steady rise in public spending in the Member States, while the EU budget suffered substantial cuts (if EU enlargements are taken into account). Furthermore, agricultural expenditure has been steadily decreasing so far as a share of the EU (and overall) budget spending, as well as in real terms and per farm. We must stress two points. Firstly, that the still substantial share of the EU budget devoted to agriculture and the environment, and the Council refusal to reduce it further to 35% of the EU budget, are simply the result of the lack of other substantial common policies with budgetary implications for Europe. Secondly, that only one per cent of public expenditure is devoted to farmers, only one fifth of their share in total population. And thirdly, that while most farmers are keen to improve the sustainability of agriculture, which they cherish as their most precious asset, they cannot afford to do so, because the market mechanism does not provide compensation for the relevant additional costs unless they can count on adequate support.

Most Member States are of course aware that substantial levels of financing for agriculture, rural development as well as regional and social support are necessary in the context of Europe's socio-economic model according to which economic growth must go hand in hand with a degree of solidarity towards those who are less able to compete. All Member States apply this "Sozialmarktwirtschaft" concept in domestic policy as well as within the EU context. But lately some Member States have tried to shift their support for solidarity from the EU level to the domestic level.

Where the share of co-financing is already high (structural funds, regional fund) several Member States will push in future for further budget cuts – openly or by stealth. Instead, there where there is no co-financing such as pillar one of the CAP, a number of MS wants to progressively introduce co-financing like is already the case for the second pillar. Supporters of the latter view have different aims. Some consider co-financing as the best means to change the net balance between their payments into, and receipts from, the EU budget to their own advantage. Others see it as a first step towards the "renationalisation" of the CAP, which is anathema for others. While most MS still claim they want "more Europe", many maintain that it can be obtained with less money. In reality, the larger and richer Members seem to want less Europe and in particular less solidarity towards those Members who for the time being are less able to compete. The rich Members ride the horse of budget diversification by pushing for cuts in existing common policies instead of developing new policies or increasing support for growth-and-employment-promoting policies.

Why do governments who ask for "more Europe" and for greater concentration on objectives such as economic growth and jobs refuse to take the relevant budgetary decisions in the EU context? One reason is probably that EU money buys them no votes, whereas national or regional budgetary expenditure does, at least as far as the parties in power are concerned. Another reason is the stringent budgetary rules of the European Monetary Union.

As the EU's margin of maneuver dwindles in line with stagnant EU budgets, the EU becomes an even more convenient scapegoat for domestic failure. While everyone knows what needs to be done – as PM Juncker said – Governments are simply not strong enough to do it.

The International Trade Context

The international trade context for European agriculture is a mixed bag. On the one hand, the Fischler reform has taken the EU off the hook in that decoupling of support from production has made the CAP much less trade distortive. According to the OECD, if one gives to a price support system a distortion index of 100, the distortion rate of a partial support to production – the so called "blue box" – is just below 30 and that of the recently introduced decoupled support is only 7.

The WTO negotiating framework agreed in July 2005 in Geneva is fully compatible with the new CAP so that no new reform is required with the exception of sugar, particularly after the EU lost the WTO panel. Although the EU has accepted to phase out its export subsidies, it will not need to do so before 2014, i.e. before the next financial perspectives. We can expect the CAP reform process to continue, but I do not believe that it will be brought forward or implemented before 2014, in spite of the Council commitment obtained by PM Blair of a Mid Term Review of the CAP in 2008-2009.

Despite the increased compatibility of the CAP with WTO rules, the pressure for further changes has increased again. There are two reasons for this. The first is that the negotiations have got stuck on industrial tariffs and services because most countries, notably the less developed ones, have hardly made any concessions and prefer to support those who ask greater changes in agricultural policies of the US and the EU. Agriculture is actually the only area in which the negotiations have advanced well. The second reason is the weakness of the EU negotiating team.

Trade Commissioner Mandelson, unlike Lamy has little knowledge, understanding or sympathy for agriculture. For this reason a coalition of more than a dozen Member States have let him formally know how little negotiating leeway they are prepared to give him without prior consultation. Besides, it would be ironic to see the Commissioner, who caved in to the textile lobby backtracking on the old commitment to abolish the Multifiber Agreement, failing to defend the cap reform until the end of the current financial perspective. However, in practice, he will eventually accept the CAP to pay a further price in order to obtain concessions by others on services and on industrial tariffs. He already had said that much proving how bad a tactician he is.

Public Opinion

In the long term, the viability of the countryside depends not only on its attractiveness and on how it is managed to insure its sustainability, but also and foremost on public opinion and its impact on public policy and on the image of farmers and rural dwellers among the people at large.

At present, the European public has mixed feelings about agricultural and rural development policy.

The public tends to criticize the CAP and a majority believes farmers are over-supported and polluting the soil. This public image is no encouragement to the young generation to enter the farming business.

But there is vast public support for the objectives of the New CAP such as healthy and safe food, tasty food, promotion of the environment, improvement in country living, protection of small farms, diversification of production, competitiveness on world markets, stable and fair farm revenues, reduction in rural-urban income disparities, biological methods of production, with the least supported of these objectives getting still some 75% of positive responses. A majority now believes that the CAP plays a useful role for the environment and food security, but few believe that farm income is generally sufficient, that the countryside is attractive for living, that consumer expectations are satisfied. While a majority criticizes agricultural support as excessive, many admit that small farm income is insufficient and that farmers have little support in dealing with far more powerful intermediaries, who siphon off the bulk of the final shelf price of their produce.

Farmers too have mixed to negative feelings. As²long as a majority of Europe's farmers (except in DK and IRL) consider that the CAP is unfavorable to their interests, the long-term prospects of agricultural support do not look good. The least satisfied seem to be the small farmers, many of whom do not benefit from European funds and find the formalities too cumbersome. As long as a majority of European farmers (except in the Nordic countries) consider the CAP budget too low, particularly in southern Europe, one can fear further land abandonment. This risk is aggravated by a general pessimism about future support and the effects of the WTO negotiations on European agriculture.

While recent public opinion polls provide a mixed picture on the subject regarding public attitudes about CAP policy objectives and farmer satisfaction, the new CAP is generally seen as a step in the right direction. That direction is unlikely to change as the CAP reform process continues to unfold.

But public policy is not the most important determining factor of the future of the countryside. Public views and private behavior are.

It is primarily up to the farmers themselves to improve their image, which is not as good as they like to believe, as caretakers of the countryside as against a perception of polluters of the soil and water.

There is little doubt that, while the CAP is unpopular, this is due to the first pillar, which farmers support most, not to the second one. Rural development enjoys considerable and possibly growing public support, which is why it is the wave of the future. But it is equally clear that public budgets will be under continuing pressure, notably in the new member states, which do not have the money necessary to co-finance rural projects which can obtain support from the EU. This is incidentally one reason why they did not fight to defend the rural budget proposal made by the Commission, which was part of the reform deal made by the EU 15 shortly before their accession.

In this context, it becomes necessary to try and find private sources of finance sustainable rural development in Europe. This is the very purpose of the creation, which the ELO has conceived and is promoting, of a foundation devoted to that purpose. It will be called the Rural Investment Support or “RISE” Foundation. Its object will be to promote economic, social and environmental sustainability of Europe’s rural areas and improve the living conditions of the rural population. To that effect, the Foundation can initiate, support and monitor rural private investment, and provide a response to the demands and requirements of the rural communities with due regard to the preservation, development and transmission of private property.

These aims are addressed in full awareness of the “global commons” such as global warming, bio-diversity and eco-system losses, deforestation, water deficit and pollution, with a view to promote a more balanced and more sustainable socio-economic development and employment in rural areas.

The Foundation has the right to hold movable and immovable property, to receive and hold gifts or subsidies of any kind such as donations, legacies and bequests, including shares and other negotiable instruments and gifts “in kind” from any lawful source. Its assets include revenues generated by the Foundation’s own assets.

While the bulk of the Foundation’s resources will be devoted to rural development projects in Europe – up to 10% of which for rural poverty -, a significant share will be set apart for rural and suburban projects in the Third World.

The construction of the foundation is original in many a respect:

- 1. firstly, it is a self-supporting arm of the ELO and the FCS, who are its founding organizations. Foundations created by interest groups and lobbies are a rare event. The model here is Planet Earth by Green Peace; it is based on the culture which is common to the ELO and the FCS;
- 2. secondly, it will primarily cover the whole European Union;
- 3. thirdly, its focus is on rural development, based on the EU
- regulation on the subject, as a contribution to intra-EU solidarity
- 4. fourthly, it is designed with the intention to spearhead the establishment of e Statute for European foundations

5. fifthly, it can also help in the management of private properties of architectural, cultural, historic and natural value, in their economic diversification and land consolidation with a view to ensure their preservation.

Last but not least, the RISE Foundation is expected to preserve, transmit and boost the sense of value among the present and future generations of ELO and FSC members, and offers them a common instrument of philanthropy for common action and enhanced impact. This may include legacies and bequests by FCS, who may lack heirs and prefer to leave their property to the Foundation to take proper care of it and use the proceeds for charitable purposes.

(2006)