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INTERNATIONAL agricultural POLICY
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Con il supporto di ***Food Trend Fountion***

FOOD TREND FOUNDATION

EDITORIAL / EDITORIALE

Francesco Marangon
Editor in Chief
Direttore Scientifico

The three-monthly International Agricultural Policy - IAP (Politica Agricola Internazionale - PAGRI) review of resumes its publication with this issue, thanks to the renewed commitment of the editor, "Edizioni L'Informatore Agrario" (EIA), who found convincing support from the National Institute of Agricultural Economics (INEA) and the Food Trend Foundation (FTF).

In the editorial of the first issue of PAGRI/IAP, which came out in 2002, the Editor-in-Chief, Alfredo Diana (former Minister of Agricultural, Food and Forestry Resources for the Italian Government) wrote the following "*The International Agricultural Policy review was created with the aim to resume the scientific debate on the many topics that concern political choices regarding agriculture, with the purpose of facilitating dialogue between operators and policy makers*".

The review of Editorial Board - with its vastly renewed composition of representatives from the Italian academic world and from the institutions that today support PAGRI/IAP - wishes to start again, retaining the spirit of its founders but from within a renewed perspective. Contributions will be made by national and international authors, characterised by a strong and continued connection with facts, and open to contribution from those participating in the creation and/or implementation of political decisions. The scientific rigour of the articles, which are subjected to anonymous external referees, will be facilitated by dialogue with working experience related to different sections of the review. The review also makes use of the support of a prestigious Scientific Committee, chaired by Prof. Hon. Paolo De Castro and composed of figures from the international scientific and institutional world.

A brief illustration of the vision that we wish to transmit with this review is easily described by means of a precise but essential comment, defining the terms which constitute its title.

Policy (Politica). Ever since the beginning of the incessant debate on public intervention in the economy, reflection on the apparatus of tools and regulations which the public decision-maker has constructed for the agricultural sector has assumed a very significant role. In the face of the sharp blows that today, more than ever, seem to shake the foundations of agricultural policy across the world, agricultural economists remain deeply convinced that the specific nature of the sector is such that it requires the creation of a proper and modern mix of corrections and stimuli for companies, markets and consumers, who would otherwise be at constant risk of drifting towards features that are unable to guarantee the quality of life of the world's populations.

Agricultural (Agricola). The term initially evokes references which are strictly connected to food and non-food production processes within the primary sector. The evolution of public action, primarily (but not solely) on a European level, with strongly increased attention being placed on the themes of rural development, food safety, forestry resource management, evolution of the fisheries sector, natural resources and multifunctionality, have led PAGRI/IAP to become an instrument for debate and dialogue, open to the various perspectives that are today

involved in the primary sector. The Editorial Board therefore hopes that all observations and analyses that are relevant to the aforementioned topics will find space among the pages of this review, though the list is not intended to be exhaustive.

International (Internazionale). PAGRI/IAP is the result of the initiative of several groups of Italian Agricultural Economists who over time, wanted to create an opportunity for debate on agricultural policies as explained above. The primary reference can only be an European one, particularly in a season that has been marked by growing attention towards a new phase of actions planning within the European Union in a sector which still has a consistent influence on the budget of the entire Community. It does appear evident however, to those who concentrate their attention on these topics, how crucial it is to focus attention on all that is emerging across the different process levels of public intervention in agriculture. Our attention and research must therefore be also focused on non-European policies, both of individual countries and macro-regions, so that we do not forget the international organisations that aspire to an overall vision of global problems. The proof of this renewed attention to agriculture and food may therefore be unearthed by the attention that the G20 has recently paid to the theme of the price volatility of agricultural commodities.

In confirmation of what has been stated, we propose that this issue of the review be mostly in English and dedicated to the debate on the future of the Common Agricultural Policy (CAP), as from 2014. The series of articles is opened by an contribution of the Chairman of the PAGRI/IAP Scientific Committee, Paolo De Castro, current Chairman of the Agricultural and Rural Development Commission of the European Parliament, signed together with Prof. Hon. Giovanni La Via member of the Budget Commission of the European Parliament and permanent rapporteur for agriculture, Prof. Felice Adinolfi (PAGRI/IAP Co-Editor-in-Chief and University of Bologna I) and Prof. Francesco Marangon (PAGRI/IAP Editor-in-Chief and University of Udine I). The Editorial Board wanted to make room for three contributions based on as many "Notes for the European Parliament", drafted by agricultural economists of different backgrounds and nationalities in February 2011, and specially re-elaborated for this issue of PAGRI/IAP. Stefan Tangermann, professor emeritus at the University of Göttingen in Germany, puts forwards his point of view regarding direct payments in the post-2013 CAP; Prof. M. Vincent Chatellier of the Institut National de la Recherche Agronomique (INRA) in France, expresses some interesting reflections on market policies and on the instruments for risk and crisis management in the post-2013 CAP; finally, Attila Jàmbor, Professor of the University Corvinus in Budapest, tackles the subject of rural development in the post-2013 CAP. The first issue of the renewed PAGRI/IAP series concludes with a contribution from Roberto Henke and Maria Grazia Coronas, researchers from the National Institute of Agricultural Economics, concerning factors connected to the redistribution of direct payments which are inevitably to characterise the next financial period.

In doing this, we hope to have demonstrated the perspectives to which we wish to orientate PAGRI/IAP and are convinced that we will find many travelling companions along this road, whom we warmly invite to join us on this new challenging adventure.

* * *

La rivista trimestrale "Politica Agricola Internazionale - International Agricultural Policy" (PAGRI/IAP) riprende con questo numero la sua pubblicazione, grazie al rinnovato impegno delle Edizioni L'Informatore Agrario (IA) che ha trovato un convinto supporto nell'Istituto Nazionale di Economia Agraria (INEA) e nella Food Trend Foundation (FTF).

Nell'editoriale del primo numero di PAGRI, uscito nel 2002, il Direttore Scientifico allora in carica, Alfredo Diana (già Ministro delle Risorse Agricole, Alimentari e Forestali del Governo Italiano), così scriveva "*La rivista Politica Agricola Internazionale nasce con l'obiettivo di riprendere il dibattito scientifico sui tanti temi che interessano la scelte politiche del sistema agricolo allargato allo scopo di agevolare il confronto con gli operatori ed i policy-makers*".

Il Comitato di Direzione delle rivista - ampiamente rinnovato nella sua composizione con rappresentanze del mondo accademico italiano e delle istituzioni che oggi sostengono PAGRI/IAP - vuole ripartire dallo spirito enunciato dai fondatori di questa esperienza editoriale, facendolo proprio in una prospettiva rinnovata. Saranno così proposti contributi di autori nazionali a fianco di quelli stranieri, caratterizzati per un forte e continuo collegamento con l'attualità, aprendosi all'apporto di coloro che partecipano alla costruzione e/o all'implementazione delle scelte politiche. Il rigore scientifico degli articoli, sottoposti a referenti esterni anonimi, potrà giovarsi del confronto con l'esperienza operativa presente nelle diverse sezioni della rivista. La rivista si avvale inoltre del supporto di un prestigioso Comitato Scientifico, presieduto dal Prof. On. Paolo De Castro e composto da personalità del mondo scientifico e istituzionale internazionale.

Una breve illustrazione della visione che si vuole sostenere con questa rivista è del resto agevolmente descrivibile tramite un puntuale ma essenziale commento dei termini che ne costituiscono la denominazione.

Politica (Policy). Sin dalle prime battute dell'incessante dibattito sull'intervento pubblico nell'economia assume un ruolo di primo piano la riflessone sull'apparato di strumenti e di norme che il decisore pubblico ha costruito a favore del settore agricolo. Di fronte agli scossoni che oggi più che mai sembrano far tremare dalle fondamenta le politiche agrarie in tutto il mondo permane alta la convinzione degli economisti agrari che le specificità del settore siano ancora tali da rendere vitale il disegno di un giusto e moderno mix di correzioni e stimoli per imprese, mercati e consumi, altrimenti sottoposti al rischio continuo di derive verso connotazioni non adeguate a garantire la qualità della vita delle popolazioni mondiali.

Agricola (Agricultural). Il termine evoca in prima battuta riferimenti strettamente connessi ai processi di produzione food e no food del settore primario. L'evoluzione dell'azione pubblica soprattutto a livello europeo (ma non solo), con forti accentuazioni dell'attenzione verso le tematiche dello sviluppo rurale, della sicurezza alimentare, della gestione delle risorse forestali, dell'evoluzione del settore della pesca, delle risorse naturali e della multifunzionalità, portano PAGRI/IAP ad essere uno strumento per un dibattito ed un confronto aperto alle varie prospettive che coinvolgono oggi il comparto primario. Il Comitato di Direzione auspica pertanto che sulle pagine di questa rivista trovino spazio adeguato tutte le considerazioni e le analisi inerenti i temi sopra esemplificati, il cui spettro non va comunque inteso come esaustivo.

Internazionale (International). PAGRI/IAP è frutto dell'iniziativa di vari gruppi di economisti agrari italiani che hanno voluto nel tempo aprire una prospettiva di confronto sulle politiche agrarie (intese come sopra detto). Il riferimento primario non può che essere quello europeo, in particolare in una stagione contrassegnata dalla crescente attenzione verso una nuova fase di programmazione dell'azione dell'Unione Europea in un comparto che incide tuttora in modo consistente sull'intero bilancio comunitario. Ma risulta ben evidente a chi pone attenzione a queste tematiche quanto sia imprescindibile rivolgere oggi una giusta ed attenta considerazione a tutto ciò che sta emergendo nei diversi livelli di elaborazione dell'intervento pubblico per l'agricoltura. Lo sguardo e la ricerca vanno dunque rivolti alle politiche extraeuropee, sia di singoli Paesi che di macro regioni, per non dimenticare le organizzazioni internazionali che ambiscono ad una visione complessiva delle problematiche planetarie. La testimonianza di

questa rinnovata attenzione ai temi dell'agricoltura e del food può essere peraltro rinvenuta nell'attenzione che il G20 ha recentemente dedicato al tema della volatilità dei prezzi delle commodity agricole.

A conferma di quanto ora affermato si pone l'impianto di questo numero di rilancio della rivista, prevalentemente in lingua inglese e dedicato interamente al dibattito sul futuro della Politica Agraria Comunitaria (PAC) a partire dal 2014. La serie dei contributi è aperta da un intervento del Presidente del Comitato Scientifico PAGRI/IAP, Paolo De Castro, attuale Presidente della Commissione Agricoltura e Sviluppo Rurale del Parlamento Europeo, firmato assieme al Prof. On. Giovanni La Via, Componente della Commissione Bilancio del Parlamento Europeo e Relatore permanente per l'agricoltura, Prof. Felice Adinolfi (Vice-Direttore Scientifico PAGRI/IAP e Università di Bologna) e Prof. Francesco Marangon (Direttore Scientifico PAGRI/IAP e Università di Udine). Il Comitato di Direzione ha poi voluto dare spazio a tre interventi ad invito basati su altrettante "Notes for the European Parliament" redatte da economisti agrari di diverse estrazioni e provenienze nel febbraio 2011 ed appositamente rielaborate per questo numero di PAGRI/IAP. Il Prof. Stefan Tangermann Professore Emerito presso l'Università di Göttingen in Germania, illustra il suo punto di vista in merito ai pagamenti diretti nella PAC post 2013; il Prof. M. Vincent Chatellier, dell'Institut National de la Recherche Agronomique (INRA) in Francia, espone alcune interessanti riflessioni sulle politiche di mercato e sugli strumenti per la gestione del rischio e delle crisi nella PAC post 2013; infine il Prof. Attila Jàmbor, Professore presso l'Università Corvinus di Budapest, affronta la tematica dello sviluppo rurale nella PAC post 2013. Il primo numero della rinnovata serie di PAGRI/IAP si chiude con un contributo di Roberto Henke e di Maria Grazia Coronas, ricercatori dell'Istituto Nazionale di Economia Agraria, che si occupano degli aspetti finanziari e degli interessi dell'Italia nel sistema dei pagamenti diretti nella PAC post 2013.

Ci auguriamo di aver in questo modo dimostrato verso quali prospettive vogliamo orientare PAGRI/IAP e siamo convinti che su questa strada molti saranno i compagni di viaggio che da subito invitiamo con entusiasmo ad affiancarci in questa impegnativa avventura.

IL PROCESSO DI RIFORMA DELLA POLITICA AGRICOLA COMUNITARIA. STATO DELL'ARTE E PROSPETTIVE

JEL classification: Q18

Paolo De Castro, Giovanni La Via, Felice Adinolfi, Francesco Marangon*

Abstract. *The paper analyses the European Commission Communication of 18th November 2010 on the future of the Common Agricultural Policy. First of all it considers that during the last twenty years several reforms of Common intervention in favour of agriculture and rural areas have been occurred. Then it takes into account the main socio-economic context variables.*

In a context with some key challenges, this article tries to understand the Communication, even in such a partial way, defining the background of European Commission proposal and measuring it with the main new perspectives facing the Common Agricultural Policy.

Finally, the article carries out an evaluation about possible impacts of discussed options for the future, expecially referring to the reorganization of direct payments.

Keywords: *CAP Reform; EU budget; price volatility.*

1. Introduzione

Con la presentazione della Comunicazione del 18 novembre 2010 sul futuro della politica agricola comunitaria (PAC) (European Commission, 2010a), la Commissione Europea ha presentato i risultati di una riflessione "aperta"[1], partita nel maggio dello stesso anno e chiusa con il dibattito pubblico che ha avuto nel successivo mese di luglio. Il contenuto della Comunicazione e gli indirizzi in essa suggeriti sono anche il risultato di una complessa attività istituzionale che, oltre al tradizionale ruolo giocato dal Consiglio Europeo, ha visto un nuovo protagonismo del Parlamento che, con l'entrata in vigore del Trattato di Lisbona, assume i poteri di "codecisore" anche nei processi legislativi attinenti l'agricoltura e lo sviluppo rurale (Massot, 2010).

La Comunicazione, che anticipa gli indirizzi generali che la Commissione intende seguire per il periodo finanziario 2014 – 2020, propone modifiche sostanziali all'attuale assetto della

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[1] La natura "aperta" del dibattito ha consentito la raccolta di numerosissimi contributi coinvolgendo diversi livelli di interessi. Per una panoramica esaustiva dei contributi pervenuti e del percorso seguito dalla Commissione Europea si rimanda al link http://ec.europa.eu/agriculture/cap-post-2013/index_en.htm.

PAC, già frutto di un ciclo di riforme partito nel 1992 con la riforma *MacSharry* e poi proseguito con Agenda 2000, la *Middle Term Review* di *Fischler* del 2003 e l'*Health Check* del 2009.

Rispetto alle precedenti, questa riforma s'inserisce in uno scenario inedito, in cui ai tradizionali *driver* riformatori, budget e accordi sul commercio internazionale, si aggiungono fattori nuovi, che attengono da un lato al fenomeno della volatilità dei prezzi e alla rinnovata attenzione al tema della sicurezza degli approvvigionamenti alimentari, dall'altro al contributo che l'agricoltura europea può fornire nel raggiungimento degli obiettivi di crescita intelligente, sostenibile e inclusiva, così come definiti dalla "Strategia 2020" (European Commission, 2010b).

2. Una panoramica dei principali fattori istituzionali che influenzano il processo di riforma

La cornice istituzionale nella quale prende piede il processo legislativo di riforma della PAC è ricca di novità, a partire dalla citata inclusione delle materie agricole nella procedura di codecisione.

Questo si traduce in un ruolo non più consultivo del Parlamento Europeo ma paritetico rispetto al Consiglio nel processo decisionale. La ridefinizione dei pesi negoziali all'interno del procedimento legislativo, rinforza, insieme alle prerogative del Parlamento, il peso delle diverse sensibilità presenti nella società europea, delle quali i parlamentari eletti sono diretta espressione.

In secondo luogo, l'implementazione della "Strategia 2020". Le conclusioni del Consiglio Europeo del 17 giugno 2010 proiettano tutte le politiche europee, inclusa la PAC, nel perseguimento degli obiettivi fissati dal documento strategico e rilevano come "*un sistema agricolo competitivo e sostenibile può fornire un importante contributo ai traguardi di questa strategia*" (European Commission, 2010b). In particolare, come evidenziato dal parallelo *meeting* informale dei Ministri agricoli, è confermata la necessità di sostenere il ruolo multifunzionale dell'agricoltura europea e il suo contributo alla produzione di beni pubblici, in particolare quelli di natura ambientale (lotta al cambiamento climatico, difesa della biodiversità, risparmio idrico, etc.).

Il *background* della Strategia 2020 da un lato conferma che il ruolo della PAC travalica gli esclusivi interessi settoriali, per abbracciare i temi dell'ambiente (oggi con un accento particolare alla lotta al cambiamento climatico), dello sviluppo delle comunità rurali e della sicurezza dei consumatori; dall'altro contribuisce a rinforzare le tradizionali pressioni sul budget destinato alla PAC, che negli ultimi vent'anni è passato dal 75% della spesa europea a circa il 42%, in favore di maggiori risorse a sostegno di altre competenze e politiche, a partire dalla ricerca (Harvey, 2004). Una crescita del campo d'azione della politica comunitaria destinata a non essere accompagnata da incrementi del budget comunitario, causa le oggettive difficoltà in tal senso prodotte dallo sforzo di risanamento imposto agli SM dalla crisi economica.

Infine, i negoziati *WTO*. Anche se è difficile analizzare i complessi rapporti di causa - effetto tra sviluppi della PAC e negoziato internazionale, diverse evidenze mostrano come le principali riforme siano state direttamente condizionate dalle evoluzioni del negoziato (Buckwell, 2007): con *Mac Sharry*, per consentire all'UE di accettare l'*Uruguay Round Agriculture Agreement*- con la Riforma del 2003 - per rafforzare la posizione UE nel *Doha Round* - fino alla riforma dell'OCM zucchero del 2005 (Daugbjerg e Swinbank, 2008).

In questa fase storica, lo stallo del negoziato sul commercio internazionale rischia di far naufragare il Doha Round e al fine di evitare tale eventualità circolano voci circa un "Piano B"; una proposta che potrebbe essere finalizzata soprattutto a difendere la credibilità del *WTO* e destinata

a lasciare fuori dall'accordo gli elementi più controversi. Questo dovrebbe tradursi comunque in un ulteriore ridimensionamento delle misure di politica agricola non incluse nella *green box*, come previsto dalla proposta originariamente alla base del negoziato[2].

3. La volatilità dei mercati e il tema della sicurezza degli approvvigionamenti

La sistematica instabilità dei prezzi agricoli è stata da sempre un fattore chiave attorno al quale è avvenuta la costruzione delle politiche agricole in tutto il mondo. Un fattore di rischio che non ha solo riflessi settoriali ma soprattutto sociali per i suoi impatti sulla sicurezza degli approvvigionamenti e attorno al quale è stata costruita gran parte dell'architettura dell'art. 39 (ora 33) del Trattato Europeo.

Un largo consenso sostiene l'ipotesi di un incremento della volatilità dei mercati agricoli nel prossimo futuro. Le cause di questo fenomeno sono molteplici. Prima fra tutte la crescita e le aspettative di crescita della domanda globale di cibo. La crescita della popolazione e dei redditi nei paesi in via di sviluppo porterà ad un incremento della domanda di cibo nel 2050 compreso tra il 70% e il 100% rispetto ai livelli attuali (FAO, 2009), all'interno di un *trend* che ormai da diversi anni vede la domanda crescere a ritmi inferiori a quelli della produttività. Ovviamente le variazioni dei prezzi sono desiderabili in quanto espressione dei cambiamenti del mercato e quali *driver* per un'allocazione efficiente delle risorse. Ma quando la volatilità si manifesta in forme estreme crea impatti negativi generalizzati che coinvolgono produttori, trasformatori, commercianti, consumatori e governi e possono guidare verso decisioni sub-ottimali (Hernandez and Torero, 2010).

I picchi dei prezzi registrati nel 2007/2008 e quelli più recenti che hanno caratterizzato i primi mesi del 2011, sono stati caratterizzati dai livelli storicamente più bassi delle scorte strategiche e dalla copresenza di diversi eventi calamitosi che hanno ridotto le aspettative sulla produzione. Infatti, così come nel 2007/2008 gli eventi climatici portarono alla riduzione dei raccolti in Australia e Canada (due tra i più importanti fornitori di materia prime strategiche sui mercati mondiali), anche nel 2010 l'incendio in Russia ha contribuito ad esacerbare le tensioni su mercati agricoli internazionali.

I fattori che hanno contribuito rendere instabili i mercati sono stati ampiamente analizzati (FAO, 2009). Alcuni recenti studi hanno evidenziato il ruolo svolto dalla crescita della produzione di *biofuel* (Baffes e Haniotis, 2010), dal legame sempre più saldo tra prezzi dei prodotti agricoli e prezzi degli energetici e quello seppur controverso giocato dalle attività speculative sul mercato dei derivati. Se, infatti, non ci sono dubbi sul fatto che gli investimenti nei mercati finanziari delle *commodity* agricole siano cresciuti ad un ritmo impressionante negli ultimi anni, pareri discordi animano il dibattito sugli impatti prodotti da questo fenomeno (Torero e von Braun, 2009).

Le reazioni dei Governi, in particolare quelli deficitari in termini di approvvigionamenti, hanno poi scontato una mancanza di coordinamento che ha contribuito ulteriormente all'instabilità dei mercati. In presenza di ampi spazi garantiti dalle regole *WTO* per fronteggiare la manifestazione di crisi significative, molti Paesi hanno attuato restrizioni o divieti alle esportazioni, altri hanno sostenuto massicce operazioni di ricostituzione delle scorte, alimentando così la magnitudine delle variazioni dei prezzi (De Castro, 2010).

[2] Informazioni di dettaglio sull'avanzamento del negoziato sono disponibili al seguente link http://www.wto.org/english/tratop_e/dda_e/dda_e.htm

La preoccupazione è tale che diverse fonti di informazione segnalano un massiccio fenomeno, denominato *land grabbing*, da molti bollato come "neo colonialismo agricolo" e che ha visto l'acquisizione di decine di milioni di ettari di terreni agricoli nel continente africano da parte di investitori pubblici come la Cina e gli Stati del Golfo.

In questo quadro il tema della volatilità dei prezzi è divenuto uno dei punti prioritari dell'agenda del *G20*, che ha definito i punti cardine di un "*action plan*" per contrastare la volatilità dei prezzi alimentari[3], nel quale viene evidenziata l'importanza che può giocare un efficiente coordinamento internazionale nella gestione delle crisi al fine di evitare atteggiamenti e pratiche commerciali che pregiudicano, in caso di shock della domanda o dell'offerta, il rapido ritorno all'equilibrio.

4. Le recenti performance del sistema agricolo europeo

Le *performance* economiche delle aziende agricole europee hanno visto negli ultimi anni una generale tendenza al ribasso, cui ha contribuito significativamente la volatilità dei mercati, anche nelle fasi di crescita delle quotazioni delle *commodity* agricole. Se, infatti, da un lato l'incertezza dovuta al fatto che i prezzi non rispecchiano i fondamentali del mercato comprime la capacità d'investimento e adattamento dei produttori, dall'altro l'andamento dei prezzi degli input rappresenta una spinta ulteriore alla compressione dei redditi.

Fino alla fine degli anni Novanta abbiamo sperimentato, tranne che in periodi straordinari come le crisi petrolifere degli anni Settanta o la "guerra del Golfo" nei primi anni Novanta, una diminuzione lenta ma costante dei prezzi degli input agricoli; più lenta di quella dei prezzi alimentari ma compensata dagli incrementi di produttività. Oggi invece i prezzi degli input crescono in misura molto maggiore rispetto a quelli dei prodotti agricoli e restano alti per periodi di tempo più lunghi.

Questo scostamento contribuisce, specialmente allorquando le quotazioni dei prodotti iniziano a scendere, a comprimere in maniera significativa i margini d'impresa, in funzione dell'intensità dell'uso di alcuni input, in particolare energia e fertilizzanti (De Castro *et al.*, 2011).

Il caso della crisi del sistema europeo dei produttori di latte è stato in tal senso emblematico. La compressione dei margini seguita alla caduta dei prezzi nel periodo post crisi è stata di portata straordinaria, tanto da richiedere la costituzione di un "Gruppo europeo di alto livello" per studiare soluzioni *ad hoc*, che sono poi state tradotte in una specifica proposta legislativa della Commissione (*milk package*) per fronteggiare la crisi del settore[4].

5. Dopo un ventennio di riforme. La PAC oggi

Gli obiettivi iniziali della PAC sono rimasti immutati nel corso della storia della Comunità, ma il loro peso relativo è cambiato significativamente. Insieme al nuovo assetto degli obiettivi sono cambiati anche gli strumenti per perseguirli. In generale, il sostegno ai prezzi che aveva ani-

[3] Ministerial Declaration, *Action Plan on Food Price Volatility and Agriculture,* Meeting of G20 Agriculture Ministers Paris, 22-23 June 2011 http://agriculture.gouv.fr/IMG/pdf/2011-06-23_-_Action_Plan_-_VFinale.pdf

[4] European Commission, *Proposal for a Regulation of the European Parliament and of the Council amending Council Regulation (EC) No 1234/2007 as regards contractual relations in the milk and milk products sector,* Brussels, COM(2010) 728, 9 December 2010 http://ec.europa.eu/agriculture/milk/proposal-12-2010/com-2010-728_en.pdf

mato la prima fase d'implementazione della PAC è stato progressivamente sostituito da forme di sostegno al reddito e misure a supporto dello sviluppo dei territori rurali, costruendo così il ponte da un paradigma settoriale e assistenziale ad uno multifunzionale (Garzon 2006).

Un passaggio ancora incompleto, come testimoniato dalle ipotesi di riforma in discussione e sottolineato da molti studiosi (Buckwell, 2009; Swinnen, 2009), ma che oggi come visto si arricchisce di nuove variabili che ci consegnano uno scenario inedito sotto molti aspetti.

Le riforme in passato sono maturate in uno scenario di relativa stabilità dei mercati; un'era di eccedenze produttive nella quale l'alto costo-opportunità delle scorte ne aveva condotto praticamente alla dismissione, in cui la reperibilità delle materia prime non rappresentava un problema per il sistema della trasformazione, in cui il sostegno diretto agli agricoltori svolgeva più che ampiamente la sua funzione di stabilizzazione dei redditi, garantendo nel contempo un livello minimo di fornitura di beni pubblici da parte degli agricoltori.

Oggi, alla vigilia di un nuovo passaggio di riforma, lo scenario è notevolmente mutato e sia le esigenze di carattere socio – ambientale che quelle legate alla sostenibilità economica dell'attività agricola si sono fatte più complesse, anche per l'esigenza di rileggere in chiave moderna uno dei fondamentali obiettivi fissati dal Trattato di Roma come quello della sicurezza degli approvvigionamenti.

Il ciclo di riforme della PAC portato avanti dall'Europa ha progressivamente ridotto il ruolo delle componenti distorsive del sostegno (incluse nell'*amber* e nella *blue box* degli accordi internazionali) in favore di forme di sostegno parzialmente o del tutto compatibili con la *green box*.

Con il varo dell'*Health Check* la distribuzione della spesa PAC per il periodo 2010 – 2013 vede un peso del 69% dei pagamenti diretti, del 24% per lo sviluppo rurale e del 7% per le misure di mercato, confermando un trend che a partire dal 1992 ha visto un progressiva riduzione della spesa destinata al sostegno alla produzione e ai mercati, che prima di allora contava per oltre il 90% della spesa destinata alla politiche agricole.

Oggi peraltro gli strumenti di mercato sono inquadrabili più come reti di protezione che come classici strumenti di stabilizzazione (Adinolfi *et al.*, 2010). I prezzi d'intervento sono stati fissati su limiti molto bassi di modo che la loro operatività sia attivata solo in periodi di reale (estrema) crisi. Al fine di assicurare la sostenibilità economica delle aziende agricole è stato garantito, a compensazione del taglio del supporto ai prezzi, un sistema di pagamenti diretti, prima fissato sulla base di parametri come area o produzione, poi sulla base dei titoli storici, in modo da avvicinare progressivamente le scelte dei produttori ai segnali del mercato e legare una parte del sostegno alla compensazione dei costi per la produzione dei beni pubblici legati al rispetto dei requisiti di *cross compliance*. In alcune importanti economie agricole europee (Belgio, Regno Unito, Spagna) il contributo dei pagamenti diretti alla formazione del reddito in un biennio molto critico per la tenuta economica del sistema agricolo europeo (2008-2009) si è attestata attorno al 100%.

6. La Comunicazione della Commissione: obiettivi e opzioni riformatrici

La comunicazione del 18 novembre traccia le tre grandi opzioni di politica agricola emerse dal dibattito pubblico:

– l'Opzione "***Continuity***", attraverso la quale apportare solo piccoli aggiustamenti all'attuale assetto della PAC. Questa opzione sembra trovare soprattutto il sostegno delle tradizionali rappresentanze delle organizzazioni agricole europee. Una scelta di *status quo*, all'interno della quale risolvere o ridurre la portata di alcune criticità, come lo squilibrio nella distribuzione

dei pagamenti diretti, che trova l'adesione degli *stakeholders* agricoli preoccupati degli impatti sul settore che sarebbero associati ad opzioni più radicali. La critica maggiore che viene rivolta a questa visione riguarda l'inadeguatezza degli attuali strumenti di sostegno ad affrontare le sfide economiche, sociali e ambientali delineate dalla Strategia 2020.

– l'Opzione "***Break up***", attraverso la quale modificare radicalmente l'attuale sistema d'intervento, eliminando le misure di mercato e di sostegno al reddito e trasferendo risorse al perseguimento degli obiettivi di salvaguardia ambientale e lotta al cambiamento climatico. Questa opzione è molto vicina alle numerose proposte offerte da alcune ONG ambientali, da una parte del mondo accademico[5], oltre che da alcuni *think thank*. La richiesta è quella di una PAC focalizzata esclusivamente sulla produzione di beni pubblici e sulla lotta al cambiamento climatico. In pratica un'interpretazione del paradigma multifunzionale che disegna una politica agricola destinata a essere *solo* politica di sviluppo rurale. Un approccio coerente con la necessità di un sostegno targettizzato ed esclusivamente compensativo dei costi sostenuti per la produzione di servizi collettivi e non remunerabili dal mercato, ma che è stato respinto su diversi fronti, a partire da quello istituzionale, con il Parlamento UE (Dess, 2011), gli Stati Membri (SM) e la stessa Commissione, che nelle loro iniziative hanno difeso il ruolo dei pagamenti diretti e delle misure di mercato, soprattutto alla luce della profonda crisi che in questi ultimi anni ha coinvolto diversi importanti comparti agricoli e dell'incertezza che continua a caratterizzare i mercati. Infatti, quest'opzione sembra ignorare la volatilità dei prezzi sperimentata in questi anni e più in generale il fallimento dei mercati agricoli, così come il fatto che la sostenibilità economica del sistema produttivo è una precondizione affinché lo stesso possa fornire beni e servizi collettivi. In assenza di aiuti al reddito sarebbe inevitabile la tendenza ad una intensificazione della produzione nelle aree agricole più competitive e ad un abbandono nelle altre, con il risultato paradossale di incrementare le esternalità negative del settore. Diversi studi condotti dalla Commissione UE rilevano come l'eventuale dismissione del sistema dei pagamenti diretti non impatterebbe drammaticamente sul livello della produzione agricola complessiva europea, ma trasformerebbe radicalmente gli equilibri territoriali e ambientali legati alla presenza dell'agricoltura, portando alla concentrazione delle attività agricole nelle aree pianeggianti, che sarebbero oggetto di un ulteriore processo di intensivizzazione e all'abbandono delle aree più marginali.

– l'Opzione "***Evolution***", attraverso la quale apportare cambiamenti al fine di rendere più efficace il legame tra sostegno e obiettivi fissati dalla PAC. Si tratta di cambiamenti che seppur non radicali e destinati a mantenere l'attuale configurazione su due pilastri della PAC, possono avere riflessi importanti sulla sostenibilità economica di ampie porzioni dell'agricoltura europea. Questa opzione sembra essere quella più caldeggiata a livello istituzionale secondo quanto emerso dai numerosi *position paper* prodotti dagli SM, dai già citati Rapporti di iniziativa parlamentare e dalla stessa Commissione che proprio con la Comunicazione del 18 novembre 2010, nonostante una iniziale dichiarazione di neutralità rispetto alle tre opzioni, esplicita la sua preferenza per questo approccio.

La Comunicazione individua tre obiettivi fondamentali cui la PAC è chiamata a rispondere:

– un obiettivo di carattere socio – economico, cui corrisponde l'esigenza di promuovere la sicurezza degli approvvigionamenti, da perseguire contribuendo alla stabilità dei redditi degli

[5] *A Common Agricultural Policy for European Public Goods, 2009 Declaration by a Group of Leading Agricultural Economists,* http://www.reformthecap.eu/posts/declaration-on-cap-reform

agricoltori, riequilibrando i poteri negoziali lungo la filiera alimentare e sostenendo una diffusa distribuzione dell'attività agricola all'interno della Comunità, comprese le aree svantaggiate dove il rischio di abbandono dell'attività agricola è elevato;

– un obiettivo di carattere ambientale, cui corrisponde la necessità di sostenere il ruolo dell'agricoltura nelle gestione delle risorse naturali e nella lotta al cambiamento climatico, da perseguire assicurando la fornitura di beni pubblici legati all'esercizio dell'attività agricola e forestale, sostenendo il ruolo dell'innovazione per una crescita "verde" dell'agricoltura europea e supportando le azioni di lotta e adattamento al cambiamento climatico;
– un obiettivo di carattere territoriale, che si traduce nella ricerca di un maggior equilibrio nelle traiettorie di sviluppo dei diversi territori europei, da perseguire sostenendo l'occupazione nelle aree rurali, promuovendone la diversificazione economica ed incoraggiando la diversità strutturale dell'economia agricola europea attraverso migliori condizioni per le piccole aziende e sviluppo dei mercati locali

Sulla base di questi obiettivi la Commissione formula dei primi importanti indirizzi sull'architettura della PAC post 2013, che viene organizzata nell'ambito dei due tradizionali pilastri: il primo, contenente i pagamenti diretti annuali e le misure di mercato, il secondo le misure multi annuali dedicate allo sviluppo rurale.

Gli elementi di novità vengono per ora solo introdotti come indirizzi. Saranno successivamente specificati e regolamentati nella proposta legislativa attesa per ottobre 2011, per poi essere oggetto del processo negoziale previsto dalla procedura di codecisione. Le novità di maggior rilievo riguardano ad oggi in particolare due aspetti strettamente connessi alla sostenibilità economica del sistema produttivo: il futuro dei pagamenti diretti e il tema della gestione dei rischi.

Per quanto concerne i pagamenti diretti, la proposta formulata riconfigura questo strumento sia sotto l'aspetto della distribuzione delle risorse a esso destinate, sia per quanto riguarda la loro articolazione. Viene, infatti, chiarita l'esigenza di un "primo pilastro verde e più equamente distribuito", che dovrebbe essere raggiunta attraverso:

– la definizione di una più equa distribuzione dei pagamenti tra gli agricoltori degli SM, utilizzando un sistema che sia in grado di limitare le perdite e i guadagni dei singoli budget nazionali e che possa garantire, al contempo, che gli agricoltori europei ricevano una percentuale minima del pagamento medio europeo;
– un sistema di pagamenti più efficacemente legato alle funzioni economiche, ambientali e territoriali che con essi s'intende stimolare.

Questi due aspetti sono oggi preminenti nel dibattito in corso per l'impatto che dalla loro definizione può scaturire. Il tema della redistribuzione dei pagamenti diretti ha generato, già prima della Comunicazione, un acceso dibattito che vede la contrapposizione di due blocchi, i cd "*winners*" (gli SM il cui pagamento medio per ettaro è sopra la media europea) e i "*losers*" (gli SM il cui pagamento medio per ettaro è sotto la media europea). La posta in gioco è altissima tanto che la Commissione ha scartato preventivamente l'ipotesi di un unico *flat-rate* europeo (pagamento per ettaro di superficie agricola europea eleggibile), circolata diffusamente nel dibattito pubblico che ha preceduto la Comunicazione. Una precisazione imposta anche dalle pressioni politiche esercitate dal Parlamento Europeo che, nella Risoluzione del Luglio 2010, chiede l'utilizzo di criteri addizionali capaci di riflettere la diversità dei bisogni dell'agricoltura europea. Una sollecitazione accolta dalla Commissione, impegnata sia nel costruire ipotesi redistributive coerenti con questa necessità, sia nel disegnare una configurazione del premio capace di tenere in considerazione situazioni settoriali o territoriali straordinarie, per le quali consentire per periodi limitati un certo grado di "accoppiamento" del premio.

La nuova articolazione del sistema dei pagamenti diretti dovrebbe, infatti, secondo gli indirizzi della Comunicazione essere basata su quattro componenti:

– **aiuto di base al reddito**, da garantire attraverso un sistema di aiuti completamente disaccoppiato, legato all'attuale *cross compliance*, che dovrebbe tradursi nella fine della base storica del sostegno e in un pagamento ad ettaro eleggibile unico all'interno degli SM;
– **componente verde**, obbligatoria, finalizzata ad incrementare il livello di esternalità positive prodotto dagli agricoltori attraverso l'adesione a misure ambientali, compensando gli agricoltori per i costi supplementari derivanti dagli impegni assunti;
– **aiuti addizionali al reddito in aree svantaggiate**, da garantire attraverso un aiuto addizionale basato sulla superficie e complementare rispetto alle analoghe misure che su base multi annuale perseguono gli stessi scopi nel pilastro dello sviluppo rurale;
– **supporto accoppiato volontario e limitato**, che può essere garantito in ordine alla necessità di tenere in considerazione criticità specifiche che possano manifestarsi in quei territori dove il tessuto agricolo svolge un ruolo importante in termini economici e sociali. Questa previsione ricalca quella già contenuta nelle attuali misure contemplate dall'art. 68 dell'*Health check*.

Per quanto riguarda, invece, il tema della gestione dei rischi le novità introdotte nel primo pilastro sono molto generiche. La Comunicazione prevede la possibilità di potenziali adattamenti delle Organizzazioni Comuni di Mercato al fine di estendere i periodi d'intervento e dare continuità all'attuale sistema di reti di protezione attivabili nei casi di eccezionali perturbazioni sui mercati. In aggiunta, collegandosi, al lavoro in corso sui pacchetti legislativi "qualità" e "latte" viene segnalata la volontà di migliorare il funzionamento della filiera, riequilibrando i poteri contrattuali tra le sue componenti e stimolando la definizione di relazioni contrattuali stabili.

Nel secondo pilastro le novità sono maggiori grazie alla previsione di un "*risk management toolkit*" da attivare nell'ambito delle misure dello sviluppo rurale e da destinare alle politiche di gestione dei rischi, in particolare per la copertura del rischio di reddito.

Tralasciando le altre novità (tetto agli aiuti, supporto specifico per le piccole imprese, concetto di agricoltore attivo etc.) che la Commissione auspica nella Comunicazione, che seppur rilevanti nel dibattito in corso appaiono a chi scrive meno impattanti sulle condizioni future del tessuto agricolo europeo, sembra evidente la scelta di un approccio di tipo "*Evolution*" operata dall'Esecutivo europeo, che continua a sostenere la necessità sia di sostenere il reddito degli agricoltori che di dare continuità all'attuale sistema di *safety net*.

7. Gli spazi di manovra aperti dalla Comunicazione e i possibili riflessi sul tessuto agricolo

Pur potendo inquadrare la proposta della Commissione all'interno dell'opzione *evolution*, ampi risultano gli spazi di manovra che possono dar luogo ad assetti della futura PAC e ad impatti sul sistema agricolo profondamente diversi. La stessa architettura dei futuri pagamenti diretti corre il rischio, ad esempio, di portare a uno sbilanciamento verso l'opzione "*break-up*" qualora la componente di aiuto al reddito fosse compressa da quella verde e da quella a sostegno delle aree svantaggiate.

Ma il tema più impattante e ad oggi il maggior oggetto della negoziazione politica in corso, sarà forse quello della redistribuzione delle risorse destinate ai pagamenti diretti (e di conseguenza della parte attualmente più consistente del budget PAC). Gli SM destinati ad essere penalizzati dalla redistribuzione, gli attuali *winner,* sono preoccupati degli effetti di una penalizzazione il cui

rilievo è ancora incerto, in quanto dipendente dalle variabili che saranno prese in considerazione per la redistribuzione.

Diversi studi (Adinolfi *et al.*, 2011; Cao *et al.*, 2010) hanno evidenziato come ai diversi modelli ipotizzabili siano associati ampi trasferimenti di risorse. Tutto questo ipotizzando la costanza delle risorse destinate alla PAC, eventualità che sembra però destinata ad essere smentita da un taglio di entità ancora incerta, così come anticipato dalla proposta sulle prospettive finanziarie per il periodo 2014 – 2020 (European Commission, 2011).

Inoltre, Paesi in cui ancora vige il modello di pagamento su base storica, come l'Italia, saranno chiamati a gestire significativi fenomeni di redistribuzione interna del sostegno, tra settori e tra territori. L'applicazione di un *flat-rate* nazionale comprimerà, a volte in maniera drastica, l'attuale premio ricevuto dagli agricoltori di alcuni grandi comparti dell'agricoltura italiana (zootecnia, grano duro, agrumicoltura), portando nel contempo alla movimentazione di importanti risorse tra gli *envelopes* regionali.

Questo amplifica l'importanza del sostegno al reddito e induce a riflettere sull'opportunità di costruire scelte dotate di tempi e flessibilità coerenti con l'esigenza di evitare impatti drastici sul tessuto produttivo.

Il sistema redistributivo scelto dovrebbe, in linea con quanto auspicato dalla Commissione, evitare drastiche riduzioni dei budget nazionali, tenendo in adeguata considerazione nella definizione dei criteri anche i valori economici (come la PLV) e sociali (come il lavoro) che differenziano i diversi modelli di agricoltura europea

I pesi delle componenti dello schema di pagamento diretto dovrebbero essere flessibili (entro limiti prestabiliti) e ancorati all'andamento di alcune *proxy* del reddito agricolo, in modo da consentire alla componente di base dei pagamenti diretti di svolgere un reale ruolo di stabilizzazione dei redditi

La componente verde dei pagamenti dovrebbe evitare ulteriori aggravi amministrativi per i beneficiari PAC. Un esempio concreto può in tal senso essere mutuato dall'esperienza francese di applicazione dell'*Health check* (Chatellier, 2011), che ha implementato un sistema di premi aggiuntivi a compensazione dell'adesione degli agricoltori a misure ambientali innestate sullo stesso schema della condizionalità. Inoltre, al fine di rafforzare di questa componente, potrebbe essere opportuno offrire un ampio spettro di misure tra le quali i livelli locali possano scegliere le più appropriate ai bisogni del territorio

L'applicazione dell'aiuto accoppiato straordinario dovrebbe essere sufficientemente flessibile almeno nella prima fase d'implementazione del nuovo sistema, in modo da permettere agli SM di gestire più morbidamente il passaggio dal vecchio al nuovo sistema nei casi che si riveleranno più problematici in termini di sostenibilità economica.

Per quanto concerne la componente di sostegno alle aree svantaggiate, la volontà di gestire il sostegno al reddito dei potenziali beneficiari a cavallo dei due pilastri non sembra essere sufficientemente giustificata all'interno della Comunicazione e appare ancora confuso nelle possibilità modalità applicative.

Infine, riguardo alle misure dirette alla gestione dei rischi, la Comunicazione dà un'enfasi al tema che anche se pare non trovare adeguata corrispondenza nello schema di intervento proposto, va letto nella cornice più ampia delle altre proposte legislative riguardanti il settore, pacchetto latte e pacchetto qualità in particolare, che aprono alla necessità di rinforzare il ruolo delle relazioni contrattuali e alla possibilità di offrire spazi per la gestione dell'offerta. Lo sviluppo di un sistema di economia contrattuale è un tema oggi affrontato nello specifico per il settore

lattiero – caseario ma che in futuro potrebbe essere opportunamente trasferito ad altri comparti, soprattutto quelli dove coesistono atomizzazione dell'offerta e concentrazione dei buyers e dove, di conseguenza, i costi di transazione e il livello delle pratiche commerciali scorrette hanno più probabilità di essere elevati. Così come il tema della gestione dell'offerta che trova, peraltro oggi, limiti e vincoli differenti tra i diversi SM. L'idea di definire entro limiti e casistiche ben precisi la possibilità di attivare strumenti di gestione dell'offerta sembra un'ottima opportunità per contribuire al duplice obiettivo di riequilibrare i pesi negoziali lungo la filiera e di stabilizzare i redditi degli agricoltori.

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DIRECT PAYMENTS IN THE CAP POST 2013

JEL classification: Q18

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Abstract. *The EC Communication on the future of the Common Agriculture Policy identifies crucial challenges, above all the need for EU agriculture to provide public goods. However, only limited changes to the CAP are proposed. Rather than making a determined move towards targeted measures, direct payments are supposed to continue forming the backbone of the support regime. The "greening component" cannot really improve the targeting of payments. Redistribution of payments across Member States may or may not enhance equity and will not improve the provision of public goods. This paper is an extract from a briefing note produced for the European Parliament's Committee on Agriculture and Rural Development*[1].

Keywords: *CAP Reform; Direct Payment; Public Goods.*

1. The EC communication: another CAP reform?

The Communication of 18 November 2010 from the European Commission, entitled "The CAP towards 2020: Meeting the food, natural resources and territorial challenges of the future"[2] suggests that another reform of the Common Agricultural Policy (CAP) is needed to prepare EU agriculture for the challenges of the future, in the three dimensions of food security, environment and climate change, and territorial balance.

However, one additional challenge is not mentioned explicitly in the Communication, though it transpires from much of its wording. This challenge is specific to the CAP and originates from its evolution in the past. As a result of CAP reforms in the 1990s and 2000s, direct payments have become the most important and visible feature of Europe's agricultural policy framework, making up for about two thirds of EU expenditure on the CAP. When direct payments were first introduced, they served to compensate farmers for cuts in support prices. At the time, no decision was made regarding the future of direct payments.

Without explicitly discussing this additional policy challenge, the Communication proposes a certain structure of the future direct payments regime: direct payments will remain a firm part of the CAP; their purpose is no longer to compensate farmers for past reforms, but to enable agriculture to meet the various challenges it will face in the future; and they will be redistributed across Member States and farmers so as to achieve more equity.

As far as changes to the current CAP are concerned, the modifications of policy instruments

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[1] http://www.europarl.europa.eu/activities/committees/studies/download.do?language=it&file=34680

[2] Below referred to as the 'Communication'.

proposed in the Communication are rather limited. The more notable concrete changes proposed are introduction of a new "greening" component into the direct payments regime, a redistribution of payments across Member States, a few shifts of measures between Pillars 1 and 2, and inclusion of a "risk management toolkit" in Pillar 2. Thus, as far as concrete proposals regarding instrumentation of the CAP are concerned, the Communication is largely focused on direct payments.

While the challenges mentioned in the Communication are real and important, it can be doubted whether the policy proposals made are consistent responses to them.

Under the heading of food security the Communication suggests that "the EU should be able to contribute to world food demand". If more production in Europe's agriculture is required to satisfy growing food demand, then rising market prices will signal that to farmers. Indeed, prices on world markets for food are expected to be significantly higher in the future than they were in the past (OECD-FAO, 2010). There is no need to make direct payments or provide any other policy support in order to stimulate extra production in Europe, nor will decoupled payments be expected to have that effect.

As a response to uncertainty and volatility on agricultural markets, the risk management toolkit proposed in the Communication, if well constructed, would appear to be a consistent policy approach.

The Communication quite rightly stresses the importance of strengthening the competitiveness of EU agriculture. In this context it is important to keep in mind that enhancing the productivity of resource use in agriculture is key to improving competitiveness. Innovation based on research and development, education and training, effective advisory services and appropriate institutions serving agriculture, as well as continued structural change and well functioning land markets with low land prices are the major means of raising productivity, thus enhancing 'true' competitiveness. There is very little, if anything, in terms of proposals for concrete measures in the Communication that promises to enhance 'true' competitiveness of EU agriculture.

Responding to the challenges in the area of the environment and climate change requires enabling agriculture to provide the respective public goods. Market forces will not achieve this, and hence this is an important responsibility of public policy. In order to be effective and efficient, policies responding to this challenge need to be highly targeted (OECD, 2007a). In terms of the CAP's architecture, the home for such targeted and location-specific policies is Pillar 2. In order to provide a consistent response to the challenges regarding the environment and climate change, one would, therefore, have expected the Communication to propose a major shift of policies and resources towards Pillar 2. However, unfortunately that is not what the Communication does.

The same comment must be made regarding the response to the challenges in the area of territorial balance. By definition, policies thought to improve the territorial balance need to be location-specific. Policies addressing the challenge of territorial balance, therefore, need to be specifically targeted. From this perspective, too, a shift of attention and resources towards Pillar 2 would appear to be imperative. However, the Communication does not propose a reorientation in that direction.

In summary, the Communication identifies important challenges. However, the limited policy adjustments proposed are not consistent with these challenges. In spite of the emphasis the Communication quite rightly places on the need for better targeting, there is little in the way of concrete policy changes proposed that would result in an effectively more targeted policy. Instead, the primary focus on direct payments, and emphasis on the need to make them

more understandable to taxpayers and citizens, conveys the impression that the major aim of the Communication is to develop a justification for making direct payments on a per hectare basis a permanent and politically sustainable feature of the CAP.

2. The future role of direct payments

2.1. General approach

2.1.1. **Consistency with objectives**

Under the current structure of the CAP, direct aids play a central role. The Communication does not argue in any explicit way why direct payments are needed in the future and which specific purpose they are expected to serve. It does, though, suggest that "decoupled direct payments provide today basic income support and support for basic public goods desired by European society". It also makes the point that "agricultural income [is] significantly lower (by an estimated 40% per working unit) than that in the rest of the economy".

In a recent Agricultural Policy Perspectives Brief, the Commission (2011) has explained that in a situation where farm income is below that in other sectors, providing income support to farmers, through direct payments, is a precondition for enabling them to provide basic public goods "by helping to ensure the longer term economic viability, and a smooth structural adjustment, of the farming sector". In other words, direct income payments are seen as serving two closely related purposes, to respond to low farm incomes and to support the provision of basic public goods.

The argument made by the Commission in support of direct payments is not focused on social equity but on functional concerns; support is needed "to ensure the longer term economic viability, and a smooth structural adjustment, of the farming sector". Thus it would have to be shown that viability of Europe's farming sector would be threatened if direct payments were greatly reduced or even eliminated. In this regard it is not sufficient to look at the current share of direct payments in agricultural factor income, but it has to be considered that adjustments would take place if direct payments were reduced.

For example, the Scenar 2020-II study (Nowicki et al, 2009) finds that under the liberalisation scenario farm income in the EU-27 would decline by 15% more until 2020 than under the reference scenario[3]. While some part of that decline is due to liberalization of border protection, the major part is due to the elimination of direct payments. However, the impact on farm income shown in that study does not reflect the impact that declining land prices, as resulting from the elimination of direct payments, have on income of tenant farmers. Thus, the net reduction of actual farm incomes would be less than what is shown in that study. What is important regarding the "basic public goods" provided by agriculture is what would happen to land use. In the Scenar 2020-II study it is found that elimination of the direct payments would make land use in the EU-27 decline by 5.5%.

Whether a decline in land use by that order of magnitude would fundamentally threaten the provision of "basic public goods" is debatable. More specifically, it must be asked whether it is

[3] In the reference scenario, farm income in the EU-27 is found to decline by 7% until 2020, while under the liberalisation scenario it would decline by 22%.

economically efficient and actually necessary to make direct payments to all farmers in the EU in order to secure the provision of public goods. A good share of agriculture in the EU is economically viable without direct payments, as shown, for example, in Vrolijk et al (2010). A targeted policy would, therefore, not make generalised payments to all farmers in all parts of the EU, but focus on those cases where the public goods desired can be provided only when specific payments are made.

Direct payments to all farmers in the EU, granted on a per hectare basis, are a blunt instrument that is not capable of making efficient contributions to attaining specific objectives and to providing the public goods Europe's society expects from agriculture. Policy instruments need to be much more targeted in order to be both consistent with objectives and economically efficient (OECD, 2007a).

2.1.2. **Definition of "active farmers"**

The proposal of targeting support to "active farmers" may appear to deal with a marginal problem. However, it touches upon a number of issues that are central to the question of whether direct payments are consistent with their objectives.

In the public debate, different dividing lines are drawn between "active farmers" and other potential recipients of support.

One criterion is the nature of land use, for either agricultural or other activities (e.g. golf courses). Another distinction is that between farmers working the land and absent landowners. Still other criteria relate to the size of holding ('super large' versus 'normal' farms), the nature of business ('industrial' or agricultural) or the level of income (the 'Queen of England' issue).

If agricultural activity (versus golf courses and other non-agricultural activities) were to be made the basis of payments, then it is not clear whether that is consistent with the objective of "sustainable management of natural resources and climate action". Not only agriculture, but also other forms of land use (for example growing trees on former agricultural land) can provide environmental public goods and contribute to mitigating climate change.

The distinction between working farmers and absent landowners is largely futile when it comes to agricultural support. Support is always more or less capitalised in land values, and that is particularly true for direct payments (OECD, 2007b; Ciaian et al, 2010). As payments are made on a per hectare basis, recipients can and will pay more per hectare acquired, be it through purchase or renting. Thus price formation on the land market means that a significant share of the payments ends up with landowners. Tenant farmers derive little or no benefit from direct payments.

Thus, there are limits to what direct payments can achieve in terms of contributing to farm incomes, at least if 'farm incomes' are meant to be the incomes of farm operators. No definition of "active farmers" will overcome that. This casts doubts on the consistency of direct payments with the farm incomes element of objective 1 mentioned in the Communication ("viable food production").

If "active farmers" were to be defined such that 'super large' farms were excluded from receiving support, then it must be asked whether that is consistent with the supposed function of direct payments as stimulating the provision of environmental and other public goods: there is no reason to assume that very large farms cannot provide public goods (at least) as well as smaller ones. The same must be said regarding the justification of using the nature of business ('industrial' versus agricultural) or the income of the recipient ('Queen of England' issue) as criteria for defining "active farmers".

2.1.3. **Definition and treatment of small farmers**

The Communication is silent on the definition of "small farmers" supposed to benefit from a "simple and specific support scheme". That definition, and the overall assessment of this proposed feature of the direct payment regime, must depend on the justification of special treatment for small farmers.

The Communication provides two justifications. First, the small farmer scheme is expected to "enhance the competitiveness and the contribution to the vitality of rural areas". This must probably be interpreted as meaning that the scheme would aim at providing small farmers with more support than would be the case if they were to receive the same per hectare payment as larger farms. In the longer term, such specific support to small farmers is therefore inconsistent with the competitiveness objective for the future CAP and with the objective of maintaining a strong contribution of agriculture to the economic well-being of rural areas. Even in the shorter term perspective, it must be questioned whether providing specific support to small farmers will really contribute to the vitality of rural areas. Their contribution to the vitality of rural areas does not depend on receiving more support per hectare than larger farms. Thus, this justification is neither convincing, nor does it lend itself as a basis for defining a "small" farmer.

The second justification suggested, i.e. "to cut the red tape", is more persuasive. From an efficiency perspective, the transaction cost per farm of implementing direct payments should not exceed a reasonable share of the actual payment. Where that share is exceeded for payments below a given threshold, either of two approaches could be followed.

One approach is to make the same total payment per farm to all farms below that threshold, irrespective of their actual size. Under this approach, the 'reasonable share' of transaction costs in the payment is achieved through making payments that are larger than they would otherwise be. This approach lacks logic as in order to maintain a reasonable cost/payment relation, public expenditure is raised rather than administrative cost reduced[4].

The second approach, then, is to simplify administrative and other requirements for small farms so as to reduce costs. The simplification would have to come in the form of less, or no, requirements regarding cross compliance and any "greening" component of the payments. This would in effect mean that small farms are not required to contribute to the provision of public goods covered by cross compliance and the "greening" component – a somewhat questionable implication which may, though, be justified on the grounds of saving transaction costs. Simplification could, in addition, come in the form of allowing small farms to submit a new payment application only once in five years.

With this in mind it would appear logical to define "small farms" on the basis of the amount of payment below which the fixed transaction costs per farm appear no longer 'reasonable' relative to the payment made. What 'reasonable' means in this context is a matter of judgement, but a range of ten to twenty percent of the share of transaction costs in the payment per farm might appear plausible. It should, though, be noted that under this approach "small" farms would still receive the same payment per hectare as larger farms, but they would be relieved of some or all requirements to be met by larger farms.

[4] The only administrative cost saved under this approach is the identification of the number of hectares for the individual farm – a small share of the overall costs. Moreover, it would still be necessary to monitor farm size so as to verify whether the farm actually qualifies as "small".

2.1.4. **Compatibility with WTO green box criteria**

The decoupled payments of the current Single Payment Scheme (SPS) are notified to the WTO as falling under the Green Box. However, some authors have pointed out that doubts could potentially be raised regarding the compatibility of SPS payments with all criteria currently governing the Green Box. In particular, Swinbank and Tranter (2005) and Swinbank (2008) point out that payments are made to farmers, based on their agricultural area and on the cross-compliance requirement that the land be kept in good agricultural and environmental conditions (GAEC), and argue that this raises the question of whether the SPS fully meets all criteria of paragraph 6 of the Green Box, in particular the stipulation in paragraph 6(b) that "The amount of such payments in any given year shall not be related to, or based on, the factors of production employed in any year after the base period" (WTO, 1995).

With a view to changes proposed in the Communication, such doubts may become even more relevant if payment recipients are required to qualify as "active farmers" engaging in agricultural activities. More generally, the Communication's emphasis on food security, food production potential and food supply, in combination with the central role that direct payments play in the CAP, might be read as suggesting that direct payments are considered by the Commission to be necessary in order to maintain the EU's agricultural production potential – which could raise questions regarding their compatibility with the general Green Box requirement that support has "no, or at most minimal, … effects on production" (WTO, 1995).

The "greening" component of direct payments would at first glance appear to be unproblematic in Green Box terms, given that this payment component would remain decoupled and, moreover, become subject to environmental criteria. However, regarding actions that might qualify for the "greening" component, the Communication provides two examples that would appear to have a clear relation to production, i.e. permanent pasture and crop rotation. Pasture is used to feed livestock, and crop rotation is relevant only where crops are produced. If requirements like these two examples are attached to the "greening" component, then it could potentially be argued that they undermine the decoupled nature, not only of the "greening" component, but also of the basic income support component of the direct payments (after all, both components are related to the same hectare).

The additional support to farmers "in areas with specific natural constraints" would most likely be compatible with current Green Box criteria if it were to be implemented like the current SPS payments, including complete decoupling from production. The same can be said regarding the support scheme for small farmers.

The ongoing WTO negotiations under the DDA may result in changes of some Green Box criteria. The nature of these changes may go in the direction of what is contained in the draft modalities tabled by the Chair of the agricultural negotiations in December 2008 (WTO, 2008). Regarding decoupled income support, the modifications envisaged relate to updating of the basis for payments. This could potentially be relevant for any changes made to the nature and level of current payments, including the redistribution of payments among Member States.

3. Basic component of direct payments

Though the Communication does not indicate any quantitative weights, it can probably be assumed that the "basic income support" component of direct payments would form the largest part and cornerstone of the new direct payments regime. Regarding the specific implementa-

tion of this component, it appears that it would essentially be equivalent to the current SPS payments, except for being redistributed among Member States and regions, and being capped for large farms.

The redistribution of direct payments among Member States should, according to the Communication, follow two criteria, i.e. to fulfil the basic income function of direct payments, and to support the provision of public goods. If payments are redistributed in this way, they are expected to be more understandable to the taxpayer. There is also mention of the desirability of reaching an equitable distribution.

Whether a given distribution of public aids is considered equitable depends not on whether each recipient receives the same amount from the public purse, but on whether it is in line with relative needs. If a farmer with a high income receives the same payment as a farmer with a low income, equity is not achieved. Thus, in order to become really equitable, the basic component of direct payments (and possibly also the "greening component", though it is supposed to address different goals) would have to be distributed on the basis of a means test of all potential recipients. This is obviously not intended as the payments will continue to be made, it must be assumed, on a per hectare basis. As that is the case, and in the absence of a distribution key related in some way to actual farm income, there is no reason to assume that any given distribution across Member States is fundamentally more equitable than any other distribution.

The public goods objective, unfortunately, also does not lend itself as a basis for determining the most appropriate distribution across Member States. The extent to which agricultural activities can contribute to the provision of public goods, be they of environmental or any other character, depends on the natural, economic and social conditions on the spot. Making the same payment to all hectares across the whole of the EU is as good or as bad as any other schematic distribution that is not based on an empirical analysis of the potential of contributing to the provision of public goods.

Thus it must be clearly said that the distribution of payments across Member States, as long as it is no longer based on the historical origin of the payments, is a purely political matter. In the absence of willingness to target payments to empirically established criteria, no economic advice can be given regarding the 'right' distribution of direct payments across Member States.

The issue of establishing an upper ceiling for payments to large individual farms ("capping") is, in some regard, similar to the distribution issue. There is no reason to assume that owners or operators of large farms have systematically higher incomes than those of small farms.

The capping of direct payments may, in a purely political sense, solve the 'Queen of England' problem, but whether it results in an actually more equitable distribution of payments across recipients is impossible to say. Only means testing could improve inter-personal equity with certainty.

At the same time, the public goods argument for direct payments also does not speak in favour of capping. There is no reason to assume that small farms, by virtue of being small, have more potential for providing public goods than large farms.

Capping, though, has negative implications for structural development of agriculture. In a very immediate sense, there will be a tendency to split large farms up so they can escape the implications of capping. However, more important is the fact that capping distorts competition on the land market. This is a consequence of the relationship between direct payments and land prices. Based on the larger payment they will receive for extra hectares, farms below the capping threshold can pay a higher price for land, purchased or rented, than farms above that threshold. The capping threshold (upper ceiling for payments) will, therefore, act as a break on structural

change in agriculture. It is for that reason that capping is not consistent with the objective of improving competitiveness of Europe's agriculture.

4. "Greening" component of direct payments

4.1. Significance of the "Greening" Component

The "greening" component of direct payments is the most novel element of the whole Communication. The Communication strongly emphasises the objective of sustainable management of natural resources and climate action, and the proposal overall is seen as a major step towards a greener CAP. The new "greening" component of direct payments is the only concrete change to the CAP proposed in the Communication that points in this direction. The "greening" component is also obviously seen as an important means of improving the credibility of the CAP vis-à-vis citizens and taxpayers.

All of these considerations would lead one to assume that the "greening component" is expected to account for a significant share of the totality of future direct payments. As one can probably also assume that the overall budget for direct payments post 2013 will not be larger than it is currently, it follows that the "greening" component would substitute for some part, possibly a significant part, of the current direct payments, and hence that the basic component of direct payments would be significantly smaller than the current level of payments.

This means, among others, that the impact of the future overall regime of direct payments in terms of providing income support would be smaller than what is currently the case, because the "greening" component will generate less farm income, per Euro spent, than the current SPS payments. This has to be expected in any case as the "greening" component will oblige farmers to engage in activities they have not been required to undertake under current SPS rules.

4.2. Differentiation

Objectives relating to the environmental objectives can be pursued through various categories of instruments. The measures used under the current policy structure include mandatory standards in the regulatory baseline, cross-compliance, agri-environmental measures under Pillar 2, and purely national, regional or local measures of various kinds. Given such variety of instruments already available, the question is what a new additional instrument, in the form of the "greening" component, could potentially deliver that cannot yet be delivered by the existing instruments.

The answer to that question must be based on the effectiveness and/or efficiency of the specific instrumentation foreseen for the "greening" component, relative to the instrumentation of the measures already available. In that regard, though, the Communication does not provide much detailed information and to what extent, and in which way, it would be different from existing measures.

One possible interpretation is that the "greening" component might become relatively similar to the cross-compliance feature of the current SPS, some sort of a 'super cross compliance'. If that is what the "greening" component is supposed to be, then at least two comments are in place.

First, it is not clear why a wholly new component of direct payments needs to be introduced, rather than revising, and possibly adding to, the requirements under current cross compliance rules. Second, it would be important to understand why the environmental issues to be covered by the "greening" component were not already included in the cross compliance requirements

currently in force. Are they issues that are completely neglected under today's policy regime and therefore currently causing environmental problems that can no longer be accepted in the future?

However, the "greening" component may not have been conceived as a 'super cross compliance'. Indeed, another interpretation of the "greening" component is that it would have the function of moving measures currently included in Pillar 2 into the realm of Pillar 1. If that is the more appropriate interpretation of the "greening" component, again a few comments must be made.

First, it is not clear why the respective set of agri-environmental actions should be moved from Pillar 2 to Pillar 1 with its much different implications for decision making and financing.

Second, it would be important to know whether a move of the respective measures from Pillar 2 to Pillar 1 would go along with an equivalent move of budgetary expenditure, and what that would mean for the overall budget available for the agri-environmental actions affected. Under this interpretation it is also difficult to understand why actions that are currently undertaken on a contractual basis for several years should in future be of non-contractual and annual nature.

Third, given the Communication's emphasis on targeting direct payments to "active farmers", it would be interesting to know whether the current possibility of supporting agri-environmental actions undertaken by "other land managers" who are not farmers[5] would be excluded in the future. Fourth, it appears questionable whether the move of given agri-environmental actions from Pillar 2 to Pillar 1 can be expected to enhance the efficiency of delivering the respective public goods.

The purely political interest in making direct payments "more understandable to the taxpayer" is not a sufficient reason for introducing a new instrument that does not provide any functional advantages.

Thus it must be said that the "greening" component is not a compelling way of achieving a better targeting of support through direct payments, contrary to what the Communication suggests. Pillar 2 of the CAP, allowing for a much higher degree of policy differentiation across Member States and regions is a more convincing home for targeted policies, promising better efficiency in the delivery of public goods.

5. Payments for 'areas with specific natural constraints'

The Communication's proposal to provide "an additional income support" to farmers in areas with specific natural constraints also raises the issue of the dividing line between Pillars 1 and 2 of the CAP. The Communication says that this element of the future direct payments regime should be "an area-based payment as a complement to the support given under the 2nd pillar".

That wording can be read as suggesting that extra payments would be made to the farmers concerned, over and above the payments they anyhow receive under current Pillar 2. If that is the meaning of this proposal, then it is not clear why the current level of payments is considered insufficient. However, within the overall framework of the future CAP, it is also conceivable that the level of Pillar 2 payments to farmers operating in less favoured areas would be reduced

[5] Art. 39(2) of Council Regulation (EC) no. 1698/2005.

when the new Pillar 1 payments to these farmers are introduced, thus shifting measures and resources from Pillar 2 to Pillar 1. If that is the more appropriate interpretation of this element in the Communication, then it must be asked what that shift between the two pillars is expected to achieve.

6. Limited voluntary coupled support

The element of coupled support included in the Communication, voluntary for the Member States and "within clearly defined limits", would appear to be similar to the element of coupled support under the current SPS, i.e. the so-called Article 68 measures.

From the perspective of economic efficiency, not much positive can be said about any form of coupled support. The coupled support element is, according to the Communication, thought "to take account of specific problems in certain regions where particular types of farming are considered particularly important for economic and/or social reasons". Yet, it is hard to think of any economic or social problem that can be solved exclusively through producing a particular agricultural product.

To provide a concrete example, abandonment of land may be a threat in a given area with natural constraints. Avoiding land abandonment is a public good, and in order to provide that public good, government action is required because the market will not achieve that. However, that does not mean that specific agricultural products must be produced. It is sufficient to make a payment to individuals who provide the service of keeping that land in specified good condition.

Moreover, it should also be considered that a given amount of payment to a farmer provides the more economic benefit the less it is coupled to any requirements. Specifically, a decoupled payment is more efficient in transferring income to the farmer than a payment requiring the farmer to engage in the production of a given agricultural output (OECD, 2008). This means that farmers receive a smaller income benefit from a payment that is provided in coupled form because policy makers believe that production of a specific agricultural output is desirable.

These considerations suggest that it would be preferable to eliminate the element of coupled support altogether from the direct payments regime under the CAP.

7. Conclusions

The Communication identifies important challenges for EU agriculture. However, it proposes only limited changes to the CAP, primarily the introduction of a new "greening" component into the direct payments regime, a redistribution of payments across Member States, a few shifts of measures between Pillars 1 and 2, and inclusion of a "risk management toolkit" in Pillar 2.

Whether such limited modifications amount to a "reform" of the CAP is a matter of definition. In any case, the changes proposed are not consistent with the challenges identified.

In response to the challenge of food security, more needs to be done to raise productivity of EU agriculture, so as to enhance its 'true' competitiveness. The challenges regarding the environment, climate change and territorial balance call for more targeted policies and a shift of attention and resources from Pillar 1 to Pillar 2.

Though the Communication does not provide any quantitative indication, it appears that direct payments are supposed to continue forming the backbone of the CAP. If direct payments

continue to form a central element of the CAP, then redistribution across Member States may be politically necessary. However, equity of income support, in the sense of fair social conditions, can not be achieved by per hectare payments that are not based on a means test. Appropriate provision of public goods would require an empirical analysis of the potential of individual farms to provide the public goods in question.

"Capping" of payments to large farms is not a guarantee for more equity as farmers' incomes do not necessarily depend on farm size in hectares. The supposed public goods function of direct payments would not be enhanced by "capping". However, "capping" distorts competition for land among small and large farms and therefore has negative implications for structural development.

Specific payments to farmers in areas with specific natural constraints are currently well placed in Pillar 2 and it is not clear why they should also be made as part of the direct payments regime in Pillar 1.

Rather than providing scope for voluntary coupled support in the direct payments regime it would be preferable to terminate all coupled support. There are no good economic reasons for providing support only if given agricultural products are produced.

A specific support scheme for small farmers should be focused on avoiding unreasonably high transaction costs relative to the amount of payment made.

Granting direct payments to "active farmers" only is not consistent with the supposed public goods function of the payments.

Overall this paper provides an assessment of the Communication that is less than enthusiastic. The reason is not so much that some of the individual elements proposed in the Communication could have been more convincing. The scepticism expressed here is of more fundamental nature and relates to the longer-term development of the CAP and the role direct payments play in that context. The Communication is focused on maintaining direct payments as the backbone of the CAP and fails to make the next step forward in the process of strategic CAP reform.

That next step now called for is to move from decoupling to targeting. EU agriculture is facing new challenges. To meet them it needs support that is not blunt but specific. Compensation for past price cuts is no longer necessary. What is of the essence now is targeted support, specifically tied to the public goods society expects agriculture to provide. Generalised per hectare payments are not targeted, whatever the name is one gives them or the side-conditions attached to them. It is time to enter into the next phase of strategic CAP reform and shift resources from direct payments to specifically targeted policies.

Thus, in preparing the CAP for the future it would be preferable to embark now on a longer-term schedule of gradual decline in direct payments, rather than making attempts at constructing justifications for a policy that is not really consistent with its objectives.

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PRICE VOLATILITY, MARKET REGULATION AND RISK MANAGEMENT: CHALLENGES FOR THE FUTURE OF THE CAP

JEL classification: Q10, Q13, Q18

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Abstract. *This paper provides an analysis of the European Commission's proposals (18 Novembre 2010) regarding the next CAP reform. It proposes a reflection based, centered on the volatility of agricultural prices, the market regulation mechanisms and the risk management tools (the important question of direct payment to farmers is not included here). The first section deals with the factors underlying the volatility of agricultural prices, the effects of this on an international scale and ways of better managing it through enhanced international coordination of policies associated with agriculture. The second concerns the European tools that could be mobilised to accompany and support the envisaged strategies on a more global scale. Arguments are then developed around the following topics: customs duties, export refunds, safety nets, futures markets, fiscal policies and income stabilisation tools. As the agricultural markets are naturally unstable, some regulation instruments (public, but also private) need to be maintained.*

Keywords: *CAP; Agricultural markets; Price volatility; Risk management; Regulation instruments.*

1. Introduction

On 18 November 2010 the European Commission presented a communication on the future of the common agricultural policy (CAP) towards 2020 (European Commission, 2010-a). The communication was placed under the authority of the Commissioner responsible for Agriculture and Rural Development (Dacian Ciolos) and was addressed to the European Parliament (Adinolfi, Little and Massot, 2010), the Council, the Economic and Social Committee and the Committee of the Regions. Prior to the publication of the text, the Commissioner organised a broad public consultation to gather together the thoughts expressed by European citizens and

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various organisations (European Commission, 2010-b Bureau, 2010). These new proposals, which are part of the continuing reforms that have taken place over the two previous decades (Burell, 2009 ; Matthews, 2010; Daugberg and Swinbank, 2011), convey the European Commission's strategic vision on the development of agriculture and its place in society. According to the European Commission, the future CAP must satisfy the following three objectives at the same time: promoting healthy and adequate food production for European consumers in a context of growth in global demand, economic crisis and high price volatility; contributing to sustainable management of natural resources, while taking into account the problems associated with climate change; encouraging the maintenance of territorial balances by accepting the idea that agriculture is a crucial factor in invigorating the rural environment.

The communication is a policy guidance document. The proposals made are therefore not, at least at this stage, a precise regulatory text which could form the subject of a detailed analysis of the impact in terms of reorienting support between Member States, the sensitivity of the incomes of the different categories of farms or incentives for changes in production. Once the institutional debate has been completed (De Castro et al, 2011), regulatory texts will be adopted to implement a reform of the CAP from 2014. It is important to point out that this communication was drawn up with the intention of, firstly, taking into account the commitments made in the context of the World Trade Organization (WTO) multilateral negotiations (Blandford et al, 2010; Swinbank, 2008) and, secondly, orienting the future CAP towards the priorities set out by the President of the European Commission in his communication of 3 March 2010 entitled 'Europe 2020' (European Commission, 2010-c). Seeking to make the future CAP consistent with the Europe 2020 strategy is naturally a priority in so far as the latter will have a significant influence on the choices that will be made regarding the future keys to allocating EU budgetary resources in the financial framework for 2014-2020.

In this context, this article is divided in two sections: the first deals with the volatility of agricultural prices, considering that the future CAP instruments, however innovative they are, will have to be in line with an internationally agreed strategy; the second discusses the proposals made regarding the future tools that could be mobilised internally in order to regulate the agricultural markets and deal with risk and crisis situations as well as possible.

2. Price volatility and international coordination

In its text of 18 November 2010, the European Commission highlights the extent to which growing price volatility of agricultural products and inputs (Gilbert and Morgan, 2010) is currently a problem for European farmers (Capitanio, 2010). It causes major variations in income and contributes to a growing concern that does not in any way favour making the necessary long-term commitments (establishment and investment) that this activity requires. Alongside the measures that will be adopted specifically in the context of the CAP (cf. section 3), the EU authorities will also have to be actively involved in better international coordination of this issue; the work undertaken in the G20 (under the French Presidency) is also intended to contribute to this.

2.1. Price volatility accentuates the hunger problem

The research conducted by the Food and Agricultural Organization of the United Nations shows that the phenomenon of international food price volatility has worsened, particularly over the last four years. The FAO combined food price index, which is calculated on the basis of the

prices of 55 products, rose to 118 in January 2006 (it was an average of 100 in 2002-2004), and 213 in June 2008, then dropped to 139 in March 2009, and finally rose again to 232 in April 2011. Not only is price volatility serious, but the higher levels are reaching peaks that have never before been seen on the international markets.

This high level of price volatility is expressed in contrasting ways by different products: in the case of sugar, the changes are spectacular: the index increased from 131 in June 2007 to 348 in April 2011; in the case of cereals, it dropped from 274 in April 2008 to 157 in September 2009, then rose to 265 in April 2011 (Wright, 2011); in the case of milk, it peaked at 268 in November 2007, dropped to 117 in March 2009, then rose to 229 in April 2011; in the meat sector, the range is smaller: from 137 in September 2008 to 114 in April 2009, then to 173 in April 2011. Another approach to price volatility, taken from the perspective of the situation observed in the different European agricultural markets, leads to a quite similar diagnosis: the price of wheat has more than doubled in three years; the price of milk has fluctuated in an almost identical proportion to wheat; the price of beef has dropped compared with 2006, with smaller variations than in other sectors. For meat, the current problem mainly relates to the increase in production costs (feed) as a result of the rise in prices of crops.

In addition to its effects on the financial situations of European farmers, the price volatility of food products is even more problematic given that it enhances the situation of food insecurity in many developing countries where food expenditure often represents a very large proportion of the household budget (Galtier, 2009 ; FAO, 2009). It is occurring in a context in which, firstly, several dozen countries are already facing a recurring food crisis situation (sometimes with high social tensions or 'food riots') and, secondly, there are already nearly a billion humans on the planet facing malnutrition (63% of whom are in Asia and the Pacific, 26% in sub-Saharan Africa, 5% in South America and the Caribbean, 4% in the Middle East and North Africa and 1% in developed countries). Under-nourishment particularly affects rural populations in developing countries and two thirds of it is found in only seven countries (in descending order): India, China, the Democratic Republic of Congo, Bangladesh, Indonesia, Pakistan and Ethiopia.

The battle against price volatility cannot be limited to a single continent or a single economic area, even an agriculturally powerful one such as the EU (the leading global importer and exporter of agricultural and food products). It must be a collective ambition shared by the main big players in the production of, consumption of and trade in agricultural products (USA, EU, Oceania, South America, China, India and Africa).

2.2. The factors underlying the volatility of agricultural prices

It is not possible to reflect on the high level of volatility of agricultural prices without going back to the specific characteristics of the sector, as is widely discussed in the work of economists (Boussard, 2010; Gérard, 2008): i) due to the rather lengthy production cycle, agricultural supply is quite inflexible in the short term; this means that farmers cannot react immediately to market signals; ii) agricultural and food products are largely perishable; that means that it is more difficult to store them (in the medium and long term) than in the industrial goods sector, where the practice is common; iii) the agricultural produce available at year n+1, in a country or on the international market, is difficult to predict during year n inasmuch as its level still depends (despite technical progress) largely on climate conditions (drought, flood, hail, etc.); iv) the demand for food products is relatively inflexible in relation to price: a slight surplus of supply compared with demand results in a more than proportional drop in prices.

In addition to recognising these specific characteristics, international decision-makers need to agree fully on the fact that price volatility in agriculture is the result of a complex interplay of climate, demographic, political, economic and/or logistical factors (Timmer, 2010; Munier, 2010; Jamet 2011). Several of these factors play a dominant role, which needs to be taken on board before working together to plan how to curb the volatility:

– The growth of the world population and the change in diets are placing major pressure on demand for agricultural commodities. As the UN forecasts show, the global population is expected to reach 9.1 billion people by 2050, which is an increase of 2.3 billion people compared with the current situation; this expected population growth, which is already at a rate of 220 000 people per day, will mainly be due to African countries (+1 billion people) and Asian countries (+1 billion). This rapid increase in the number of consumers is in addition to a change in their dietary preferences (especially in emerging countries where it is economically possible) towards an increase in individual consumption of animal proteins. For example, annual consumption of meat products in China increased from 13 kg per inhabitant in 1980 to just under 60 kg in 2010.
– The vagaries of the climate sometimes have severe effects on the production of particular goods. The impact on international agricultural prices is even greater when the countries affected play an active role in the international flow of trade in the goods. For example, the climate problems (drought) encountered in Australia certainly contributed to the sharp rise in the price of dairy products in so far as it supplies nearly 12% of the global market; in the cereals sector, the 2010 supply was disrupted by fires in Russia (which led to an embargo on cereal exports), a heat wave in Ukraine and Kazakhstan and heavy rain in Canada. While climate factors are likely to be accentuated by global warming, global warming needs to be the subject of an international strategy that goes far beyond the ambitions of the CAP in this area.
– The increase in energy prices (oil, gas, etc.) interferes with the price of agricultural products through three main channels: it causes a rise in the production costs of agricultural goods, although the level varies for different categories of products; in the same way, for a given agricultural product, the use of inputs fluctuates depending on the production methods and techniques used; it influences domestic and international transport costs for agricultural products; it economically supports exporting countries, which are then inclined to import agricultural products at higher prices.
– A growing proportion of crop production being diverted from its prime function (human and animal food) towards biofuels is accentuating the pressure on crop product markets (Banse et al, 2010; Baffes, 2011). Biofuels are not, however, solely responsible for the rise in food prices. Two arguments back up this statement: the price of cereals declined sharply in 2009 compared with 2007-2008, while global production of biofuels continued to rise; the price of certain food products (including rice) increased (particularly in 2007-2008), despite having no immediate link with the development of ethanol and/or biodiesel. The land used to produce biofuels represents 2% of the cultivable land on the planet.
– International agricultural prices are determined mainly on the basis of the quantities of goods traded rather than the goods produced. In the case of a product for which trade represents a small proportion of global production and exports come from a small number of countries, the pressure can sometimes be high, mainly in the following two cases: where the countries supplying the global market experience a sudden contraction in their supply (climate problem, health crisis, etc.); where the consumption of the item varies suddenly, or at least more rapidly than anticipated at the time production was started. In a context characterised by a

growing integration of economies, the balances are now increasingly fragile as the purchasing countries generally assume that the global market will be able to satisfy domestic demand without the need to establish and finance reserve stocks (for products for which that is technically possible).

– The influence of financial speculation on changes in the prices of agricultural commodities (level and volatility) is the subject of rich and sometimes fierce technical debates (Sanders et al, 2010; Irwin et al, 2011). At least until now it was generally accepted that speculation was not the prime cause of rises or falls in agricultural prices (Guyomard 2008); the imbalance between supply and demand was still the main explanation, according to the majority of experts. It was also accepted that speculation had more effect on short-term price fluctuations than on long-term price trends. In addition, many experts agree that the existence of a derivatives market (as a place for exchanging promises to buy and sell in the long term) is necessary (within certain frameworks) in so far as it allows operators to protect themselves from excessive volatility. The main challenge then lies in regulating these markets so that the signals coming from them are clear and the derivative markets retain a degree of proximity to the real economy. In this respect, the development of commodity index funds could lead to a risk of speculative bubbles if they move too far from the reality of the balance of the markets or stocks. The following example illustrates this reasoning: when investment funds speculate up (especially if they are large), purchasers rush to buy while sellers delay their sales, all of which is based on a shared conviction that the speculator is making its decisions with a full knowledge of the facts. The question is, therefore, whether that is really still the case. Since summer 2010, and in the light of recent experiences, the debates on speculation are becoming more polarised. For example, the UN Special Rapporteur on the Right to Food considers that a significant proportion of the rise in prices of agricultural products since 2010 is explained by the emergence of a speculative bubble (De Schutter, 2010). In a context in which wheat harvests allowed stocks to be rebuilt to quite a high level, he considers that the current developments are quite directly influenced by the entry onto the market of powerful institutional investors such as speculative funds, pension funds and investment banks. The United Nations therefore consider that the recent sharp rise in food prices (which, incidentally, affects rice less than wheat and sugar), is more attributable to a panic movement on the agricultural markets (enhanced by a fear that prices will be increasing) than to an established serious imbalance between supply and demand.

In a long-term strategy on the subject of managing agricultural price volatility, the EU authorities must aim not only to work internally through the CAP tools (cf. section 3), but also (and perhaps most importantly) externally, in close cooperation with the other big powers, mainly those that are part of the G20 or the WTO. It would be futile to seek to confine this issue solely to the geographical area of the EU, as the risks are so high and the international interdependence is so strong.

2.3. A priority: the agricultural development of developing countries

Due to the expected population growth in many developing countries that are net importers of agricultural products, the low level of buying power of the populations concerned and the existing social tensions, it is essential that these countries, especially those on the African continent, are given the resources to develop their own agriculture while being shielded from international competition. The reverse strategy, which would involve favouring the systematic channel of low-price imports on the global market is quite simply perilous in the medium and long term, for

two reasons: some countries that are currently exporters of agricultural goods will not necessarily be exporters in the future due to the growth of their populations (such as some Asian countries that export rice), more difficult soil and climate conditions (global warming, erosion, etc.), the use of agricultural produce for other purposes (biofuels, biomaterials, etc.) or the rise in oil prices (which contributes to a rise in transport costs); the increase in agricultural commodity prices could then shut out the most economically fragile countries. That increase could, for example, be stimulated by China, where the reserves of American dollars are as great as resources in terms of water and cultivable land are limited. In order to take early action to prevent this phenomenon, it would seem that the EU authorities need to act with other international players in the following two directions:

I) Giving the opportunity to a specific list of countries, which does not necessarily correspond to the WTO list of Least Developed Countries (LDCs), to apply customs duties that are sufficiently dissuasive for the development of food-producing farms to become economically profitable again (WFP, 2009; Pisani and Chatellier, 2010). They are not (or are no longer) profitable due to the substantial gaps in productivity (of work and production factors) between those countries and developed countries. Such a choice can only be made, however, through transition phases, because it will result in a brief increase in food prices (which will surely require the adoption of consumption support policies).

II) Encouraging investments in the agricultural sectors in those countries, so that productivity can increase significantly. Many experts consider that the public funds allocated to agriculture have often been the victim of structural adjustment policies imposed by the International Monetary Fund (IMF). In the same way, a decreasing proportion of the funds from public development aid is directed towards agriculture. The issue of the appropriateness of direct investments in developing countries in Africa is an important point, which must be considered on a case-by-case basis: investment projects that positively involve local populations can have beneficial long-term effects on the local productive dynamics; investments based on the monopolisation of agricultural land by Asian or Persian Gulf countries for purely commercial ends are more debatable.

2.4. Supply, trade, biofuel and stocks

In an international framework, which does not, however exclude initiatives specific to the CAP, several actions could be useful for limiting the effects of excessive price volatility:

– Developing the agriculture of the country or economic area concerned, while ensuring that it is environmentally friendly (in order to be sustainable), less sensitive to the vagaries of the climate (which raises the question as to the potential future role of genetically modified plants) and less dependent on fossil fuels (to prevent the risk of a major future increase in production costs). While European consumers can take the risk of being in lasting deficit for some exotic products (coffee, tea, cocoa, etc.) or little-consumed products (mutton), the situation is very different for key products. In fact this strategy carries the risk that the expectations of the EU market will not always be fully satisfied: a health crisis, a poor harvest, an increase in consumption, currency disruptions or an exacerbated increase in competition could affect the expected flows of imports; this is especially true in cases where the number of suppliers is limited, such as in the beef sector.

– Promoting flows of trade between countries in deficit and countries in surplus, but without contradicting the points mentioned previously regarding African countries (Diaaz-Bonilla and Ron, 2010). The idea needs to be accepted that some countries will not always easily be

able to develop their agricultural production so that it is perfectly in line with demand. Over the coming decades, this situation could be aggravated in some Asian countries that are experiencing high demographic and economic growth while their land availability is poor. The inequality between the world's countries (in terms of population, land, climate, etc.) has thus resulted in growth in agricultural and food trade at an annual average rate of 3% since the creation of GATT (General Agreement on Tariffs and Trade) in 1947 (WTO, 2010); this rate is higher than the growth of global agriculture production (Josling et al, 2010). In the same way, the FAO and OECD forecasts show that these flows of agricultural products will increase over the next decade (OECD-FAO, 2010), firstly towards developing countries. For developing countries, imports of wheat in 2019 are expected to 25% higher than in 2007-2009; this growth will be particularly strong (+60%) for protein meal (exports of soya beans from South American to Asia) and vegetable oils (+40%). Without predicting currency parities trends, the EU should be in a position to develop its exports in some agricultural sectors (European Commission, 2010-d); these exports are expected to be more limited than trade flows within the EU.

– Introducing a degree of flexibility into the annual production of biofuels that takes into account the real situation of the markets for human and animal food. This possibility is particularly relevant to the production of grain maize in the United States and production of cereals and oil seeds in the EU. Due to the industrial investments in this sector, such an approach is not, however, simple to envisage, at least not without the support of the public authorities.
– Promoting, as far as possible, a dietary model that, is less resource-hungry. The rapid increase in consumption of animal proteins, particularly in emerging countries and some developing countries (with the notable exception of India), is accentuating the pressure on the agricultural markets; what is more, this would become quite untenable if the United States model became widespread (127 kg of meat products per inhabitant). In the EU, individual consumption of meat products is declining in several countries and increasing in others (mainly the new Member States) so that the overall trend is only marginally increasing. Based on similar reasoning, particular attention must be paid, on an international (but also European) scale, to the wastage of part of agricultural production all along the chain from producer to consumer.
– Creating international food security stocks for certain agricultural products (including cereals) where that is possible from a technical and budgetary point of view. Due to the controversies that the concept of 'stocks' create, both within circles of economists and among public decision-makers, it is important to make it clear what meaning is being attached to that concept here. The creation of stocks must be envisaged mainly for the benefit of the countries where there are regular food shortages and where the conditions for access to agricultural products are difficult for a variety of reasons, including logistical ones. The conditions for access to food in some poor countries are often very detrimental to local populations even if there is not really a global shortage of supply; the challenge is then essentially the geographical distribution of food commodities. Such stocks, which must be considered to be compatible with the WTO rules, could be co-financed by the countries and the international monetary and financial institutions; the stocks would be used, according to well-established rules, at the request of the governments of the countries concerned and, if necessary, with the technical support of the appropriate local organisations. As establishing public stocks is expensive and trade in agricultural products has a role to play in regulating the balance between supply and demand, the aim should not be to create massive public stocks to help support

international agricultural prices. Various past experiences have shown that this approach was not only difficult to implement on an international scale (in so far as not all countries have the same definition of risk), but ineffective from a strictly economic point of view (Cordier and Gohin, 2011).

2.5. The governance of the agricultural markets and speculation

The main question here is how international decision-makers can act collectively to prevent and manage the instability of the agricultural markets. This supposes, firstly, that they can and, secondly, that they want to, with as much cooperation as possible between countries or large economic areas. During the current decade, many ambitions should be pursued and upheld by the EU authorities.

The first ambition must be to tackle in more detail the issue of the conditions for better global governance of agriculture and food. International organisations that work in these two fields, whether in a specialised way or not, are diverse and pursue their own objectives (FAO, WTO, World Bank, World Food Programme (WFP), etc.). One of the main limitations of the system is that, at least currently, there is no competent political body with powers to coordinate the actions of these different players in the best way. Interesting proposals have been made in this respect in a recent report produced under the authority of the President of the French Financial Markets Authority (Jouyet et al, 2010).

The second ambition must be to establish that the WTO analytical frameworks as decided at the URAA (Uruguay Round Agreements Act) (1995) are no longer necessarily relevant fiftheen years later. Without questioning the benefit to consumers in numerous countries of an increased opening up of the agricultural markets, and while accepting the idea that the WTO will have to play a role in regulating the agricultural markets, we must improve many imperfections in the multilateral trade system:

I) Developing countries that are net importers of agricultural products (especially in Africa) must be able to increase their commercial protection in order to develop their own agricultural production (and not rely on increasingly large imports).

II) The positive environmental contributions of agriculture, particularly of herbivore rearing (land maintenance, carbon storage in pastures, landscape creation, biodiversity maintenance, etc.), should be taken into greater account at the WTO so that the expected positive effects of liberalisation (lowering prices for consumers, etc.) are not cancelled out by future environmental deterioration, which will certainly generate costs to the community. This highlights the extent to which the WTO's trade concerns are insufficiently interlinked with other aims, which are nevertheless just as important for the future of humanity, and addressed with so much conviction in other international bodies (combating climate change, etc.). This also means that seeking optimum allocation of resources in the agricultural sector, however attractive it may be to the economist responsible for calculating the resulting benefits, also has serious limitations (Kroll, 2007). It could result in such a high geographical concentration of supply that the environmental effects could be globally appalling for the planet (pollution and soil erosion, abandonment of agricultural land); in the same way, a very high concentration accentuates the potential sensitivity of agricultural supply to the vagaries of the climate and health risks, which has a *de facto* negative influence on price volatility.

III) Given the intensity of the food crisis and the expected increase in global population, the future WTO agricultural agreement must of course continue to work to achieve increased fluidity of trade (Brockmeier and Pelikan, 2008), but also, and most importantly, towards

alleviating the price volatility of agricultural commodities. However innovative the future CAP is in terms of regulating the markets, the efforts made in the EU will be even more successful if they are consistent with the future WTO guidelines; these guidelines must give increasing space to so-called 'non-commercial' concerns such as food security, health security and the environment.

The third ambition, which is at the heart of the current G20 objectives, must be to arrive at a stricter framework for speculation on agricultural commodities (while not calling into question what is working well). The aim is to restore confidence to the various operators and prevent the creation of speculative bubbles. While a number of possibilities considered are heading in the right direction, their future impact will depend a great deal on their specific methods of application and on the level of support from the countries concerned. The following are among the possibilities raised: improving the quality of the statistics available (past data and forecasts) on the agricultural markets (production, consumption, trade, stocks, climate, etc.) so that those involved are acting with the benefit of the most reliable information possible; providing a political warning system for risk situations, distinguishing the physical markets from the financial markets (so that the warnings are quickly followed by actions); making over-the-counter derivatives operations more transparent; limiting the number of forward positions that an institutional investor may hold on a single commodity, in order to prevent orders for that commodity from having a decisive influence on whether the international price rises or falls.

3. Agricultural market regulation and risk managment

The European Commission's proposals regarding the CAP towards 2020 were drawn up after noting that it would be useful to maintain certain market support mechanisms. The proposals also specify that the future reform must be an opportunity to streamline and simplify existing tools (Grant, 2010) and also to establish new rules concerning the functioning of the agricultural and food chain. To contribute to these debates, this section offers a reflection on the four following points: customs duties and protection at the borders; export refunds; intervention tools and safety nets; risk management instruments.

3.1. Customs duties and protection at the borders

At this stage of the multilateral negotiations in the (delayed) Doha Round it has been agreed that the future reduction in customs duties on agricultural and food products would be applied according to what is called a 'tiered' formula. This means that, at least for developed countries, a 50% reduction in customs duties is foreseen (compared with a past reference period) for products whose final consolidated tariff or the equivalent *ad valorem* would be below 20%; this reduction would be 57% for the bracket between 20% and 50%; 64% for the bracket between 50% and 75%; and 70% for the bracket exceeding 70%. For developing countries, the reductions would be lower. The sensitivity of different European agricultural products to this possible future reduction in customs duties is not standard, as the difference between the EU price and the international price varies from one product to another. While consolidated duty on agricultural and food products stands at an EU average of just under 20%, it surpasses the 80% threshold for products such as sugar, beef and butter. Focusing on a selection of three agricultural products (beef, milk and cereals) will help to gain a better understanding of what is at stake.

In the beef sector, the EU price is generally significantly higher than that of the large exporting countries, including Brazil (which alone represents nearly 40% of international trade); the most recent observations show, however, that the price of beef has increased rapidly in Brazil, where economic growth is pushing consumption up. In this sector, customs duties applied at the EU borders are still substantial: 12.8% of the value and 3 euro per kg for boned, chilled and frozen meat. With the exception of the possible (justified) classification of the 'beef' tariff headings as 'sensitive products' (products benefiting, by way of exception, from a lower reduction in customs duties), a large reduction in tariff protection prompts the fear of downward pressure on the price of EU beef. The EU has been in deficit for beef since 2003 (imports represent 6% of domestic consumption), and is expected to experience a further deterioration in its trade balance over the next decade (due especially to a decrease in the number of dairy cows).This situation is expected to lead the EU authorities to increase imports (through quotas negotiated at the WTO or a bilateral agreement with the Mercosur countries).

In the European dairy sector, imports from third countries represent less than 2% of EU consumption; this is mainly as part of tariff quotas that are only partially used. There are still quite high customs duties at the EU borders: 1 900 €/t for butter; 950 €/t for skimmed milk powder, 1 500 €/t for cheese. For convenience products (milk desserts, cheese, etc.), the risks of imports rising are quite low for at least three reasons: the products are perishable and difficult to transport; European companies have a great deal of technological know-how; and European consumers are quite attached to local products. While the risks of an increase in imports are more significant for industrial dairy products, many factors could limit the extent of those risks: difficult climate conditions make it more improbable for Australian exports to increase; the high demand for dairy products in Asian countries should monopolise the New Zealand market to a significant extent, with New Zealand's hopes for the growth of milk production now being more limited; the removal of milk quotas will probably result in a drop in the EU price of industrial dairy products, while, at the same time, forecasting bodes are anticipating an increase in the international price (FAPRI, 2010).

In the European cereals sector, imports are at a low level in proportion to the volumes produced (around 2%). Over recent years, international competitors have not increased their trade pressure on the EU, in a global market in which demand is growing and the development of biofuels is having a negative impact on exportable quantities (in particular for American grain maize). In this sector, a combination of several factors means that any future reduction in customs duties would not be very problematic (especially in comparison with the situation at the beginning of the 1990s): the reduction in guaranteed prices has brought the European price closer to the international price so that the duties applied have now become low or zero; consolidated historical duties have been set at a high level; aside from some major fluctuations, the underlying international price of cereals is on an upwards trend.

With 23% of global agricultural and food imports (excluding intra-EU trade), the EU is not the 'fortress' that some competitor countries sometimes say it is. It is the leading importer, ahead of the three NAFTA countries (14%), Japan (10%) and China (7%). Moreover, European imports of agricultural and food products are constantly growing (in volume and value) as the years go by. As well as tropical products, soya and sheep products, for which imports are historically high, the EU is also slightly in deficit in poultry, beef and grain maize. While a further reduction in customs tariffs would not necessarily change the level of European cereal or milk imports, the risk is, however, higher in the meat sector. Rather than a further general reduction in tariff protection, the WTO negotiators should focus their efforts on the following

two points: taking more account of non-commercial concerns; seeking a better balance between the objective of high fluidity of trade and the long-term preservation, for each economic area, of balances that are helpful to all societies: the quality of the environment, maintaining the land and food security.

3.2. Export refunds

According to the notification reports presented to the WTO, the EU is the economic area that has used export refunds the most over the last decade; this budgetary support from the CAP is allocated to European businesses to encourage them to export agricultural and food products to third countries (mainly benefiting dairy products, sugar, pork and poultry); without this support, they were not competitive, given the significant price difference between the EU market and the global market. Since the CAP reform in 1992, the level of export refunds has been significantly reduced in the EU: it has fallen from EUR 10 billion in 1990 to less than EUR 1 billion since 2009. Three factors explain this drastic reduction: the drop in institutional prices; the reduction in export volumes (beef, poultry, etc.); the stricter framework for the rules for granting this support as part of the URAA.

As the commitments made as part of the Doha Round currently stand, the WTO Member States must eliminate all forms of export subsidies by the end of 2013. This change will result in the EU being without a tool that, particularly in a crisis period, enabled surplus supply to be released onto the international market and thus to help stabilise its markets. This tool proved to be useful when the guaranteed prices were fixed at a high level, but expensive in that it encouraged producers to constantly produce more, even if the internal market was already saturated. The abandonment of this tool justifies intervention prices being fixed at quite a low level.

This future removal of refunds should not, however, threaten the EU's dominant position on the international agricultural and food markets. The EU-27 has 20% of global export trade, despite unfavourable currency parity with the U.S. dollar. It is therefore ahead of NAFTA (17%) and Mercosur (16%). All these areas are seeing an increase in their exports (but for the countries of South America the rise is more spectacular). The future growth of European exports will depend on the following main factors: economic growth in the emerging countries where land is scarce; the gradual slowing down of exporting by competing countries (climate factors, rise in internal consumption, development of biofuels, etc.); the degree of competitiveness and the differentiation of European products.

3.3. Intervention tools and safety nets

The European Commission's proposals mention a possible adaptation of the intervention rules. This adaptation could include the extension of the intervention period; the application of the market disruption clause and private storage to other products. It is nevertheless clearly reaffirmed that the intervention instrument should only be used as a safety net to be deployed in the event of a price crisis or disruption of the market. The public authorities may store certain agricultural products when their market price falls below thresholds established in advance. The stocks resulting from these purchases are then released onto the international or EU market, sometimes under the food aid to the most deprived person's scheme (European Council, 2007). Fixed-price purchases are now applied only in the case of certain products (common wheat, butter and milk powder) and to quantities determined in advance. Beyond these quantities, the purchase price and quantities offered for intervention are established by the European Commission under the 'tendering' procedure. The EU authorities also have the option of encouraging private

storage, through targeted aid. By focusing the analysis on a selection of agricultural products, it is possible to discuss about the intervention system in more precise detail.

For beef, public intervention is opened if, for a period of two consecutive weeks, the average market price is less than 1 560 €/t in a country or region (for an R3 calf or steer). Private storage aid is also possible if the prices are below 2 300 €/t. These thresholds are at such a low level that the use of the intervention mechanism is becoming less and less probable, especially in a context where there is an EU beef deficit, a decline in Brazilian exports over the recent period and an increase in the price of beef in several exporting countries. Due to the increase in production costs in this sector and the already low level of income, it is to be hoped that beef cattle farmers will not have to benefit from this scheme.

For sheep meat and goat meat, private storage aid may be granted under particularly difficult market conditions. The EU's deficit situation means using imports mainly from New Zealand, as part of annual quotas agreed by the WTO. The future income of sheep and goat farmers will depend more on changes in the way the support is granted and the technical performance of farms than on the intervention system.

For pigmeat, public intervention was recently abandoned, in so far as it was no longer used. Consumption, production and exports of pigmeat continue to rise in the EU, although the pace varies widely between countries. This sector will be sensitive to the future abandonment of export refunds, which sometimes gave European exporters the opportunity to conquer markets (Russia, Japan, Hong Kong or South Korea) against American opponents favoured by their currency's parity with the euro.

In the dairy sector, intervention is restricted to 30 000 tons annually for butter (at a price of 2 218 €/t) and to 109 000 tonnes for skimmed milk powder (at a price of 1 700 €/t). The European Commission may, if necessary, make these purchases by tender; in this case, the maximum price cannot exceed the intervention price. In 2009, private storage aid for butter was maintained (but not for cheese) while processing aid for butter was abolished. Two categories of processing aid (skimmed milk powder for animal feed and skimmed milk made into casein or caseinate) are still allocated, but only when the market is in surplus and according to an amount established in advance or by tender. Following the crisis affecting the dairy sector in 2009, the EU authorities made use of all the possibilities offered by these remaining regulation mechanisms. Exceptional measures were also agreed, such as bringing forward the disbursement period for direct payments and the implementation of a programme to promote dairy products. In this sector, one of the key questions is the extent to which the contractual relations mechanism that will soon be put in place to replace the current system of milk quotas will be effective in maintaining an optimum balance between supply and demand.

In cereals, public intervention potentially concerns common wheat, durum wheat, corn, barley, rice and sorghum; it is authorised between 1 November and 31 May for all the Member States. The latter five crops will, however, no longer be eligible for intervention measures, as the rate has been reduced to 0%. For common wheat, the intervention price is 101.31 €/t, within a limit of 3 million tons. Given the level of prices at the beginning of 2011 and the trends forecast for the next financial year (position of buyers), it seems quite clear that public intervention will not be very useful in this sector in the short and medium term. The intervention price is set at a level that provides so little incentive that it only has a small impact on supply.

As the reforms of the CAP have taken place, the intervention instruments have been significantly changed. The budgetary cost of these tools has also become extremely low in comparison to the direct aid allocated to European farmers. Preserving these instruments is definitely useful

for tackling any crises that arise, but the low thresholds lead us to consider that the less these 'safety nets' are used, the better farmers will be. The objective must be to avoid using them by better adapting supply to demand.

3.4. Risk management instruments

In agriculture, the risks can be classified into three groups: a) risks associated with fluctuations in the prices of goods sold or inputs; b) risks attributable to the production cycle, such as the vagaries of the climate (drought, frost, hail, etc.), incidents (fire, water damage, theft, etc.), disease (plant and animal) or life events (illness, disability, death); c) risks related to the industry, i.e. the capacity of farmers to market their produce. In order to limit or better manage these risks, farmers can adopt tailored strategies (diversification, multiannual investment management, etc.) or leave it to the various existing tools (fiscal policy, insurance markets, financial markets).

Risk management instruments, which are more developed in the United States or Canada than in the EU (Capitanio, 2010), may have their origin in the public sphere, private entities or professional organisations. In the typologies used to class and rank these instruments, particular attention is paid to the correlation between the occurrence of an event (or hazard) within a population, on the one hand, and its frequency and intensity, on the other. The risk is described as systemic when a large section of the population is affected; it is classified as independent when only one or a few individuals are affected.

In order to deal with the inherent risks of agriculture, the development of private risk management instruments (insurance, derivative risk management products) must be encouraged. The public authorities can contribute to this by making a clear distinction between what responsibility the public and private sectors have in dealing with agricultural risks, by stabilising their political guidelines for intervention in the agricultural markets and by encouraging an increasing proportion of farmers to educate themselves on these issues. By publicly awarding contracts, they can also promote the development of insurance.

The development of these private risk management instruments does not in any way mean that public authorities will no longer have a role to play in agriculture in future. The idea is not to set the players (public/private) against each other, but to find the best possible interaction between them to serve the desired objectives. With this in mind, the public authorities should maintain the safety nets (through public storage and private storage aid); strengthen the powers of the market (producer, processor and distributor), ensure that there is increased transparency on prices and margins; help to establish contractual relations between producers and companies, so that supply can be brought in line with demand; promote agriculture that is in tune with the environment and product quality (through the method of allocation of direct aid); and promote balanced development of European land. In the possible event of sudden mass imports of agricultural products from third countries, the public authorities must also use appropriate mechanisms (safeguard clause) to avoid the risk of damaging destabilisation of the existing agricultural industries.

Without going into too much detail here as to the content and the diversity of the tools that farmers could use to manage risk in their businesses (Femenia et Gohin, 2010; Kimura et al, 2010), some thoughts follow dealing with several points that are important to add to the CAP debate.

The diversification of agricultural and non-agricultural activities

The diversification of activities (agricultural and non-agricultural) is often a way for farmers to reduce their exposure to risk (particularly the risk of price volatility). The same applies to strategies of marketing in short distribution channels in which prices are set more by farmers than

by the interplay of competition on national and international markets. Exposure to the volatility of prices of agricultural products and inputs is not, therefore, the same for all farms. Over recent decades, agricultural development has, however, clearly oriented European agriculture towards increased specialisation, with a drastic decline in the number of mixed crops-livestock units: this was considered to be beneficial in terms of technical expertise and economic efficiency. Certain measures under the second pillar of the CAP are certainly likely to encourage diversification, and therefore lesser sensitivity to price volatility, but the expected overall impact will probably remain modest, as there are so many concomitant forces acting on specialisation.

The inter-annual flexibility of the CAP budget

The issue of the inter-annual flexibility of the CAP budget should be considered carefully in so far as it could enable part of the budget allocated to European agriculture to be adapted according to actual needs. The aim is not to question the principle of the multiannual financial framework (2014-2020), but to have some freedom ('security budgetary reserve') to tackle any crisis situations in the best possible way. This recommendation is particularly important given that the current system for allocating the single farm payment (SFP) is excessively inflexible; for example, it leads the public authorities to allocate direct aid to farmers benefiting from favourable and profitable prices, while at the same time there is a lack of funds to support producers affected by a major decline in prices or a sudden increase in costs.

Precautionary savings through adapted fiscal policies

In response to the increased volatility of agricultural sale prices, it seems essential that new fiscal policies be constructed in each country. We need to move from annual management of performance in farming to multi-annual management. The current system is, at least in some EU countries (like in France), still too inflexible. When the price situation is satisfactory, and income from farming is good, too often it encourages farmers to invest immediately in order to avoid compulsory levies. This reasoning, which is sometimes counter-productive in terms of long-term competitiveness, was not too problematic in a context in which prices and income were quite stable; it is becoming problematic in a situation of major fluctuations.

The issue is therefore now about finding the technical means to implement a system that would foster the creation of precautionary savings. This mechanism would give farmers whose income is high in the current year the opportunity to transfer part of their profit, exempt from social insurance contributions and tax, to the profit for the following year. If the income for the following year had declined due to the price situation becoming unfavourable, the amounts transferred could be incorporated into the income calculation so that the farmer would then pay his taxes and contributions. These amounts could also be used for investment, but on what would become a more multiannual basis. This precautionary saving could then be described, for example, as an 'investment savings plan'. With this in mind, would it not be a simple system to start with the possibility of transferring all or part of the direct aid potentially due for the current year to the following financial year?

Futures markets

Public authorities must encourage the development of futures markets, while bearing in mind the fact that, firstly, this financial instrument cannot be used for all agricultural products, and that, secondly, it does not in any way remove price volatility; in fact it needs price volatility in order to function. It is therefore not a tool for regulating the agricultural markets that could af-

fect price trends, but rather an instrument that enables farmers to react to the potential effect of a deregulation. Aside from these two significant limitations, and in the event of high price volatility, futures markets are useful for enabling those involved in a market to cover themselves. They give the farmers concerned the opportunity to anticipate the future margin that they will have by having advance knowledge of the sale price of their products; it allows farmers to decide to start production, optimise cash-flow management and focus their investment strategy.

The futures markets are still under-developed in the EU (they were only authorised in 1993 in France), at least in comparison with the situation in the USA. They essentially relate to crops; they are more difficult to apply to animal farms in so far as the instrument requires a high level of standardisation of products. In a strict budgetary context, this instrument also has the advantage of being inexpensive to public authorities. The potential development of these tools is also dependent on the quality of training that can be given to farmers, many of whom are not experts in these instruments.

Multi-risk climate insurance

The public authorities can encourage farmers to take out multi-risk climate insurance policies; these are to cover the risks to production associated with the vagaries of the climate (drought, hail, frost, floods and storms). In France, for example, a budget of EUR 133 million was used to fund this particular form of support in 2010. The aid takes the form of partial payment of eligible insurance premiums up to a limit of 65%.

Income stabilisation tools

Due to high prices volatility and the European Commission's proposals, it is interesting to question the conditions for implementing an income stabilisation tool under the second pillar of the CAP. Given the broad diversity of farms and of situations in the EU Member States, it is surely preferable for this mechanism to be constructed, at least for those who want it, within each country (through a common EU framework). Placing this instrument under the second pillar of the CAP gives it flexibility and allows co-financing by Member States and subsidiarity; it is nevertheless true that this choice could raise some questions among those who consider that this instrument falls first and foremost under regulation (and therefore under the first pillar). In any case, this ambiguity shows the extent to which it is not necessarily easy to build a new CAP structure while keeping the initial framework of the two historic pillars.

To enhance this reflection on income insurance, it would seem appropriate to consider the way in which the Canadian authorities recently structured their 'AgriStability' programme (which replaced the former Canadian Agricultural Income Stabilisation Programme). The programme compares the farm's profit for the current year to the reference profit calculated for the previous five years (excluding the highest and the lowest). If the profit is less then 85% of the calculated average, a payment is triggered. This programme works in a similar way to any insurance scheme. A premium, which is payable in advance, is used to cover the coming period. The fee is 0.45% of 85% of the reference profit (plus administration costs). There is no compensation if the decline in profit is between 0% and 15%; it is 70% if profits drop by between 15% and 30%; it is 80% when profits drop by between 30% and 100%; there are particular rules to cover losses and start-up farmers. As well as this Canadian example, the ACRE programme (Average Crop Revenue Election) introduced in the United States as part of the 2008 Farm Bill is interesting.

Creating such a mechanism in the EU must be envisaged under two main constraints. The first relates to its expected budgetary cost. The indicators used as a reference point need to

be well selected, then the thresholds and rates need to be set so that the budget that has been earmarked is kept to. This requires that statistical studies be conducted, such as those published by the European Commission. The second constraint is for the envisaged mechanism to be compatible with the commitments made under paragraph 7 of Annex 2 to the URAA. This paragraph includes the following two points: the right to receive payments on this basis shall be subject to a loss of (agricultural) income exceeds 30% of annual income for the three previous years or on a three-year average based on the five previous years (excluding the highest and lowest values); the amount of these payments shall compensate less than 70% of the producer's loss of income.

4. Conclusion

On 18 November 2010, the European Commissioner responsible for agriculture and rural development proposed a new phase in the long process of reforming the CAP. By taking the precaution of not entering too quickly into a precise definition of the criteria, indicators or thresholds that will ultimately be agreed and which will give shape to the real content of the future reform, the Commissioner is first seeking to give it a direction, in a particular context: i) the result of the negotiations on the EU financial framework for the 2014-2020 period is uncertain; therefore, it is difficult to predict what the future EU budget will be for agriculture and rural development; ii) the modification of the support instruments and regulation tools must be designed in such a way that the CAP remains compatible with the commitments made at the WTO as part of the Doha Round; iii) the European Commission must now work in close cooperation with the European Parliament, whose powers have recently been enhanced (Massot, 2010).

These European Commission proposals were accompanied in December 2010 by additional contributions targeting the dairy sector and the quality of agricultural products. While these different texts must be considered at the same time, their aim is not to cover all of the issues raised today by the development of European farming and the changes in agricultural and trade policies. They therefore do not discuss the position that the EU intends to adopt in international negotiations on subjects that are important for agriculture such as changes in currency parity; the need for international coordination of agricultural policies in order to combat agricultural price volatility; the trade strategy to be adopted towards developing countries that are net importers of agricultural products; the best way of taking into account, in future WTO agreements, non-commercial concerns (social rules, environmental standards, animal welfare); the future development of new technologies (second-generation biofuels, genetically modified crops, etc.). Likewise, these texts do not tackle the issue of harmonising rules between the Member States of an EU that is heterogeneous and in which there are still distortions of competition between countries.

To enrich the European Commission proposals, it seems important to keep in mind two ambitions: agriculture must become capable, in all the countries of the world, of better feeding the population (in terms of quantity and quality); it is essential for the balance of European society to maintain an agriculture that is both economically effective, environmentally friendly and mindful of its relationship to the land. The European authorities must be driven by the desire to implement a CAP that is fairer, more sustainable and more preventive. In order to do this, they must play close attention to the specific way in which the redistribution of support and targeting it better towards non-commercial goods will be implemented. This change in the way that public support is granted is particularly justified in that price volatility is increasing and the residual

tools for intervention on the agricultural markets will have quite a small influence on income levels. It is also important to maintain safety nets, to better manage speculation on the agricultural markets, to defend the right to minimal customs protection and to encourage farmers who are conducting innovative projects.

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RURAL DEVELOPMENT IN THE CAP POST 2013

JEL classification: Q18

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Abstract. *The European Union's Common Agricultural Policy (CAP) is currently under debate in order to allow various options to be weighed in advance of its implementation for the next financial period (2014-2020). The aim of this paper is to interpret the Commission's proposals of 18 November 2010 on the future of the CAP (hereinafter "Communication") concerning rural development and to provide further thoughts on specific issues missing from the Communication.*

In order to reach its aim, the paper is divided into two parts. First, a general reflection is given on the contents of the Communication, highlighting the consistency between the proposals and challenges mentioned in the text. These reflections provide the basis for the second part, which addresses specific questions on the role of rural development in the future CAP which might facilitate future work on the topic. The article is based on a report commissioned by the European Parliament.

1. General reflections on the ec communication

1.1. Challenges and objectives

The Communication of the European Commission identifies three challenges for agriculture: food security, environment and climate change and territorial balance.

Regarding the first challenge, the EU should be able to contribute to world food demand by preserving and improving its agricultural production capacity in times of greater market uncertainty, increased price volatility and stagnating agricultural incomes.

Another challenge is based on the coexistence between the agriculture and the environment. In fact farming practices can have beneficial (e.g. organic agriculture) or harmful (e.g. intensive agriculture) effects on the environment and the climate changes can have various effects on agriculture in the long run. Therefore, the future CAP should help agriculture to mitigate climate change through reduced GHG emissions and various measures to increase production efficiency.

Finally, the third challenge for agriculture is its capacity to offer job possibilities and income to rural residents by generating many additional economic activities (e.g. food processing, tourism and trade). In this regard, the CAP should tackle the imbalances between Old and New Member States by improving the vitality and economic potential of all the rural areas inside the EU.

Three main objectives are derived from these challenges in the Communication: viable food

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production, sustainable management of natural resources and climate action and balanced territorial development.

In order to reach the first objective, the future CAP should contribute to farm incomes and limit their variability, improve the competitiveness of the agricultural sector and enhance its value share in the food chain as well as compensate for production difficulties in areas with specific natural constraints.

The second objective also contains three elements: enhancing sustainable production practices and securing the provision of environmental public goods, encouraging green growth through innovation and pursuing climate change mitigation and adaptation actions.

The third objective is also made up of three policy sub-objectives: supporting rural employment, improving the rural economy and promoting diversification as well as encouraging structural diversity in farming systems by improving conditions for small farms and developing local markets.

1.2. Consistency between the challenges and the proposals

By thinking in terms of sustainability, the above-mentioned challenges can easily be transformed into **economic challenges** (food security, market stability and food supply chains), **environmental challenges** (GHG emissions, soil depletion, water/air quality, habitats and biodiversity) and **socio-territorial challenges** (vitality of rural areas and diversity of EU agriculture).

1.2.1. **Consistency of proposals to meet economic challenges**

Among the economic challenges, food security is to be met first via the stabilisation of farm incomes through direct payments and the limiting of their variability.

In the Communication it is clear that the **present system of direct payments is unsustainable and inefficient**, as widely discussed and agreed on in professional academic literature (Jambor and Harvey, 2010). Therefore, the Communication proposes adjustments to the current configuration of direct payments by using the principle of greening, which would represent a very important innovation in the history of the CAP. It appears that the present system of direct payments would be separated into a **flat rate basic payment**, available to all farmers, and a number of **additional payments** (a green component, a "natural constraints" component and limited voluntary coupled support), not available to everyone.

The new system would limit the gains and losses of Member States by guaranteeing an average level of direct payments to all farmers, implying that a significant redistribution of the level of support is needed both between farms as well as between Member States.

The combined model of direct payments (flat rate + specific components) seems to only partially address the principal problems of the present system. On the one hand, the unequal distribution of these payments amongst countries and farms of various sizes appears to be solved by "limiting the gains and losses of Member States" and introducing an "upper ceiling" of payments. On the other hand, it seems that the Communication fails to address the fundamental problem behind direct payments: their ineffectiveness in the long run due to their support for the agricultural industry instead of the farmer.

Moreover, it is also questionable as to how redefined direct payments would provide food security. As the current system of decoupled direct support suggests, a farmer need not even produce to receive a fixed income. Consequently, **stabilising farmers' incomes does not necessarily mean guaranteeing food security**, despite the fact that food security still remains the Commission's major reason for maintaining farm income support. By seeking to stabilise all farmers'

incomes, current direct payments seem to focus on social issues (pertaining to the second pillar) instead of focusing on enhancing the competitiveness of farmers.

Going into more detail, the proposed scheme of direct payments in the Communication lacks several important elements: a) the share of each component within direct payments is not defined b) it is not clear how the limitations of the gains and losses of Member States are to be made and on what basis national allocations are to be defined c) the beneficiaries of direct payments should be **"active farmers"**, without any specification about the right to receive income support d) the proposed new structure for direct payments contains components of the current second pillar (e.g. a greening component, areas with natural constraints), though it remains unclear whether this will result in any reallocation of resources from the second to the first pillar e) it is not clear how proposals regarding the "natural constraints" component would be defined.

The second economic challenge is **the instability of agricultural markets.** The economic crisis has resulted, inter alia, in a clear slowdown in growth in demand, a reduction in consumption, a fall in farm incomes, the increased volatility of agricultural prices and difficulties in accessing credit.

On the one hand, the challenge of increased market volatility and income uncertainties is planned to be tackled through the introduction of a risk management toolkit in the CAP, but the Communication does not provide further details on the implementation of the system.

On the other hand, the Communication seems to maintain the general architecture of market management tools, highlighting the important role existing mechanisms have played in supporting the market in times of crisis. While the Commission mentions the previously publicised removal of dairy quotas and the possible changes in the sugar regime, no further proposals regarding agricultural sectors are elaborated in the text.

The third economic challenge in the Communication regards **the fragmentation and poor organisation of supply chains.** This situation is due to the rapid emergence of vertically-coordinated food chains, including hypermarkets, supermarkets and multinational agro-processing companies and to the weak bargaining power of farmers that also have to respect many standards (e.g. environmental, food safety, animal welfare).

The Communication seeks to enhance the declining competitiveness of European agriculture by promoting innovation, restructuring and resource efficiency, but the way doing so remains unclear. Moreover, it is still unclear whether enhancing competitiveness relates to the first or the second pillar.

1.2.2. **Consistency of proposals to meet environmental challenges**

The environmental challenges reported in the Communication include GHG emissions and climate change, soil depletion, water/air quality, habitats and biodiversity. One of the biggest problems with environmental proposals is that they are solely focused on one objective (the provision of public goods), while the Communication fails to elaborate concrete ideas on how agriculture can foster green growth through innovation or mitigate climate change.

However, the proposals of Communication on the provision of public goods in the CAP have many deficiencies: a) It seems that the text focuses solely on the environmental public goods without any reference to non-environmental public goods (e.g. rural vitality, farm and animal welfare, food security); b) the way to enhance the provision of environmental public goods via the "greening component" of direct payments is unclear, c) the problem of insufficient environmental measurement methods is neglected in the text; d) the provision of public goods seems to require significant institutional and administrative background for the management of these programmes.

It is also doubtful as to whether the "greening" component in the first pillar will deliver public goods more efficiently than more targeted schemes in the second pillar and it is also unclear what effect the "greening component" would have on the **expenditure balance between the two pillars.** It is not certain whether this transfer of function is also accompanied by a transfer of resources from the second to the first pillar, which would completely contradict the logic of the path that CAP reforms have followed. It is also unsure which agri-environmental activities would stay within the second pillar and which would be transferred into the first pillar.

1.2.3. **Consistency of proposals to meet socio-territorial challenges**

The socio-territorial challenges concern the problems of existing territorial imbalances of rural areas. In the Communication there are suspiciously **few concrete proposals regarding the future of rural development** compared to those in the first pillar: a) it is unclear if the future CAP would support only agriculture-based rural employment opportunities, and if not, what role rural development plays in the enhancement of rural employment among other EU policies; b) the Commission would improve conditions of small farms without defining them (according to physical measures, economic size, market participation, etc.); c) the link is unclear between second pillar support for small farms and the "simple and specific support scheme for small farmers" inside the first pillar; d) the Communication doesn't take into account the diversity of farming structures in the New Member States (NMS) where small farms are fundamentally different from those in the EU15; e) proposals on support for disadvantaged areas are not specified and possible overlaps exist between LFA payments and support for 'areas with specific natural constraints'; f) it is unclear how the Commission can set EU level quantitative targets for the evaluation of rural development initiatives g) the effect of the reconfiguration of the two CAP Pillars on their respective budgetary allocations is also unclear.

1.2.4. **Overall consistency between challenges and proposals**

Although the challenges and objectives are clearly defined, proposals to meet them remain at a high level of generality in many cases, raising various questions and doubts about implementation. It remains unclear, inter alia, how the various objectives proposed will be prioritised in financial terms, how objectives relate to both pillars of the CAP, how the greening of the first pillar will improve efficiency and targeting and what role rural development will play in the future.

On the basis of the reflections made above, it can be stated that the challenges and proposals for meeting them are only partially consistent, as the former are clearly specified, while the latter remain unclear in many cases. If the defined challenges are to be met, a suitable set of policy instruments will be required including the creation of a strong and effective rural development policy.

2. The role of rural development in the future CAP

2.1. Future priorities

In its present form, rural development refers to a diverse range of measures, bringing together economic, environmental and social objectives under a common umbrella.

According to the Communication, rural development should aim to promote competitiveness, enhance the sustainable management of natural resources and create a balanced develop-

ment of rural areas in the future, echoing the aims of the current axes of the second pillar. However, no reference is made to rural development axes in the Communication which might be variously interpreted. On the one hand, this situation might be interpreted as a wind of change in replacing axes with a set of new priorities or measures. On the other hand, the lack of reference to the axes system may simply mean that no major changes will be made in this field, which would provide the reason for its absence. Although both options have strong arguments behind them, the second option seems more plausible.

In the future, current priorities in rural development might be reassessed in line with the problems experienced in rural areas. In allocating the vast majority of resources to the first two axes, problems touched upon in the third axis, which are more about the essence of rural development, can not be properly tackled. Although many measures in the first two axes also have a number of second order effects (enhancing local agricultural employment, tourism, etc.), they are not well-targeted towards improving the standard of living of rural people. It is disappointing, for instance, that one of the most pressing issues in rural areas, namely **rural poverty**, is not even mentioned in the text of the Communication. The rural poverty problem is to be tackled with targeted measures for enhancing local employment, which should aim to decrease the urban/rural income gap which has been growing continuously in many areas. Improving the standard of living by creating jobs or enhancing diversification in rural areas should be the key priorities for rural development, with both aimed at providing a better standard of living through increased incomes. Policies focusing on enhancing agricultural competitiveness and the provision of public goods, both linked to farming, should be addressed under the first pillar of the CAP.

Though priorities seem to remain, specific measures appear to move to the "greened" first pillar, as the example of LFA payments suggests. Support for Less Favoured Areas (LFA) is currently an essential component of the second pillar, as **over half of the utilized agricultural area** has been classified by the Member States as being less-favoured (European Parliament, 2010a). Therefore, the future CAP should "compensate for production difficulties in areas with specific natural constraints because such regions are at increased risk of land abandonment" (European Commission, 2010b). According to the original proposal, this would be done by providing an additional area-based payment within direct payments to all farmers in such areas as a complement to the support given under the second pillar. Consequently, it seems that **there will be payments to Less Favoured Areas (LFA) as well as other areas with specific natural constraints[1] both in Pillar 1 and Pillar 2.**

Possible overlaps can be avoided by stressing that first pillar payments address the handicap of zones from a **food production aspect**, while the second pillar would address **environment aspects**.

2.2. Evaluation of rural development policies

For the evaluation of the EU rural development policy in 2007-2013, the European Commission has designed a Common Monitoring and Evaluation Framework (CMEF), employ-

[1] The exact definition of "areas with specific natural constraints" will basically determine which areas would be considered "handicapped", thereby fixing the number of these areas by Member States. The mapping of areas with natural handicaps can be done on the basis of the eight traditional biophysical Community criteria together with socio-economic criteria such as distance from markets or depopulation, so that the definition of "handicapped" areas can be tailored to the national and regional situation in each country.

ing a hierarchy of indicators together with combined evaluation questions (CEQs) to assess the effectiveness of RDPs. However, several critiques emerge regarding the implementation of this evaluation system which are not addressed in the Communication.

It is clear that the future CAP should **assess the policy outcomes against clear and measurable objectives** in order to improve policy performance by incorporating lessons learned into the formation of the policy. The evaluation of rural development policies should not simply be a box-ticking exercise that has to be completed, but should go beyond that and measure the impacts of a policy tool. Evaluation should run parallel with policymaking so that results and lessons learned can be incorporated into future policies. Effective rural development policy requires a framework which includes transparent goals, specific objectives and rigorous evaluation to justify sound policy (Midmore et al., 2010). In the economics literature, there has traditionally been a strong emphasis on economic growth, while modern development economists also consider environmental and social issues to be equally important. Though incorporating various dimensions will cause the whole evaluation to become even more complex, **the decision as to what growth to measure will fundamentally determine the targets defined for the evaluation.** Some possible implementation mechanisms are worth considering in the future.

First of all, it is clear that a **duality of quantitative targets should be set for the evaluation of rural development initiatives**, addressing both EU and programme levels. Consequently, EU-level targets should be valid for all regions across Europe, despite the well known fact that there is no unique model for managing rural development as different regions have diverse characteristics. This contradiction can only be solved if EU-level targets are linked to one or more overall European priorities valid for all European areas.

However, this process is hard to implement as priorities defined are usually rather broad and devoid of specific indicators (Wakeford, 2010). In terms of sustainability, economic, environmental and social issues are to be addressed, though it is hard to choose a concrete indicator which best represents each category. Even if one chooses the economic category on the basis of the fact that the economic viability of rural communities is the major focus of rural development in many countries, it is hard to choose a concrete indicator which measures economic viability and declare it the most important from among them. It is not clear, for instance, whether high poverty rates and low income levels are indicators of failure in RDP or if they are simply an outcome of a massive in-migration process. In economic terms, rural **population change or net migration is the indicator suggested that best reflects the wellbeing of rural communities** (Midmore et al., 2010). However, it is questionable as to whether other indicators can be found for the environmental or social priorities concerned.

As to targets for the programme level, a totally different approach is needed. As Member States have the right to put their own emphasis on particular second pillar objectives to a certain extent, the wide range of diversity of rural policies aimed at addressing the regional or local characteristics of rural areas make it impossible to evaluate the efficacy and effectiveness of these policies at the EU level. Therefore, **programme-level targets should focus on place appropriateness** and be linked to the different measures available. Existing rural development instruments which evolved around the traditional axes can be well measured locally and should support entrepreneurship, provide infrastructure or facilitate access to markets and information in a way that is place appropriate (Midmore et al., 2010).

Irrespective of their levels, it is crucial that targets should be absolutely clear and be connected to outcomes so that we can measure the "success" of policies. However, with traditionally broad

priorities and objectives as well as unclear outcomes, rural development policies seem quite hard to evaluate.

Based on these arguments, the future monitoring and evaluation of RDPs should be two-fold, containing **aggregate measures of impact assessment (a macro approach) and more disaggregated information (a micro approach)**. On the one hand, current macro-level indicators which measure the efficacy of RDPs have to be maintained, though a systematic change in the current list of indicators is needed to better address the new targets set at EU and programme levels. On the other hand, a micro-level evaluation is to be developed, addressing the question of causality (questions on why and how things have happened) through employing case studies. The proposal to conduct monitoring for the whole EU territory and evaluate a restricted number of case study regions is in line with the duality of targets discussed above, as it should be clearly seen that both evaluation approaches are needed to capture impacts at different policy levels.

This proposal can be achieved with **some moderate changes in the current system of evaluation (CMEF)**. First, some indicators should be changed in order to better address the new targets set for both levels while maintaining the current continuous progress (ex ante, mid-term and ex-post) of monitoring. Second, case study regions in each Member State should be delineated in order that qualitative evaluations can be made as to whether the objectives of the RDPs have been achieved. In the case study analysis, the current set of indicators should be replaced by location-specific ones together with the replacement of CEQs with questions addressing causality, with both tailored to the characteristics of the local rural economy (Terluin and Roza, 2010). Third, the introduction of a "follow-up" mechanism in a documentary form is also advised, comprising three elements: a section for the recommendations of the evaluators, one for the responses of the managing authority and one for a one-year follow-up. This system would not only stimulate feedback from policy to evaluation results but would force evaluators to present their recommendations concisely, giving the managing authority room to react to them officially (Bergschmidt, 2009). This would help policy makers take the recommendations into account when formulating future objectives. Fourth, adequate quality control measures are necessary to improve the overall quality of RDP evaluation, which can be done by having judgements made on the evaluations provided by Member States. Such a system is essential in solving problems related to the poor quality of the evaluations. Fifth, the evaluation unit at the Commission, currently understaffed, should be given enough resources to carry out the work needed as the present unit is unable to cope with the large number of evaluations in time (Bergschmidt, 2009).

By connecting the level of targets and the implementation process, one gets a simple matrix that shows the proposed logic of the future evaluation of rural development policies (Table 1).

On the whole, **it is both possible and important to learn from the evaluation of rural**

Table 1: The future RDP evaluation system

	EU level	Programme level
Macro approach	Quantitative evaluation of achieving EU-level targets	Quantitative evaluation of achieving programme-level targets
Micro approach	Qualitative evaluation of achieving EU-level targets	Qualitative evaluation of achieving programme-level targets

Source: Author's composition

development policies as evaluation has the potential to play a key role in the rural development policy process. Therefore, evaluation, monitoring and programming should be coherent actions in the future CAP.

2.3. Budgetary concerns

The CAP is currently the largest item of expenditure in the EU Budget, though its share has been falling steadily in recent years. According to the EU Budget Review, this trend appears to be continuing and it seems that the **CAP budget will likely to be cut in the future**. Many issues remain unclear, though.

Primarily, it appears that the **reconfiguration of the two pillars will affect their respective budgetary allocations**, thereby changing the balance of expenditure between the pillars and their associated funds (EAGF and EAFRD). If the overall CAP Budget is to be cut and a clear priority given to first pillar instruments, it is certain that the second pillar's share, in budgetary terms, will decrease.

However, **this would certainly not mean the deprecation of rural development goals inside the future CAP.** If we consider that the first pillar of the future CAP seems to be "greened", and that several agri-environmental instruments, including the provision of public goods and LFA payments, appear to be fully or partly moved to the first pillar, this would result in the reallocation of a major part of the current second axis of the second pillar towards the first pillar. Consequently, a significant part of the agri-environmental measures would be managed by the first pillar, assuming **very considerable sums are reallocated to provide environmental public goods in Europe** (European Parliament, 2010b).

However, besides possible changes in budgetary allocations between pillars, the same question is valid for **reallocations by Member States** if the CAP support is to be made more "equitable and balanced". There is a strong need for reallocation for many reasons. First, current redistribution is highly uneven and based on historical rights amongst Member States, stressing the need for a more transparent system of resource allocation throughout Europe. Second, the current budget distribution was an outcome of the EU enlargement process and created an Old/New Member State division, to be abolished in the future. Third, current patterns of national envelopes are based on past payments, which are hard to justify under continuously changing market circumstances. Therefore the logical issue of selecting objective criteria as a basis for future budgetary allocations instead of past habits emerges, mainly at the demand of European taxpayers. However, neither the method nor the exact amount of such redistribution is outlined.

Though mentioned in the text of the Communication, it is left unclear which objective criteria should be used to provide the basis for future second pillar allocations. Although **there is a clear need for more objective, understandable criteria** in the distribution of second pillar payments among Member States, finding these will be difficult and will result in redistribution not only among Member States, but also among sectors in certain countries. It is quite possible that the decision regarding objective criteria will be followed by the introduction of a transition period, during which a reduced portion of the subsidies will still be based on past entitlements, allowing Member States with a falling share of subsidies to avoid hardship due to the new distributional criteria.

However, based on the future priorities of the CAP, some indicators might serve as objective criteria for future rural development fund allocations by Member States. On the basis of the fact that such criteria should be clear and easily applicable, a number of indicators, linked to quan-

tifiable targets, are advisable. As far as enhancing competitiveness is concerned, the criterion of **agricultural area** (total or utilised) might be a good choice for a number of reasons, as it: (1) can be easily administered and measured; (2) reflects the importance of agricultural activity; (3) echoes equality across Europe; and (4) amply outlines food security potential. As for environmental protection, **NATURA 2000 area** designation might be considered an optimal criterion as: (1) it is clearly designated and properly administered; (2) it reflects the biological diversity of an area; and, (3) potential efforts by Member States to increase these areas in order to obtain more funding will result in the desirable growth of environmentally protected areas in Europe. As far as new job creation is concerned, the criterion of **GDP/capita** appears suitable. This indicator (1) has traditionally been used for determining the wealth of a nation or a region, (2) can be measured by established methods, and (3) helps those areas with the lowest incomes to receive the highest support, thereby reflecting solidarity.

Regarding the future of rural development policies, a new emphasis is placed on innovation, a key concern in reaching the smart growth priority of the Europe 2020 strategy. Basically, rural development policy aims to contribute to this overall strategy in two ways: by enhancing competitiveness through technological knowledge and innovation and fostering green growth through innovation.

While the emphasis on innovation is laudable, it remains unclear how this new theme will be translated into specific reforms. Despite this, one might recognize that innovation never appears as a goal, but as a tool for realizing the primary goal. In this regard we can assume that **innovation would not divert any resources from the existing rural development objectives, as it seems to be a tool for reaching these objectives**.

Moreover, the EU Budget Review also calls for a better synergy between rural development and other EU policies, in line with Europe 2020. The common strategic framework, as indicated in the EU Budget Review, would replace the currently separate strategic guidelines for policies and would ensure better coordination between them.

Rural development, in its broadest sense, can be characterized as a process to enhance the quality of life of rural residents and the economic performance of rural areas. As these aims are currently managed by many EU funds, possible overlaps might occur, and therefore there have been many arguments **regarding the re-examination of the relationship between these policies and the associated funds.** However, no agreement has been reached on how to re-examine this relationship. The main question here is the **place of rural development within the EU policy framework**. Arguments regarding this issue can be grouped into two categories: those in favour of the CAP retaining a rural development function and those in favour of the Cohesion policy playing a greater role in rural development. In spite of the wide range of ideas, **it seems that nothing important will change in this regard**.

It seems that both agricultural and cohesion policies have strong links to rural development. Many people in rural areas are seeking an overall improvement in living conditions, which, to some extent, can be targeted with agricultural policies, while regional or social policies can also be used to this end. Therefore, it is advisable to **integrate all rural development policies under a common umbrella by establishing a new fund** containing the rural development elements of all associated EU policies. This would decrease overlaps and increase the efficiency as well as the focus of rural development measures. Currently, rural-related policies are pursued with different instruments, managed by different ministries and institutions and have never been integrated under the rural label. The new approach and the associated new fund would support more integrated and better coordinated treatment of all rural-related policies.

3. Conclusions

Considering the numerous uncertainties discussed above, **it is too early to define the final role of rural development in the CAP after 2013**. However, this paper has led to a broad range of conclusions, which can be summarized as follows.

1. The role of rural development in the future CAP **will be determined by several institutional factors**, including the EU 2020 strategy, the EU Budget Review, the positions already expressed by the Council and the Parliament, the end of the transitional period of the CAP for the newest Member States, possible future accessions, a possible new agricultural agreement under the WTO Doha Round and a new protocol on climate change, replacing the Kyoto Protocol.
2. The Communication remains at a high level of generality in most cases, though the "greening" of the first pillar seems to be one of the greatest innovations in the history of the CAP. At the same time, **the role of rural development appears to be downgraded in the second pillar** with the moving of several of its existing instruments to the first pillar. The list of rural development themes has expanded and new emphasis is given to innovation and risk management, in line with the EU 2020 strategy. **These new themes seem to strengthen the current priorities** of rural development, serving as tools to reach the predefined aims.
3. **Objectives of the future CAP are likely to be more specific** and are closely related to the economic, environmental and social challenges facing EU agriculture. However, challenges and proposals to meet them are only partially consistent as the former are clearly specified, while the latter remain unclear in many cases. If challenges defined are to be met, a suitable set of policy instruments will be required, including a strong and effective rural development policy.
4. Rural development should aim to promote competitiveness, enhance the sustainable management of natural resources and create balanced development of rural areas in the future, echoing aims of the current axes of the second pillar. Although no reference is made to rural development axes in the Communication, **no major changes regarding future priorities are expected**. However, the alleviation of significant rural poverty should be a future priority, and be aimed at decreasing the urban/rural income gap which has continuously grown in many areas.
5. Effective rural development policy requires a framework which includes transparent goals, specific objectives, better targets and rigorous evaluation to justify sound policy in the future. Therefore, **quantifiable EU- and programme-level targets supporting an outcome-based approach** in the field of rural development should be defined and properly evaluated.
6. The current evaluation of rural development programmes should be changed according to the new outcome-oriented approach. **Macro- and micro-level evaluations are advisable** so as to obtain a full picture regarding the results of various policy instruments. Future success stories might be honoured by gearing incentives, such as the performance reserve, to specific programmes.
7. **It seems that the CAP budget will be cut in the future, resulting in a restructuring of resources within the CAP in line with the new priorities**. Rural development should be a major part of the CAP with proper budget allocations.
8. **It appears that the reconfiguration of the two pillars will affect their respective budgetary allocations,** thereby changing the balance of expenditure between the pillars and their associated funds. Reallocation of rural development resources by Member States are highly needed, possibly through the use of objective criteria. Such criteria should be clear and easily applicable and should be connected to priorities. The indicators of 'agricultural areas', 'NATURA 2000 area' and 'GDP/capita' might serve as initial proposals to be considered.
9. Proposals on creating coherence between rural development policy and other EU policies are of

utmost importance. The integration of all rural development policies under a common umbrella is needed - a new fund containing the rural development elements of all associated EU policies should be established. A new approach and the associated new fund would ensure integrated and better coordinated treatment of all rural-related policies.

10. The current CAP is designed and based around the conditions of EU-15 countries. The experience of the first five years of the NMS indicate that even with possible modifications, this system is not completely appropriate, given the varied conditions of these countries. The future CAP should recognise the diversity of EU agriculture and implement a differentiated policy which does not apply the "one-size-fits-all" approach.

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THE FINANCIAL AND DISTRIBUTIVE ASPECTS OF DIRECT PAYMENTS IN THE NEW CAP

JEL classification: Q18

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Abstract. *The paper analyses the role of direct payments of the CAP after 2013, with the new CAP reform. The work focuses particularly on two aspects which have been the subject of a recent debate: 1) the nature of decoupled direct payments and their incorporation into the wider reform process; 2) the distributive problems that arise today, when almost a decade has passed since the reference period in which they first were assessed (2000-2002). After an analysis of the Commission's communication about the future of direct payments in the new CAP, and more specifically about the objectives that they will pursue, the paper focuses on the distribution of direct payments among the 27 member States of the EU. The analysis pays particular attention to possible distribution criteria for the resources involved, and their consequences on the amount of resources each Member State can count on. In the final part of the paper a specific focus on the Italian case is featured. The main result of the work is that the resource distribution varies significantly according to the criteria used to reallocate the financial resources, so that policy decisions taken today are crucial for the future CAP.*

Keywords: *CAP Reform; Direct Payments; EU Budget.*

1. Introduction

The circulation of the communication from the European Commission "The Common Agricultural Policy towards 2020 - Meeting the food, natural resources and territorial challenges of the future" at the end of 2010 (COM (2010) 672 final) represented the first step towards the formulation of a proposed reform of the common agricultural policy (CAP), which will be circulated by the end of 2011. The objectives declared in this new reform, which had begun to be discussed slightly less than two years from the implementation of the Health Check, are those of a "greener, fairer, more efficient and more effective" CAP. In practice, the CAP targets profitable, safe food production in quantities sufficient enough to ensure a certain level of supply,

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the sustainable management of environmental resources, the mitigation of climate change, the maintenance of territorial balance and the diversity of rural areas, all with greater determination as compared to the past.

This new CAP reform follows the same path as the policy starting from the reform wanted by Fischler in 2003, which was intended to indicate definite discontinuity with the past and sought to give a new look to the primary sector, aiming at some priority key words: decoupling of support, remuneration of public goods, food security, diversification of income in rural areas and business competitiveness.

This time, the policy reform process intertwines with another relevant moment in European Union (EU) life: the dispute over the EU budget revision. The importance of this overlap is not so much in the contemporaneity of it but, in the fact that the amount of resources destined for agriculture and rural areas is connected to the wider discussion of the budget, influencing it reciprocally. On one hand, the revision of the budget can be a determining factor in establishing resources available for the primary sector, but on the other hand the choices made for agriculture can condition the negotiation related to the EU financial resources.

Another important consideration that, in some way, acts upon this reform process is the fulfilment of that provided for in the Treaty of Lisbon, with the application of the co-decision procedure by the European Commission and European Parliament, including on the subject of agriculture (and therefore the CAP). The strengthened role of the European Parliament will certainly have some influence regarding methods and priorities in the CAP reform.

Returning now to the five key words that, in some way, identify this phase of CAP reform, the decoupling of direct payments represents perhaps the greatest point of discontinuity with the past. Decoupling was introduced cautiously by the Mac Sharry reform and later re-launched by Agenda 2000, but it was only the Fischler reform that sanctioned the definitive split between support and production. If, on one hand, it significantly reduced the distorting burden of the CAP, it opened a new debate on the legitimacy of decoupled direct payments, their nature and on their ability to remunerate the production of public goods in agriculture. The justification of direct payments, their territorial distribution and their articulation remain a priority of the policy, to which this reform process looks to respond.

Food security remains at the centre of debate on public support for agriculture, during a historic period in which the increasing volatility of prices, the reduction of stock due to policy changes, health issues and other external factors have brought agriculture to the forefront of political attention.

The diversification of assets in agriculture and in rural areas is a critical aspect of the new CAP, both as a response to the decline in farming incomes and as a tool for bringing vitality and development to rural areas. On this point, it is worth remembering how diversification involves both the capacity of the primary sector to differentiate the production choices within agricultural activity, and the capacity to gradually extend diversification activities outside the real agricultural sector, re-orientating the production factors and first of all the work, to activities that take place in agricultural structures but not do not concern the primary activity (tourism, education, property, energy, etc.).

Finally, the theme of competitiveness is linked to the reorientation to the market that has affected the primary sector in recent years regarding the adequacy of the CAP to support farms, and its ability to endure the powers of global competition.

The following pages focus on CAP direct payments and particularly on two aspects which have been the subject of recent debate: 1) the nature of decoupled direct payments and their

incorporation into the wider reform plan; and 2) the distributive problems that arise today, when almost a decade has passed since the reference period in which they first were assessed (2000-2002). The first point, in particular, will analyse what the Commission's communication says about the future of the CAP regarding direct payments, their nature and the objectives that they will pursue. The second point will elaborate on the distribution of direct payments among the 27 member States of the EU, paying particular attention to possible distribution criteria for the resources involved, and the consequences the various criteria have on the amount of resources Member States can count on in the future. To this specific issue, particular evidence will be given to the Italian case.

2. Direct payments and CAP reform

2.1. The nature and justification of direct payments

Since the Mac Sharry reform, direct payments have assumed a central role in the CAP. Their introduction marked a turning point both for the way support was articulated and for the acquisition of unedited policy visibility. From 1992 onwards, direct payments gained influence and visibility compared to the traditional forms of aid (market policies and support via price), becoming the main element of what would be defined, from Agenda 2000 onwards, as the first pillar of the CAP. At the same time the second pillar of CAP was also taking shape, which contained the measures for rural development, but direct payments maintained their position as the essential component for both amount of resources and attention paid by the main players in the debate.

With the following reforms, direct payments were gradually decoupled from the quantities produced and linked to a historic reference period: the Fischler reform before, and the 2008 Health Check after, modelled direct support as totally decoupled support guaranteed to historic beneficiaries of the CAP who would no longer be required to produce but simply to maintain the land in good agronomical and environmental condition (Henke, 2007). Such a "historical" payment represented the blueprint for direct payments for Agenda 2000, calculated as compensation for the reduction of institutional prices. In other words, they were the fruit of a precise compensatory calculation to guarantee an equal level of support to farmers with a different and non-distorted instrument. A new justification to such a calculated and "frozen" payment to determine aid for farmers was sought in terms of remuneration for public goods produced in agriculture. This is where the problem in the current debate on direct payments and CAP reform derives from: their recognition as remuneration for agricultural public goods clashes with the fact of being the product of a compensatory calculation for the loss of support guaranteed via prices of agricultural products.

As a consequence of this "original sin" of direct payments, we find ourselves today in front of a double dilemma: on one hand, the identification of the nature of direct payments and their incorporation into the CAP; on the other hand, the paradox of their political justification at a time when they are becoming a more visible and less distorted component of the CAP. On the first point, we refer to the ample literature on the nature and goal of direct payments in the wider framework of EU agricultural policy (AA.VV. 2009; Bureau and Mahé, 2009; Cooper, Hart and Baldock, 2009; Esposti, 2007; Zahrnt, 2009). The cited scholars focus above all on the effective capacity of direct payments to remunerate agricultural public goods and on the most appropriate territorial level that should be referred to in order to ensure such a capacity

(whether the supranational institutions of the EU, the level of single member States, or at a sub-national level). The second aspect of the dilemma regarding direct payments relates to a paradox from which they arise. With the decoupling process, the payments had a less distortive effect on market dynamics therefore acquiring greater visibility within the EU budget. At the same time, it was this greater visibility that made the need to find a new and convincing justification for their existence and large amount more urgent. The transition from coupled payments to a decoupled single payment system had been seen as a positive fact for the reorientation into the agriculture market and for giving full recognition to the entrepreneurial capacity of farmers. However, the decoupling of support explicitly raised the issue of their legitimacy and of a transparent and sustainable justification.

The European Commission, in the communication referred to at the beginning of this document, confirms the two pillar structure of the CAP and seeks to legitimise direct payments in three different areas: the need for integration with farmers' income (income support); the remuneration of environmental services (production of public goods); the higher business costs in areas with specific disadvantages (compensatory allowances). Moreover, the Commission recognises the possibility of maintaining a part of the support coupled, in the form of "specific payments" for specific "types of agriculture" linked to the territory or to quality (modelled on the current article 68 of Reg. 73/2009). Finally, the Commission only outlines the possibility of identifying a specific category of aid beneficiaries (active farmers) and providing specific help for small-scale farmers. The reflection on direct payments accompanies a revision of market policies (within the first pillar) and also rural development measures. Nevertheless, it is correct to state that the true protagonists of this CAP reform are the direct payments, which are the focal point of the Commission's proposals for the amount of resources devoted and the visibility that such support has within the Union budget.

The Commission, in its communication (COM (2010) 672/5), seems to clearly position itself in regards to the distribution of decoupled direct payments, considering the fact that they are the fruit of a "snapshot" of the past (2000-2002 preference period) and that the New Member States have remained, in some way, in the background of that snapshot (Henke, Sorrentino and Severini, 2011). The following sections will examine this important theme, which will certainly be the prime focus of the next CAP reform, proposing various distribution criteria for the community funds destined for direct payment and focus in greater detail on the effects that these criteria could have on the resources destined for Italy.

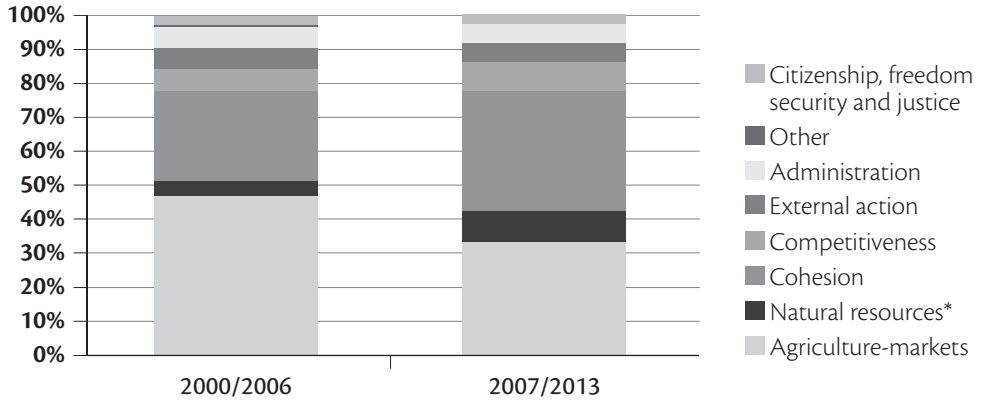
2.2. The evolution of agricultural expenditure

Within EU policies, agricultural policy is among the most supported. However, over the years, financing for the agricultural sector has been notably reduced and today represents approximately 40% of the Community budget.

In recent years a change in the composition of agricultural spending has been witnessed. Fig.1 demonstrates the reduction of spending in favour of the first pillar of the CAP, compensated by the increase in financing in favour of measures linked to rural development (INEA, 2010).

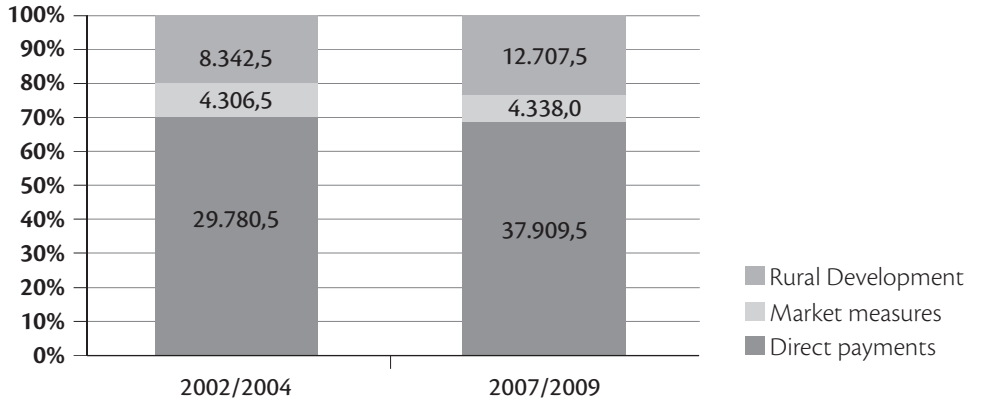
More specifically, in the three-year period between 2002 and 2004, the European Union's agricultural expenditure took in 70.2% from direct payments, 10% from market measures and almost 20% from rural development support. In the three-year period between 2007 and 2009, there was an increase in payments (+27%) and resources for rural development, which amount to 23% of agricultural expenditure, while the market measures remain nearly constant (fig. 2).

Fig. 1 - Evolution of EU expenditure per budget heading (%)



Source: elaborations on EU data set
**Include agriculture-rural development, fishing and environment*

Fig. 2 - Components of EU agricultural expenditure[1]



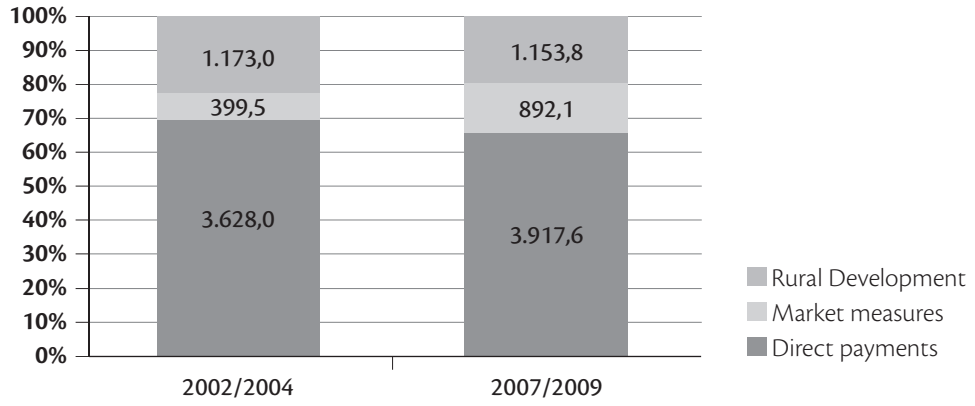
Source: elaborations on EU data set

Direct payments can also take up the greater part of spending in Italy and, more precisely, 70% of the resources in the first three-year period considered and 66% for the second three-year period. As far as the remaining components of spending are concerned, among the two three-year

[1] The amounts relative to rural development are given for the 2002-2004 period from the sum of expenditure commitments of FEOGA-Orientation and the expenditure anticipated by FEOGA-Guarantee; while the values relative to the 2007-2009 period are given from the resources allocated in FEASR.

periods considered, the support paid via market measures increases (+123%) and the support paid via rural development decreases (-1.6%) (fig.3).

Fig. 3 - Components of Italian agricultural spending



Source: elaborations on EU data set

3. The distribution of direct payments in the EU: current situation and redistributive proposals

In the communication on the CAP towards 2020, the Commission, on the theme of direct payments, underlines the need to make their distribution fairer, no longer linked to the historical reference system, which happens in a large part of member States, and more orientated in favour of "active farmers". Two functions are assigned to direct payments, both considered "suitable" for the goal: they not only represent an indispensable form of income support, in favour of stability, but also the main remuneration of public goods and services supplied by farmers, for which a real market doesn't exist.

The theme of distributive equity of direct payments was the subject of a study, carried out by INEA in collaboration with the Department of European and International Policy within the Ministry of Agricultural, Food and Forestry Policies. Various resource allocation criteria were analysed, highlighting for each one the main effects in terms of countries that gain and lose financial resources as compared to the status quo.

The next sections present some elaborations that, starting from those carried out in the cited work, look to provide an updated and exhaustive framework regarding the prominent two aspects:

1) the current distribution of direct payments in terms of area (eligible hectares), value of the gross saleable production (GSP) and annual work units (AWU);
2) the possible redistributive exercises starting from repartition parameters such as agricultural surface area, gross saleable production, work, rural population and surface area affected by the Natura 2000 Directive.

Italy has an important game to play regarding these aspects: indeed, according to the parameters that are be used to review the current distribution of payments and to move towards a sort

of average European payment (the so-called *flat rate*), significant variation from the current payment situation in out country may occur.

3.1. The current situation

Current distribution of direct payments can be shown by comparing the ceilings fixed by Regulation (EC) No. 73/2009 to the area that generates eligibility for support (in reference to post-2013), to 1,000 euro of GSP, and to the AWU.

The three cases shed light on extremely different situations. The first case regards a *flat rate* just under 300 euro/hectare, while Italy stands at 433.6 euro, which is well above the European average. This would translate into a significant reduction of the Italian ceiling (tab. 1).

The same holds true for other countries such as Belgium, the Netherlands and Malta with values that exceed 500 Euro/ha. The opposite situation is observed for Slovakia, Romania, Portugal, and Poland, with amounts that slightly exceed 200 Euro/ha. Estonia and Latvia show the lowest values that amount respectively to 40.7 and 32.2% of the *flat rate*.

Looking at the ceilings in terms of AWU the situation does not change very much; in fact even in this case, flat rate values for the majority of the old Member States remain well above the average European value.

Tab. 1 - Direct payments in the EU Member States

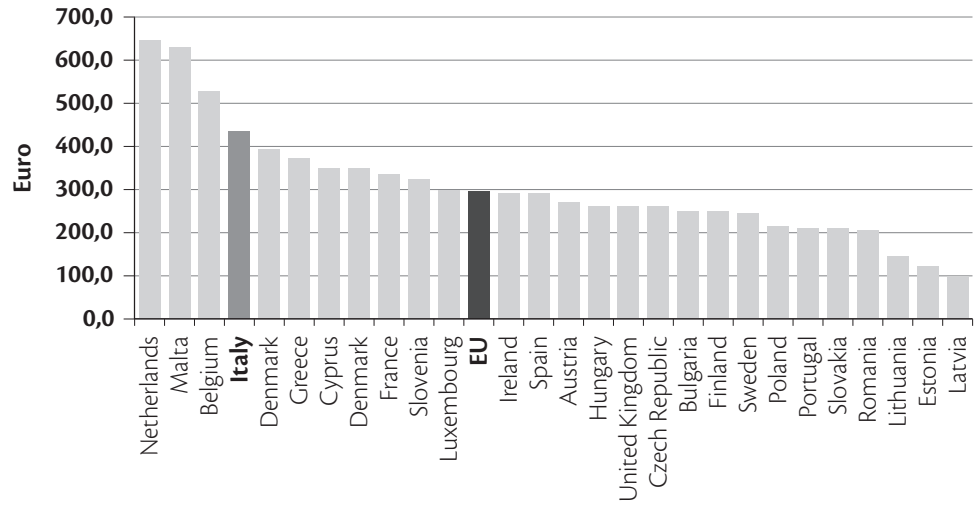
States	€/ha	€/ 1.000 € GSP	€/AWU
Austria	268,5	118,4	46,0
Belgium	526,3	82,5	93,7
Bulgaria	249,3	196,3	16,6
Cyprus	348,3	86,7	20,6
Czech Republic	259,4	194,4	66,2
Denmark	391,6	116,5	187,7
Estonia	120,7	165,6	31,5
Finland	247,6	138,0	78,8
France	335,4	126,7	105,9
Germany	347,6	117,7	96,1
Greece	372,5	211,3	39,0
Hungary	261,2	172,7	32,7
Ireland	290,4	219,3	90,9
Italy	**433,6**	**94,8**	**33,6**
Latvia	95,4	151,5	14,0
Lithuania	144,7	173,6	21,1
Luxembourg	297,0	117,8	97,6
Malta	629,6	39,5	12,1
Netherlands	646,0	37,8	54,4
Poland	213,9	140,4	13,5
Portugal	209,5	86,6	17,9
Romania	204,3	105,3	8,1
Slovakia	208,4	179,1	42,5
Slovenia	323,5	130,4	17,2
Spain	289,5	122,6	53,2
Sweden	245,0	162,9	117,7
United Kingdom	260,8	168,9	116,8
EU	**296,2**	**123,6**	**39,2**

Source: elaborations on EU data set

On the other hand, comparison of the ceilings to the capacity to support 1,000 euro of GSP would change the situation substantially: the European average payment amounts to about 123 €, while Italy stands at € 94.8, a value equal to 76.7% of the *flat rate*. In this case, the highest values are recorded in Ireland and Greece, with amounts exceeding 200 € per 1,000 € GSP, while the lowest values are in the Netherlands, Malta, and Belgium (tab. 1).

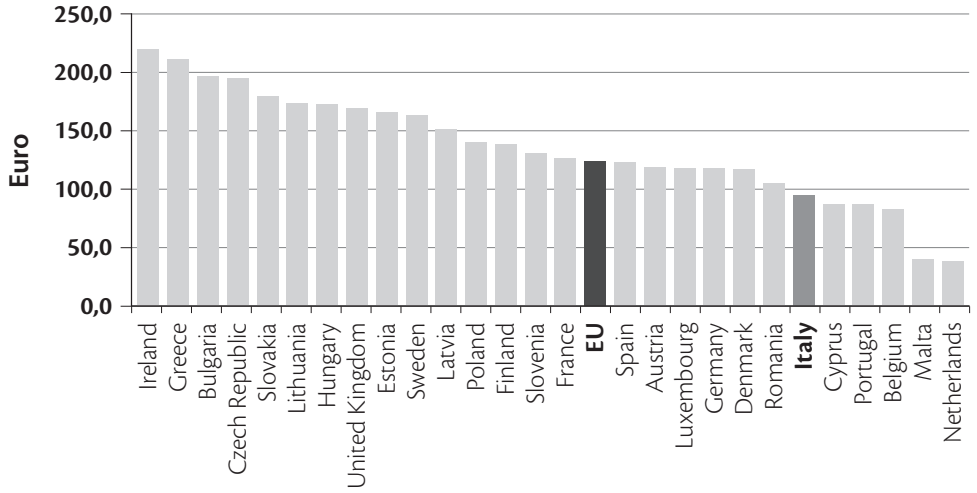
These three figures alone provide an effective overview of the sensitivity concerning the distribution of direct payments in relation to the parameters in play, making use of three legitimate criteria: the area, the AWU and the GSP featuring, each of them, a very different allocation of financial resources among Partners (Figures 4, 5 and 6).

Fig. 4 - "Flat rate" in term of eligible area (Euro/ha)



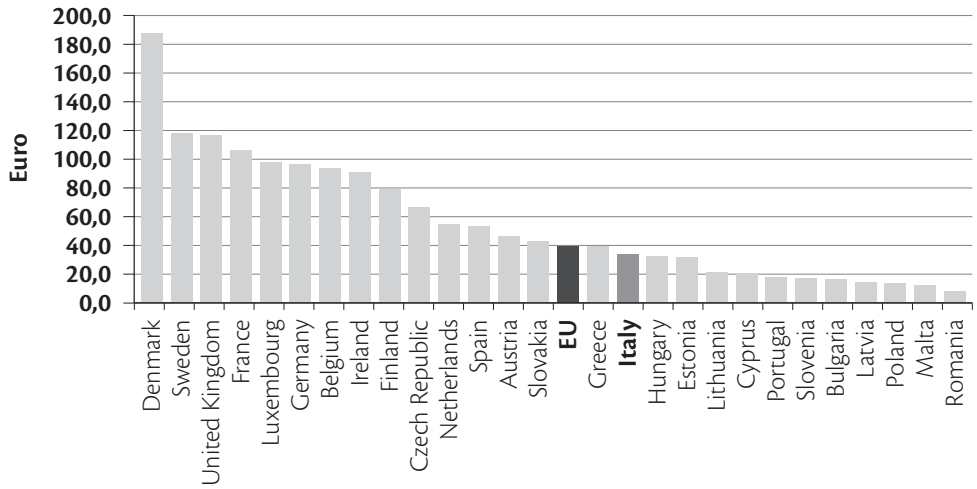
Source: elaborations on EU data set

Fig. 5 - "Flat rate" in term of gross saleable production (Euro/1,000 euro of GSP)



Source: elaborations on EU data set

Fig. 6 - "Flat rate" in term of annual work units (Euro/AWU)



Source: elaborations on EU data set

3.2. Direct payments in EU Member States and the purchasing power parity

An element of debate on the equality of direct payment distribution to Member States lies in the fact that purchasing power in the countries is rather heterogeneous; therefore, a theoretical average grant of 100 euro/ha holds a different purchasing power in different countries.

In other words, the same 100 euro shall carry a different weight on the farmer's overall

income according to purchasing power in each country: for example, in Germany, a 100 euro subsidy is rather marginal in comparison to the average income, while the same amount becomes a rather crucial component in Romania. If purchasing power parity (PPP) is taken into account and the previous indicators are calculated implementing a PPP based correction, the results are significantly different (tab. 2).

In practice, taking into account the different purchasing power, an average area payment of € 296.2 in Italy corresponds to a value of € 320.9. Therefore, to render the *flat rate* in Italy uniform, average payment should be lowered from € 433.6 to € 320.9. Similarly, if we think in terms of GSP, the € 123.6 average correspond, in Italy, to € 133.9, which represents the value towards which we should lean (starting from € 94.8) to express, in PPP, the *flat rate* value. With regard to the support referred to the AWU, € 33.6 corresponds to about € 42.5 in terms of PPP.

Tab. 2 - Direct payments according to different distribution criteria (base values and in PPP)

States	€/surface		€/ 1.000 € GSP		€/AWU	
	Basis	PPP	Basis	PPP	Basis	PPP
Austria	268,5	391,1	118,4	163,2	46,0	51,8
Belgium	526,3	372,7	82,5	155,5	93,7	49,3
Bulgaria	249,3	121,7	196,3	50,8	16,6	16,1
Cyprus	348,3	280,0	86,7	116,8	20,6	37,1
Czech Republic	259,4	238,5	194,4	99,5	66,2	31,6
Denmark	391,6	386,5	116,5	161,3	187,7	51,1
Estonia	120,7	199,3	165,6	83,1	31,5	26,4
Finland	247,6	365,4	138,0	152,4	78,8	48,3
France	335,4	348,2	126,7	145,3	105,9	46,1
Germany	347,6	375,5	117,7	156,7	96,1	49,7
Greece	372,5	286,7	211,3	119,6	39,0	37,9
Hungary	261,2	188,2	172,7	78,5	32,7	24,9
Ireland	290,4	370,0	219,3	154,4	90,9	49,0
Italy	**433,6**	**320,9**	**94,8**	**133,9**	**33,6**	**42,5**
Latvia	95,4	173,3	151,5	72,3	14,0	22,9
Lithuania	144,7	180,9	173,6	75,5	21,1	23,9
Luxembourg	297,0	602,0	117,8	251,1	97,6	79,7
Malta	629,6	230,1	39,5	96,0	12,1	30,4
Netherlands	646,0	419,2	37,8	174,9	54,4	55,5
Poland	213,9	176,6	140,4	73,7	13,5	23,4
Portugal	209,5	231,4	86,6	96,5	17,9	30,6
Romania	204,3	142,8	105,3	59,6	8,1	18,9
Slovakia	208,4	216,6	179,1	90,4	42,5	28,7
Slovenia	323,5	276,1	130,4	115,2	17,2	36,5
Spain	289,5	321,2	122,6	134,0	53,2	42,5
Sweden	245,0	402,2	162,9	167,8	117,7	53,2
United Kingdom	260,8	379,9	168,9	158,5	116,8	50,3
EU	**296,2**	**296,2**	**123,6**	**123,6**	**39,2**	**39,2**

Source: elaborations on EU data set and World Bank

On the contrary, in lower income countries, for example Romania, a payment of € 204.3 in terms or area and € 105.3 in terms of GSP correspond to € 142.8 and € 59.6 respectively. At the same time, a payment of € 8.1 in relation the AWU corresponds to almost € 18.9 in terms of PPP (tab. 2).

3.3. Direct payment in EU Member States built on "objective" criteria

A possible proposal of redistribution regarding the redefinition of *flat rates* for each Member State using combinations of weighted indicators. Five criteria were taken into account: eligible area (the same used previously), GSP, work (expressed in AWU), rural population (as a parameter linked to rural areas) and areas involved in the directive "Natura 2000" (as an environmental parameter and linked to disadvantaged conditions).

Tab. 3 - Direct payments in EU Member States built on "objective" criteria (Euro/area)

States	€/ha	€/surface - parameters: surface, GSP, AWU, Natura 2000, rural population (weights: 40-15-15-15)	€/surface - parameters: surface, GSP, AWU, Natura 2000, rural population (weights:30-25-15-15-15)	€/surface - parameters: surface, GSP, AWU, Natura 2000, rural population (weights:35-35-10-10-10)
Austria	268,5	283,4	282,3	285,0
Belgium	526,3	731,1	580,7	698,3
Bulgaria	249,3	255,3	308,6	277,4
Cyprus	348,3	261,4	255,3	247,4
Czech Republic	259,4	355,9	375,4	376,6
Denmark	391,6	635,6	526,2	624,4
Estonia	120,7	179,8	229,2	207,5
Finland	247,6	283,9	292,6	292,2
France	335,4	462,2	412,0	459,1
Germany	347,6	386,3	357,0	379,8
Greece	372,5	397,3	422,5	410,7
Hungary	261,2	310,6	332,3	325,8
Ireland	290,4	566,1	533,0	589,6
Italy	**433,6**	**331,6**	**314,0**	**311,0**
Latvia	95,4	145,9	196,0	172,6
Lithuania	144,7	222,1	264,2	249,3
Luxembourg	297,0	429,8	381,9	428,3
Malta	629,6	438,2	368,3	384,8
Netherlands	646,0	423,9	359,1	368,4
Poland	213,9	222,2	250,1	234,4
Portugal	209,5	181,1	190,1	180,9
Romania	204,3	167,4	191,7	172,2
Slovakia	208,4	245,7	288,5	267,8
Slovenia	323,5	228,9	257,7	227,8
Spain	**289,5**	**309,6**	**304,0**	**310,0**
Sweden	**245,0**	**369,6**	**364,5**	**384,2**
United Kingdom	260,8	491,9	450,9	506,4
European Union	**296,2**	**296,2**	**296,2**	**296,2**

Source: elaborations on EU data set

In order to combine the five indicators, which are expressed in different units of measurement, these were first turned into percentage values and then, after having weighted them, expressed in terms of area and GSP.

The results obtained show, in the first case (euro/area), an increase of support in favour of all the new Member States with the exception of Romania and Slovenia (tab. 3).

With regards to the old Member States, there were cases of increased financial resources (France, Belgium, Germany and Denmark) as well as decreased ones (Italy, the Netherlands). The latter, in line with direct payment alignment requirements, would be further favoured thanks to a relatively limited reduction of the support margin. With regard to Italy, for example, support should no longer be reduced by € 137 but only by € 35 in relation to the first hypothesis, € 18 under the second and € 15 under the third hypothesis (tab. 3).

Figures 7, 8 and 9 reveal which countries gain most benefit in terms of percentage difference between the initial situation (first column figures in table 3) and the three "new" hypothetical situations. In some cases (Ireland, Spain and Hungary) the *flat rate* increases and is above the European average, while in other cases it remains below the average (Latvia, Lithuania) despite the growth.

Fig. 7 - Percentage variation between the current situation and the first hypothesis (Euro/area) (EU=0).

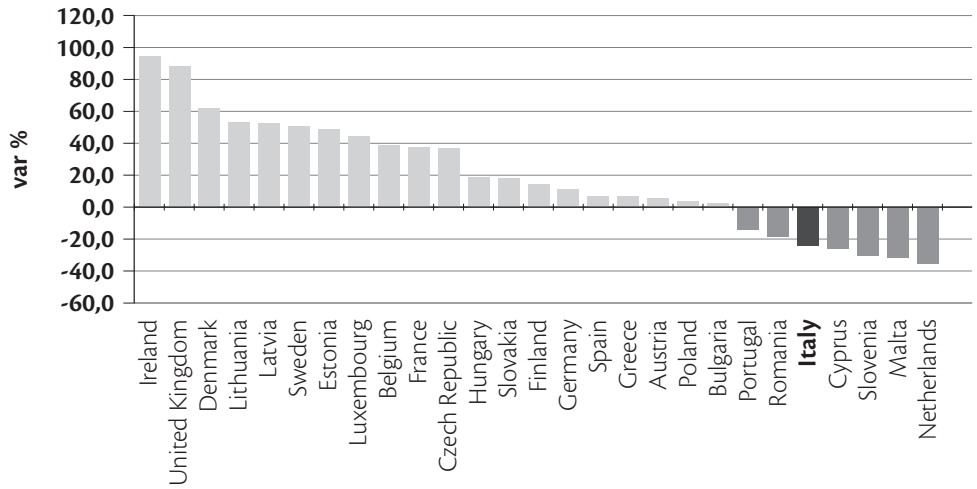


Fig. 8 - Percentage variation between the current situation and the second hypothesis (Euro/area) (EU=0).

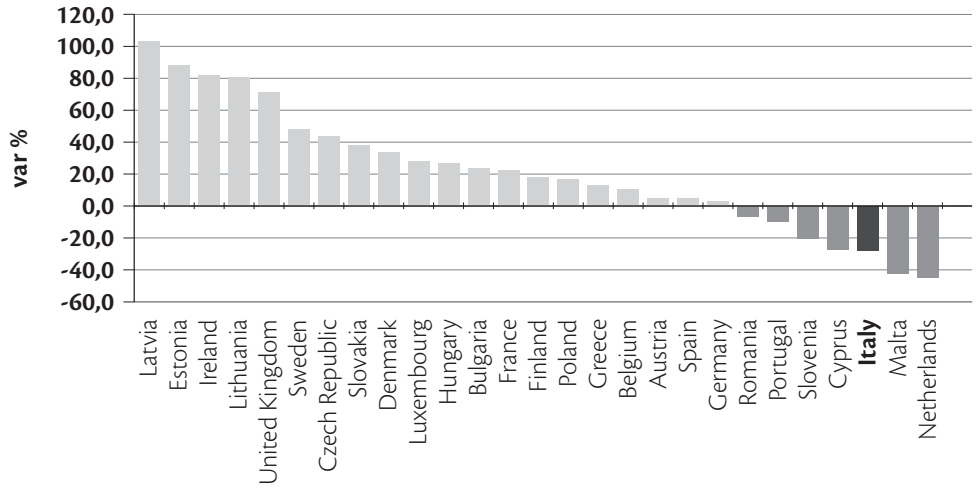
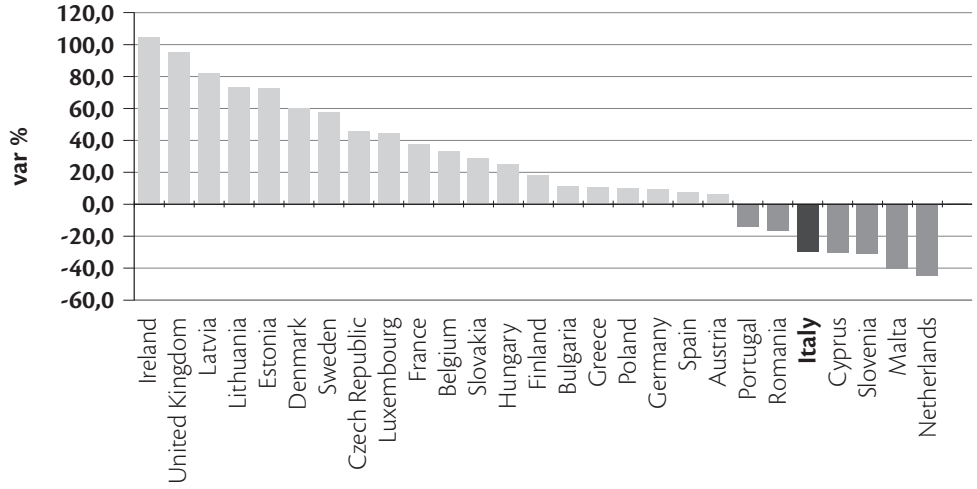


Fig. 9 - Percentage variation between the current situation and the third hypothesis (Euro/area) (EU=0).



On the contrary, the results obtained in the second case (Euro/GSP) show a reduction of in favour of the new Member States and further growth for the old Members. Therefore, this hypothesis does not lead to any redistribution of assistance, instead the status quo is maintained despite the inclusion of "objective" components into the distribution criteria (tab. 4).

Tab.. 4 - Direct payments in the EU Member States built on "objective" criteria (Euro/GSP)

States	€/ 1.000 € GSP	€/ 1.000 € GSP - parameters: surface, GSP, AWU, Natura 2000, rural population (weights: 35-35-10-10-10)	€/ 1.000 € GSP - parameters: surface, GSP, AWU, Natura 2000, rural population (weights: 30-25-15-15-15)	€/ 1.000 € GSP - parameters: surface, GSP, AWU, Natura 2000, rural population (weights: 35-35-10-10-10)
Austria	118,4	118,2	117,8	118,9
Belgium	82,5	305,0	242,3	291,3
Bulgaria	196,3	106,5	128,7	115,7
Cyprus	86,7	109,1	106,5	103,2
Czech Republic	194,4	148,5	156,6	157,1
Denmark	116,5	265,2	219,5	260,5
Estonia	165,6	75,0	95,6	86,5
Finland	138,0	118,4	122,1	121,9
France	126,7	192,8	171,9	191,5
Germany	117,7	161,2	149,0	158,4
Greece	211,3	165,7	176,3	171,3
Hungary	172,7	129,6	138,6	135,9
Ireland	219,3	236,2	222,4	246,0
Italy	**94,8**	**138,3**	**131,0**	**129,7**
Latvia	151,5	60,9	81,8	72,0
Lithuania	173,6	92,7	110,2	104,0
Luxembourg	117,8	179,3	159,3	178,7
Malta	39,5	182,8	153,7	160,5
Netherlands	37,8	176,8	149,8	153,7
Poland	140,4	92,7	104,3	97,8
Portugal	86,6	75,5	79,3	75,5
Romania	105,3	69,8	80,0	71,8
Slovakia	179,1	102,5	120,4	111,7
Slovenia	**130,4**	**95,5**	**107,5**	**95,0**
Spain	**122,6**	**129,2**	**126,8**	**129,3**
Sweden	162,9	154,2	152,1	160,3
United Kingdom	168,9	205,2	188,1	211,2
European Union	**123,6**	**123,6**	**123,6**	**123,6**

Source: elaborations on EU data set

Figures 10, 11 and 12 show the percentage variations[2] for each case and underline what was previously asserted, that is, an increase of support in favour of the "old" Members and a reduction for the "new" ones.

[2] The percentage variations are calculated as the difference between the initial situation (first column figures in table 4) and the figures reported in columnes 3, 4 and 5 of table 4).

Fig. 10 - Percentage variation between the current situation and the first hypothesis (Euro/GSP) (EU=0).

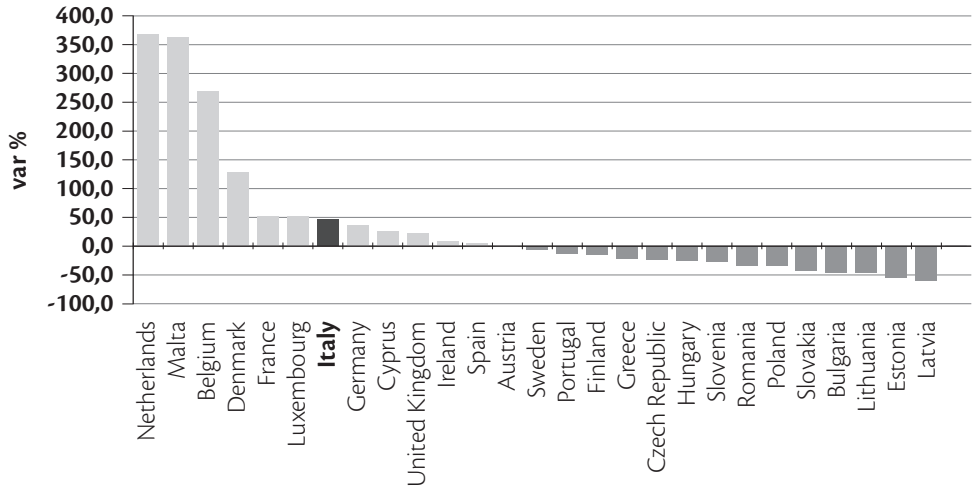


Fig. 11 - Percentage variation between the current situation and the second hypothesis (Euro/GSP) (EU=0).

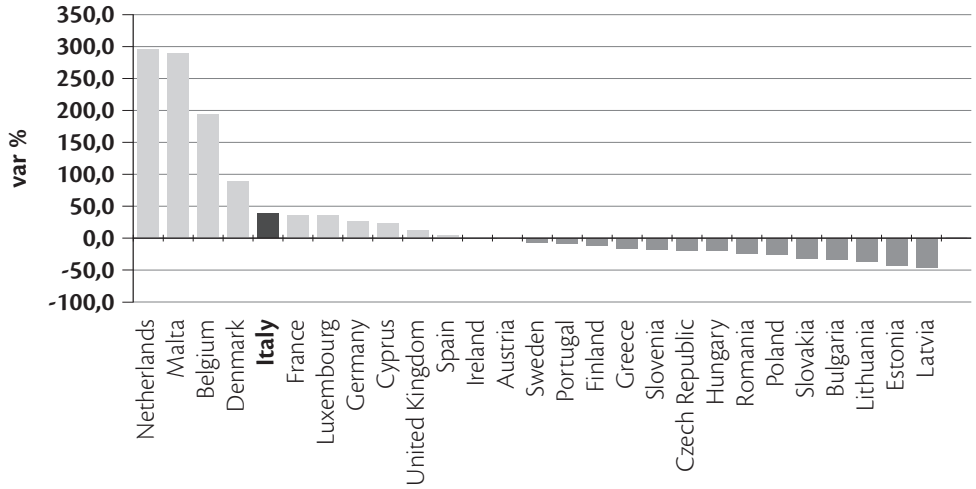
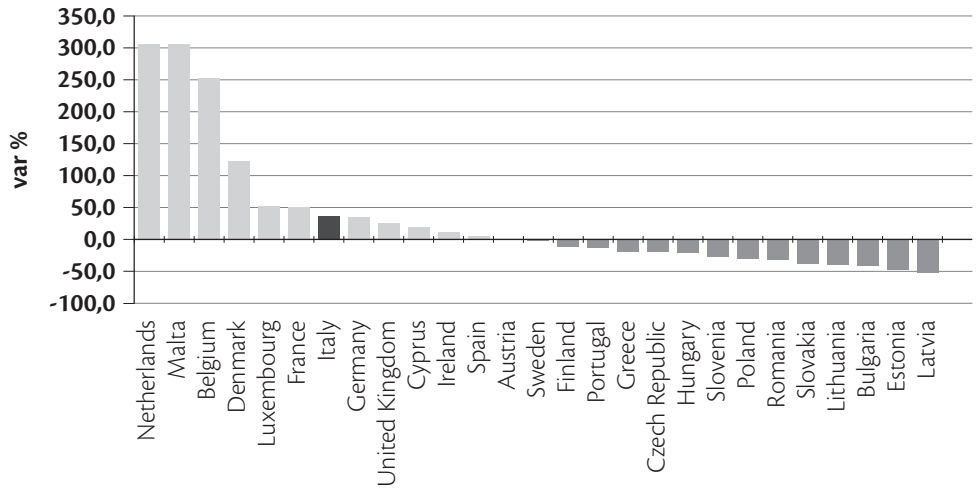


Fig. 12 - Percentage variation between the current situation and the third hypothesis (Euro/GSP) (EU=0).



3.4. Identification of "new" budgetary ceilings

Another possible criterion is that of calculating new ceilings per country according to the "objective" criteria used in the previous section (eligible area, GSP, AWU, rural population, areas under "Natura 2000"), and assigning each a different weight. In this way, a new distribution of ceilings is obtained, representing the outcome of different combinations of "objective" criteria (tab. 5).

Tab. 5 - New ceilings according to "objective" criteria

States	Ceilings (Reg.73/2009 modified Reg.360/2010)	Ceilings - parameters: surface, GSP, AWU, natura 2000, rural population (weights: 40 - 15 - 15 - 15 - 15)	Ceilings - parameters: surface, GSP, AWU, natura 2000, rural population (weights: 30 - 25 - 15 - 15 - 15)	Ceilings - parameters: surface, GSP, AWU, natura 2000, rural population (weights: 35 - 35 - 10 - 10 - 10)
Austria	751,7	795,9	791,4	795,8
Belgium	614,9	367,0	424,5	503,7
Bulgaria	814,3	1.162,3	1.116,8	983,6
Cyprus	53,5	67,1	70,1	67,6
Czech Republic	909,3	819,8	773,8	777,6
Denmark	1.049,0	717,7	749,6	822,7
Estonia	101,2	287,0	269,7	230,9
Finland	570,5	945,2	928,0	814,7
France	8.523,6	6.125,8	6.204,6	6.789,9
Germany	5.852,9	5.035,7	5.151,3	5.308,6
Greece	2.216,8	1.710,7	1.664,0	1.611,4
Hungary	1.319,0	1.304,2	1.249,1	1.230,1
Ireland	1.340,9	924,4	863,1	919,1
Italy	**4.373,7**	**4.324,6**	**4.595,9**	**4.557,2**
Latvia	146,5	382,2	348,6	322,6
Lithuania	380,1	589,8	539,1	525,6
Luxembourg	37,1	30,4	30,6	33,1
Malta	5,1	7,4	8,8	9,1
Netherlands	897,8	971,7	1.223,6	1.414,8
Poland	3.044,5	4.669,6	4.515,9	4.134,1
Portugal	606,3	1.049,3	1.050,1	987,2
Romania	1.780,4	3.346,0	3.296,7	2.967,8
Slovakia	**388,2**	**540,0**	**511,6**	**472,9**
Slovenia	**144,2**	**239,8**	**240,3**	**205,0**
Spain	5.149,8	5.285,9	5.278,2	5.260,6
Sweden	770,9	1.104,2	1.069,4	959,9
United Kingdom	3.987,9	3.026,4	2.865,2	3.124,5
EU	**45.830,1**	**45.830,1**	**45.830,1**	**45.830,1**

Source: elaborations on EU data set

It is interesting to note how the ceiling for Italy, under any combination taken into consideration, remains stable and in line with the actual value, while the value clearly changes for other cases regarding different combinations.

Different cases are represented by France, whose ceiling undergoes reduction in all three hypothetical situations, as well as by Great Britain, Belgium, Greece, and Ireland (tab. 5).

On the contrary, ceilings tend to increase for other Member States, especially under the first hypothesis (weights: 40%-15%-15%-15%). The majority of these countries are from Eastern Europe (Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia), but also Portugal and Sweden are included in this list.

The following graphs show the percentage variations recorded as differences between the budgetary ceilings established by Regulation No. 73/2009 and each of the three ceilings built on objective criteria. They confirm that the use of established budgetary ceilings with objective criteria would allow for, in general, the redistribution of the support in favour of new Member States.

Fig. 13 - Percentage variation between the current situation and the first hypothesis (EU=0).

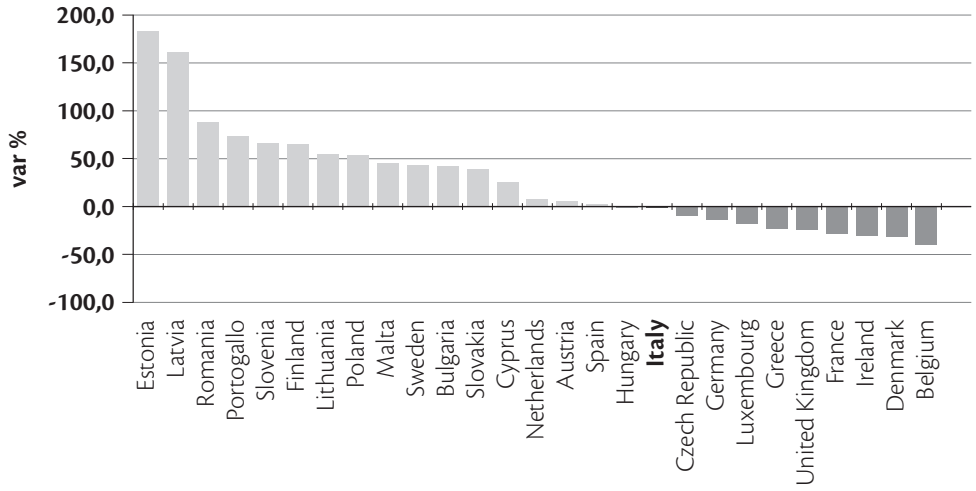


Fig. 14 - Percentage variation between the current situation and the second hypothesis (EU=0).

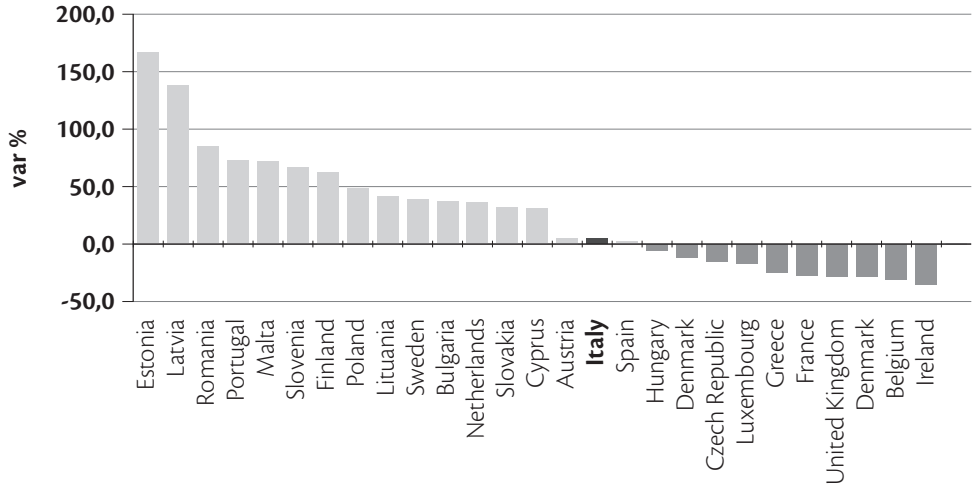
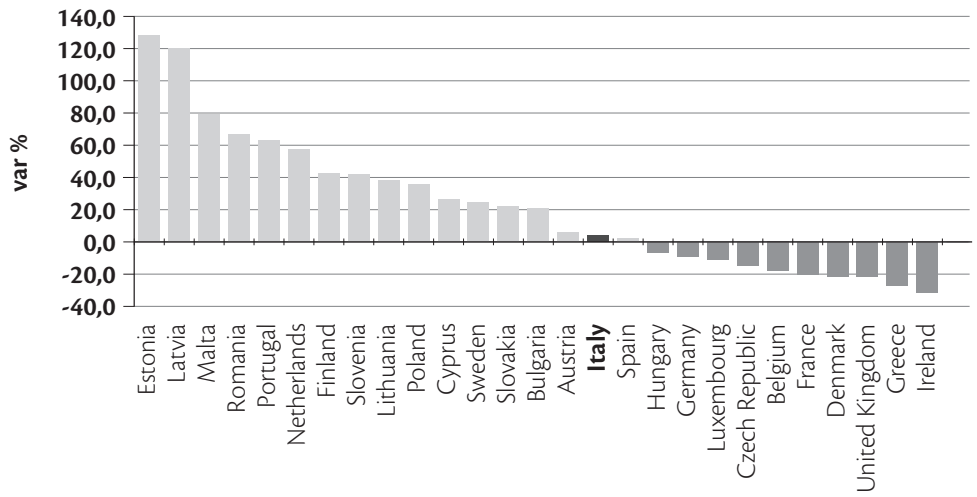


Fig. 15 - Percentage variation between the current situation and the third hypothesis (EU=0).



4. The Italian case

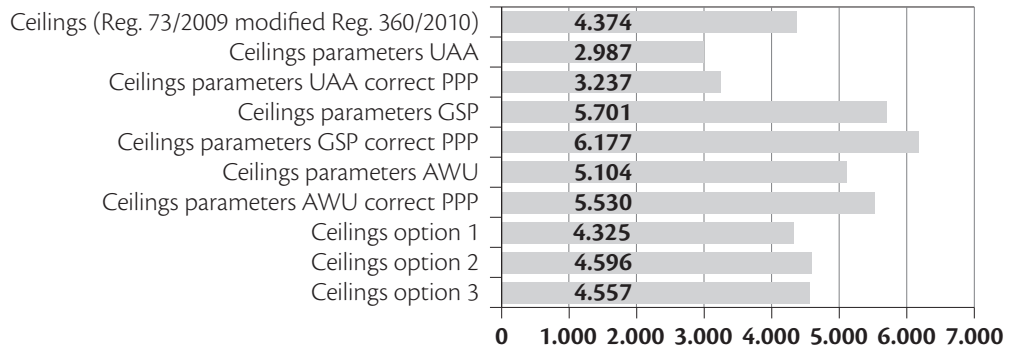
Looking at Italy it is possible to briefly summarize the points observed in the previous sections. Fig. 16 compares the budgetary ceilings calculated with the different criteria here briefly described. The figure reveals how the criterion of individual areas penalizes Italy.

Indeed, if this criterion were the only one employed in enacting a form of redistribution, Italy would be forced to reduce the amount of direct payment by € 137/ha. The situation would be much more favourable if the GSP criterion were used, especially if corrected for PPP. The GSP can be considered as a variable that "agglomerates" in itself other parameters such as structures, employment and social situation more than any other indicator. This attribute makes distribution more even and, at the same time, yields a much greater "objective" profile in the relationship between financial resources and contribution of any single Member State to the European agricultural production.

With regard to the AWU criterion, Italy is just about aligned to the European *flat rate*; in this case, in fact, the amount of its aid should be reduced only about € 6.

Finally, as far as it concerns the "new" budgetary ceilings proposed and built on objective data, it must be noted that the current ceiling is, on the whole, quite in line with that established for Italy by Regulation (CE) No. 73/2009.

Fig. 16 - Comparison between budgetary ceilings derived from different parameters for Italy



Source: elaborations on EU data set and World Bank

5. Conclusions

Today, agriculture plays an entirely new role in society than it did in the past. Aside from food production, that places more focus on quality and health issues, the functions of the primary sector have gradually broadened to include tasks such as natural resource management and territorial development. Common policy surely served as a stepping stone towards the acknowledgement of these new functions, which aimed at broadening, by means of the various reform processes throughout the years, the array of tools and goals of assistance. Income support remains a strategic element that justified the CAP system, but issues such as farm competitiveness, allowances to disadvantaged areas, the production of public goods and rural employment have progressively been added to the scenario. In the communication issued last November, the Commission stressed once more the importance of the integration of instruments implemented for the pursuit of different objectives: direct payments, market measures and rural development policies.

With regard to direct payments, and in general to the entire CAP system, the reform does not appear to be revolutionary. The Commission, in fact, maintains the importance of the two pillar CAP structure and acknowledges the crucial functions of direct payments: support to income but also the production of public goods. A central theme to the current debate is that of the equity of the direct payment distribution among Member States and, within these, among different territories.

The general objective is to provide a renewed justification of direct payments in order to definitely unbind them from their links with past policies and to make them more targeted to specific economic, environmental and social conditions.

This paper, which provides details on an analysis run by INEA and the Ministry of Agricultural, Food and Forestry Policies, highlighted the relevant effects generated by different criteria used in resource distribution of direct payments to Member States, despite the fact that the reform has not led to any substantial changes of the CAP system.

Actually, the implications of the criteria adopted in resource distribution are of noticeable nature; and often yield opposing results. Therefore, in light of this reason, it is recommended

that a combination of multiple criteria combinations be taken into account in order to better contain differences and make resource distribution much more equal among Member States. As mentioned in this paper, the GSP is a parameter that comprises many other indicators worth considering in distribution of direct payments: aspects of structural, social and occupational nature. Nevertheless, the elaborations presented herein lead to the conclusion that a fair combination of proper parameters lead to a more equitable balance in the redistribution of direct payments.

Yet another element highlighted by the analyses is the PPP that varies significantly among Member States, with substantial differences between old and new Member States. This implies an evident correction capacity of the PPP in regards to the amount of support granted. Such a capacity should be taken into consideration when establishing concrete resource allocations for Member States in comparison to a theoretical European *flat rate*.

With regard to Italy, the current phase is rather crucial and the choice of criteria applied for resource distribution within the CAP system holds implications that cannot be overlooked for Italy. Aside from parameters linked to area and land use, at least three other elements of substantial importance for Italy should be taken into account: the fact that its contribution to the European GSP is much greater than its return in terms of financial support; the high share of high value added agricultural products in comparison to overall national production (especially thanks to processed and high quality products); lastly, the important role of Italy in the valorisation of agricultural public goods due to the territorial, environmental and social characteristics of its primary sector. In this sense, Italy contributes significantly to the affirmation of the model, or rather the models, of European agriculture, which represent a milestone of the CAP reform process and of the political reorientation in favour of agriculture and rural areas. These are all factors which must be considered in re-drafting the parameters for access to direct payments and, more in general, for eligibility of public support to agriculture.

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Politica Agricola Internazionale

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