THE CENTRAL ROLE OF NESTED MARKETS IN RURAL DEVELOPMENT IN EUROPE (Draft)

Henk Oostindie, Jan Douwe van der Ploeg, Rudolf van Broekhuizen, Perluigi Milone, Flaminia Ventura and Gianluca Brunori

1. Rural development policies: their history, dynamics and objectives

The Common Agricultural Policy (CAP) is one of the founding elements of the European Economic Community. It was originally constructed along the lines of French and German agricultural subsidy arrangements that reflected post-war concerns to prevent food shortages, stabilize food prices and guarantee reasonable incomes to farmers. Until the 1980s the CAP operated through a combination of (a) agricultural prices fixed above prevailing world prices, (b) tariff and quota barriers on imports into the Community and (c) subsidies for EU exporters. Faced with the specific needs of lagging agricultural regions, the price-support policy (EAGGF-Guarantee) was supplemented, in 1964, by a modest structural fund (EAGGF-Orientation) intended to improve the competitiveness of agricultural and food industries in these regions.

Starting in the 1980s, rural areas attracted more specific attention, partly as a result of the Single European Act (1986) that established rural development as one of the five objectives of cohesion policy. This formed the basis for a wide range of rural development measures supported by three different funds: the ESF (European Social Fund), the European Regional Development Fund (ERDF) and the EAGFF-Orientation.

From 1992 onwards, rural development policies have increasingly been accompanied by important CAP reforms. Increases in agricultural productivity and the maintenance of EU food prices above world market prices resulted in large surpluses of many food commodities and expensive budgetary measures to dispose of these surpluses (which was often highly detrimental for Third World agriculture).The MacSharry reforms brought significant cuts in price support, partially compensated by support measures, in an attempt to break the link between production levels and the level of subsidy, to reduce incentives to over-produce and to remunerate agriculture's contribution to public services more directly. The MacSharry reforms also aimed to respond the growing criticism of an agricultural model that focused more on quantity then quality and generated different types of problems: environmental pollution, health risks and damaged landscapes, as was clearly expressed during the Cork Conference of 1996. This first official European Conference dedicated to rural development, highlighted the need for more integrated and multi-sectoral rural policy approaches that involved a much wider range of rural actors.

The Agenda 2000 reforms subsequently deepened the MacSharry approach of price cuts that were (partly) compensated by support measures. Agenda 2000 also entailed the creation of a second pillar of CAP, known as the Rural Development Regulation (RDR). This second pillar confirmed the growing attention given by EU policy to the multiple contributions of agriculture to rural development, as well as growing societal concerns about the social, cultural and environmental consequences of farming. In some ways Agenda 2000 corresponded with the OECD's views about the emergence of a new rural policy paradigm that differed fundamentally from traditional approaches (see table 1). In line with this newly emerging rural policy paradigm, European discourses about rural policy increasingly started to use concepts such as the competitiveness of rural areas and the valorization of local assets and resources. To respond pro-actively to new societal demands and to safeguard and

strengthen quality of rural life these discourses acknowledged that agricultural practices can be tailored so that they provide positive rather than negative externalities. As a result amenity-led policy instruments have been adopted that are intended to strengthen agricultural and rural development. Distinctive food qualities, recognition of agriculture's contribution to public goods (such as nature and landscapes), cultural heritage and rural/regional identities have become increasingly important elements of amenity-led rural policy.

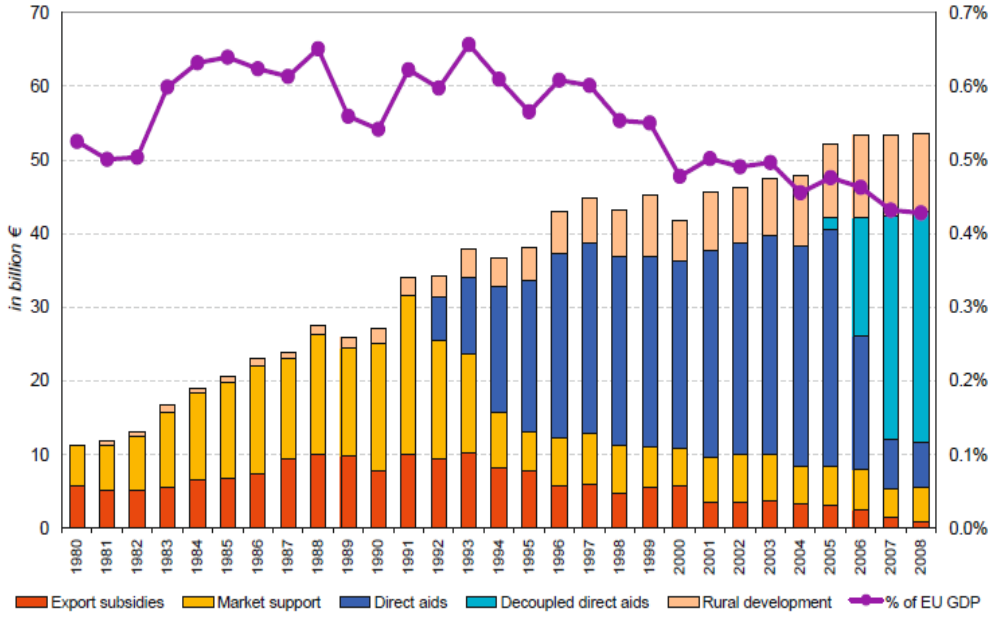
Table 1 **The new rural paradigm**

	Old approach	New approach
Objectives	Equalisation, farm income, farm competitiveness	Competitiveness of rural areas, valorisation of local assets, exploitation of unused resources
Key target sector	Agriculture	Various sectors of rural economies (ex. rural tourism, manufacturing, ICT industry, etc.)
Main tools	Subsidies	Investments
Key actors	National governments, farmers	All levels of government (supra-national, national, regional and local), various local stakeholders (public, private, NGOs)

Source: OECD 2006, p.60

At the Salzburg Conference in 2003 the RDR underwent some fundamental innovation, with the separation of the guarantee and orientation sections of the EAGGF into two different funds, the EAGF (European Agricultural Guarantee Fund) and the EAFRD (European Agricultural Fund for Rural Development). Under this new arrangement the EAFRD loses its status as a structural fund, which implies that integration with the other structural funds (ESF and ERDF) is no longer guaranteed. Through this financial re-engineering rural policy was directly placed under the aegis of the CAP; and rural development thus became one of CAP's main objectives.

Figure 1: Dynamics in CAP expenditures since 1980s



The ongoing transition from a primarily sector-based agricultural policy towards a much broader *rural* policy framework can also be illustrated by the dynamics in the expenditure patterns during recent decades. Figure 1 shows that export subsidies and other forms of

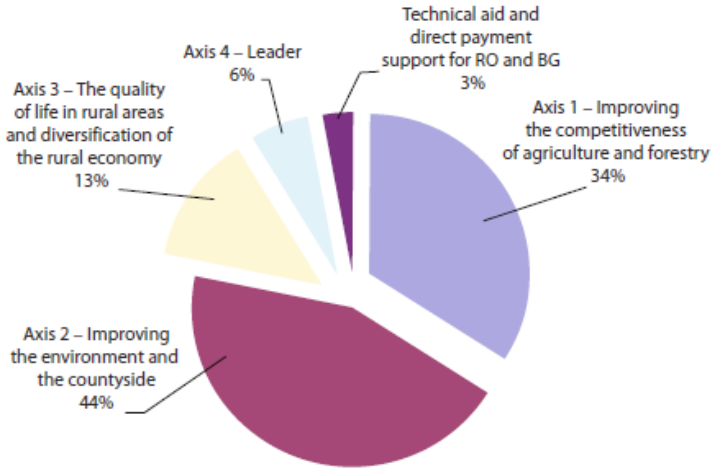
market support have been clearly in decline since the early 1990s. It also illustrates that the rural development pillar of the CAP is gradually gaining in importance.

Since 2006, this second pillar has centred on of three thematic areas (or axes), each of which corresponds to specific rural policy objectives:

Axis 1: Improving the competitiveness of agriculture and forestry
Axis 2:Supporting land management and improving the environment
Axis 3: Improving the quality of life and encouraging diversification of rural economies.

These thematic axes are complemented by a LEADER Axis, which promotes bottom-up rural policy design and delivery through direct involvement of rural stakeholders who are brought together within Local Action Groups. EU requires a minimum funding for each Axis to ensure some overall balance in Rural Development Programmes (RDPs) (10% for Axis 1; 25% for Axis 2; 10% for Axis 3 and 5% for the LEADER Axis). A range of pre-defined rural policy measures are have been developed that can be adopted and used as building blocks for the three thematic axis. Member States can choose the measures which they believe to be most appropriate for their rural areas, establishing an RDP (at national or regional) according to their priorities and strategies. At the EU level the total allocation to RDP budgets in excess of €90 billion for the period 2006-2013, the majority of which is allocated to Axis1 and 2 objectives (see figure 2). However there are considerable differences in the distribution made by different Member States and/or the 94 RDP regions. This variety not only reflects the enormous heterogeneity of rural development needs and concerns within the EU, but also the path-dependencies and inertia in rural policy delivery systems at lower levels (Copus et al 2009).

Figure 2: The allocation of the EARDF budget among Axes: 2006-2013 (Source:)



Returning to figure 1, it is clear that the largest part of CAP expenditure continues to consist of direct payments to farmers, although since 2005 these have been increasingly decoupled from production volumes. These direct payments are a compensation to farmers for the gradual decline of price subsidies and the gradual elimination of a range of instruments designed to protect EU agricultural markets. The direct income support measures are being guaranteed till 2013, although their longer term future is increasingly subject of debate within the EU. These debates centre around a range of issues, including the need for significant CAP budget cuts (so other policy fields can benefit), the efficiency and effectiveness of direct

income support measures in meeting rural needs and strong calls for fundamental changes in the current allocation of direct income support budgets at farm, regional and Member State levels in order to strengthen the EU's cohesion and socio-economic policy objectives. The outcome of these debates is difficult to foresee but will certainly be of great importance for agriculture's capacity to respond to changing societal demands. As such 2013 might become a crucial next milestone in the gradual transition of CAP from a primarily sector-based policy into an EU policy framework for *rural* development. The transition that has occurred in the 1973-2009 period has recently been summarized in a recent EU publication. The main results of which are synthesized in Table 2.

Table 2: Rural development: from Cohesion to CAP (1992-2009)

Source Notre Europe, No14, 2009.

1973 : Agreement in principle in the Council on the first directive concerning agriculture in mountainous regions and in certain less favoured areas..

1975 : Creation of the ERDF, 18 March 1975. Entry into force of Directive 75/268/CEE on agriculture in mountainous regions and disadvantaged zones, which introduces the natural handicap payment (NHP) throughout the Community.

1981 : Integrated development programmes financed by the EAGGF-Orientation.

1985 : Commission green paper, «Perspectives for the common agricultural policy», where the notion of rural development appears. Creation of Mediterranean Integrated Programmes, which support agriculture and fishing, and encourage economic diversification in southern regions «threatened» by the enlargement to Spain and Portugal.

1986 : On 16 December the Council adopts the Single European Act, which initiates cohesion policy, and in this framework the first measures for a socio-structural policy for the countryside (Article 130A).

1987 : «Making a success of the Single Act», speech of the President of the Commission to the European Parliament on 18 February. This «first Delors package» explains the reasons for Community action aiming to «guarantee the foundations of rural development», and rural development is designated one of the five priority objectives of Structural Funds reform.

1988 : Adoption of the Structural Funds reform by the February European Council. Rural development becomes a priority of the Community. // Communication of the Commission on 29 December concerning the future of the countryside: creation of Objective 5b. Europe launches support for rural areas within the framework of the cohesion policy incepted by the Single European Act.

1991 : Implementation of the LEADER I Community initiative (1991-1994).

1992 : Signing of the Treaty of Maastricht, 7 February. First appearance in the treaties of the notion of rural development (Article 158). Reform of the CAP: changeover from a regime of guaranteed prices without limit or exception to the quantitative limitation of production, and income compensation. Encouragement of extensive agricultural practices respectful of the environment and beneficial to land management (agri-environmental measures).

1994 : Creation of the list of «vulnerable rural areas», corresponding to objective 5b of the «Delors Package», which promotes the development of rural areas. LEADER II (1994-1999).

1996 : Cork Conference (Ireland) dedicated to rural development. Affirmation of an integrated and multi-sectoral rural development policy involving all the rural actors.

1999 : Berlin Council. Political accord on Agenda 2000, which includes a new reform of the CAP. Emergence of the «2nd pillar», appearance of the Rural Development Regulation (RDR) and of «modulation». Creation of SAPARD: instrument to assist the adaptation of the agricultural sector and rural areas of candidate countries.

2000 : LEADER+ (2000-2006), the programme which promotes rural development by initiatives of local action groups, is added to the general regulations of the Structural Funds.

2001 : The Göteborg European Council defines the EU's sustainable development strategy, which mandates the contribution of the 2 pillars of the CAP to sustainable development.

2003 : The Thessaloniki European Council confirms these principles: «The new CAP and rural development contribute decisively to economic competitiveness and to sustainable development.» 2nd European conference on rural development in Salzburg, «Perspectives for rural policy in an enlarged Europe». With the Luxembourg agreements the agricultural Council of Ministers sets in motion the new CAP reform, which strengthens the 2nd pillar.

2005 : Council regulation 1698/2005 governs rural development policy for the period 2007-2013.

2007 : Replacement of EAGGF, which had financed the CAP since 1962, by the EAGF and the EAFRD.

2008 : European conference on rural development at Limassol-Cyprus, «European rural areas in action: facing tomorrow's challenges».

2009 : Council's adoption on 19 January of the CAP health check, which mandates an increase in obligatory modulation from 2010.

2. The particularities of RD processes in Europe

An important and telling feature of rural development as it occurs throughout Europe is that it was already unfolding *in practice* before it explicitly became the object of a RD policy. Many of the RD activities that we now know date back to before the mid 1990s (when the development of RD policies started at regional, national and supranational levels)[1]. This shows that, in Europe, RD is primarily an endogenous process. It stems from grass root level initiatives and is driven by the interests, prospects, innovativeness and sturdiness of the many local actors that are involved in it. This characteristic remains the dominant one – even since the mid 1990s when local RD activities became increasingly supported through RD policies (especially from 1999 onwards).

By the end of the 1990s it was clear that rural development activities were strongly oriented towards creating new opportunities for the generation of income and employment. Many RD activities were formulated as a response to the squeeze on agriculture. However, not *all* activities oriented towards generating incomes were considered as rural development. The notion of rural development was, at that time, specifically used to describe (and to group together) those activities that helped to improve the relations between agriculture and wider society. In this respect, the concept of rural development became a normative notion. Finally it also became clear that rural development was not an *adieu* to farming. Although it was recognized that the rural economy is far wider than agriculture alone, it was felt, at the same time, that agriculture could be transformed and become again an indispensable (although far from dominant) part of the rural economy.

Thus, different but strongly interrelated elements emerged that together defined the concept and praxis of rural development. Among these the creation of new connections with society as a whole was central: new goods and new services were to be produced to meet the needs and expectations of today's citizens. This was highlighted in the Declaration of Cork: "European citizens pay growing attention to the quality of life in general, and to questions of quality, health, safety, personal development and leisure in particular, and […] rural areas are in a unique position to respond to these interests, and offer grounds for a genuine, modern development model of quality" (1996:1). Consequently, rural development was defined as "responding to growing requests for more quality, health, safety, personal development and leisure, and improving rural well-being" (ibid). At the same time it was recognized that such responses could also counter the squeeze on agriculture. Rural development aims, as the Declaration of Cork stressed, "at reversing rural out-migration, combating poverty, stimulating employment and equality of opportunity "(ibid).

Together with these first two elements (building new connections with wider society and responding to the squeeze), a third element was stressed: farming itself was to be transformed. In order to meet new needs and expectations (and create additional income and employment) rural development required a reconfiguration of rural resources: agriculture was being reshaped according to a new rationale (see Van der Ploeg et al, 2000; Marsden, 2003). Multifunctionality; less dependency on external resources; an improved, more sustainable use of internally available resources (notably nature); new ways to mobilize resources and new forms of cooperation became important expressions of this new rural development rationale.

A considerable part of European agriculture has been unfolding along these lines. Although estimates about the percentage of farms engaged in different expressions of the new rural development rationale differ considerably – just as data on their economic relevance are highly contested – it is without doubt that European agriculture increasingly contains a dual

[1] This is amply documented in Oostindie and Parrot (2001) and in Oostindie et al (2002)…

structure. On the one hand there is one pole (see A in Figure 3) that groups together multifunctional farms that produce classical commodities alongside a range of new products and services and which try to avoid a high dependency on external inputs and credit. On the other, there is a second pole (B) of highly specialized farms that are strongly integrated in markets on the input side of the farm (including the capital market). The dynamics of the two poles are increasingly diverging from each other. Whilst in the second pole (B) further scale-enlargement, an accelerated industrialization of the process of production and integration in large 'chains' are the beacons that guide the farm development trajectory[2], in the first one (A) it is quality increases, the ongoing construction of synergy, and the improvement of circuits that link to consumers that provide the main guide-lines. In more economic terms: the duality shown in Figure 3 is the one of 'economies of scale' (B) versus 'economies of scope' (A). Although the two poles might very well be defined, at the level of theory, in contrasting and mutually exclusive terms, in practice there will be, and is, considerable overlap and nuances (as shown in figure 3).

Figure 3: A schematic representation of the duality of European agriculture

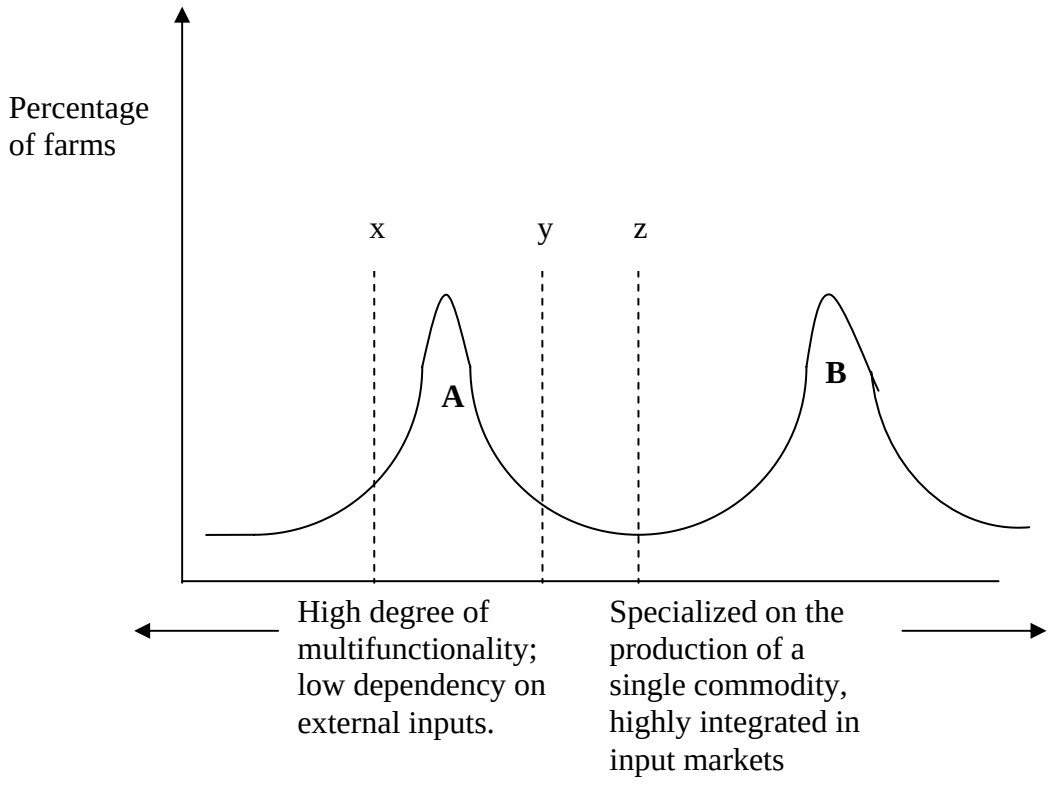


Figure 3 also helps to clarify why assessments of the quantitative presence of both types of agriculture differ so much. If line x is used to demarcate the most developed expressions of rural development (i.e. those farms located on the left side of line x; the farms that are highly diversified), then their number will be relatively low. If, however, the average situation (the peak between x and y) is also taken into consideration, the number will be far higher, and the option for line z will render very different results. Beyond that, one has to take the time dimension into consideration. Rural development, as well as the further development of conventional agriculture, are dynamic phenomena that are critically affected by a range of

[2] De-activation is another phenomenon that occurs within this category.

politico-economic and cultural conditions. Hence, measurements might render different results in different years.

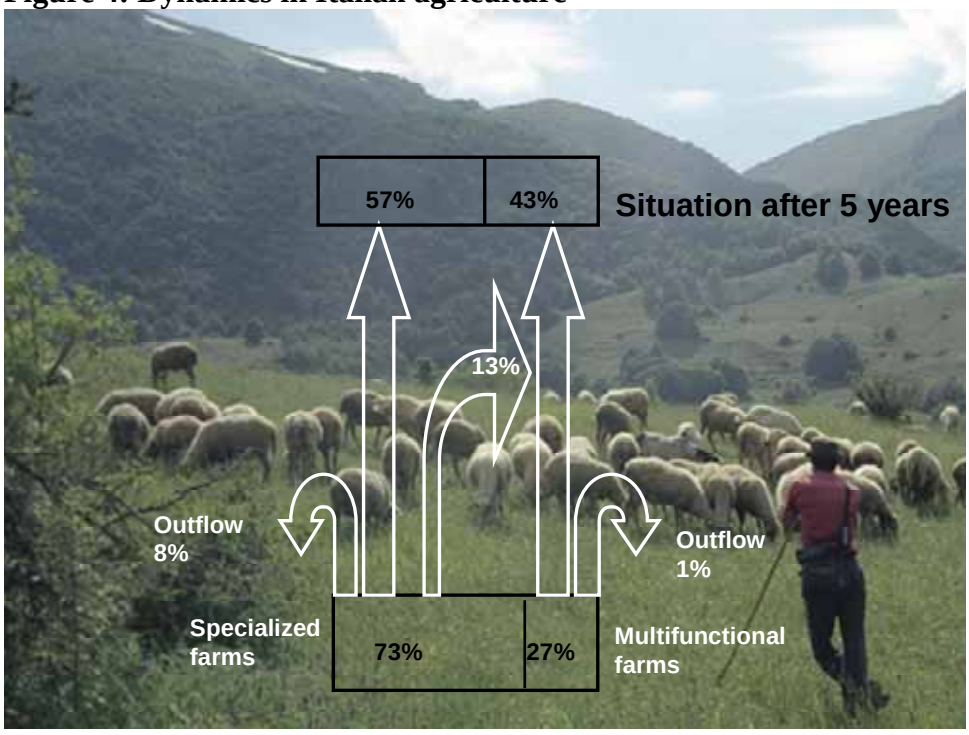
A comparative analysis of the socio-economic impact of rural development activities (undertaken in Ireland, the United Kingdom, the Netherlands, Germany, Italy and Spain and published in 2002)[3] revealed that 51% of farmers were involved in multifunctional activities, i.e. diversifying their farm operations 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, delivery of other rural services, etc). 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 were engaged in both forms). Extrapolated to the agricultural sectors of these six countries these figures suggest that, in total 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 income. This sum (11.6 billon 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 decade rural development activities were significantly contributing to overall agricultural incomes, by roughly 25%. For the *farms* that are *de facto* involved in RD activities this contribution is, on average, 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, which we will return to later.

Since this first impact study, several other studies have been undertaken[4]. Some interesting work has been undertaken in France on 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 forward 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 data shows that full time farms associated to households with 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 associated to households benefiting from other gainful activities grew from 39.1% in 1979, to 41.1% in 1989 and to 49.0% in 2000. Most of this increase occurred on full time farms without any pensions. Today full time farms with OGA outnumber those without OGA. The former occupy 34.8% of the total agricultural area, the latter 31.6% (Brun et al., 1970; Blanc et al, 1990; Laurent and Remy, 1998; van der Ploeg et al, 2008). 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 lower.
Recent Italian research focused on the *changing balance* between specialized farming and multi-functional agriculture (Ventura and Milone, forthcoming). The research included a survey (n=1,600) among large and full time farmers receiving more than 15,000 Euros per

[3] 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, Long and Banks (2002)
[4] Aguglia, et al (2009) provide a comparative analysis that embraces 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. For Italy the comparable data: 83%, 34% and 42% respectively.

year for direct income support (hence, several aspects of this differ from the IMPACT research and the French research referred to in previous sections). Figure 4 contains a summary of some central data. To begin with, in 2008 (the year in which the survey was applied) 27% of the farms of this particular subgroup could be classified (according to the farmers themselves) as multifunctional farms that had adopted new activities alongside 'traditional' farming activities. The remaining 73% of the farms were specialized solely on traditional activities. Eight per cent of this later group expected that the farm would be closed in the five years to come. In the multifunctional group this was only 1%. Thirteen per cent of the specialized farmers planned to integrate one of 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 will change to 57% specialized and 43% multifunctional. When farmers younger than 40 years were considered the distribution shifts to 49 and 51% respectively[5].

Figure 4: Dynamics in Italian agriculture



The same research also probed into 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. It is rather the other way around. Multifunctionality increasingly supports food production. The earnings obtained from new activities help farmers to continue with, and to invest in, the classical agricultural activities. This is especially important in the current epoch in which agriculture is facing the consequences of the general economic crisis.

[5] These data reveal how the relative weight of the A and B poles in figure 3 are changing.

3. The rise of new, 'nested' markets: a key feature of rural development processes in Europe

A considerable part of rural development in Europe is centred upon the production of new products and services that embody and represent new relations between town and countryside, between agriculture and wider society. These new products and services are built upon, and imply, a reconstitution of rural resources; they are, simultaneously, responses to the squeeze on agriculture. These new products and services, that are pivotal to rural development, require markets. More often than not these are *new* markets that differ from the large agricultural and food markets. So far relatively little attention has been paid to the nature, structure and dynamics of these new markets.

In the remainder of this paper we aim to describe and analyze these new markets, which we view as *nested markets*. This notion refers to particular segments of wider markets; segments that are linked to wider markets but, at the same time, differentiated from them[6]. This implies that the analysis should focus on (a) concrete transactions, (b) that occur along concrete relations and connections and (c) which imply concrete advantages for concrete persons involved in these transactions. It is equally assumed that (d) these transactions are embedded in a concrete framework. In short: we focus on *marketplaces* (and the patterns in which they are embedded). We will distinguish and discuss three forms: (3.1) markets for distinctive private products and services, (3.2) specific connections between different markets that emerge out of the creation of multifunctionality and (3.3.) markets for public goods. Throughout this discussion we will pay attention to both the farm enterprise level and the territorial level.

3.1. New markets for distinctive products and services

A first set of nested markets is associated with, if not rooted in, *distinctive products*. The main examples include high quality products, regional specialties and organic food products and, in terms of services, agro-tourism. These products and services typically are carriers of the "quality" that was central in the Declaration of Cork. Equally they are carriers of new town-countryside relations.

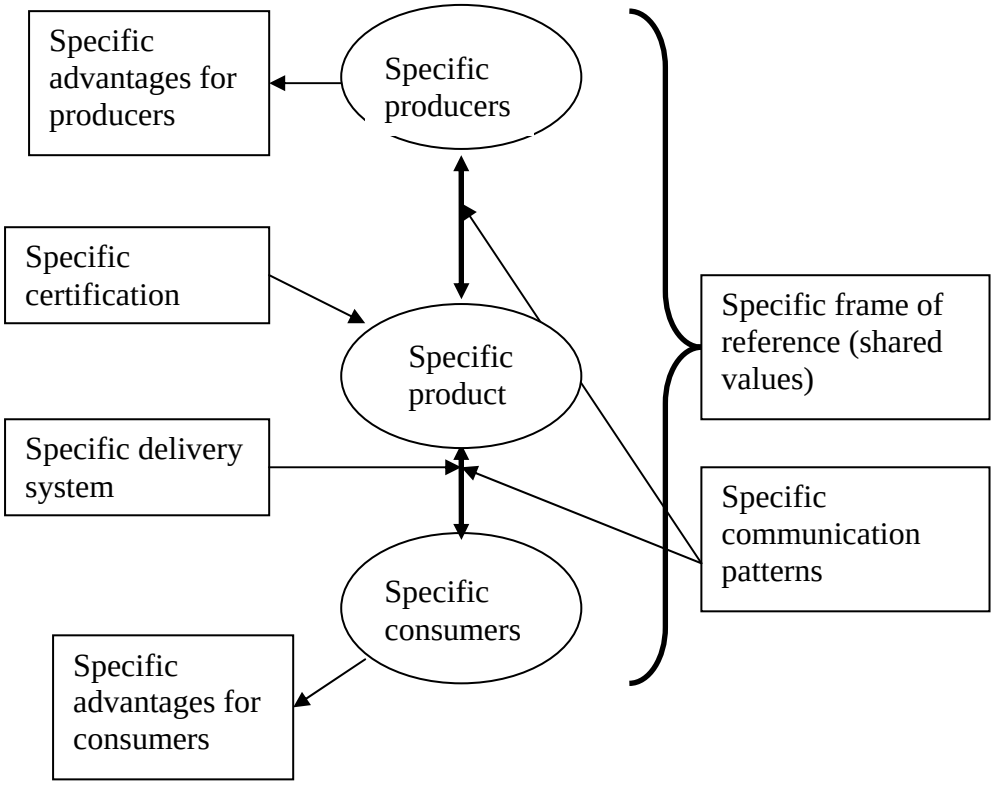
The distinctiveness of these products differentiates them from other products. Several high quality products have a long history. However, in the context of the current process of rural development, both their number and their relevance have increased considerably.

The nested markets that centre around these distinctive products (or services) also entail (see figure 5) *specific producers* who are able to construct the distinction embodied in the specific product. Their capability often translates, in the framework of the nested market, into *reputation.* The nested market also entails *specific consumers,* who are able to distinguish the distinctive qualities of the product or service. These producers and consumers often share a *specific frame of reference* that stipulates the merits of the product and its production and consumption (sustainability might be an important beacon in this frame of reference, or exclusiveness, etc.). In some situations (e.g. the well reported case of Chianina meat: see e.g. Ventura, 2001; van der Meulen, 2000) there is a *specific and two way flow of communication* that links producers, processors, retailers and consumers and through which notions such as tenderness, colour, preparation, value etc. are continuously (re)affirmed and, if needed, (re)adapted. The presence of a shared specific frame of reference goes a considerable way to reducing transaction costs. The same is true of the specific communication patterns that link the involved actors. The same nested market might entail *specific delivery systems* (farmers'

[6] Just as the centre of a city is part of the city; however, it is not just any old part but a distinctive part that offers particular features.

markets, on-farm shops, procurement schemes, weekly delivery schemes, short circuits, acquisition groups, etc). These might by supported by *specific institutional arrangements* (consortia, legal definitions) just as the product qualities might be defended through a *specific certification*. And to make the story complete: there are, at the end of the day, *specific advantages* for the producers involved (e.g. a premium price) and consumers and probably also for third parties (the production of a particular good, for instance, might strengthen the attractiveness of an area as a whole and thus support tourism).

Figure 5: The contours of a nested market centred on distinctive products



The market schematically outlined in Figure 5 is part of (i.e. is 'nested' in) a wider market yet at the same time is distinguished from it. Contrast is the keyword here, i.e. the specific contrast between the specific product and the many similar but standard products available in the wider market. The larger this contrast (in terms of perceived quality, freshness, taste, origin, processing, sustainability, or whatever)[7], the more distinctive the specific product is. Evidently, this is not solely dependent on the characteristics of the specific product itself, but equally on the characteristics of the standard products in the general market. Together they compose the contrast.

The nested market outlined in the diagram might very well be an open one: producers and consumers may flow into and out of it. The boundaries are 'permeable'. Hence, a nested

[7] The specificity often resides in the 'relational' nature of the goods and services. A specific farm made cheese sold in a farm shop *relates* to the possibility to get a glimpse of local culture and the artisanal techniques associated with it. It also *relates* to hospitality. Farm care (an increasingly important service) *relates* to the co-production of man and nature and e.g. the implied organization of time (which helps to recompose equilibria). These *relational goods and services* are increasingly requested in our societies.

market cannot be equated to a monopoly situation. Certification might be redefined by changing the rules to embrace a wider, or narrower range, of characteristics. This process contributes to the permeability.

Generally speaking it might be argued that (a) the further specificity is developed in each domain and (b) the more *all* domains are effectively covered, the stronger the nested market will be and the more it will allow for price and development differentials.[8] Together, the different, socially constructed and actively combined specificities (summarized in diagram 2) compose a *governance structure*, which implicitly acts as a *boundary organization* (ref. the contribution of Franks and McGloin).

We consider that the concept of 'boundary' is important, complex, multi-dimensional and multi-level. Firstly, a boundary can be composed by the specificity of the product (or more generally, because it is not easy to replicate). This first boundary level might be strengthened if the specificity of the product is associated with the reputation of a particular group of producers. A second level emerges if specific producers and a group of specific consumers share a common frame of reference. In the case of Umbria: *carne nostrana* (our meat) is not only meat of the Chianina – it is Chianina meat produced by farmers in the area and bought by consumers who know how to prepare and to enjoy it. A third level emerges when the specificity of delivery is taken into account. Using the same example: *carne nostrana* passes from particular farmers, through particular slaughterhouses, to particular butchers and then to their more or less stable group of clients. These butchers are increasingly certified (see Sonnino et al, …). Certification can be seen as providing yet another level. Thus, boundaries are socially constructed and strengthened. It goes without saying that a progressive weakening of boundaries is equally possible.

The construction of a boundary construction can also be linked with *space*: a particular location might very well represent a boundary[9]. A specific market-place might attract specific consumers– or specific products to be bought. For example several medium sized enterprises located along the *bretella* (ringway) that surrounds the city of Rome have an intranet service, through which their employees can order a range of food products to be to their offices/homes before the end of the same day (a service that is provided by a network of participating farmers in the surrounding area). This saves the employees the time and trouble of making a trip to the shops or supermarket (and finding a parking space), while still guaranteeing them fresh produce. In this case a new nested market is created that is based around a specific location.

Similar patterns occur in many places and through a variety of strategies. Farm shops that offer a range of fresh, high quality, products can considerably improve the quality of life in rural areas. The maintenance of nature and landscape can have a similar effect (Ventura, Milone and Van der Ploeg, 2008.) and the increased quality might help attract new rural dwellers. Thus the 'nested market', defined by the quality of a particular location is expanded: the farm shop (and the associated network of delivering farms) will have an increased number of clients (this represents synergy at the territorial level).

Nested markets are defined by multi-dimensional and multilevel boundaries. Crossing these borders implies transaction costs (e.g. for those producers who are not, so far, operating in these nested markets), whilst they offer extra benefits to the consumers (more convenience, pleasure, distinction in Bourdieu's sense of this notion, better quality, or whatever). That is: nested markets reduce the transaction costs associated with consumption (such as looking for

[8] Based on these insights we think it might be possible to develop the concept of the nested market into a diagnostic tool.

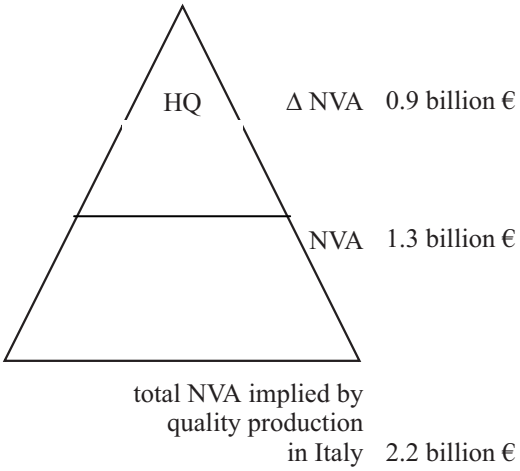
[9] Possibly boundary is not the best metaphor, at least in the case of special products and services. Probably 'staircase' is a better one. One has to make an extra effort (climbing the staircase) to arrive at the next level.

a parking lot near the supermarket at peak shopping hour or the embarrassment of badly looking meat when guests are coming for dinner).

Some notes on economic impact

At the beginning of the current decade Italy had 113 officially recognized PGI and PDO food products, and another 150 in the process of recognition. The total net added value of these products (including wines and spirits) has been estimated to provide an additional 2.2 billion Euro at the level of primary production[10] (van der Ploeg et al 2002). These figures can be broken down as follows: 0.9 billion Euro can be considered as *delta* NVA, that is the extra NVA that stems directly from producing quality products characterized by premium prices (and a somewhat different cost structure). This additional NVA comes on top of the NVA that would have been realized if the raw materials had passed through current "non-quality" channels and had received the current commodity market prices (see Figure 6).

Figure 6: Quality production: upscaling the amount of NVA produced



Thus, two types of observations are possible. First, by entering into the high quality market segments, a large group of agricultural enterprises is able to raise its NVA by some 70% (from 1.3 to 2.2. billion Euro). Second, this quality orientation is precisely what enables these farmers to maintain and sustain their agricultural activities (depicted as the basis of the triangle in Figure 3). Without this upgrading, through quality production, much of this ‘basis' would probably completely disappear from the regional rural economy.

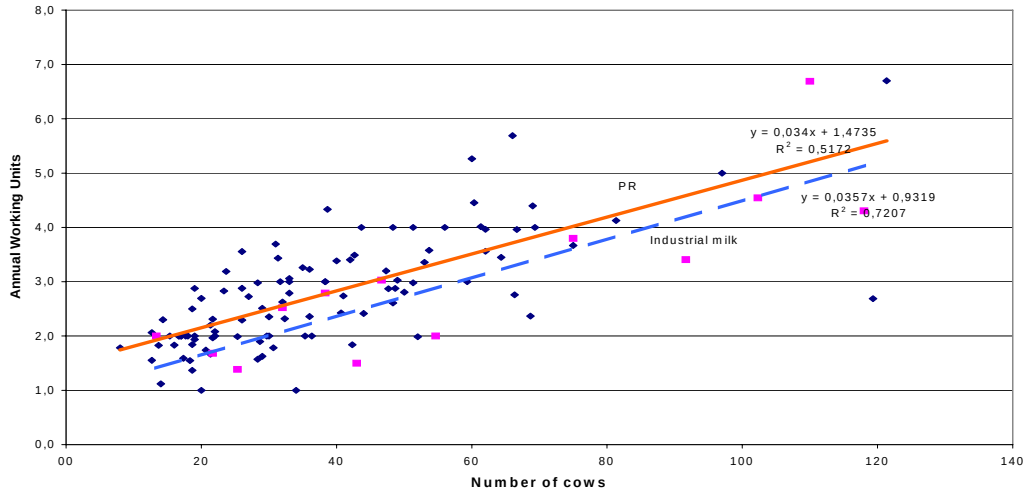
A specific performance

Because nested markets are structured and embedded in a specific way, they allow for premium prices and different transaction costs. These result in a performance that differs from that of the general market. It is a *specific performance* which highlights and provides empirical evidence ofthe *relevance* of the nested market. We will illustrate this issue by referring to the case of Parmesan cheese. Cees de Roest (2000) compared the socio-economic impact of Parmesan cheese (*PR)* production with that of conventional dairy farming specialized in the delivery of 'industrial milk'. Figure 7 summarizes some of his findings.

[10] The total GVP at farm level was some 3.5 billion Euro, whilst after processing and distribution the same production represented an additional 8 billion Euro or so.

Figure 7: Employment rate per cow in industrial and Parmigiano-Reggiano dairy farms

(only farms in the plains)



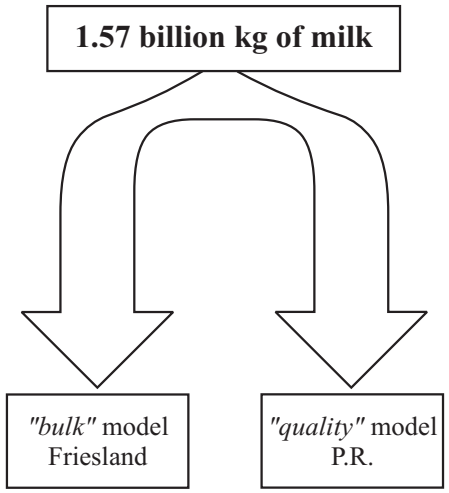
Due to the particularities of producing good cheese milk (suitable for transformation into Parmigiano-Reggiano - *PR*), labour input is higher on *PR* farms than on farms producing 'industrial milk'. Making good cheese milk requires more work (other circumstances being equal) than producing 'plain milk'[11]. Taking into account the herd-size distribution, De Roest concludes "that the production of Parmigiano Reggiano cheese is able to double the amount of employment available on the dairy farms" (De Roest, 2000; De Roest and Menghi 2000: 445). Instead of 11,290 AWU, the regional employment in primary dairy production is 21,154 AWU.

The regional impact of quality production is reaffirmed by a comparison that was made between the province of Friesland in the Netherlands and the *PR* area in Italy. Both areas have a milk quota that is approximately the same. In Friesland this generates a direct employment effect in primary production of 8,500 AWU, in the *PR* area it is 21,154 AWU. Income-levels per AWU are, on average, the same (Broekhuizen and van der Ploeg, 1999)[12].

Figure 8: Friesland and Emilia Romagna compared

[11] The more so since *PR* is made out of 'raw milk'. It is not pasteurised, as is the case with industrial cheeses.

[12] Indirect employment is, in the case of *PR*, also considerably higher.



numbers of farms	5,000	8,400
AWU/farm	1.7	2.5
total AWU	8,500	21,000
income/AWU	equal	

Figure 8 underlines the potential of nested markets. In Europe we have a European wide dairy market (defined, at that time, by Common Agricultural Policy). *Within* this extended market one can distinguish a smaller segment (governed through a different institutional structure): the market for PR cheese. Due to its distantiation from the general dairy market, this nested market could function in a different way and provide, among other benefits, far higher employment levels.
It is important to add that the relevance of quality production to rural development is not just limited to the regional income and employment generated. It also has environmental benefits. "Parmigiano Reggiano farms in the plains show [..] a total nitrogen loss of 239 kilograms of nitrogen per hectare [which] compares with 309 kilograms/ha for the industrial dairy farms - a difference in the order of almost 30%" (De Roest and Menghi 2000:445). The dimension of sustainability is also highlighted by Ventura (1995 and 2001) who demonstrates that the "resource use efficiency" (notably of energy) in the case of *Chianina* meat production, is considerably higher than it is in 'industrialized' animal fattening of the feed-lot type.

So far we have looked at the newly emerging nested markets that centre on specific *products*. Needless to say that the same reasoning also applies to specific *services* as e.g. agro-tourism facilities and care provisioning. Here equally interesting markets have emerged. These are, in more or less the same way, constructed around a wider set of specificities (as summarized in diagram 2) that together compose and sustain their nested nature.

3.2. Connecting different markets: the role of multifunctionality

The empirical studies reveal an additional element in the equation: that specificity very often in practice *extends beyond the reach of the immediate specificities* outlined in Figure 5. As shown in figure 9, high quality production is increasingly embedded into a wider web of specific activities (this figure is based on the outcomes of the European farmer survey

discussed earlier; see Oostindie et al 2002). It shows that high quality production is very often combined with direct marketing and on-farm processing. It is also increasingly related to nature and landscape management and agro-tourism**.** Of the 521 producers involved in high quality production, 125 were also involved in the management of nature and landscape. Of these cases, 42% started from high quality production (which subsequently evolved to include the management of nature and landscape), 23% involved a joint start and for 35% involvement in nature and landscape management was followed by the start of high quality production. Similar interrelations emerge between quality production and agro-tourism.

Figure 9:Iinterlinking different types of rural development activities

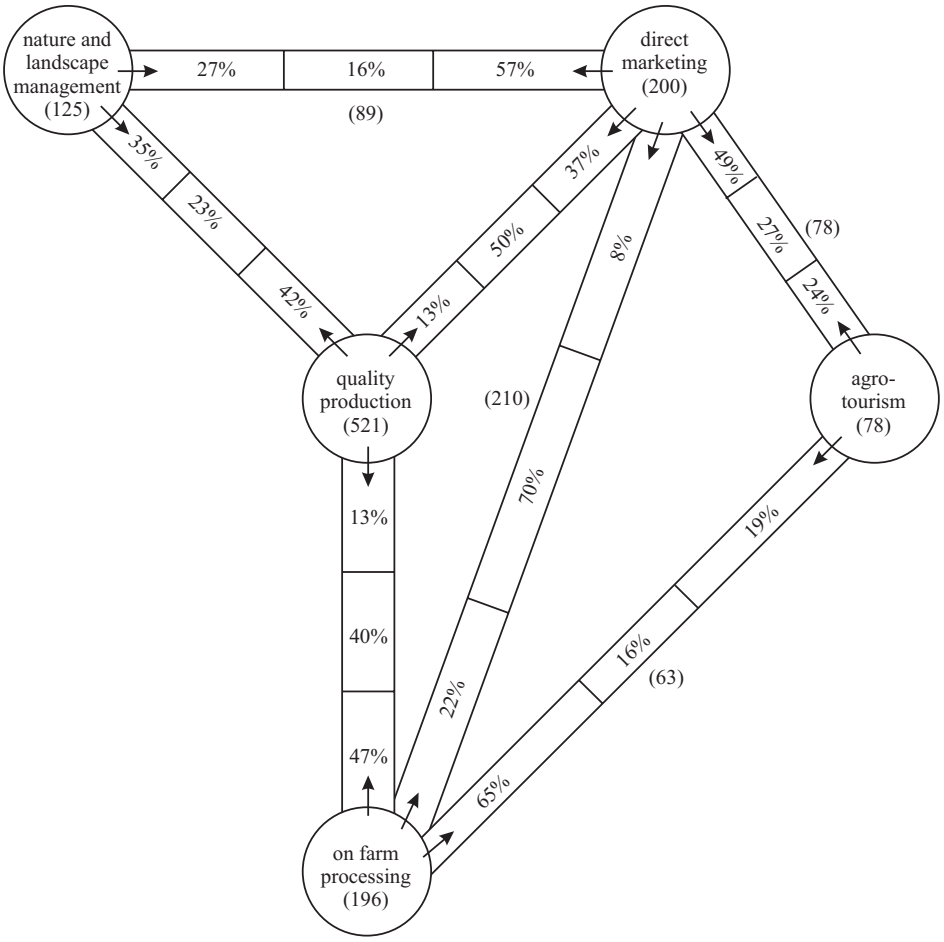
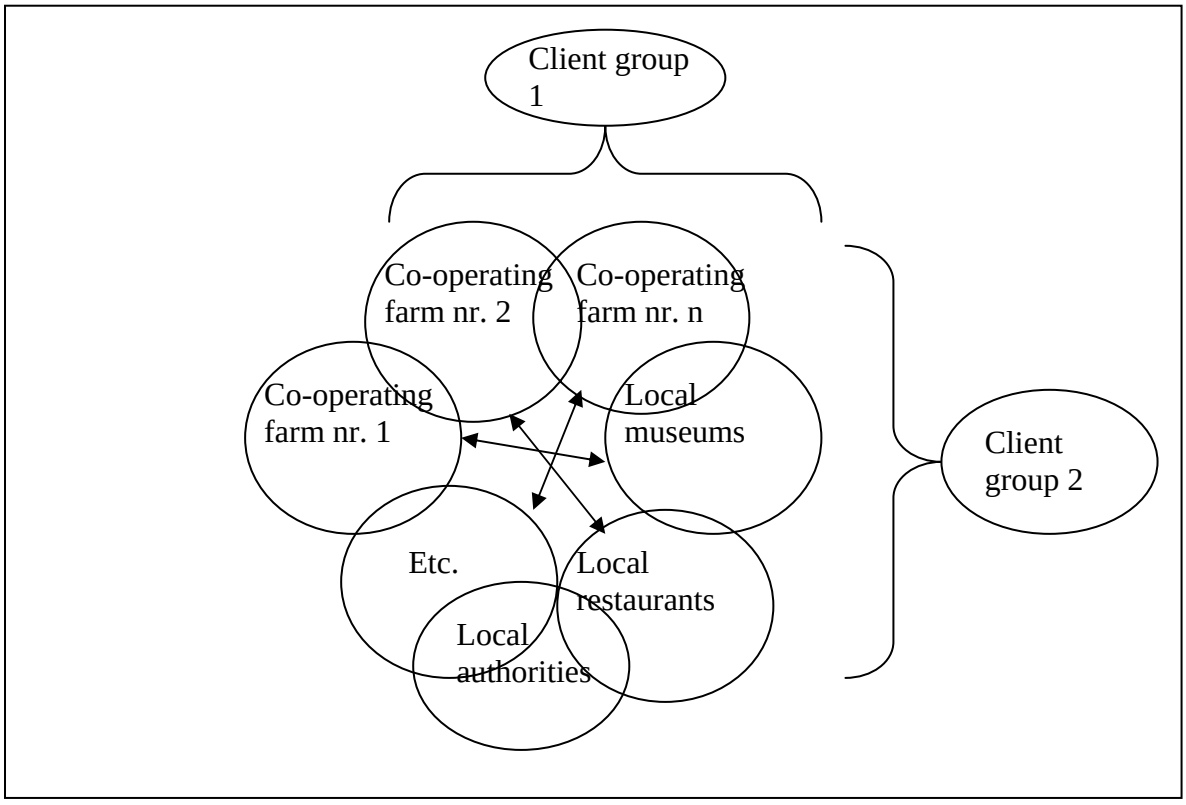


Figure 9 shows that different new nested markets start to 'overlap' and to sustain each other. Thus, an on-farm shop functions as a meeting point that in turn triggers agro-tourism. Agro-tourism becomes more attractive since it offers the opportunity to obtain fresh, local, high quality products (and even the opportunity to observe how they are processed). At the same time, the agro-tourism facility enlarges the sales of the on-farm shop: and so on. The points of attraction (related with the specificities involved) are interconnected and start to mutually support and strengthen each other. This occurs both at the level of the markets and also within the participating enterprises, where it takes the form of enlarged multi-functionality. The emerging 'multi-product' enterprises start to use one and the same set of resources to produce a wider range of goods and services, lowering the cost of producing each good and/or service (Saccomandi, 1998). *These synergies foster competitiveness, which in turn facilitates the presence in different markets.*

Jumping to the territorial level

The creation of synergy is not limited to single farm enterprises. It can equally (and maybe even more so) be created through inter-firm co-operation. Wine-routes (see Brunori et al) are an expression of this *par excellence.* These territorial synergies give rise to a different type of nested market, summarized in Figure 10. Many of the newly emerging rural districts may well be understood as an expression of this model. A strategic feature of both districts and routes is that they bring forward yet another specificity: *le terroir*.

Figure 10: A nested market defined by co-operating farms



If the term 'client group' is read as 'market' and if more markets are slotted in, the processes shown in Figure 10 can develop into a constellation in which a single *terroir* delivers products and services to a wide range of different, but interlinked, markets. Such an example can be found in the Waterland area to the north of Amsterdam. Here the farmers, came together in a territorial cooperative and now deliver a wide range of services and products to regional markets (that are often Amsterdam based). In this case it is not only the attractiveness of the area that is marketed directly (or indirectly - in so far as it is embodied in special products and services). The territorial cooperative has also developed considerable agency, i.e. the capacity to get things done and is increasingly contracted by e.g. regional authorities to implement more general programmes (e.g. nature conservation measures) within the area.

Linking different territories

An interesting feature explored and proposed in several policy proposals (but still far from being realized) concerns building specific connections between different areas (or different regional markets). This is often seen as a way of creating lines of defence against the threats

posed by liberalization and globalization. An Italian proposal (developed within ISMEA) proposed such a connection between the Romagna area - mainly dedicated to arable agriculture (soy, maize, grain) and the high quality animal and livestock production systems around the cities of Parma and Reggio Emilia. This proposal suggested a preferential buying of GM-free soya, maize and grain from the Romagna area to provide the fodder for cattle (for the production of milk for *Parmigiano-Reggiano* cheese) and for heavy pigs (needed for *San Daniele* hams). This arrangement would allow the Emilia region to secure its sales and to obtain a premium price, whilst the territorial livestock systems could enlarge their specificity, thereby providing benefits to both districts. This advantage would reside in the actively constructed connection between already existing nested markets (for cheese and ham) and a newly created one (for GMO free feed).
So far the most promising example of actively constructing new connections between different (regional) markets, stems from the new schemes for public procurement (amply discussed in Morgan and Sonnino, 2008). This experience will be discussed on its own in the seminar.

3.3. Markets for agro-environmental services

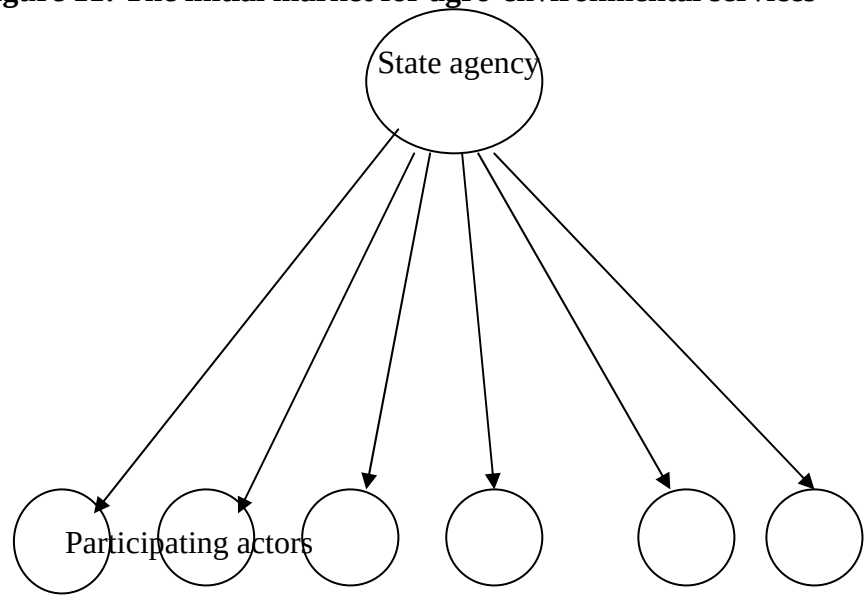
A third type of nested market is also linked with processes of liberalization, especially where the latter imply a de-monopolization of previous markets. This has been the case with the market for nature and landscape management. Previously this market was highly monopolized. A few exceptions apart, it only was the state and, in more recent times a few large 'professional' nature organizations that could participate in this 'market' in which the (supra-national) state represented the demand side and the large nature organizations the supply side of the equation. For several reasons this market has been de-monopolized. Farmers and farmers associations can now also participate in this market and provide 'green services' for receive a payment for this. The same also applies to the 'market' for care-services, especially since the 'clients' now have discretion as to where they spend their private budgets. This has given rise to a boom in care-farms, especially in the Netherlands.

The now liberalized market for nature and landscape management is characterized by an extensive external prescription, a huge administrative burden and far reaching controls (with the threat of heavy sanctions for non-compliance). This makes it difficult for farmers to participate in this new market: the transaction costs are extremely high (this also applies to the 'demand side': it was estimated that at least 26% of the Dutch Programme for Agrarian Nature Conservation was used for administration and control). In response to this, new 'boundary organizations' have emerged (known in the Netherlands as 'farmers associations for the management of nature and landscape' or 'environmental co-operatives'). Some of these have developed into true 'territorial co-operatives'. Whatever their specific name, these organizations aim to drive down transaction costs: replacing direct prescription and sanctioning by state agencies with new forms of self-regulation is a strategic aspect of this. *In doing so, these boundary organizations tend, we believe, as being involved in creating (the beginning of) a nested market.*

Rural development policies have make a strong contribution to outlining (and especially funding) these new markets for public goods such as attractive landscapes, enhanced biodiversity and other environmental qualities. These markets were created to tackle the negative externalities associated with modern farming and initially resulted in a pattern that is summarized in figure 11. One principal agent (a state agency) specifies the required agro-

environmental services and then contracts other agents (i.e. farmers) to produce and deliver them. Payment is made once compliance has been verified. This pattern implies high transaction costs (many individual contracts, high control costs and many disputes – the more so since the specified services are to be delivered within a wide range of different and sometimes strongly contrasting conditions). It also resembles the classical 'triangle without a base': power relations were very unequal and this hindered any attempts at negotiations and subsequent adaptations and improvements of the schemes.

Figure 11: The initial market for agro-environmental services



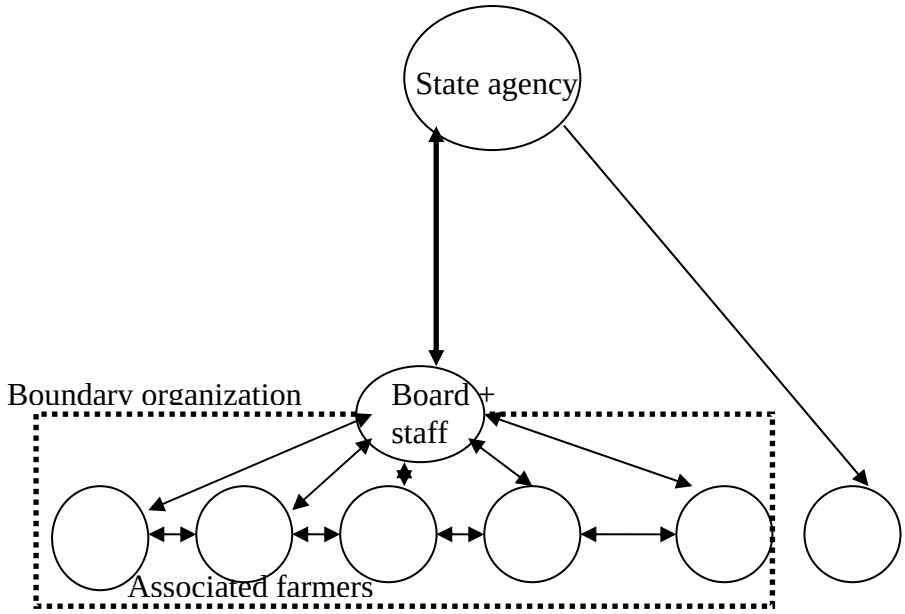
In many rural areas this initial structure has new been re-patterned. Farmers, rural dwellers and/or local and regional authorities started to create new local associations (known as Landschaftspflegeverbände (Germany), comunitá montane (Italy), environmental cooperatives (the Netherlands), etc. that bought together the different providers of environmental services who started to (re-)negotiate the conditions and modalities of landscape management, nature conservation, water retention, anti-erosion measures, emission reductions, etc. This re-patterning is summarized in figure 12, which shows the emergence of new forms of legally conditioned self-regulation.

These new forms of local self-regulation (that in some places have evolved into comprehensive territorial cooperatives) function as a new governance structure that creates and delineates *a new local market that is nested in the general market for agro-environmental services*. The specificities of these new local markets are negotiated with the principal agent, through putting in place special and appropriate conditions and reorganizing implementation and control in a more suitable way – processes that ensure that the services provided are of a higher standard. As more associations are created, more local markets emerge, each corresponding to the specificities of the local eco-system, the local settlement and farming patterns and landscapes.

The different situations illustrated by these two figures entail some important differences related to performance. The participation of farmers (and others) is generally far higher in the latter instance. Equally there is far more adaptation to the specificities of local landscape, nature and biodiversity. Finally, the pattern of localized markets (Figure 12) allows for far more innovativeness (Wiskerke and van der Ploeg, 2004.), especially since farmers are now have the possibility to look for adequate ways to *integrate* conservation practices into the

overall process of production. This often occurs through a comprehensive re-balancing of the process of production.

Figure 12: The emergence of a new boundary organization



Note: the boundary organization also delineates a specific local market nested in local ecology, local farming styles, local patterns of cooperation,

4. The role of different actors in the construction and governance of new nested markets

Many actors are involved in the making of rural development processes in Europe, including farmers, rural dwellers, small and medium enterprises, specific (albeit highly differentiated) groups of consumers and, after a certain point in time, local and regional authorities. The principles of (legally conditioned) self-governance and subsidiarity are important elements structuring the relations between these actors. Self-governance is a key factor, that may define a particular 'hybrid governance structure' that underpins sustainability (see e.g. Huylenbroeck, Vuylsteke and Verbeke, 2009: 181-182 and Menard, 2007). In most, if not all, the nested markets we have discussed so far, self-governance plays an important role. We also observe that there are many frictions between these actors and the national policies for Rural Development and that the linkages and interfaces between policies and practices need to be greatly strengthened. [**to be developed further**]

5. Explaining RD processes in Europe: the centrality of new markets and new governance structures

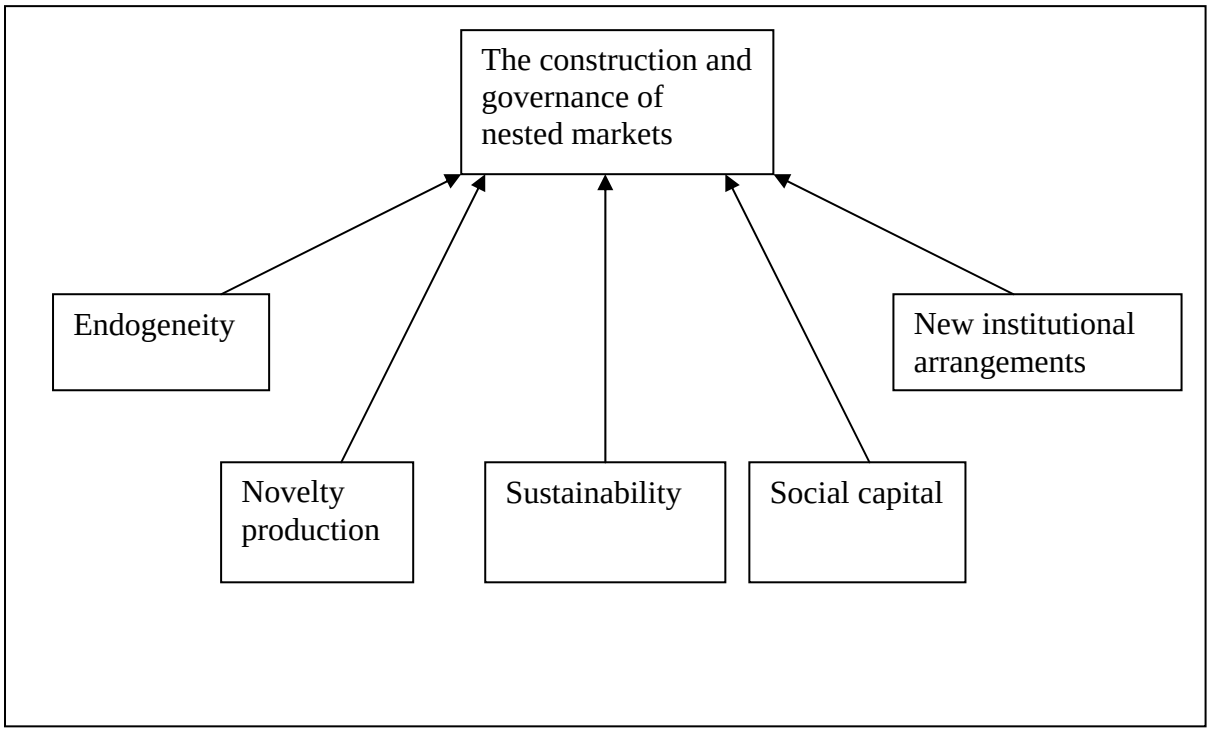
Throughout this paper we have argued that nested markets play an important, although little-discussed role in rural development processes in Europe. Following this line of reasoning gives rise to many new questions:

- How are nested markets to be constructed?
- Are there particular features that considerably strengthen nested markets?

- What are the factors and mechanisms hold back such markets, or contribute to their demise?
- What legislative patterns are required to sustain and promote nested markets?
- How does the persistence and resilience of nested markets relate to those of the general commodity markets?

Discussion of these issues is beyond the scope of this paper. We limit ourselves here to making some comments on the second question. A recent research program (ETUDE), which aimed to develop a more adequate theoretical understanding of rural development processes, has developed a model that included the governance of nested markets. It emerged that the governance of these markets was highly intertwined with (and partly dependent upon) several other important dimensions, which are summarized in figure 13.

Figure 13: Social forces that strengthen the governance of nested market



This figure illustrates that the governance of markets does not reside solely in the technicalities of administrative arrangements that specify the balance between hierarchy and market. It critically also depends on a wider range of socio-political factors that include:

- the degree in which the rural economy is rooted in local resources and structured according to local models (endogeneity);
- the local and regional capacity to innovate (novelty production);
- the degree of sustainability that is created;
- the strength of local and regional society (social capital);
- and the capacity to create adequate institutional arrangements.

If such factors are present and actively interlinked they constitute 'territorial capital' (Ventura, Brunori, Milone and Berti, 2008) that functions, at the level of the territory as a Common Pool Resource (CPR) (Ostrom, 1990). This CPR, then, sustains the nested market, whilst the nested market on its turn, renders the benefits that help to maintain and reproduce the CPR.

References

Copus, A et al (2009); European Development Opportunties for Rural Areas (EDORA), ESPON 2013 program, Interimreport, april 2009

Aguglia, L., R. Henke, K. Poppe, A. Roest and C. Salvioni (2009), Diversification and multifunctionality in Italy and the Netherlands: a comparative analysis, LEI, The Hague/ INEA, Rome

[**to be completed**]