



# Cap towards 2020 and the cost of political choices: The case of Emilia-romagna region



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## ABSTRACT

The paper assesses the different schemes of regionalisation and greening implementation according to both the preliminary proposals presented to the Trilogue and the CAP Reform adopted on 16 December 2013. The objective is to compare the different potential impacts on production (land use) and on the economic revenue of farm holders in the Emilia-Romagna region (Italy). The assessment is performed by a regional positive mathematical programming (PMP) model and is carried out for single farms appearing in the Farm Accountancy Data Network (FADN) data. Sampling weights are used to make the simulation results consistent with the production structure of the region. The findings confirm a big weakening in what would have been the impact of the Commission's proposal. In terms of lower gross margin incurred by farmers for fulfilling the greening requirements in the final CAP scenario, the model estimates a reduction corresponding to 20 €/ha. The greatest economic effects of the new CAP appear to be mainly due to the redistribution of direct payments.

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## 1. Introduction

Following a first reading agreement with the European Parliament, the Council of EU Agriculture Ministers formally adopted the Common Agriculture Policy (CAP) reform package on 16 December 2013. The package sets out the rules for the implementation of the First Pillar for European farms in the next seven-year period. The new CAP is characterized by a high level of flexibility that allows Member States (MSs) to calibrate CAP measures in relation to their specific objectives. The effects of the new reform at territorial and sector level may, therefore, differ according to decisions taken by each Member State on matters such as the criteria of regionalisation, convergence of direct payments and implementation of greening measures.<sup>1</sup> The European Commission adopted the first packages of delegated acts and implementing acts of CAP Reform between March and June 2014. The packages support the

four basic acts adopted in 2013 by the European Parliament and the Council, and allow Member States to draft national legislation for implementation of the new Common Agricultural Policy.

The CAP reform should not be considered as simply a “continuation” of the old policy; it in fact provides new policy tools appropriate for the challenges of European society today. The main challenges are to improve the sustainability of the agricultural sector, and various levels of action have been identified: economic (including food security), environmental (relating to resource efficiency, soil and water quality and threats to habitats and biodiversity) and territorial. Since the role of the CAP is to provide a policy framework that supports and encourages producers to address these challenges while remaining coherent with other EU policies, this translates into three long-term CAP objectives: viable food production, sustainable management of natural resources and climate action and balanced territorial development (European Commission, 2013a).

Since publication of Regulation (EU) 1307/2013, the lengthy debate in academic and farming circles on how best to pursue these objectives has been replaced by preliminary assessments of the new CAP which consider the economic and environmental implications for farm competitiveness at regional level. The new CAP in fact represents a compromise between members of the Trilogue (the European Commission, the European Parliament and the Coun-

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<sup>1</sup> Reg. EU No. 1307/2013 establishes that Member States may decide to apply the basic payment scheme at regional level (regionalisation), while payment entitlements, at national or regional level, must move towards a more uniform value per hectare (internal convergence).

cil) and it establishes political mechanisms which will regulate farm subsidies and affect farmer behavior for the next seven years. Highest levels of concern regard the rules on the Green Direct Payment (greening) because of their potential impact on farm production strategies and environmental performance. While Single Farm Payments (SFP) do not directly influence production choices, greening measures force farmers to take production decisions on land allocation and sustainable production methods on the basis of costs and market dynamics. For individual farms, making production decisions considering farm structure and local markets dynamics is a sensitive issue. The Commission itself recognizes the difficulty of representing the effects of greening for the different types of farms across different farming areas of Europe (Langrell and Vard, 2013).

The scientific community has developed several models to assessing the economic impacts of environmental measures included in the CAP at regional level (Jayet et al., 1992; Jayet, 2012; Lacroix and Thomas 2011; Louhichi et al., 2010; Röhm and Dabbert, 2003; Zimmermann et al., 2009).

Usually, the analysis of the agri-environmental measures are based on aggregated data at the expense of important information regarding farm characteristics (Hazell and Norton, 1986; Peerlings and Polman, 2008; Efstroglou et al., 2011). The methodology more used to represent in a detailed manner the farm characteristics (i.e., economic objective, resource availability, production set and activity constraints) is the mathematical programming (Paris, 2011). The main limitation of applying this approach at a regional level is that for evaluating the responses of a wide group of farms towards new market and policy scenarios, a huge amount of information is needed, such as all the specific information about the agronomic and resource relationships that distinguish each farming system. Therefore, reasons of cost, timing and information availability make difficult the use of this approach for individual evaluation, requiring researchers to opt for more aggregated models and sacrifice the analysis realism (Topp and Mitchell, 2003; Acs et al., 2010; Arfini and Donati, 2013). At the same time, the concerns about the effectiveness of the agricultural policies and their ability to reach the expected objectives have boosted the demand by policy makers for economic tools addressed to in-depth regional ex-ante and ex-post analysis (Arfini, 2005).

During the last decade, the most relevant methodology for evaluating the effects of the CAP instruments on the dynamics of the agricultural activities and farm economic variables, both for ex-post and ex-ante analysis, is the positive mathematical programming (PMP) (Heckeley et al., 2012; Paris and Howitt, 1998). The main contribution of this methodology to agricultural economics is due to its capacity to use, at the greatest level of extent (i.e., detail) the information included in the agricultural statistical data. This methodology can provide clear, understandable and, thus, useful results to policy makers responding to a large spectrum of policy analysis needs. Thanks to its capacity to reproduce the farmer's behavior, PMP can be applied also in contexts poor of information, as usually happen with agricultural database, without the need to know all the farming system specificities.

This paper focuses on the effect of three different CAP rules on farm decision outcomes in land allocation: (i) "convergence", (ii) "regionalisation" of direct payments and (iii) three greening obligations set out by the reform proposals as crop diversification, maintenance of permanent grassland and establishment of the Ecological Focus Areas (EFA). In order to compare the different potential impacts on production (land use) and economic wellbeing on farms located in the plain of Emilia-Romagna region (Italy), the paper evaluates different hypotheses of convergence of direct payments and greening implementation according to both the preliminary proposals elaborated separately by Commission, Council and Parliament, and the CAP Reform approved by the Council. The assessment of the CAP reform post-2013 is made by a model based

on PMP. The farms covered by the assessment exercise appear in the Italian FADN database 2011, the evaluation is carried out at farm level using the FADN weighting system. The PMP model provides a wide set of information on the modification of land use and the effects on the farm economic variables, which will help policy makers and stakeholders understand the dynamics introduced by the revision of the current CAP mechanisms.

## 2. Direct payments and greening in the CAP post-2013

Key strategic objectives of the new CAP are sustainable food production, balanced territorial development, crop diversification and the sustainable management of resources. The objective is to ensure the production of public goods and counter the effects of climate change (Hart and Little, 2012; Matthews, 2012). Direct payments continue to be the main support instrument for EU farms and the Commission has opted for the regionalisation and internal convergence of direct payments (EC, 2011) in order to make the distribution of funds between Member States and between regions and farms more fair and equitable.

Unlike the Commission proposal, both the Council and Parliament stressed that Member States should be allowed to differentiate the unit value of payment entitlements even after 2019, taking historical factors into account. However, in the Trilogue negotiation, this possibility was subject to the constraints that no payment entitlements in 2019 have a value lower than 60% of the average value. Moreover, during the Trilogue, it was proposed an internal convergence mechanism similar to the external convergence between Member States (Irish model): farmers with payments below 90% of the national average payment per hectare will have their payments raised by at least one third of the difference between their current payment and 90% of the national average by 2019, with a minimum payment of 60% of the national average per hectare by 2019. Another derogation from the Parliament and Council, introduced in the final agreement, concerns the differentiation for green payment as a share of the basic payment. Therefore, the application of the convergence of direct payments has become much more flexible in the final agreement compared to the Commission proposal (Appendix A).

In the final regulation those Member States that currently maintain allocations based on historic references may choose from different options: according to the regionalisation criteria chosen they may take a national or a regional approach, and they can choose between achieving a regional/national rate by 2019, or applying the Irish model convergence. The amounts available to farmers receiving more than the regional/national average will be adjusted proportionally, with an option for Member States to limit any "losses" to 30% (EC, 2013b).

The effects of redistribution depend on the criteria used to define "homogeneous regions" and the method of convergence. The regionalisation process may be based on existing "administrative regions" or other territorial divisions taking into account objective criteria such as altitude, agrarian regions or intensity of production. A further possibility, chosen by Italy, is to consider the whole country as a single region. With regard to the convergence of direct payments, Italy has opted for partial convergence based on the Irish model. Italy will also apply by 2019 the optional maximum 30% loss on convergence compared with the initial unit value established in 2015. Among other Member States with current allocations based on historic references, also Belgium, Greece, Spain, Luxembourg and Portugal have chosen the same convergence mechanism of Italy (Irish model and maximum 30% loss). France and Ireland have chosen different criteria of partial convergence while Austria, Netherlands and UK have opted for the flat rate. Most of these countries have chosen, as Italy, to apply the regionalisation at national

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