

Rural Development

Rural areas are facing major challenges today which arise mainly from globalisation, demographic change and the rural migration of young, well-trained people. Policies for rural areas aim to contribute to recognising and making use of strengths and opportunities.

Background

With its rural policies Germany aims to ensure that the infrastructural prerequisites for decent living conditions in rural areas are fulfilled and that existing and new potentials are developed through economic development.

Environmental concerns are also considered and integrated during the planning phase of programmes of measures to support rural areas. A large share of policies targeted at land use in rural areas serves to promote agrobiodiversity and environmental measures in agriculture.

Access to services and infrastructure is generally available nationwide in Germany (drinking water supply, sewage treatment, mail, telecommunications, transport). The quality of these services, however, differs from region to region. One field which needs improvement is sewage treatment where, for economic reasons, the number of decentralised systems is growing. The call for nationwide access to broadband in the field of IT and telecommunications creates new challenges. Furthermore, employment opportunities are not always sufficiently available in rural regions. The German government is taking various measures to improve the situation.

Integrated rural development

Rural development is also a European concern. At EU level, it was not until after the reform of the EU's structural policy in 1988 that a gradual but lasting change in the perception of rural areas occurred during the early 90s. Before, during the 1950s, the supranational efforts to ensure security of supply for European citizens and, therefore, agricultural production were priorities when the Common Agricultural Policy (CAP) was developed.

Already during the early 1960s, however, security of supply was achieved and the production of the most important agricultural goods showed a constant structural surplus. In addition, as a consequence of structural change, small scale and extensive agriculture disappeared. The migration of the rural working age population led to economic and social decline, in particular in border and mountain regions, on islands and in other remote regions. These adverse developments triggered the change in the perception of rural areas.

With its Communication on *The Future of Rural Society* and the subsequent reform of the Common Agricultural Policy, the Commission gave an impetus at the European level for problem solving strategies going beyond policies which solely focused on the

agricultural sector. Another reform of the CAP in 1999, the Agenda 2000, introduced a distinction between policy areas of the first pillar of the CAP (including traditional export subsidies, market intervention and direct payments) and the second pillar, the development of rural areas.

During the funding period 2007-2013 rural development will be co-financed with about 10% of the CAP budget through the European Agricultural Fund for Rural Development (EAFRD), which was expressly created for this purpose. Compared to total EU expenditure for agriculture and regional development, however, this share is still very small.

The introduction of a specific category "Policies for rural areas" cannot belie that these policies still mainly consist of support measures targeting agriculture and forestry and are motivated by agricultural policy considerations. Furthermore, in most EU Member States and at EU level the responsibilities for this sector remain under the traditional roof of agricultural policy.

To sum up, regardless of where the competences for this sector lie, rural development is much more than developing agriculture. According to the OECD, for example, agriculture "is no longer the backbone of rural economies."¹ Agricultural policies so far have focused on support for farms and other agricultural facilities. Despite major subsidies, these policies did not succeed in triggering or improving rural development.² Therefore, the OECD calls for a rethinking and champions integrated approaches in a "new rural paradigm". The two main characteristics of this paradigm are: "1) a focus on *places* instead of *sectors*; and 2) a focus on *investments* instead of *subsidies*."³

Model project "Active Regions - Shaping Rural Futures": a contribution to further advancing integrated rural development

Background to the "Active Regions" project⁴

The model and demonstration project "Active Regions - Shaping Rural Futures" was launched in the form of a nationwide contest by the German Government in 2001. The contest addressed regions which would, as a model, implement approaches to the four aims of

- consumer focus,
- nature-friendly and environmentally compatible agriculture,
- strengthening rural areas and creating additional sources of income and
- fostering rural-urban connections.

Taking the above-mentioned goals into consideration, interest groups of the regions had to create regional partnership networks and draw up an integrated regional development plan (REK) based on the specific strengths, weaknesses and potentials of their region.

¹ OECD 2006. Rural Policy Reviews. The New Rural Paradigm. POLICIES AND GOVERNANCE, p. 41.

² OECD 2006. Rural Policy Reviews. The New Rural Paradigm. POLICIES AND GOVERNANCE, p. 22.

³ OECD 2006. Rural Policy Reviews. The New Rural Paradigm. POLICIES AND GOVERNANCE, p. 60.

⁴ See also <http://www.modellregionen.de>

At first the "Active Regions" project period was limited to the end of 2005. However, the project was then updated with regard to contents and extended to late 2007.

The new element of the "Active Regions" steering approach is the consequent shift in the four pillars of steering and responsibility and the obligations this entails for the 18 model regions with regard to:

- processes: regional partnership network as central decision-making body and the responsible regional management body as central service-provider of the region;
- contents: steered by objectives and evaluation and the regional partnership networks choosing the projects;
- finance: regional budgets support integrated projects;
- administration: partner for implementation at local level, reviews financial and technical requirements.

The findings of recent regional research were incorporated into the "Active Regions" steering approach. Firstly, it has been realised that integrated regional development cannot be induced from the outside or top-down but rather has to make use of the potentials of a region itself, which lie in the respective geographical, economic and social conditions. Secondly, the approach follows the results of discussions on regional governance, which points to the importance of regional cooperation and also the need to manage regional affairs and provide political guidance at the regional level. Regional governance considers a region as part of a multi-level political system and recommends steering developments through binding objectives and competition as opportunities for innovative regional policies.

Results

The aim of "Active Regions" was creating and strengthening regional partnership networks for an integrated rural development in selected model regions. These aims were to be achieved by applying the five principles of regionality, partnership, reflexivity, integration and competition and their respective implementation tools. This steering approach has proven successful.

Although this approach was more time-consuming owing to the necessary harmonisation and coordination in particular within the model regions, it was widely accepted by the respective regions and at programme level.

It was also possible to show that supporting soft measures can lead to hard effects by initiating chains of effect through the impetus provided by support.

It becomes obvious that the approach of consequently shifting responsibility for a share of support measures to the regional level has paid off. Accordingly, it is recommended to support rural development in principle by means of regional-specific support programmes in future.

The ex-post analysis of hard effects in late 2005 revealed that a total of 1,464 jobs (full-time equivalent) can be attributed to effects of "Active Regions". 763 of these jobs were newly created and 701 jobs could be secured. Furthermore, direct follow-up investments

of EUR 83 million were generated, EUR 57 million of which came from private sources. In comparison, the overall funding for the projects totalled about EUR 72.9 million from 2001 to 2005. Almost 68% were financed through "Active Regions" funds, the remaining sum was co-financed by public (5.9%) and private (26.5%) sources.

The economic analysis of the total effects of "Active Regions" within the framework of a cost-benefit analysis revealed an average net benefit of approximately EUR 2.3 million per region by the end of 2006 (follow-up investments, employment and value added effects minus support funding and resources spent by the model regions themselves). Over a 10-year period a total accounting value of about EUR 3.4 million is projected per region.

In addition, the soft effects recorded within the framework of a utility value analysis must be highlighted, which cannot be adequately expressed in monetary terms but which can be expected to have further hard economic effects in future. In particular the improved networks among actors within a region, the development of high-quality regional services and the increased awareness for a region are considered positive results.

The results are taken into account for the further development of support policies. As a first consequence, the funding principle of integrated rural development was introduced already in 2004 when the Joint Task for the Improvement of Agricultural Structures and Coastal Protection (GAK) was drawn up:

- Funding is geared at rural regions which want to take joint action for their future development.
- Various measures for the improvement of regional structures (land consolidation, rural road construction, village development) were merged and expanded by strategic elements.
- Support for regional management and the drawing up of integrated rural development plans was introduced. Based on these development plans landscape management measures, direct marketing and tourism can be linked effectively, for example. Regions can and should choose their individual priorities for development.

National strategy plan for rural development 2007-2013

The national strategy plan is a new tool of a three-tiered planning process. Based on this strategy the Länder submit their development programmes for the upcoming funding period to the European Commission.

On 20 September 2005 the Council of the European Union adopted the Regulation on Support for Rural Development by the European Agricultural Fund for Rural Development (EAFRD regulation). This regulation is the basis for the second pillar of the Common Agricultural Policy (CAP) for the 2007-2013 period.

Policies for rural areas aim to back the reforms of the first pillar of the CAP while at the

same time contributing to implementing the updated Lisbon Strategy for Growth and Jobs and the Göteborg sustainability goals. Rural development policy pursues three paramount aims:

- improving the competitiveness of agriculture and forestry by means of support for restructuring, development and innovation,
- improving the environment and the countryside,
- improving the quality of life in rural areas and encouraging diversification of the rural economy.

These objectives are being implemented through three thematic axes and one methodological axis. The latter supports local development strategies according to the LEADER approach (networking of actions to develop the rural economy).

For the first time, a three-tiered planning process has been introduced for the next programming period. The national strategy plan constitutes the link between the Community strategic guidelines and the development programmes of the Federal Länder.

The Community strategic guidelines show the major challenges, objectives and approaches from a European point of view. The national strategy plan analyses the economic, structural, ecological and social situation in rural areas in Germany and their potential for development. It contains an overall strategic concept as well as priorities for each axis, including quantification of the main objectives and indicators for monitoring and evaluation. In addition, the plan ensures the coherence of support measures with other policies at the national and European level and describes the regional distribution of the EU funds going to Germany.

In the development programmes, the regions (Federal Länder), depending on their specific situation and in accordance with the national strategy, define concrete support measures and allocate the financial resources. The regions are responsible for the preparation and implementation of the development programmes.

As in the past, Germany will submit to the European Commission a national framework (on the basis of the Joint Task for the Improvement of Agricultural Structures and Coastal Protection) including support measures which can be implemented by the Federal Länder in their programmes. A federal programme is presented for the national rural network.

The role of agriculture in rural areas

Agriculture continues to play an important role in rural areas, and in some regions it also contributes to economic growth. Small and medium-sized companies are certainly of even greater relevance, but many of them are again closely linked with agriculture in both upstream and downstream processes.

Potentials of the cultivation of renewable resources and use of modern biomass technologies for rural areas

Protecting our climate and securing energy and raw material supplies are key challenges. The German government places great emphasis on the replacement of finite fossil resources with renewable energies, in addition to improving energy efficiency and energy saving strategies. In this, renewable resources play a decisive role.

Potential sources of income

Bioenergy not only makes an important contribution to ensuring security of supply and climate protection, it also provides new sources of income in agriculture and forestry and thus fosters the development of rural areas, in particular through

- production and provision of raw materials for heat, electricity and fuels,
- processing and energy generation at agricultural holdings, and finally
- through price effects for resources produced for energy or food, which results primarily from increasing worldwide food demand and below average harvests but also from the increasing demand for bioenergy.

In order to keep a large share of the value added in the region, as many parts of the production chain as possible should remain there. This includes for example the provision, processing and marketing of fuels, but also the use in private, municipal or commercial biomass combustion plants.

According to estimates, more than 90,000 jobs in Germany are currently associated with the bioenergy sector. The economic significance of bioenergies which has now developed is in particular reflected by the turnover generated. Of the EUR 21.6 billion of domestic turnover in the renewable energies sector, in the year 2006 about EUR 8.2 billion (38%) could be attributed to the area of bioenergy. In view of the rapidly increasing numbers of biogas and wood combustion installations and the steadily growing land area devoted to the cultivation of renewable resources, this figure is expected to grow considerably over the next years.

In the short to medium term, the contribution to the value added in rural areas will be greatest if all material and energy options of biomass are used in parallel. In the medium to long term, also against the background of increasing competition over land, it has to be ensured that areas with the strongest value-added effects are predominantly supported. This is an advantage for biomass use for heating, which also makes the greatest contribution to reducing CO₂ emissions at the lowest (logistical) cost.

Targets and activities at national level

The German government has committed to a sustainable energy policy with a strong focus on the expansion of renewable energies. Its targets include

- increasing the share of renewable energies in electricity production to at least 12.5% by 2010 and to at least 20% by 2020,
- doubling the share of renewable energies in total energy consumption by 2010, reaching a share of 10% by 2020 and steadily increasing this share afterwards according to the national sustainability strategy,
- considerably increasing the share of biomass in primary energy consumption in the medium term and
- increasing the share of biofuels in total fuel consumption to achieve a net GHG reduction of 5% in 2015 and 10% in 2020 compared to fossil fuels resulting in a biofuel consumption of approximately 20% by volume or 17% by energy content by 2020.

These ambitious targets require the massive expansion of bioenergy and the corresponding adaptation of framework conditions and support instruments.

Overview: framework conditions and support instruments

In order to achieve the climate policy targets agreed, both the German government and the EU have defined appropriate framework conditions. On the part of the EU, this includes in particular the Biofuels Directive, the Energy Tax Directive, the energy crop premium, cultivation on set-aside land and the EU Biomass Action Plan.

At national level, the following support measures and framework conditions are to be mentioned in connection with the use of renewable resources and climate change: the Energy Tax Act, the Biofuel Quota Act, the Renewable Energy Sources Act, the Market Incentive Programme for Renewable Energies, and the Renewable Energy Sources Heat Act.

Current land use

In 2006, renewable resources were grown on 1.6 million hectares of land (13% of arable land in Germany), including around 1.4 million hectares of crops for use as an energy source (about 1.1 million hectares for rapeseed for biodiesel, about 160,000 hectares for maize for biogas, about 100,000 hectares for cereal for ethanol). About 265,000 hectares were used for material recovery.

Potential

17 million hectares of land are used for agriculture in Germany (about 12 million hectares of arable land and 5 million hectares of grassland). Experts' estimates on the area of land available for the cultivation of renewable resources range from 2 to 2.5 million hectares by 2010, and from 3 to 5 million hectares in the long term, depending on the assumptions taken as a basis (according to the type of use, this corresponds to a contribution of between around 2 and 8% to the German primary energy demand in 2006).

Biofuels

Germany already made considerable efforts to promote biofuels in the 1990s. In 2005, the share of biogenic fuels in total fuel consumption was 3.7%, and well over 6.3 % in 2006.

In order to further advance the expansion of the biofuels sector, Germany has introduced a blending obligation with the Biofuel Quota Act, which entered into force at the beginning of 2007. Anyone who places fuels on the market is obliged to sell a fixed percentage in the form of biofuels.

Up to the middle of 2006 Germany made use of the possibility of granting tax relief on the basis of the EC Energy Tax Directive and exempted biofuels from mineral oil tax. Since January 2007, blended biofuels have been subject to the full mineral oil tax. Only pure biofuels, as far as they do not count towards the quota, will maintain tax privileges until 2011, subject to the annual check for overcompensation. The use of pure biofuels in agriculture continues to be completely tax-free. In order to create a clear perspective for new developments and incentives for investment, second generation biofuels will receive tax subsidies up to the year 2015, subject to the check for overcompensation. The same applies to E85 and biogas as transport fuels.

Heat from biomass

Biomass is the most important renewable energy source in the heat sector. The development in this sector in recent years has also been very dynamic. The number of wood pellet plants, for example, doubled to 70,000 in 2006 as compared to the previous year.

Among the advantages of heat production from biomass are low CO₂ avoidance costs and decentralised structures for delivery. In the short and medium term, the use of biomass for heat production in Germany is therefore particularly beneficial from an ecological and economic point of view. The prerequisite for this are appropriate framework conditions to limit air pollutants released during combustion. Moreover, measures are required which promote better use of heat, such as the expansion of combined heat and power generation, the integration of biogas plants into microgas and local heating networks or the establishment of decentralised thermal power plants.

Electricity production from biomass

In the area of electricity production from biomass the Renewable Energy Sources Act has proven to be an efficient support instrument. The improved support mechanisms introduced in 2004 in particular have led to a considerable increase in the feeding of electricity from biomass into the grid, and the number of biogas installations rose to 3500 in 2006. Due to special rates or bonuses for the use of renewable resources, innovative technologies and combined heat and power generation, it has become profitable to produce electricity from renewable resources. The support instrument under the Renewable Energy Sources Act (EEG) was subject to a thorough review, which has been published in 2007. The goal has been to establish a basis to adapt the EEG in such a way as to facilitate an even more efficient use of renewable energies.

Securing sustainable biomass production

Biomass cultivation must not take place at the cost of nature and the environment. The German government considers it necessary to ensure the sustainability of biomass cultivation and of the products made from biomass, for example through sustainability standards and certification systems.

In Germany, the existing provisions on good professional practice already constitute binding rules which are expected to guarantee sustainable cultivation, regardless of the use of the products. In addition, there are clear standards for sustainable forest management laid down in the Federal Forest Act and the Forest Acts of the Länder.

For biofuels, the German Biofuel Quota Act contains the authorisation to limit proof of compliance with the quota to biofuels that

- in the production of the biomass used, verifiably meet specific requirements concerning the sustainable management of agricultural land or
- meet specific requirements regarding the protection of natural habitats or
- show a specified CO₂ reduction potential.

The German government intends to issue an ordinance to substantiate these provisions and to regulate monitoring. The German government has proposed this ordinance to the parliament in December 2007. The legal validity is expected for 2009. It is also planned to link support for the use of biomass under the Renewable Energy Sources Act to sustainable production.

In view of the accelerated expansion of bioenergy worldwide, international trade in sources of bioenergy is gaining in importance. This is why the German government is strongly committed, also at the international level, to contributing to the development of sustainability criteria.

Firstly, this takes place by supporting European activities, such as the definition of sustainability criteria in a directive as proposed by the European Commission. This work is currently underway. Secondly, the German government considers global efforts of the various international fora very important. It therefore supports the activities of the G8 initiative "Global Bioenergy Partnership".

Sustainable tourism as an economic factor in rural areas

Rural tourism in Germany not only plays a major role as an additional source of income for farmers, but also in the context of sustainability.

Rural tourism in Germany comprises both traditional farm holidays and tourism in rural regions in general. Particular emphasis is placed on outdoor activities and sustainable holiday offers, such as hiking, cycling, water tourism or opportunities to experience rural traditions. The Federal and Länder governments support sustainable rural tourism through a raft of support measures including investment projects and measures for quality improvement, qualification of hosts and tour operators and the implementation of marketing and development concepts. Interlinkage of tourism and regional marketing of agricultural products, e.g. through farmers' markets or farm cafés, is also a decisive element.