

# N.02 Investments in physical capital and modernisation

## Introduction:

One of the objectives of rural development policy, as laid out in the Community strategic guidelines for the programming period 2007-2013, is to increase the competitiveness of the agricultural and forestry sector.

In this respect a significant part of resources are devoted by rural development programmes (RDPs) to contribute to a strong and dynamic European agri-food sector by supporting investments in physical capital and modernisation.



## Identifying the needs

The combined agricultural and food sector forms an important part of the EU economy, as it accounts for 15 million jobs (8,3% of total employment) and 4,4% of GDP. EU is also the world's largest producer of food and beverages, with combined production estimated at €675 billion in 2001. At the same time, the sector remains highly polarised and fragmented in terms of size, with significant opportunities and threats for firms.

In order to support the Europe's agricultural, forestry and food-processing sectors in meeting the diverse and growing demand of European and world markets consumers, rural development policy offers a range of possibilities to facilitate forward looking physical investments and modernisation and to seize the opportunities offered by new approaches, technologies and innovation.

## The interventions at "a glance"

Increasing the competitiveness of the agricultural sector requires an improvement of the productivity of physical capital. Modernisation of farms is crucial to improve their economic performance through better use of the production factors including the introduction of new technologies and innovation, on farm diversification, etc.

Physical investments are also supported in the forestry sector. As forestry has a significant role to play in the economic activity of rural areas, support is provided for improving the economic value of forests. Possible investments can include all operations at the level of the forestry holding, including investments for harvesting equipment.

Investments in the processing and marketing of existing products, as well as in the development of new products, processes and technologies can improve the added value to agricultural and forestry products. Such investments could be the construction, acquisition or improvement of immovable property, the purchase or lease-purchase of new machinery and equipment and general costs linked to expenditure such as patent rights and licences.

In a context of increased competition, RD policy support also encourages cooperation for development of new products, processes and technologies in the agriculture, food and forestry sectors as to ensure that the sectors can take advantage of market opportunities through widespread innovative approaches in developing new products, processes and technologies.

Improvement of the infrastructure related to the development of the agricultural and forestry sector contributes to the competitiveness of farming and forestry. Support under this scheme may cover

### Relevant RDP measures

- ❖ Measure 121 - Modernisation of agricultural holdings
- ❖ Measure 122 - Improvement of the economic value of forests
- ❖ Measure 123 - Adding value to agricultural and forestry products
- ❖ Measure 124 - Cooperation for development of new products, processes and technologies
- ❖ Measure 125 - Improving and developing infrastructure related to the development and adaptation of agriculture and forestry
- ❖ Measure 113 - (Contributing indirectly) Early retirement of farmers and farm workers

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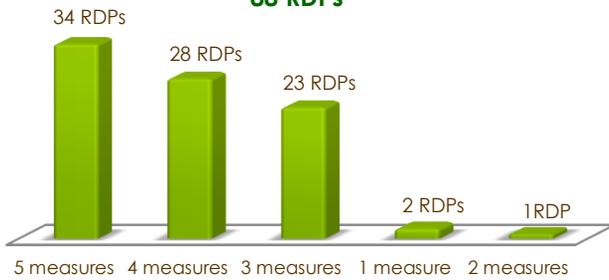
investments on access to farm and forest land, land consolidation, energy supply, water management (improvement of irrigation networks, drainage, etc.).

The early retirement scheme indirectly contributes to the modernisation and increased productivity of the agricultural sector as it is targeted at the introduction of structural changes in the transferred holding and increasing its size and thus contributes to the economic viability of the agricultural holdings.

### Target groups

The target groups of these interventions are in general farmers, forest owners, micro, small and medium sized enterprises, organisations / entities gathering primary producers in agriculture and forestry, and the processing industry with specific eligibility criteria under each measure.

**Physical capital supporting measures:  
Number of measures implemented in the  
88 RDPs**

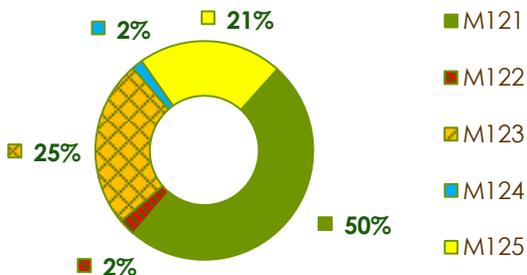


### Selection of measures in the Member States

According to their needs and priorities, as identified in their National Strategy Plans, the Member States have decided which of the previously described measures to activate as to support investments in physical capital and modernisation.

Drawing from the menu of available measures, RDPs generally implement from 1 to 5 measures. As shown from the figure on the left, the majority of the RDPs implement 5 (34 RDPs) or 4 (28 RDPs) measures together. Around 25% of the RDPs implemented 3 measures. Few programmes chose to implement only one or two of the measures.

**Breakdown per measure of the  
programmed total public expenditure for  
2007-2013 supporting investments in  
physical capital and modernisation  
(EU 27)**



### Financial support

Across the EU, the five aforementioned directly contributing measures support investments in physical capital and modernisation through a budget of €36 billion (programmed total public expenditure) for 2007-2013. The EAFRD support accounts for €22 billion. This allocation accounts for 23% of the programmed total public expenditure – or €154 billion – for rural development for the 2007-2013 period at EU 27 level.

The figure on the right provides a breakdown per measure of the allocated budget at the EU 27 level. It shows the dominance of support for modernisation of agricultural farms (50%) followed by the support to adding value to agricultural and forestry products (25%) and support for Improving and developing infrastructure related to the development and adaptation of agriculture and forestry (21%).

### Financial implementation progress

By 2011, around €15 billion -or 42% of the programmed €36 billion- had been used by the EU Member States to support investments in physical capital and modernisation.

Up to 2011, the relevant measures have been implemented at various rates. More than half (52%) of measure 121 funds have been used, while 24% and 37% of measures' 122 and 123 programmed budgets have been disbursed respectively. Finally, 15% and 31% of the 2007-2013 budget of measures 124 and 125 have been utilised respectively.

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## Physical outputs (2007 - 2009)

Across the EU, more than 100 000 farm holdings received support for their modernisation and the total volume of investments realised by 2009 accounts for more than €12 billion (public and private) (measure 121).

In the forestry sector, approximately 5 800 forest holdings were supported in their investments in improving the economic value of their forests (measure 122). The total volume of investments (public and private) realised under this scheme exceeded €137 million.

Support to increase the added value of agricultural and forestry products through measure 123 was also granted to 11 500 enterprises in both the agricultural and forestry sectors. The majority of the supported enterprises (8 500) were of micro and small size. The total volume of public and private investments realised for this type of support accounts for more than €5 billion (public and private), of which €4.6 billion was invested in the food sector.

By the end of 2009, more than 400 cooperation initiatives were supported under measure 124. Almost 70% of the supported initiatives concerned the development of new products and the remaining 30% the development of new techniques.

Regarding investments in infrastructure related to the development and adaptation of agriculture and forestry almost 17 000 operations were supported across the EU. Approximately 12 000 of these operations concerned the farming sector and most of them (7 000) land consolidation and improvement. In the forestry sector 90% of the operations realised (4 500) were focused on improving access to forest land.

### Getting greater value from wood on a mountain forest farm in Slovenia

(RDP measure 123)

Roundwood has a low market value however if processed into construction wood for roof trusses, boards, joinery timber, pallet products, or other products it receives a significantly higher unit price. A forester in a mountain area in northern Slovenia received support to expand his timber processing facilities in order to create added value for his wood products, improve productivity, protect the environment and to engage his son in the business.

With the EAFRD support he invested in new machinery which helped his business to increase the processing capacity of own and bought roundwood by 30%, and to improve the business' profitability. The investment also improved the working conditions in the sawmill in terms of safety and speed and in addition it reduced manual work.

The total cost of the investment was €150 000 and the EAFRD contributed with €47 000.

### Biomass heating for cut-flower production in the Netherlands

(RDP measure 121)

EAFRD support in the Netherlands was used to combine traditional biomass heating and commercial rose production as part of a successful strategy for economic survival and environmental sustainability.

The objective was to introduce biomass as an alternative energy source to natural gas so that the business could meet its energy demands in a way which would not damage the environment and make the company more socially responsible and financially healthy.

A wood-burning furnace was installed as the primary heating source for the greenhouse and is fuel with regionally-produced biomass such as shredded pruning waste, wood sawdust and shredded wooden pallets.

The total cost of the investment was €210 000 and the EAFRD contribution was €75 000.



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### Automated control of grape quality in a wine co-operative in Spain

(RDP measure 124)

A project in the region of Galicia in Spain used EAFRD funds to support the co-operation between the "Vitivinícola do Ribeiro" wine co-operative with the Laboratorio Oficial de Metroloxía de Galicia and the Centro Tecnolóxico de la Carne.

The project aims to automate the process of assessing the quality of harvested grapes received by the winery by incorporating machine vision technology into the existing quality control process.

This will automate a complex process and reduce subjectivity and human error, whilst in the longer term contribute towards developing a classification system that enables different grape qualities to be processed separately.

The total cost of this project was almost €190 000.



Source of the data:

- Programmed expenditures 2007-2013: RDP budget allocation following Health Check revision (December 2011)
- Expenditures 2007-2011: DG AGRI
- Output indicators: monitoring tables submitted by Managing Authorities along with the 2008, 2009 and 2010 Annual Progress Reports. Data referring to programming years 2007 to 2009. Only commitments made from year 2007 onwards are considered.
- Output targets 2007-2013: DG AGRI
- Community strategic guidelines for rural development (programming period 2007 to 2013) [http://ec.europa.eu/agriculture/rurdev/leg/index\\_en.htm](http://ec.europa.eu/agriculture/rurdev/leg/index_en.htm)
- Common Monitoring and Evaluation Framework (CMEF) [http://ec.europa.eu/agriculture/rurdev/eval/index\\_en.htm](http://ec.europa.eu/agriculture/rurdev/eval/index_en.htm)
- ENRD Projects Database [http://enrd.ec.europa.eu/projects/en/projects\\_home.ctm](http://enrd.ec.europa.eu/projects/en/projects_home.ctm)

### Supporting Implementation of the EU Water Framework Directive in Greece

(RDP measure 125)

A large infrastructure project in Greece used EAFRD co-financing to implement the EU legislation regarding the protection and sustainable management of vulnerable water resources, including those used for irrigation purposes.

Key activities of this project included: chemical analysis of water resources in 13 rivers and 12 lakes; sediment analysis by permanent sampling systems; sampling and analysis of geological, hydrological and hydrogeological data; development of a Geographical Information System (GIS); creation of a website; proposals for agri-environmental water quality monitoring indicators; and the processing of data concerning residues of crop protection (pesticide) products.

The total cost of the project was €4 400 000.

For further detailed information on financial and output indicators data please refer to the dedicated ENRD website section "Rural Development Policy in figures".