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POLICY DEPARTMENT B: STRUCTURAL AND COHESION POLICIES

AGRICULTURE AND RURAL DEVELOPMENT

Rural Development and territorial cohesion in the new CAP

DETAILED BRIEFING NOTE

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Abstract

This note examines the role of rural development in the CAP after 2013. It pays special attention to the way rural development might help to address the adverse effects of the economic crisis on rural areas. The note also discusses the possibilities of overcoming problems that threaten the legitimacy of rural development policy. It is argued that the attention given to competitiveness and innovation as generic concepts threatens to distort rural development in the 2014-2020 period. This will be especially detrimental for territorial integration.

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1 INTRODUCTION

This note critically discusses the proposal for a new Rural Development Regulation intended to cover the period 2014-2020. It pays special attention to the genesis of the proposal and to the points of view expressed by the European Parliament.

The analysis of the proposal centres around two important interfaces. One is the challenge of the current economic and financial crisis and the effects that this is having on European agriculture. The other is the need to continually increase the legitimacy of European institutions.

A key problem with a critical analysis, such as the one entailed in this note, is that the Rural Development Regulation cannot be regarded in isolation. It is part of a set of wider arrangements (such as the Common Strategic Framework and the European Innovation Partnership), many of which have been recently reformulated. Equally, the further specification of the Regulation into National and Regional Rural Development Plans and the final elaboration, selection and funding of projects, will be influenced by the wider and highly complex socio-institutional architecture. These two factors will be just as decisive in determining the final dynamics, reach and impact as the Regulation itself. Not everything can be attributed to the Regulation and not everything depends on it. It is but one element (albeit a highly important one) in a far wider process.

This insight should provoke modesty. Yet, at the same time it is an important heuristic device: it helps to anticipate on unintended consequences that the Regulation may have.

This note concludes with some concise recommendations that are grounded in, and derived from, the considerations contained in the central part of this note.

2 THE BACKGROUND TO THE NEW RURAL DEVELOPMENT REGULATION

2.1. Responding to market failures

The European Commission's communication "The CAP towards 2020" (dated 18.11.2010), summarized its position on agricultural and rural development in Europe and identified three strategic and widely-shared aims. These are (1) long-term food security, (2) quality, value and diversity of food produced sustainably and (3) the creation of local employment. These aims are, as the document spells out, strongly interwoven with protecting the environment, mitigating against climate change and achieving balanced social and territorial development. These are urgent and pressing goals and the complexities of aligning and achieving them is a major challenge. For example, the securing of food security and of a wide choice of high quality food products has to be done within the context of a highly liberalized trading system (EC, 2010:4), which currently shows a "rising price volatility" that threatens "agricultural production across the whole European Union"(ibid., p.6). Market failures might easily occur in this "globalized" context. The same applies to major public goods (landscapes, farmland biodiversity, climate stability, greater resilience towards natural disasters, maintaining clean resources, etc.). They all "play a key role" in our societies. However, "many farming practices have the potential to put pressure" on the continuity and quality of these public goods (ibid., p.6). Again, the risk of market failures is never far-off. Finally, there is the need to maintain a territorial balance within the EU. Without adequate rural policies, there is always the imminent danger of a "greater concentration of agricultural production in some areas with particularly favourable conditions, using more intensive farming practices, while the less competitive areas would face marginalisation and land abandonment" (ibid., p.4).

Thus, rural development emerges as a more or less consistent set of responses to market failures that threaten the Commission's three key objectives of attaining food security, sustainably managed resources and balanced territorial development¹. Without such responses the "long-term future of European agriculture and rural areas" (ibid., p.1) could be seriously and irreversibly damaged. The economic and financial crises contribute strongly to the *urgency* of a bringing forward a rural development policy that will be able to effectively address these market failures.

Equally, in its resolution of the 8th of July 2010 ('Future of the CAP after 2013') the European Parliament signals a wide range of actual and potential market failures (points C, G, H, K, L, 26, 36 & 42) and concludes "that a Common Agricultural Policy is more relevant than ever before to ensure that the cross-border dimension of food supply, climate change, high common standards of environmental protection, product safety and quality and animal welfare is guaranteed in a properly functioning Single Market" (point 55).

2.2. The Rural Development Regulation is part of wider constellations

The proposed Rural Development Regulation does not stand in isolation, nor are the developmental processes that the Regulation proposes disconnected from wider changes that are occurring throughout Europe.

The new Regulation is skilfully integrated in the Common Strategic Framework (CSF), a common framework that ties together the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund. This allows for partnership contracts, a strengthening of the territorial approach and programmatic innovations. As far as rural development is concerned, the new CSF allows for 'jumping' over sectoral and socio-geographical boundaries, thus potentially allowing for a stronger integration between urban areas and surrounding countryside. To be specific: under the previous regulation it was far from easy (if not downright impossible) to invest in an *urban* shop promoting and selling regional specialties from the surrounding *rural* areas. Within the new Framework (CSF) such problems should, in principle, be easier to resolve.

At the same time the new Regulation is specified as an important part of the EIP (European Innovation Partnership). The central keywords of the EIP are *smart growth*, *sustainable growth* and *inclusive growth* and these broadly coincide with the first, second and third objectives mentioned by the Commission.

2.3. The European Parliament's responses

The general objectives of the proposed Rural Development Regulation (viable food production; sustainable resource management and balanced territorial development) as well as the associated measures and delivery mechanisms have been amply discussed in the European Parliament (see the Resolutions of the 8th of July 2010 and the 23rd of June 2011).

The initial proposal of the European Commission and the observations of the European Parliament have since been combined into the new Proposal for a Rural Development Regulation (COM(2011)627final/2 of 12th of October 2011). There are many important commonalities and continuities between the initial proposal of the Commission, the subsequent observations of the Parliament and the final Proposal. There are also some frictions.

For the European Parliament "food security remains the central challenge for agriculture" (EP, 2010: point 10). It is observed that "for strategic reasons, the EU cannot afford to rely on other parts of the world to provide for European food security in the context of climate change, political instability in certain regions of the world and potential outbreaks of disease or other events potentially detrimental to production capacity" (point 21).

Consequently, "green growth' should be at the heart of a new rural development strategy that focuses on creating new green jobs through:

- the development of local dynamic tools such as local marketing, local processing, and support for projects involving all stakeholders from the local farming sector;
- the development of biomass, bio-waste, bio-gas and small-scale renewable energy production [...];
- investing in modernization and innovation, as well as new research and development techniques for adaptation to, and mitigation of, climate change;
- providing training and advice to farmers in applying new techniques and to assist young farmers entering the industry" (point 78).

-

2.4. Continuity and change

The proposed RDR contains both changes from, and continuities with, the regulation that governed the 2007-2013 period. These are worth examining.

- The four axes that characterized the previous regulation have been eliminated in the newly proposed regulation. It is now argued that "the four axes approach may have unduly constrained the development of a full-fledged strategic approach in combining measures in the best possible way to meet policy objectives"(p. 25).
- Agri-environmental measures are to be continued at the same as in the previous 7 year programme
- Partnerships operating at local and regional level (including producer groups, as specified in article 28, p. 51) figure as important driving forces of rural development.
- Producer groups are mentioned, for the first time, as important (if not preferred) carriers of agri-environmental measures.
- A 'risk management toolkit' is newly introduced. It includes support to mutual funds (to compensate for the losses caused by animal and plant diseases) and an income stabilization tool intended to help protect farmers against the increasing volatility in agricultural markets.
- The principle of 'greening' is now introduced into Pillar 1 (apart from cross-compliance, such greening was previously limited to Pillar 2). For some observers this might be confusing. However, the move toward including greening in the First as well as the Second Pillar might, if well interlinked, be of strategic importance (see also section 6 of this document).
- The role of LEADER is re-affirmed (a minimum of 5% of the overall budget is to be dedicated to the LEADER programme), if not strengthened. Under the umbrella of the new Common Strategic Framework (CSF), there is now the possibility of applying the LEADER methodology to other European Funds.

The ex-ante evaluation undertaken by the staff of the Commission (SEC(2011)1153 final/2) indicates that the proposed regulation might well have positive effects on socio-economic development, environmental quality and climate change and on the economy of the agricultural sector. In this respect, there is continuity between the proposed regulation and previous generations. The ex-ante impact analysis also makes it clear that, compared to the major alternatives (adaptation and a refocusing of scenarios), the proposed regulation (identified in scenario terms as 'the integration scenario') will provide the best results.

2.5. A closer look at the balance between the First and Second Pillars

Through the greening of the First Pillar all farmers have to make some (albeit small) steps forward towards more sustainable agriculture. Through Pillar 2 the 'vanguard farmers' of today are encouraged to make larger steps forward. Thus, a double movement is constructed. At the 'front end' vanguard farmers, who already have realized high levels of sustainability, will be assisted to move the frontier further ahead. At the 'back end', the mass of farmers as a whole will be moved forward. The first movement is voluntary, the second is obligatory. As a result the first Pillar is generic and the second one targeted. This gives rise to other differences, that might be synthesized as rigid vs. flexible; annual vs.

multi-annual and a cash dispenser approach vs. a project approach (the latter operating with well-targeted selection criteria). These differences do exclude the possibility of eliminating one of the two complementary pillars that provides the (potential) strength of the Common Agricultural Policy. This view also emerged from European wide consultations: "There is broad agreement among stakeholders on the need for a strong CAP based on a two-pillar-structure in order to address the challenges of food security, sustainable management of natural resources and territorial development" (COM (2011) 627, final/2, p.5). In the same vein, the European Parliament "calls for the CAP to remain structured around two pillars [with] pillar 1 fully financed by the EU budget and yearly based, while multiannual programming, a contractual approach and co-financing should continue to apply under pillar 2" (point 2 of the Resolution of the 23rd of June of 2011).

2.6. Rural Development: objectives and priorities

The overall objectives of the proposed RDR are clearly in line with those of previous generations, yet also (especially at the level of the associated measures) seek to address several of the urgent issues and problems that have emerged in recent years and which are likely to characterize the coming RDR period.

The broad RD objectives in the 2014-2020 period (viable food production, sustainability, and balanced territorial development) are translated in six EU-wide priorities. These are:

- Fostering knowledge transfer and innovation in agriculture, forestry and rural areas.
- Enhancing the competitiveness of all types of agriculture and enhancing farm viability.
- Promoting food chain organization and risk management in agriculture.
- Restoring, preserving and enhancing ecosystems dependent on agriculture and forestry.
- Promoting resource efficiency and supporting the shift towards a low-carbon and climate-resilient economy in the agriculture, food and forestry sectors.
- Promoting social inclusion, poverty reduction and economic development in rural areas.

These priorities are intended to align rural development policy with the overall Europe 2020 strategy. The European Innovation Partnership on Agricultural Productivity and Sustainability provides a strategic link between the two.

However, it should be noted that the relation between the objectives and the priorities is unbalanced and is at odds with generally shared points of view about the main bottlenecks in agricultural and rural development processes in Europe. Whilst the objectives are well-targeted, the priorities are vague and potentially allow for leakages, i.e. for rural development funds to be used for initiatives that have no relationship whatsoever with the EU's RD objectives.

The development of a viable food production system in Europe that guarantees food security will evidently require considerable knowledge (see priority 1). Modern agriculture is typically knowledge-intensive. However, the *transfer* of such knowledge can hardly be seen as a bottleneck that hinders the required transition. The knowledge required is widely available. The problem is that its application is mainly, if not especially, blocked by regulatory systems that specify how agriculture should be organized. The same applies to

innovations. Many recently created novelties and innovations cannot be applied because of restrictive regulatory systems.

The second priority is a potentially misleading abstraction of the main issue at stake. The issue is not the strengthening of competitiveness of *all* types of agriculture. The question is *which* types of agriculture support food security, sustainability and balanced territorial development. More generally: which types of agriculture are in line with the European Agricultural Model? In short, different types of agriculture should be selectively supported, and 'farm viability' needs to be enhanced in a well-targeted rather than generic way.

In this respect the European Parliament took a stance (in its resolution of the 8th of July of 2010) that is far better targeted, in as far as it centres on (1) "high-added-value farming with high-quality primary and processed products [...], (2) farming open to regional markets and (3) farming geared to local markets [...]" (point 29, see also consideration Q). The Resolution of the 23rd of June of 2011 is also far more precise (and outspoken) than the Proposal from the Commission where it defines "agronomically sound and sustainable agricultural systems as vital to guaranteeing competitiveness on local, regional and international markets" (point 4). Competitiveness does not stand on its own. It crucially depends on other, increasingly decisive features such as quality, sustainability, animal welfare, contributions to the quality of life, and trust (i.e. the acceptance on the part of society at large).

The third priority addresses food chain organization and the (related) issue of risk management in agriculture. Again, these concepts are worded in very general terms. It is not clear, for instance, how this translates into 'producer organizations', 'fair commercial practices' and 'farmers obtaining the added value they deserve'.

Knowledge transfers, competitiveness and risk management are highly generic or 'container' concepts that can be applied whenever and wherever. They lack the specificity that European agriculture needs at this decisive juncture in time.

The Resolutions of the European Parliament (of the 8th of July 2010 and the 23rd of June 2011) do not specifically discuss these priorities (summarized above). Where these Resolutions do discuss priorities they are significantly different from those that figure in the Proposal (Com(2011)627final/2). Instead the European Parliament stresses priorities that are grouped together under the headings of 'a fair CAP', 'a sustainable CAP', 'a green CAP' and 'a common and simple policy'. A typical priority (under the heading of a 'fair CAP') is the need "to strengthen primary producers' and producer organisations' management capacity and bargaining power vis-à-vis other economic operators in the food chain [...], to address unfair commercial practices, enabling farmers to obtain the added value they deserve" (point 42).

3 CONSIDERING RURAL DEVELOPMENT AS A SET OF RESPONSES TO THE CRISIS

3.1. The significance of the Rural Development Regulation

At this juncture in time, any critical review of proposed RD policies has to take into account the growing economic and financial crisis. The strategic question here is: can the proposed RDR help farmers to face the many adverse effects of the current crisis? Will it contribute to strengthening rural economies and help them to withstand these negative effects (which could imply an eradication of economic activities in several rural regions). It is telling here that the Impact Assessment of the Commission explicitly refers to "the purpose of helping rural economies exit from the crisis" (EC, 2011: p.13).

3.2. Features of the current crisis

The current crisis is affecting agriculture and the rural areas in, and through, a variety of ways:

- There are major cost increases that probably will continue in the long run (e.g. energy, fertilizers, protein). Farms (and rural areas) that are relatively more dependent on external flows of energy and protein will be the most strongly affected. This implies the need for more greening (especially in the worst affected areas and farms) as well as for extending the notion of food security towards the large flows of feed and fodder on which large parts of European agriculture depends.
- Due to decreases in purchasing power, several markets are experiencing declines, especially those for luxury products (such as flowers). Nearly all markets are seeing downward pressures on output prices.
- Incomes in the agricultural sector are, on the whole, stagnating if not in decline: "After a decade of mere income stagnation, agricultural income dropped substantially in 2009 adding to an already fragile situation of an agricultural income significantly lower (by an estimated 40% per working unit) than that in the rest of the economy, and income per inhabitant in rural areas is considerably lower (by about 50%) than in urban areas" (COM(2010)672final;p.5). Stagnating farm incomes negatively affect the regional rural economy as a whole.
- It will become increasingly difficult to refinance debts. Where this can be achieved it will probably be with higher interest rates.
- Generally speaking, there will be greater uncertainty, more instability and increased volatility in agricultural markets (Pieters *et al.*, 2010).
- The gap between farm-gate prices and prices paid by consumers will continue to grow. This makes it increasingly important to "enhance the value share of agriculture in the food chain" (EC, 2010: p.7)².
- Taken together, these elements provide grim prospects for the future of farming (which is likely to translate into worrying levels of intra-generational succession and continuity).

As dramatic as the negative effects of the current crisis might be, one should not lose sight of the fact that the *main change* (also the one that is the most difficult to deal with) is at the level of farm models and development patterns. The model that once guided much agricultural development in Europe (encouraging scale increases, technology driven intensification, high levels of specialization and input-use) turns out to be increasingly invalid under the new circumstances (liberalized markets, volatility and increasingly critical consumer groups). Highly elevated debt levels (associated with scale increases and technological intensification)³, high levels of external input use and extreme degrees of specialization all imply that this model represents *economic vulnerability* under the current conditions. The model was designed to provide the best economic returns. And so it did – until the circumstances radically changed. Comparative studies now increasingly show that the somewhat smaller and more extensive family farms perform better – even in economic terms - than their counterparts that have industrialized their agriculture⁴.

3.3. Countertendencies

Alongside the decline of the once dominant model, there are important emerging countertendencies. New, alternative models are being outlined, tested and developed further. Especially important, in this respect is the rise of multifunctional agriculture. Multifunctional farms integrate the production of agricultural products *sensu stricto* into a wider array of economic activities that are directly linked to (or located within) the farm. Such activities might include the processing and direct commercialization of agricultural products and the production of high quality products and regional specialties. These activities tend to elevate the Value Added per unit of product. Other activities combine agricultural production with the delivery of rural services, such as e.g. agro-tourism, the management of nature and landscape, energy production, water retention, etc. Such activities imply additional income flows. In general terms the synergy between classical and new activities and the total number of new activities translate into higher income levels and lower levels of risk (see Saccomandi, 1998 for a theoretical explanation).

The diversification of regional rural economies into new activities stems from many sources. The contribution of farmers to this process is often considerable. As the Commission observes: “Agriculture plays an important role in rural areas through generating additional economic activities, with especially strong linkages with food processing, tourism and trade” (COM(2010)672final, p.5).

This shift towards multifunctional agriculture is at the core of rural development processes. Through the production and delivery of new goods and new services, these farms are renewing themselves and meeting new needs of wider society. Equally, they are strongly increasing the *resilience* of the agricultural sector: helping to increase its capacity to face and respond to adverse circumstances (Arsyllfa Wledig Cymru, 2010). This is also due to the relatively high levels of solvency of multifunctional farms and the better balance between local eco-systems and farming activities they entail.

3.4. The magnitude of multifunctional agriculture

A comparative analysis of the socio-economic impact of rural development activities (carried out in Ireland, the United Kingdom, the Netherlands, Germany, Italy and Spain and published in 2002)⁵ revealed that, at that time, 51% of a large and representative sample of professional farmers were involved in multifunctional activities, i.e. diversifying their farm operations towards the delivery of new products and services (high quality products,

direct marketing, on-farm processing, organic products, regional products, agro-tourism, management of nature and landscape, energy production, care facilities, the delivery of other rural services, etc)⁶. Sixty per cent were actively searching for new forms of cost reduction (reducing the use of external inputs, reducing dependency on banking circuits, etc). These two categories overlapped to a degree (with 31% of farmers engaged in both forms). Extrapolated to the agricultural sectors of these six countries these figures suggest that diversification provided an *extra net value added* of 5.9 billion Euros per year. New forms of cost reduction contributed another 5.7 billion Euros (for the six countries) to farm family incomes. This sum (11.6 billion Euros/year) can be compared to the total farming income per year in the six countries (41.4 billion). This implies that, at the start of the century, rural development activities made a significant contribution to overall agricultural incomes in these countries, of around 25%. For the *farms* that are *de facto* involved in RD activities this contribution is much higher. It increases significantly when a farm increases the *number* of RD activities in which it is involved (see Oostindie et al, 2002: 222, table 10). This highlights the importance of synergy. If the extra income generated through pluriactivity is added to the equation, then some 50% of all the income of farming families derives from sources other than classical farming (van der Ploeg, et al., 2002: 180-191).

Several other comparable studies have since been undertaken⁷. Interesting work has been undertaken in France looking at different 'activity systems' within the agricultural sector. The notion of an activity system is based on the view that the majority of French farm households do not conform to the canonical model of the specialized farm household that emerged in the 1960s (i.e. a household associated with a full time farm, which provides its sole source of income). The analysis of time series shows that full time farms where the household had no 'other gainful activities' (OGA) and no pension, decreased from 31.4% of the total number of farms in 1979 to 20.8% in 2000. On the other hand, the share of farms with households benefiting from other gainful activities grew from 39.1% in 1979, to 41.1% in 1989 and to 49.0% in 2000⁸. Most of this increase occurred on full time farms not in receipt of pensions. Today full time farms in France with OGA outnumber those without OGA. The former occupy 34.8% of the total agricultural area, the latter 31.6% (Laurent and Remy, 1998; Laurent, 2005; van der Ploeg et al, 2009). This implies that the impact of non-traditional activities (OGA or RD activities) is considerable and growing. To put it differently: without RD activities many farms (we should probably say: many rural enterprises) would not be economically viable and total employment and income levels in the countryside would be far lower.

3.5. The European Parliament on multifunctional agriculture

In its comments on the first draft of the new rural development regulation ('Future of the CAP after 2013, resolution of 8 July 2010), the European Parliament "welcomes the recognition of the multifunctional role of farmers in delivering public goods such as preserving our environment, high-quality food production, good animal husbandry, shaping and improving the diversity and quality of valued landscapes in the EU, and the move to more sustainable farming practices by not only meeting the basic requirements [...] but also by achieving even higher standards through agri-environmental schemes, precision farming, organic production and all other forms of sustainable agricultural practices" (point 7).

3.6. Multifunctional farming does not imply an adieu to food production

Recent Italian research has focused on the *changing balance* between food production and new multi-functional activities (Ventura, de Rooij and Milone, forthcoming). The research included a survey (n=1,600) of large and full time farmers receiving more than 15,000 Euros per year in direct income support. In 2008 (the year in which the survey was undertaken) 27% of the farms of this particular subgroup were classified (by the farmers themselves) as multifunctional farms that had adopted new activities alongside 'traditional' farming activities. The remaining 73% of the farms specialized solely on traditional agricultural activities. Eight per cent of this latter group expected that their farm would be closed in the coming five years. In the multifunctional group this figure was just 1%. Thirteen per cent of the specialized farmers planned to integrate one or more new RD activities in their farm within the next five years. Together these changes would imply that over the coming 5 years the distribution between specialized and multifunctional farms would change to 57% specialized and 43% multifunctional. When farmers younger than 40 years are considered the distribution shifts to 49 and 51% respectively.

The same research also probed into farmers' investment patterns. Of the specialized farmers 16% indicated that they had actively invested in food production during the last five years, less than half the number of multifunctional farmers who had done so (36%). And in the coming five years 27% of the specialized farmers said that they would invest in food production; while 44% of the multifunctional farmers had plans to invest in food production.

This indicates that multifunctional farming definitely does not represent an *adieu* to farming as such. Rather, it is the other way around. *Multifunctionality increasingly supports food production*. The earnings obtained from new activities help farmers to continue with, and to invest in, classical agricultural activities. This is especially important in the current epoch in which agriculture is facing the consequences of the general economic crisis.

Recently completed research in the Netherlands⁹ also shows a positive interrelation between multifunctionality and food production. This positive interrelation tends to become stronger over time as the relevance of new activities for the overall farm family income increases. As a matter of fact 87% of all multifunctional farmers declare themselves to be "very satisfied" with their income – a remarkable contrast with the overall situation in Dutch agriculture. Eighty per cent of multifunctional farms have *also* invested in agrarian activities¹⁰. The research programme also probed into farmers' motives for creating and further developing new activities. Farmers indicate that they use such activities to enlarge their control over their own enterprise: that they want to reduce their dependency. Enlarging control over the marketing of their products is equally important. Improving contacts and communication with consumers and non-agrarian people is another driver. Internal farm motives also play an important role: increasing income, enlarging the possibilities for family succession and creating employment opportunities are amongst the 'internal' drivers.

3.7. Energy production as a special case

Within this panorama, the combination of farming and energy production represents one of the most promising potentials. On-farm energy production allows for decentralized, flexible, robust and sustainable forms of energy production (Knickel, 2002). In specialized dairy

farming areas in the North of Italy new installations for the production of bio-gas have been developed that use manure, slurry, silage, corn and/or waste flows from processing industries. This permits the participating farms to continue to cultivate their fields, deciding, according to market relations, whether the by-products will be used for feeding animals or for energy production. This has helped avoid the de-activation or closure of many animal breeding enterprises. Similar developments have occurred in the Dutch horticultural district (the Westland). Horticultural enterprises are increasingly using their heating units to produce electricity which is fed into the national networks, while the associated heat and CO² are fed into the glasshouses in order to sustain and improve high productivity levels. Currently, several horticultural enterprises earn more money from electricity production than from tomatoes or paprikas (or whatever). In this area of enterprise regulatory schemes are decisive: they can permit or even stimulate these new, promising forms of multifunctionality. But they can also be highly restrictive, raising barriers to participation. In this respect there is considerable variety throughout Europe.

In its 8 July 2010 resolution the European Parliament rightly signalled that “farmers are well placed to contribute to green growth and respond to the energy crisis through the development of green energy in such forms as biomass, bio-waste, bio-gas, second-generation biofuels and small-scale wind, solar and hydro-energy, which will also help create new green job opportunities” (point 54). Consequently, the Parliament proposes “energy self-sufficiency for the agriculture and forestry sectors” as a main challenge and priority (point 12).

3.8. Synthesis

In short: rural development (understood as diversification towards a multifunctional agriculture that meets new demands of society) is not only a political project of the European Union. It is, first and foremost, a massive, grassroots movement that is grounded in the many-sided search of European farmers and their families for new incomes and employment opportunities within, or closely connected to, their farms. In doing so they are realizing a step-by-step yet comprehensive transition of European agriculture, whilst simultaneously strengthening it and making it more resilient to the current crisis.

It is of paramount importance to connect rural development policies as much as possible to the many rural development activities that are currently being unfolded in practice. Only then will such policies be effective and efficiency (including budgetary efficiency) be achieved. However, the creation of such a fit is far from easy, as many empirical studies have highlighted (see O’Connor *et al.*, 2006, for a synthesis). Much incongruence can occur at the level of the Member States and/or Regions because of the ways in which these policies are implemented.

3.9. What is to be improved and/or strengthened?

Just as previous generations of rural development policies have been helpful in creating the now widely extended multifunctionality of European agriculture, the new regulation can help to further strengthen this multifunctional nature. This needs to be done in order to strengthen the resilience of European agriculture as a whole.

3.9.1. Resilience

The Explanatory Memorandum that accompanies the RDR Proposal pays considerable attention to the 'competitiveness' of European agriculture. This is in line with previous generations of rural development policies which have always prioritized increasing competitiveness. However, this continuity might contain a potentially significant pitfall. As argued before, the formerly dominant model for farm enterprise can no longer be taken as a reliable guide for strengthening European agriculture. Europe's food regime was once characterized by strong state regulation and more or less stable prices –it is now one dominated by global markets and with far less state intervention. The farm enterprise model that provided the 'best fit' with the former regime might, quite evidently, not be the optimal one in today's regime. And although it will take considerable time before the contours of a new farm enterprise model will be completely outlined and accepted, it is also true that 'competitiveness' might function as a mantra that serves to transfer a repertoire of measures from the previous situation to the new one– even if these measures are inappropriate to the new situation. This does not mean that 'competitiveness' is no longer relevant. Rather, it means that 'competitiveness' needs to be re-defined according to the new situation.

One essential response to the new food regime is to strengthen the resilience of European agriculture as a whole, and of the many types of farm that together make up the agricultural sector. This will provide the grounding for a new type of competitiveness that can help European farmers to continue operating in the new situation.

A resilient farm is basically self-provisioning in so far as the main factors of production and the most important non-factor inputs are concerned. Labour is basically provided by the farming family. Land is family property and capital is strongly, though not exclusively based on own savings. Animals are bred on the farm itself; most of the feed and fodder is produced on the farm. The farm is also self-provisioning in terms of energy.

A resilient farm is also multifunctional. It produces a wide array of products and services for a range of different markets. Setbacks in one market can be compensated for by the dynamics of other markets. A resilient farm typically produces for international, regional and local markets. It skilfully integrates the different activities, thus allowing for considerable synergies.

Within the resilient farm, the family often is pluriactive: alongside farm-work, family members are engaged in work elsewhere. One of the benefits of this is to engage in wider social networks. The resilient farm is supported by the local and regional communities; it is seen as an asset for the regional economy and as positively contributing to landscape, biodiversity and the reduction of greenhouse gas emissions.

3.9.2. Support mechanisms

Within the context of the new rural development regulation, farm investments are supported if it can be shown that they strengthen the resilience of the farms involved. This is clearly stated in Articles 17, 18, 20 and 28. The business plans that need to be elaborated need to indicate clear and significant steps towards increased resilience and show how synergies will be achieved.

3.9.3. Stimulating co-operation and constructing networks

Improving farmers' bargaining position in existing markets, gaining access to new markets and/or constructing new markets are activities that go far beyond the reach of individual actions. The new Proposal rightly offers considerable support for such joint efforts (see especially Article 28 on producer groups and Article 36 on co-operation).

On-farm improvements made by single farmers¹¹ should preferably be combined with joint efforts vis-à-vis the markets (as defined by Articles 28 and 36).

3.10. What is to be avoided

Article 37 of the proposed RDR discusses the issue of risk management and proposes making 'financial contributions' to compensate for economic losses caused by adverse climatic events, animal and plant diseases, pest infestations and/or environmental incidents. It also proposes an 'income stabilization tool' to provide compensation to farmers who experience a severe drop in their income. At first sight these proposals seem to be self-evident components of any set of responses to the current crisis. However, there is considerable danger that they might provoke adverse effects.

Many farmers, throughout Europe, have already developed and implemented risk aversion strategies as well as methods that help them to survive severe income drops resulting from price volatility or other exogenous factors. As indicated in section 16.1 of this paper, the development of multifunctional farms is clearly a mechanism that helps farmers to face risks. The same applies to carefully maintaining an appropriate balance between assets and liabilities, organizing a high degree of self-provisioning in terms of the main inputs (e.g. feed and fodder) and reducing losses (of e.g. nutrients). Such mechanisms help to reduce market-induced risks and simultaneously augment resilience vis-à-vis plant and animal diseases. The EHEC crisis that struck the European horticultural sector in the summer of 2011 is a point in case: The large scale, highly specialized and strongly indebted horticultural enterprises turned out to be the most vulnerable part of the sector. In general these enterprises are *not* tuned to markets that entail high levels of turbulence and volatility.

If 'income stabilization tools' and 'financial compensations' for economic losses resulting from animal and plant diseases are available, there is a potential danger that some groups of agricultural entrepreneurs will further tune the organization and development of their farms towards attractive, but highly risky opportunities associated with the main commodity markets, rather than developing solid fall-back positions. They will be tempted to do so because (part of) the risk will be covered by public funds. Thus, the RDR would induce 'moral hazard', i.e. stimulate farmers to engage in risky behaviour with the tax payer being the one who pays the bill if things go wrong. Those who want to engage in risky behaviour should pay themselves for the required insurances, just as they should create the necessary financial buffers for themselves¹².

4 MAINTAINING THE LEGITIMACY OF EUROPEAN INSTITUTIONS

4.1. The *raison d'être* of the European Union

It is pertinent, at the current juncture in time, that the European Union demonstrates, time and again, its *raison d'être* and its legitimacy. This applies both generally and specifically to rural development. Indeed the documents of the Commission pay considerable attention to rural development as a theme that goes *beyond* national boundaries just as it often goes *beyond* the capacities of the single member states. Hence, a *common* policy is needed (see Chambon, 2011, for a general discussion). However, the design, implementation and evaluation of common rural development policies involves a complex interface that is located between the European institutions on the one hand, and the many agricultural sectors and regions on the other. There can be considerable tensions between having, on the one hand, *one* internally coherent regulation for rural development and, on the other, an extremely *heterogeneous* agricultural sector. The potential frictions can be mediated by a) the character of the regulation itself, b) the subsequent 'translations' that occur at national and regional level and c) the selection of the most appropriate measures by the beneficiaries themselves.

These spaces for manoeuvre do not exclude the possibility of unintended consequences occurring. These can include social exclusion, territorial imbalances and excessive bureaucracy.

4.2. Processes of exclusion

As argued in the Impact Assessment, the complexity of application procedures and general administration has sometimes "led to a *de facto* exclusion of farms in genuine need" (p.40). It goes without saying that it is more important than ever to avoid unjustified forms of exclusion at a moment when some are denouncing Europe's 'democratic deficit'. Making RD opportunities available to as many eligible people as possible (and especially those whose needs are the most urgent) might strongly help to highlight the 'added value' of Europe.

In this respect particular attention should be paid to the role and position of, what are sometimes referred to as, part-time farmers. At national and regional levels, specific criteria are often added to the European rules, which effectively exclude part-time farmers from the opportunities entailed in rural development programmes. Given that, throughout Europe, at least 80% of all farms earn part of their income from outside the farm, (either the man or the wife or both), such an exclusion is grotesque (to say the least). If the man earns part of his income elsewhere, he is considered to be a part-time farmer. If his wife earns the needed extra income elsewhere, he might be considered as a full-time farmer. This neglects the fact that, throughout Europe, farms are basically *family*-farms. It also neglects the often important contribution that these farms render to the regional rural economy. Finally it neglects the important role these 'part-time' farms can play in rural development processes.

Although this kind of social exclusion does not stem from the rural development regulation as such, the regulation might help to avoid this type of exclusion by clearly stating that 'all European citizens that propose significant rural development activities are eligible for

support from the European Agricultural Fund for Rural Development' and that 'no exclusion grounded on specific livelihood strategies is acceptable'. In this respect the position of the European Parliament is crystal clear: "it should be ensured that traditional farming activities (full-time and various degrees of part-time), regardless of legal status, are classified as active farming" (point 27 of the Resolution of the 23rd of June 2011).

4.3. Bureaucracy and the administrative burden

There is a long-standing critique of rural development policies that focuses on their bureaucratic nature and high transaction costs. This is echoed in the equally long-standing promise of simplification. Nonetheless, the red tape seems to continue to prevail.

Several research teams have focussed on this problem, concluding time and again that there is not just one bottleneck. The bureaucratic burden is not reducible to just one factor. Rather, it is the complex and heterogeneous outcome of many intertwining factors, often operating at different scales and levels. The RDR is just one of several factors. This 'first' factor is compounded by a range of 'enabling acts', defined by the Commission, that govern the implementation, funding and control of the RDR. Next comes the 'translation' of the Regulation into National or Regional Rural Development Plans (and the selection of a corresponding set of measures). Regions often have different understandings of what rural development is and is supposed to be, just as each region has structurally different constellations and faces different RD challenges (van der Ploeg *et al.*, 2008). Thirdly, the elements that compose this National or Regional Plan may need to be integrated within already existing national (or regional) schemes. In such cases, European Funds are basically used to finance existing policy schemes. Consequently, the application of these Funds has to follow two rationales: the European one and a National or Regional one. The two might not be completely compatible, causing frictions and increasing transaction costs (a double justification is needed). Fourthly, once specific projects have been accepted, their funding has to follow the European rules for accountability. This specific set of rules has its own rationale and its own administrative requirements. These might further complicate (and/or delay) the implementation of rural development policy measures. Fifthly, the institutional structure and the administrative capacity of regions (and Member States) may differ considerably as, in the sixth place, can the political authority (or lack of), needed to resolve problems and frictions. In the seventh place there are the CMEF requirements (related to monitoring and evaluation). Last, but not least, the 'demand side' might be distorted by e.g. the strong grip of conservative farming lobbies over money flows or the funds being diverted to improper destinations, in order to relieve state budgets.

Given so many sources of 'turmoil' it is almost inevitable that administrative procedures occur as slow-down operations, and transaction costs can rise above any acceptable level (indicatively transaction costs are said to account for 42% of the budget of the Dutch agri-environmental scheme).

The 'art of mediation' has a huge potential in making rural development programs and projects run relatively smoothly. If successful, this art translates into setting "the right balance" at the programme level, just as it helps in achieving "win-win situations"(Impact Assessment, p. 18)

4.4. How to relieve the administrative burden?

It would be foolish to assume that the administrative burden associated with the operation of the EAFRD might be easily reduced. However, it would be equally foolish to stop the search for solutions (even if they are partial) that promise to make the rural development machinery function more smoothly. The following possibilities should be seriously considered.

4.4.1. A ceiling plus a 'light' procedure

A ceiling could be introduced in the funding procedures. Underneath such a ceiling, applications for small amounts of funding (say below 10,000 or 15,000 €) could be handled in a 'light' way. This reflects the already institutionalized precedent of distributing income support of less than 5,000 € in a 'light' way. An additional benefit would be that many potential beneficiaries who are now excluded (or subject to processes of self-exclusion due to the fear of lengthy and extremely complex administrative procedures), are offered practical avenues for participation. An additional possible effect is that far more people might be assisted. This would help counterbalance any potential concentration of RD support towards large farm enterprises.

4.4.2. Mediation

As experience has shown in several European regions, it might be very helpful to increase institutional mediation capacity. Temporary secondment of civil servants, who are well acquainted with European and national rules, to regional groups of beneficiaries might considerably strengthen the capacity of the latter, whilst significantly reducing the administrative burden on both sides of the equation.

4.4.3. Use groups as a delivery mechanism

Another possibility is to strengthen the role of groups of beneficiaries in implementing rural development measures. It is interesting that the Commission's Proposal frequently refers to the potentially positive role of groups, networks and partnerships. Groups might be better placed to contract in the expertise needed to deal with the administrative complexities, and by dealing with groups, transaction costs can be enormously reduced. The construction and operation of such groups (or associations) should be encouraged by awarding them higher levels of support than individual enterprises (as is now being proposed for groups undertaking agri-environmental activities).

4.4.4. Lacking capacity

In particular cases, some rural regions might lack the capacity to correctly implement rural development measures, causing delays, under spending, extra red tape and growing frustrations in the field. Here, the new provisions in the CSF (Common Strategic Framework) offer some potential solutions.

4.4.5. Starting experiments

Finally it would be highly recommendable to begin an experiment, at the margin of the current mechanics of rural development, to explore alternatives. Such an experiment could start from the premise that delivery and control systems should be regionally defined. This regional system is to be acceptable to the Commission (this might imply negotiations). Then, the regionally defined delivery system would channel EAFRD funds towards regional beneficiaries according to the Regional Rural Development Plan. Overall accounts would be provided afterwards. Within such a framework, the role of the European Commission would be reduced to a final control to assess whether (or not) the funds were allocated according to the existing (and accredited) regional rules. Thus, the European Commission would operate as an Authority for Accreditation, instead of as an entity that imposes, in a unilinear way, a detailed set of prescriptions and controls.

An experiment such as the one described here could be organized as a Pilot Project (or Preparatory Action) as proposed by the European Parliament: such Pilot Projects are important tools for formulating political priorities and introducing new initiatives (see the Resolution of the European Parliament of 8 July 2010, point 92).

4.5. Differential outcomes

Several studies have pointed to the many diverse activities that are supported by rural development funding throughout Europe's regions and the different balances between them (RUDI, 2009, 2010a and b). This diversity, which influences the outcomes, partly reflects the regional specificity of agriculture and the countryside (this is a positive feature). On the other hand, it also reflects the highly variable capacity and willingness of regional (and national) authorities to really deviate from historically delivery routines and to induce new dynamics into the areas they are responsible for. This latter feature is troublesome. As stated in the Impact Assessment: "there has been some evidence of path dependency in programming, as well as a lack of capacity of certain areas and groups to use rural development funding. [Equally] some Member States have struggled to set the right relationship between programmes and national strategy plans" (p.6). In a similar vein the Impact Assessment also refers to "concerns about Member States' ability to co-finance, draw good programmes and reach out to farmers, as well as the need to improve delivery and reduce administrative burden" (p.13)

This implies that evaluation should not be focussed only (or mainly) on output indicators, results obtained, and impacts. It should also highlight the complex socio-institutional *processes* that produce particular levels of outputs, results and impacts. Many of the outcomes might be improved by focusing on such processes and their effectiveness.

4.6. The partial myopia of evaluation procedures

Evaluation procedures are currently mainly oriented at being an accountability mechanism that shows the delivered results. Although this is, unquestionably, of considerable relevance (also for the legitimacy *tout court* of the Second Pillar) it obscures the political and socio-institutional dynamics that underlie the design and implementation of rural development programmes. Equally, insufficient attention is paid to institutional learning processes, etc., This strongly limits the possibilities of regional rural development processes to have a cumulative nature. It also reduces the possibilities to adapt comparative

approaches that might strengthen the 'art of mediation' as entailed in the institutional structures of the different regions. It would also be of strategic interest to identify the instances in which "RDP funding is working as a catalyst for change" (EENRD, 2009:3). All this would indeed help to respond to the central overall question in the Impact Assessment: "how to make policy more efficient and effective?" (p.13).

One simple step in this process would be to simplify monitoring to only cover procedures and indicators that are already institutionalized at the regional level (including those in available data banks). This would reduce administrative procedures and red tape and would probably be in line with the measures preferred at the regional level. Thus additional space for monitoring and evaluation of the socio-institutional *processes* that really shape rural development at the regional level becomes available.

4.7. What else can be improved?

It is tantamount (especially for the legitimacy of 'Europe') that many more young people (from both rural and urban backgrounds) are offered the opportunity to start and further develop a farm enterprise. The European Parliament (8 July 2010) observed that: "there is an urgent need to attract younger generations and women to rural areas through long-term policies and to provide new and alternative economic opportunities for them to ensure a sustainable rural population" (point 24). In this respect the Parliament also refers to "the obstacles young farmers face when willing to enter the sector, such as high start-up costs, the sometimes prohibitive cost of land and difficulty in accessing credit opportunities, especially in difficult times" (ibid).

Alongside Article 20 (which specifies support for young farmers) it would be of great value if National and Regional Rural Development Plans sought ways (in co-operation with national and regional institutions, associations and movements) to assist as many young people as possible in setting up a farm. There are several examples of this across Europe. These include: *Terre des Liens* in France, rural estates in the Netherlands and recent plans by ISMEA (in Italy) to use state land to create new farms.

5 SPECIAL ISSUES

5.1. Group formation and involvement

Article 29 of the proposed RDR contains an innovative, important and promising element that offers the possibility that agri-environment-climate payments might be granted to “*groups of farmers or groups of farmers and other land-managers*” involved in (one or more) agri-environment-climate commitments on agricultural land. In such cases the compensation for transaction costs (related to the functioning of these groups) might be raised to 30% of the premium paid for the commitments (as compared to 20% for individual farmers).

If such groups were properly organized their involvement might help considerably to reduce the administrative burden linked with agri-environment-climate measures, significantly increasing the efficiency of the use of the invested funds. To further outline the practical possibilities (and indicate some of the potential pitfalls) a brief excursion into the ‘territorial co-operatives’ that have emerged in NW Europe might be helpful.

5.2. Territorial co-operatives

Throughout Europe, the interrelations between the state and the farming sector have often become problematic. The state imposes regulatory schemes that are increasingly felt to be inadequate and often overly restrictive. Mutual distrust is a ‘structural’ feature. This disarticulation has triggered a new form of rural co-operation, increasingly referred to as territorial co-operatives. They aim to radically improve relations between farmers and the state through introducing new forms of local self-regulation and new strategies for negotiated development (Ploeg, Frouws and Renting, 2002). This wave of co-operativization, that is currently gaining momentum, is in line with the generally accepted EU principle of subsidiarity. It reduces the transaction costs associated with rural and agricultural policy programmes (Milone, 2009), while augmenting their reach, impact and efficiency. As such, territorial co-operatives might be a useful mechanism for delivering agricultural and rural policies.

Theoretically speaking, territorial co-operatives may be understood as the interlocking of three emancipatory movements that aim to go beyond particular impasses. The first is the search for, and construction of, *regional co-operation*, which aims to integrate activities to improve the environment, nature and landscape into farming practices. The background here is twofold. The regulatory schemes imposed by the state are often highly segmented: for example, one set of rules pertains to protecting nature values, while another set is concerned with the reduction of ammonia emissions etc. These internally segmented prescriptions are often contradictory and disconnected (due to their particular design) from farming practices. As a consequence the sets of rules materialize as ever so many limitations that are imposed upon farming. In addition, biodiversity, landscape and high quality levels of resources such as water and air cannot be produced at the level of the single farm; they require a regional approach, both from a material and social point of view. Improving the environment and ‘managing’ nature, landscape and the climate implies processes of learning, exchange and, indeed, of co-operation. Thus, it is widely felt that, the construction of sustainability requires regional co-operation, and that this is the best

way to successfully redress the many frictions and limitations inherent in the sets of general rules defined by expert systems and the state.

A second move concerns the search for, and construction of new forms of *rural governance*. This move emerged from the early 1990s onwards (Dijk, 1990) and produced, within different arenas, a broad spectrum of expressions, in which the principles of responsibility, accountability, transparency, representativeness and accessibility (Schmitter, 2001) became important beacons for gaining legitimacy. It is telling that an OECD report concluded that “farmer-led co-operatives are consistent with both Dutch institutional and democratic traditions”. It also noted that “from the government’s perspective, the emergence of these groups has proved a useful vehicle for mobilizing farmers’ commitment to environmental protection, and for finding ways to shift more responsibility over the implementation of environmental policy to local communities” (OECD, 1996; see also Fischler, 1998 and Franks and McGloin, 2006 and 2010). Central to the newly emerging forms of rural governance entailed in territorial co-operatives is the principle of institutionally defined exchange. Territorial co-operatives accept the state’s general *objectives* regarding landscape, nature and environment (and often promise to go beyond these objectives) on the condition that they are given room for manoeuvre to define for themselves the most appropriate *means* to reach the objectives.¹³

Third, territorial co-operatives represent a move away from expert systems towards the innovative abilities of peasants. Territorial co-operatives are thus also *field laboratories*: They are places where the locally most appropriate *means* to resolve new global problems (such as the environmental crisis) are developed, tested, implemented, evaluated and further improved. In short: it are places where innovations are produced and implemented.

In the new territorial co-operatives, the moves mentioned are tied together into one new institution. These new institutions crucially build upon, and at the same time strengthen, the social capital available within a territory. Equally important they develop networks of interrelations with other regional, national (and sometimes supranational) institutions. Through such networks new services, new products and additional room can be created and delivered that otherwise would be difficult to achieve.

5.3. The dissemination of co-operative structures

In the Netherlands there are, by now, some 250 well-functioning farmers’ associations for the management of nature and the landscape. They cover more or less 50% of the national territory. A smaller sub-group has developed into ‘real’ territorial co-operatives. They each have up to 1,000 members, regulate large areas (up to 50,000 ha), have developed a wide array of activities, contribute significantly to the regional rural economy and often operate as privileged partners of regional authorities, due to their capacity to ‘get things done’.

This co-operative pattern is not limited to the Netherlands. Germany has a considerable number of *Landschaftspflegeverbände* that are identical to the Dutch associations. Many *baldios* (in Portugal), *montes* in parts of Spain and communal pasturelands in Italy are operated in more or less the same way, whilst several *ConSORZI di Bonifiche* (in Italy) or state developed programmes for co-operation as *Tir Gofal* in Wales provide excellent starting points for the creation of co-operative structures that might mediate between local actors and European programmes for agri-environment-climate measures.

These co-operative structures all have a history of 1 or 2 decades (or more) in which co-operation and the care for the environment has become institutionalized. Important

learning processes have taken place in the different organizations, which have developed appropriate and often highly novel mechanisms for accountability.

These existing and well-functioning organizations which, though their networks are tied to other regional and national partners, provide an ideal vehicle for delivering the proposals contained within the next phase of the RDR. It may be wise to formulate strict selection criteria (see Article 49(3)) in order to avoid the emergence of many ad-hoc organisations trying, in an opportunistic way, to benefit from the specific advantages granted to groups. This could easily create frictions and disappointments. It is far better that rural development agencies first obtain sufficient experience in co-operating with well-established and trusted groups only thereafter giving the possibility to include growing numbers of groups.

5.4. Territorial co-operatives, innovations and learning processes

Many of the innovations that are needed on the road(s) towards a low-carbon and climate-resilient economy in the agricultural, food and forest sectors, critically depend on co-ordination and the institutionalization of learning processes. That is, they critically require co-operative approaches.

The requirement to dedicate 7% of the total farm surface to fallow offers a wide range of opportunities. This 7% might be used in arable farms for the creation of what is referred to, in agronomic literature, as a 'pest suppressive landscape'. This implies that cropland is crosscut by tiny corridors that carry a specific flora for pest control etc. As on-farm research demonstrates, such a micro-ecological structure within the farm helps to reduce, on average, pesticide treatments by 30% on a yearly base (Bianchi *et al.*, 2006; Steingröver *et al.*, 2010). Through collaborating and creating connectivity, farmers might well translate these single corridors into a 'green infrastructure' (as suggested in the 2010 Communication of the Commission (2010a:11)). Similarly, in wet meadow areas the zones surrounding the ditches and canals could be exempted from fertilization and pest control, thus contributing to increases in water quality.

The management and fine-tuning of such innovations crucially depends on knowledge transfer, learning processes and co-ordination. New co-operatives can play a decisive role here, as mentioned in Article 29. They also help to practically align different elements from Pillar 1 and Pillar 2, thus creating (part of) the required consistency and synergy (see also Article 36(2)g of the proposed Regulation: this should allow for support to such approaches within the RD framework; see also Article 61(1) and (2)).

Agriculture not only needs to adapt to the effects of climate change, it can also play an important role in mitigating these effects. A point in case is the elaboration of 'good manure'. This is manure that has a higher ratio of organic nitrogen to ammoniacal nitrogen (NH₃⁺, NH₄); and a significantly higher C/N ratio. This 'improved manure' (an improvement achieved by changing the composition of the rations used to feed the herd) not only has a positive effect on soil biology (thus resulting in improved grassland production), it also helps to fix significant amounts of carbon into the sub-soil¹⁴. Applying this approach on 10 hectares of permanent grassland yields the same carbon sequestration effect as planting 1 hectare of forest land.

When massively applied, such strategies might have important and far reaching effects. Once again a co-operative approach could be strategic for the introduction, fine-tuning, dissemination and consolidation of this and similar approaches (such an approach is possibly feasible under Article 36(2)f).

5.5. New markets and infrastructure

In its Resolution of the 8th of July of 2010 the European Parliament refers to the relevance of regional and local markets (especially in point 29). Such markets (or short supply chains as they are called in the Proposal) seem to have the potential to play an important role in rural development processes. They help to reduce the long distance transport of food and offer interesting marketing opportunities for farmers that allow them to improve their position in the food chain. The RDR proposal contains several measures that might be combined in concerted actions to enlarge and strengthen such local and regional markets. Articles 15 (on knowledge transfer), 16 (on advisory services), 17 (on quality schemes), 28 (on producer groups) and 36 (on co-operation) are all strategic in this respect. If on-farm investments are implied, Article 18 is also of relevance.

Preference should be given to concerted actions (or thematic sub-programmes)¹⁵ that aim to construct new local and regional markets.

5.6. The territorial issue

Although the achievement of an adequate territorial balance is one of the main objectives of the proposed Rural Development Regulation, the Proposal does not specify special measures to do so. It is expected that a well-targeted geographical distribution of funds will resolve this apparent shortcoming.

5.7. On innovation

Innovation plays a central role in several of the priorities, and is assumed to be a key to orienting the further elaboration and implementation of the new RDR. On the one hand this reflects the need to increase innovativeness throughout Europe. On the other hand, there is the danger that the centrality of innovation might undo much of the dynamism of rural development already created. Innovation is a broad catch-all, container concept that can include different and contradictory practices and pathways¹⁶. As Jambor argues: "Innovations never appear as a goal, but as a tool for realizing a primary goal" (2011:26). A non-specified support for innovation might, for example, be used to justify unconditional support to investments in further scale-enlargement of farm enterprises. Such a danger is not just hypothetical. The Impact Assessment indicates that "evaluations have [...] in some instances shown poor targeting, leading to deadweight effects in the case of support for large, highly productive farms undertaking 'traditional' investments, and support for farms with significant asset value which could invest without public assistance"(p. 8/9)¹⁷.

In the new 2014-2020 period such 'traditional' investments are a major potential risk. Of course, 'traditional' investments are not to become taboo or abandoned completely. The point, though, is that support for such 'traditional' investments falls outside the scope of rural development. An indiscriminate support for 'innovations' within Pillar 2 would be a Trojan horse – even more so if current efforts to reduce national co-financing (for such innovations) as much as possible, are successful. The difficult budgetary situation and a possible transfer of Pillar 1 funds to Pillar 2, are currently being used to justify such a reduction.

This general concern about 'innovations' becoming a potential leakage is also expressed in the Impact Assessment, especially where it asks "how to ensure the best fit with the EU

priorities, notably the Europe 2020 strategy for smart, sustainable and inclusive growth” (p.13). The same concern comes to the fore where the Impact Assessment notes that “socio-economic effects might be positive provided that the Member State concerned can develop a good strategy to make the best use of the funds available in line with the EU priorities” (p.23; underlining in original document). Proper targeting is seen as indispensable. As the European Parliament argued in its Resolution of the 23rd of June of 2011: “It is essential to establish a clear set of rules [...] and develop innovative methods that will lead towards more agronomically sound and sustainable agricultural systems” (point 4). Further, the Resolution of the 23rd of June of 2011 “stresses that the development of food quality policy, including in terms of geographical indication (PDO/PGI/TSG) must be a priority of the CAP and be deepened and strengthened so that the EU can maintain its leadership position in this area” (point 11).

What kind of innovations are to be supported? The Impact Assessment refers to several positive examples. One of these is the PVE scheme from France (Plan Vegetal pour l’Environnement, elaborated in Champagne-Ardenne). This scheme encourages precision farming. It augments the resilience of farms, contributes to sustainability and helps to develop biodiversity. In short: it has multiple goals. In more general terms the principles of the EIP can be very helpful when considering specific innovations: are they smart, are they sustainable, are they inclusive? Targeting is, indeed, needed (Impact Assessment, p. 39/40). The problem, however is that at present we have little experience about what the criteria of smart and inclusive might practically entail (as argued by Mantino, 2010:45 who, in general terms, also argues that concise targeting and co-ordination are crucial).

Thus, it seems to be of utmost importance to give the EIP criteria a central place in both the ex-ante and the mid-term evaluation of the new RDR. If it is clear from the beginning that these criteria will be central, this will have a strong effect in structuring the concrete plans and in their implementation.

6 RECOMMENDATIONS

6.1. On vague priorities

It is recommended to eliminate the current 'priorities' from the Explanatory Memorandum (point 4) and also from the Regulation (Article 5) and to replace them with newly formulated priorities that are in line with the points of view of the European Parliament and which more adequately address the current crisis and the difficult situation of the European Union.

6.2. On multifunctionality

The new Regulation is to aim explicitly to further strengthen the multifunctional nature of European agriculture. Energy self-sufficiency of farms (or groups of farms) is to be a main objective of Article 18.

6.3. On resilience

Throughout the new Regulation 'competitiveness' is to be changed to 'resilience'.

6.4. Linking on-farm improvements to joint activities

Project proposals for on-farm improvements¹⁸ will be favoured in the selection process if they are combined with joint efforts vis-à-vis the markets (as defined by Articles 28 and 36).

6.5. Strengthening the link between on-farm improvements and joint activities

The support for on-farm improvements¹⁹ will be increased by 10 per cent, if they are realized in the context of joint efforts vis-à-vis the markets (as defined by Articles 28 and 36).

6.6. Risk management

Eliminate Articles 37, 38, 39 and 40 from the Proposal. Or replace by a new Article 37 that reads:

Support under this measure shall cover:

- (a) Financial contributions to research programmes that aim to study the possibility to use (parts of) the Pillar 1 payments as a premium for crop, animal and plant insurance against economic losses caused by adverse climatic events, animal or

plant diseases, pest infestation or adverse market conditions that cause a severe drop in income.

- (b) Financial contributions to a few, well prepared Pilot Projects that are meant to test the functioning of such insurance schemes.

6.7. Part-time farming

Specify a general ex ante conditionality that specifies (as part of Article 11) that National and Regional Rural Development Plans will only be approved by the Commission if they are exempted from any discrimination whatsoever of part-time farmers.

6.8. Administrative burden

New 'light' procedures and new delivery mechanisms are to be introduced in order to reduce the administrative burden.

6.9. Groups

Extend the differential treatment of groups (as defined in Article 29 (6)) to also include producer groups, as defined in Articles 17, 28 and 36.

6.10. Favouring co-operative approaches

Eliminate the second indent of paragraph 3 of Article 36. Replace with: Co-operation is to take precedence over single and individual actions.

6.11. Do not start from scratch

Build as much as possible on already existing, strong and transparent associations and territorial co-operatives in order to experiment with joint agri-environmental commitments.

6.12. On innovations

Investments in physical assets as specified in Article 18 need to be smart, sustainable and inclusive. Protocols should be devised for assessing the first and last criteria.

6.13. Evaluation

The ex-ante and mid-term evaluations should carefully assess the smartness, sustainability and inclusiveness of all investments supported by the EAFRD. Mid-term and especially the ex-post evaluation should also focus on the socio-institutional processes that shape national and regional rural development trajectories.

6.14. Local and regional markets

Preference should be given to concerted actions that aim to construct new local and regional markets. These concerted actions might include intelligent combinations of Articles 15 (on knowledge transfer), 16 (on advisory services), 17 (on quality schemes), 18 (on physical investments), 28 (on producer groups) and 36 (on co-operation). Such concerted actions will be stimulated through a substantial increase in financial support.

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NOTES

¹ A recent comparative analysis of rural development processes and policies in China, Brazil and the European Union depicts rural development as a set of responses to major market failures. This explains the many commonalities to be found between these processes and policies, even when the immediate contexts differ considerably. See van der Ploeg, Ye and Schneider (2010 and 2012), Schneider, Shiki and Belik (2010), Ye, Rao and Wu (2010) and Ventura and van der Ploeg (2010).

² "Long term prospects for agriculture will not improve if farmers cannot reverse the steadily decreasing trend in their share of the value added generated by the food supply chain" (start document EC, p.10)

³ According to farm accountancy data from the Netherlands (LEI, 2011, table 4.3) the solvency of dairy farms goes from 81% (for farms producing less than 400,000 kg. of milk) to 53% (for farms producing more than 1,350,000 kg of milk. On average, the smaller farms are 281,000 € in debt. For the larger ones external debts average more than 3 million €. During the crisis of 2008/2009 this latter group entered into serious difficulties: cash flows became negative and many had to be refinanced at higher debt levels. Currently, many of the 'oversized' farm enterprises are for sale. According to the "EU Farm Economics Overview" (FADN 2007), farms in Denmark and the Netherlands show the highest levels of total liabilities as well as the highest liabilities-to-assets ratios (p. 31-39).

⁴ See e.g. ALFA 2006 and 2007.

⁵ This research included a survey in the six countries (n=3,264) and an extensive analysis of secondary data contained in different data-bases. The main results are presented in van der Ploeg, et al. 2002.

⁶ According to the Dutch Farm Accountancy Network (BIN) 45% of all farms were involved in some form of multifunctionality (Roest et al, 2010:9, Table 2.1), although it assumes that such activities are not combined. Their list of multifunctional activities is far from exhaustive.

⁷ Aguglia *et al* (2009) provide a comparative analysis of Italy and the Netherlands, which is based on INEA and LEI data. It shows that (based on our own regrouping) 64% of farms in the Netherlands are involved in new diversification activities, 31% in traditional ones and 47% in pluriactivity. The sum totals more than 100%, a reflection of the tendency of many farms to combine different new activities. In Italy the comparable figures were: 83%, 34% and 42% respectively.

⁸ Using the European Network for Farm Accountancy (RICA), Borsotto and Henke (2007) show that the contribution of such 'gainful activities' is considerable and significant, both in Italy and in the rest of Europe.

⁹ The research programme on the 'Dynamics and Robustness of Multifunctional Farming', carried out by Wageningen University (Rural Sociology Department) and financed by the Taskforce on Multifunctional Agriculture of the Ministry of Agriculture.

¹⁰ The remaining 20% had disinvested (selling quota and/or land) in order to invest in new activities. This was mainly done to avoid dependence on the banking circuit.

¹¹ Funded under Articles 17, 18, 20, 30 and 34, for quality schemes, investments in physical assets, farm and business development, organic farming and animal welfare, respectively.

¹² Beyond that, it could very well be argued that Pillar 1 payments already represent a kind of insurance for European farmers. It provides them with a basic income in case of highly adverse market circumstances, disappointing harvests and/or destructive plant and animal diseases. This further underpins the question raised by the European Parliament (EP, 2010b, page 55): "Why is the risk management toolkit included in the second pillar rather than the first? From a historical perspective (price support was meant to help farmers face the difficult conditions experienced at the world market level) and in view of the close relation between direct payments and food security (Jambor, 2011:9) this would be a more logical option.

¹³ In more formal terms this might be defined as 'legally conditioned self-regulation'. The theoretically important element is that such a framework does not eliminate *responsibility*, but, instead, clearly delineates it and transfers it to the level where it should reside.

¹⁴ For soils having between 6 and 10% organic matter content (OMC) this equals an increase of around 0.5% in the OMC

¹⁵ See also point 9 of page 12 of the Proposal.

¹⁶ Innovations can follow completely contrasting logics and trajectories- and can either strengthen or undermine efforts to enhance sustainability. (In this respect the international debate following the IAASTD publications is telling; see also the Resolution of the European Parliament of the 8th of July of 2010, page 1, fifth indent). Innovations might increase or mitigate against global warming, just as they may contribute to food security or to increases in food dependency.

¹⁷ This is especially troublesome if resources are diverted away from existing RD objectives to address the new innovation theme.

¹⁸ Under Articles 17, 18, 20, 30 and 34, for quality schemes, investments in physical assets, farm and business development, organic farming and animal welfare, respectively.

¹⁹ See previous note.