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**RURAL DEVELOPMENT POLICIES  
AND NON TRADE CONCERNS:  
THE CASE OF ITALY**

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## RURAL DEVELOPMENT POLICIES AND NON TRADE CONCERNS: THE CASE OF ITALY\*

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### **Abstract**

The set of policy tools that the EU puts under the heading of Rural Development is extremely heterogeneous and brings out the need to discuss the actual consistency of such tools with the EU position on NTCs in WTO negotiations. Examined in the present work are the Rural Development Plans (RDPs) and the Regional Operational Programmes (ROPs) recently approved by the European Commission for the Italian Regions. The analysis is of a purely qualitative type and is based on currently available information, that is, the measures and the relative project typologies approved within the Plans. Taking into account the EU position on NTCs and their relationship with multifunctionality, we look at the policy instruments for Rural Development applied in Italy with respect to their effects on production, production of externalities/non tradables and consistency with the EU position on NTCs. Financial allotment by measure typology is also examined. We found out that the present set of actions that fall under Rural Development is still dominated by a sectoral approach, even in the case of measures aimed at safeguarding the environment. Paradoxically, a modest share of financial resources are allocated to measures aimed at the promotion of rural development and training, that better respond to the NTC objectives.

**Keywords:** Non trade concerns, multifunctionality, rural development policies.

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## 1. Introduction

The objective of the present work is to examine the consistency of policy tools provided in the area of Rural Development with the position assumed by the European Union (EU) in the World Trade Organisation (WTO) in relation to Non-Trade Concerns (NTCs), with special attention on their application in Italy.

Most of the support measures applied in the EU with the purpose of promoting rural development were designed taking into account the diverse functions attributed to agriculture in the “European Model of Agriculture” (EMA). Particularly, we refer to the Rural Development policies, the “second pillar” of the Common Agricultural Policy (CAP), that took shape following the reform defined in Agenda 2000. The policy framework for Rural Development support and, specifically, the list of available measures and their implementing rules is outlined in the Regulation (EC) 1257/1999 and in the Regulation (EC) 445/2002. The set of policy tools that the EU puts under the heading of Rural Development is not completely new, what is new is their linkage with multifunctionality. Traditional, sector-based measures are integrated with others aimed at favouring the agri-forest environment (former accompanying measures); room was made, at least potentially, also for more innovative measures aimed at diversifying rural activities and improving living conditions in rural areas.

The set of measures activated, and the typologies of projects foreseen within measures, is quite varied due to Member States’ differing perception of rural areas, which in turn depends on the different social and environmental conditions of rural areas themselves. Although those measures are supposed to be minimally trade-distorting (they are comprised in the Green Box) such heterogeneity could imply diversified effects on the level of agriculture primary and secondary production, bringing out the need to discuss the actual consistency of such tools with the EU position on NTCs. More explicitly, it is expected to find scarce consistency between tools employed, objectives enunciated by the EU in the area of internal support for agriculture and rural areas and its negotiation position in the WTO arena.

Examined in the present work are the Rural Development Plans (RDPs) and the Regional Operational Programmes (ROPs) recently approved by the European Commission for the Italian Regions. The Italian case is interesting for several reasons: for the strong decentralisation of its structural policy; for the co-presence of territorial, structural and environmental elements of both a Mediterranean and Continental type; and, finally, for its importance as a beneficiary of financial resources allocated through EAGG Funds.

The analysis is of a purely qualitative type and is based on currently available information: activated measures and related project typologies comprised in the Plans.

The paper is structured as follows: section 2 describes the EU position on NTCs and their relation with multifunctionality. A typological classification of the tools for Rural Development is proposed in section 3. Section 4 examines Rural Development policies in Italy, such tools are analysed in function of their output effects, production of externalities/non tradables goods and consistency with the EU position on NTCs. Finally, financial allotment by measure typology is examined, taking into account the characteristics identified in the previous section. Concluding remarks are pointed out in section 5.

## **2. The EU vision of multifunctionality and non-trade concerns**

The EU has associated its position concerning multifunctionality with the acknowledgement of a European Model of Agriculture. Such model refers to an agriculture whose role in modern societies is not limited to the production of healthy, quality food, but includes the preservation of the environment, the care of the landscape, the protection of the territory and the capacity of keeping population and workers in the rural and agricultural areas (European Commission, 1999a). Since the main elements (or functions) underlying the EMA (rural development, environmental protection, food safety, safeguarding of local traditions and culture) overlap with many of the issues arisen within NTCs in the WTO negotiations, the EU assumes that multifunctionality and NTCs fully coincide (Lankosky, 2000).

Although the overlapping of the two terms is quite pronounced, there is disagreement over the inclusion of Rural Development among the “side” (or “secondary”, as they are often referred to) products of agriculture (Burrell, 2001). Besides, in the WTO negotiation the debate is clearly circumscribed only to NTCs, while the term “multifunctionality” is nowhere mentioned in official documents.

The EU idea of multifunctionality was developed beginning with the explicit identification of agriculture as the mainstay of rural society (European Commission, 1989), as was re-launched by the Commission with the CAP reform approved with the Berlin Agreement in 1999. Agriculture is put at the very centre of the scene in the EU documents. A prevailing role as supplier of environmental and other non-food services is assigned to agriculture, specially in remote areas with few other economic alternatives, in areas with lagging economic development and with environmental constraints.

In the international arena the current debate focuses on the possibility of applying special exceptions to support in the name of the NTCs and, in particular, on the extent of such exceptions. As a consequence, one might presume that the NTCs (and multifunctionality) are being used as a “new” justification for enduring agriculture support (Bohman et al., 1999; Massot Marti, 1999; Reig Martinez, 2001; Velazquez, 2001), although in some cases necessary in order to preserve the production of public goods and the positive side effects of economic activity that the market does not reward.

From the statements made by various countries in the negotiation process a basic agreement emerges on the legitimacy of the NTCs, but opinions and positions differ on the most appropriate instruments for achieving specific goals. Some countries (Norway, Japan and the EU itself) call for greater flexibility in domestic support policy design, while others (the Cairns Group and the USA) promote the mere application of the Green box policies. There are calls also for narrowing the criteria for Green box eligibility (Swinbank, 2001)

The EU position is not among the most radical, but does appear to be rather ambiguous. On one hand it emphasises that policy instruments aimed at favouring the NTCs should include direct support measures that are “transparent and do not cause much distortion on trade”. In other words, policy instruments comprised in Green box and thus not subject to the domestic support reduction commitments agreed within the Uruguay Round Agreement on Agriculture (URAA). On the other, the EU proposes a review of the criteria for the definition of the Green box to take into account the non-food related objectives assigned to agriculture, as well as the

preservation of the Blue box (Kennedy *et al.*, 2001; Burrell, 2001). Up to now, the EU has not specified what kind of revision the EU is willing to see and this lack of specific requests makes its position even weaker (Swinbank, 2001).

Most of the instruments directly associated to the safeguarding of the secondary functions of agriculture, and then to NTCs, are those applied within the Rural Development policies, the “second pillar” of the CAP. These instruments are precisely specified in the Green Box, within the government-funded programmes, not implying transfer from consumers and not involving price support to producers. In fact, in Article 6 of URAA Annex 2 is listed a set of “green” income support measures to farmers that involve, among others, structural adjustment intervention provided through producer and resource retirement programmes, investment aids, payments under environmental programmes and regional assistance programmes for less favoured areas<sup>1</sup>.

Although this policy instruments are intended to be minimally trade-distorting, doubts remain regarding their “neutrality” in terms of production or trade. Agricultural research funding, incentives to structural adjustment, like investment in the processing and marketing of agricultural products do have effects on production and trade. Being their effects not directly associated to the level of production has contributed to a greater acceptance and consequently to the inclusion of the Rural Development policies in the Green box (Anania, 1996).

The Rural Development policies were primarily conceived as tools aimed at reinforcing and safeguarding the agriculture sector within rural areas thus allowing a well-balanced development among regions. Some of them put the attention exclusively on farming needs and respond to what is called a “sectoral approach”. These measures are expected to have more effects on production and to be less consistent with the objective of enhancing multifunctionality. Other measures have a different rationale that takes into account the needs of rural areas as a whole. They support, among others, the diversification of activities and the creation of better living conditions in rural areas. In this case the Rural Development policy respond to a “territorial approach” and appears, at first glance, more consistent with the objective of safeguarding and stimulating the secondary functions of agriculture (Saraceno, 2002).

Policies that take multifunctionality into account should be consistent with the abandonment of the old production-oriented paradigm of agricultural policy - based on a set of sector-based measures, hinging on income support payments - and the adoption of a “new” paradigm that upgrades the role of Rural Development, shifting resources from market intervention (“first pillar” of the CAP) to intervention in the area of structures, environment and rural activities diversification, the so-called “second pillar” (Sotte, 1997; Buckwell *et. al.*, 1998; De Filippis e Storti, 2001).

Currently, market intervention still dominates the scene, with both compensatory payments and trade protection granted through Common Market Organisations (CMOs) absorbing almost 90% of the CAP budget, while resources assigned to Rural Development barely amount to 10%. Moreover, the most innovative instruments contained in the reform (modulation of

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<sup>1</sup> For full details, see Article 6 and Annex 2 of the Agreement on Agriculture.

direct aids, environmental cross-compliance) were downplayed, since their application has been left to the decision of the single Member States (INEA, 2000; De Filippis, Storti, 2001).

### 3. Rural Development policies in the EU: a typological classification<sup>2</sup>

Support instruments for Rural Development are defined in the Council Regulation 1257/99, which provides for 22 different measures. Those measures have been classified by INEA in 5 homogeneous typologies of intervention on the basis of the priority objectives that they pursue (INEA, 2000): *modernisation of structures* (investments in agricultural holdings, improving processing and marketing of agricultural products, other modernisation measures); *training*; *promotion of rural development* (diversification of agricultural activities and activities close to agriculture; provision of infrastructures and services); *safeguarding and upgrading the environment* (agri-environmental measures, forestry measures, compensatory allowances, other measures for environmental protection); *other intervention*<sup>3</sup>.

Intervention favouring the *modernisation of production and processing structures* includes investment in agriculture holdings, improvement of processing and marketing of agricultural products, setting up of young farmers, and also measures in favour of the mobility of productive factors (early retirement, land improvement and land re-composition). The first two measures are financed only under certain requirements: economic viability of holdings, farmer's adequate occupational skills and competence, compliance with standards regarding the environment, hygiene and animal welfare; presence of adequate market outlets for products concerned<sup>4</sup>. Moreover, no support may be granted to intervention measures falling within the scope of support schemes implemented under CMOs. This condition has turned out to be important for certain key sectors of Italian agriculture (wine, fruit and vegetables and olives).

Investment support measures have the purpose of favouring the rationalisation of such activities, improving farm competitiveness, with special attention to environmental concerns. Particularly, they pursue the following goals: to adjust supply to current market trends by encouraging the development of new facilities; to rationalise marketing channels; to promote innovation; to improve quality and food safety and to protect the environment.

*Training* measures aim at improving the professional skills of farmers and other actors involved. Innovative initiatives are provided, such as long-distance training, individualised training assistance and direct funding for individual beneficiaries of training courses.

The typology *promotion of rural development* includes a highly heterogeneous set of tools. Particularly: marketing of quality agricultural products; diversification of activities in the agricultural sector; encouragement of tourist and handcraft activities; setting-up of farm relief and farm management services; basic services for rural economy and population; renovation of

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<sup>2</sup> These typologies were identified in INEA (2000), adjustments were made in order to ease the analysis.

<sup>3</sup> This includes plans evaluation and other intervention measures referred to the previous programming period (1994-1999).

<sup>4</sup> In general, the regulation does not allow support that may increase the supply of products without a corresponding demand. Therefore, particular attention has been paid to the risk of producing goods with clear problems of surplus at the EU level, in particular milk, cereals, wine, meat and certain fruit and vegetable products.

villages and protection and conservation of rural heritage; water and irrigation management in agriculture; development and improvement of rural infrastructure connected with agricultural development; rebuilding of damaged agricultural buildings and settings and financial engineering.

As a general rule, intervention funded through these measures must not overlap with other measures (in particular, in the area of support for farm investment and with support granted by the other Structural Funds). Nonetheless, investment on farms can be funded, provided that it does not directly affect the productive elements of the farm itself (for example, agri-tourism may be funded).

Regarding *environmental intervention*, measures provided by Reg. 1257/99 basically follow what was implemented with Regulations 2078/92 and 2080/92. In this typology have been included compensatory allowances for less favoured areas, that address more directly than in the past environmental issues, as well as a group of measures for the promotion and development of rural areas, specifically aimed at the environmental protection and at the conservation of natural resources.

Compared with measures provided by Reg. 2078/92, the new set of agri-environmental measures is meant to simplify the operative framework, leaving wide room to the planning action of the Member States. Agri-environmental commitments are twofold, they shall involve more than the application of usual good farming practice and shall provide for services which are not provided for by other support measures, such as market supports or compensation allowances. In this way, the regulation ensures that support provided in favour of farmers effectively is conceived as a compensation for the provision of “additional” environmental services.

## **4. Rural Development Policies in Italy**

### **4.1 Diversification of Italian agriculture and EU support**

In 1999 Italy received 12.5% of EAGGF-Guarantee outlays and more than 24% of overall EAGGF-Guidance expenditure, ranking third in terms of market support and first in terms of expenditure for structural policies<sup>5</sup>. Although the Italian agriculture is very strong at the European level, and even enjoying a significant support through CMOs, it is also widely sustained by structural policies and policies for rural development.

In certain, rather limited, areas, Italian agriculture is highly integrated with the rest of the economy (e.g. the Po Valley and a few other, mostly coastal, areas). The modernisation process that affected the country in the 1960s and 1970s, together with the EU’s generous policy of support, have made agriculture in those areas one of the richest and most competitive in the EU. Agriculture is integrated with upstream and downstream sectors, in a systemic way, and increasingly involved in the process of the internationalisation of agricultural markets (Fabiani, 1995). However, the rest of the territory in Italy is extremely differentiated both in economic and social terms, and it requires highly specific forms of intervention. Certain regions are

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<sup>5</sup> The two shares correspond to far distant figures in absolute terms: in the case of the EAGGF-Guarantee, 12.5% of overall Community spending is equal to slightly more than 5,000 millions euro, while in the case of the EAGGF-Guidance, 24% amounts to just 1,340 millions euro (INEA, 2001).

included in Objective 1, and as such they are considered “disadvantaged” by definition; some areas are mountainous, other territories are not properly provided with infrastructures, others present both densely populated and nearly depopulated zones. In these contexts agricultural activity plays a crucial role not only and not so much in terms of food production - which probably could be done with greater efficiency and less public support in the plains areas of the country - as in many other functions such as keeping the population in marginal areas, protecting the environment, safeguarding the landscape and preserving social and cultural traditions. Furthermore, as often happens in the industrialised countries, the earlier generation of farmers who has no real income alternatives are being replaced in agricultural and rural areas by non-farmer residents who provide them with a new, residential function, as well as new part-time pluriactive farmers, whose income diversification is their strength, focussing on the recreational and cultural function that can be associated with the primary activity (agri-tourism, “food paths”, “wine paths”, camping sites, rural museums, etc.).

As it will be described in the following sections, the diversification of Italian agriculture is only in part reflected in policies for rural areas. From an analysis of the RDPs and ROPs presented by the Italian regions what, in fact, emerges is a rather composite picture, where prevail some of the measures provided.

#### **4.2 Intervention provided and degree of correspondence to NTCs**

The typologies of intervention described above are used in this section to analyse in detail the specific intervention tools financed within each measure (projects), approved in Italy within the RDPs and ROPs<sup>6</sup>.

Such analysis is aimed at identifying three main characteristics of such projects:

1. the project capacity to produce direct effects on production, prices and/or the level of the use of inputs;
2. the possible production of externalities and/or not tradable goods as a by-product of the economic activity enhanced by the project, i.e. the safeguarding of the environment, the care of the territory and the preservation of cultural heritage;
3. the extent of consistency to the principles enunciated by the EU regarding the most appropriate policies for favouring NTCs.

Such characteristics are synthetically reported in table 1. The criteria followed in the evaluation is largely subjective, and thus open to debate.

The table shows that projects approved within each measure are widely differentiated and specific, also in terms of the three characteristics described above. Such a differentiation has been taken into account using a range of grading which goes from “- -”, for minimal low degree of de-coupling/non tradable production/consistency, up to “++” for the highest degree of de-coupling/non tradable production/consistency. It is important to underline that valuation in some cases can be very difficult due to the nature itself of the projects, also because some of them, more evidently than others, associate production objectives with environmental and

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<sup>6</sup> Project typologies were identified by the INEA team taking into account 21 RDPs and 7 ROPs presented by the Italian Regions.

territorial ones. This is the case of projects under the sub-measure “investment for the processing and marketing of agriculture products”, “introduction of new technologies” or “innovative investment” or even the case of projects under the sub-measure “water resources management”.

Some projects, such as those included in the sub-measures “investment in farms” and “investment for the processing and marketing of agriculture products”, have a clear sectoral dimension, being their main objective the improvement of farm competitiveness through modernisation. Nevertheless, the EU regulation foresees that investment measures have the objective to preserve and improve the environment and animal welfare standards and to promote the diversification of rural areas. All these “objectives” are associated to the externalities and public goods – which in the table we call “non tradable goods” – derived from the secondary functions of agriculture.

Projects regarding intervention on farm productive systems, variety conversion, replanting, livestock and land purchase could have effects on production, especially in the long run, and could be considered potentially coupled. Generally speaking, they do not lead to the production of non tradables, and a low degree of consistency with EU position on NTCs it could be attributed to them. Nonetheless, in local, well defined areas, where agriculture is the main rural activity, this kind of projects could improve their economic viability and contribute to the maintenance of employment. For these projects, the area of intervention becomes relevant in determining their effectiveness, not only in terms of (welcome) effects on output but also in terms of the secondary functions of agriculture that are preserved.

Other projects, like investment on systems for waste recovery, do not have effects on the level of output and do produce non tradables. In other cases the production of non tradables seems to be highly variable. Moreover, some of them, like the introduction of new technologies or innovative investments, may produce not well defined effects on the production of non tradables, the result depending on the level of technology involved.

Territory-based projects, by definition oriented to improve rural development, have been considered to have no direct effect on output (de-coupled), enhancing the production of non tradables, and thus consistent with the EU position. This is the case, for example, of sub-measures like “essential services for rural economy and population” and “diversification of activities”.

With regards to agri-environmental measures, all projects have positive effects on the production of non tradables (externalities), but some of them do have effects on agricultural output. The evaluation in terms of their consistency with NTCs principles is highly positive. For their own nature, these measures are necessarily sector-based, though with major impact on territory and resource conservation. However, the main problem with agri-environmental measures is that they have been conceived as “accompanying measures” to market policies, and they kept this nature even after Agenda 2000 put them within the RDPs. This means they respond to the “compensatory” principle rather than being conceived as a pro-active policy: farmers are compensated for the loss of income generated by the voluntary implementation of agri-environmental measures. As a consequence, agri-environmental measures tend to be conceived by farmers more as an income integration than as an incentive for the improvement of the environment. This approach, by the way, turns the “polluter pays” principle upside

down: farmers do not pay for the damage, rather they are paid not to create (or worsen) the damage.

### **4.3 Financial allotment by measure**

Rural Development programming in Italy features different modalities for Regions under Objective 1 and those outside Objective 1. In the latter all intervention addressing agricultural structures and rural development is implemented within the RDPs, co-financed by the EAGGF-Guarantee Fund. Instead, in Regions under Objective 1 Rural Development policies are co-financed by the EAGGF-Guidance Fund and are integrated with the programming of other Funds within the Community Support Framework (CSF) and the Regional Operative Programmes (ROPs)<sup>7</sup>.

The administrations responsible for the scheme and fulfilment of policies at the territorial level (Regions) have chosen to activate a great number of measures among those provided by the EU regulations. As a consequence, each Plan displays a wide variety of intervention tools with relatively scant financial support; or, at least, support is not adequate to achieve the objectives associated with them. In spite of this, some measures are considered pivotal in the overall strategy of the Plans.

In order to reach a clearer understanding of the different policy tools that will be carried out up to 2006, as well as the possible implications in terms of NTCs, it is important to focus on the relevance of the single measures according to the financial resources allocated to them and to shift the analysis to a different scale, that is to the principal project typologies provided therein. To that end, in table 2 is reported the distribution of the public outlay provided for the 2000-2006 programming period for the typologies of intervention described in section 3.

About 34% of programmed public expenditure (either at EU and national level) is allotted for funding intervention for the modernisation of production facilities. Financial support is particularly concentrated on incentives to farm investment (17% of the planned expenditure) and structures for the processing and marketing of agricultural products (9%).

Generally speaking, projects provided for in these measures focus on farm production systems, construction or modernisation of production structures (buildings used in production activities, cattle sheds and others), purchase of machinery and equipment, investment in crop and variety conversion. They thus represent “traditional” intervention already carried out for a long time in Italy, with a relatively greater effect in the level of production (although in many cases in the long run) and, probably, a limited capacity to produce non tradable goods (see table 1). However, it is worth pointing out that support is granted also to investments for environmental protection (i.e. investments that address energy savings), for improvement in the quality of food, animal welfare and labour conditions, as well as the recovery and recycling of agricultural and livestock wastes.

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<sup>7</sup> The Objective 1 regions also had to draft a RDP limited to the former measures for accompaniment and to compensatory allowances.

Severely limited resources have been assigned to intervention in land improvement at the national level<sup>8</sup>. Projects aimed at the improvement of land management include hydraulic and agricultural improvements, land reclaiming and drainage, erosion control, repair of inter-farm roads and construction of works for water supply or for the agronomic improvement of pastures.

All in all, the largest share of resources is assigned to measures addressing the protection and enhancement of the environment. In fact, almost half the entire amount of the EAGGF Fund resources (both Guidance and Guarantee) in our country is assigned to them (a full 6.5 billion euro for the new seven-year programming period). In this typology agri-environmental measures prevail, with slightly less than 30% of public expenditure assigned to them.

Intervention aims also at the support of biological and integrated production, introduction or improvement of grazing, restoration and conservation of natural areas, the safeguarding of biodiversity and the reduction of polluting inputs.

It needs to be specified that the expenditure provided for these measures is conditioned by the commitments assumed in the previous planning period (1994-1999), that supplied a less binding normative framework as compared to the new regulations (now requiring the fulfilment of sound agricultural practice, new criteria for the calculation of premiums and the ex-ante and ex-post monitoring of effects).

A lesser share of resources goes to the remaining measures for environmental protection, equal to 17% of the programmed public expenditure: other forestry measures, afforestation of agriculture areas, environmental protection and compensatory allowances. The first one includes, among others (see table 1), interventions to foster production, processing and marketing of wood (to some degree linked to production). The second one provides for incentives for afforestation based on premiums differentiated according to farm profitability. In this case higher premiums are granted to more intensive areas, provided that in such areas the loss of income due to the abandonment of agricultural activity is greater than in mountainous, less favoured and protected areas. This approach, while fully correct from an economic point of view, risks provoking a concentration of investments in plain areas, characterised by an intensive agriculture.

Overall, measures for environmental protection, while being under many aspects “sector-oriented” and partially “coupled”, tend to address environmental benefits and, as a consequence, the production of positive externalities, jointly with the production of agricultural products. Therefore, especially for this reason, they can be considered particularly effective in supporting the EU position on NTCs.

Intervention aimed at the promotion of rural development absorbs a share of expenditures equal to 18% of the entire amount. More specifically, measures aimed at increasing the stock of services and infrastructures receive 14% of the programmed public expenditure, while intervention in economic diversification is assigned only a residual share of the available resources (4%). Among the former, those funding intervention pertaining to rural roads,

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<sup>8</sup> The Member States and, consequently, the regional administrations are completely free to choose the overall package for intervention deemed most suited to the needs of the territory. The only measures to be included compulsory in the Plans are agri-environmental measures.

aqueducts and power lines are of some importance. It needs to be pointed out the public, collective nature of infrastructures, even when they are located on farms, which provides them with the characteristics of common property resources. Other measures in this category have to do with village renewal and protection of the rural heritage – clearly linked to the safeguarding of the cultural values of the rural areas – as well as the promotion of services in favour of the local economy and rural population – directly related to the safeguarding of the territory and to the increase of the residents' welfare. Despite the significant consistency of these types of intervention objectives *vis-à-vis* the roles assigned to agriculture in the EMA, an absolutely marginal portion of resources is allotted to them (approximately 2% overall).

The second set of measures included in the “promotion of rural development” typology deals with intervention in favour of economic diversification in rural areas. They do not have effects on the level of output and, even if they might have some, in most cases they incentive alternative forms of income and employment in rural areas thus stimulating the production of non-tradables. The measure with the highest financial support in this category is the diversification of agricultural activities, which provides for intervention on farms in order to promote agri-tourism and services related thereto.

In addition to agri-tourism, support is provided for on-farm handcrafts, activities related to wild life and hunting, educational farms and horse-therapy. Less widespread are actions of an off-farm nature, such as the creation of agri-tourism circuits, “wine paths”, “food paths” and educational circuits; the realisation of information booths; the realisation of consortium structures aimed at qualifying and diversifying the supply of products and services. The goals and desirable effects of this latter type of intervention, while focusing attention on farms, aim at the supply of types of services that do not always find adequate remuneration on the market (like environmental protection or cultural heritage preservation).

Finally, it is worth pointing out the off-sector dimension of the incentives to tourism and handcrafts, which provide for aids to enterprises in tourism and handcrafts, and for intervention for territorial promotion and for structures and services of a collective nature. This measure has positive implications above all in terms of employment, more than in terms of production of *pure* non tradables, since it provides financial incentives directly supporting economic activities. However, also in this case the limited amount of financial resources (less than 1% of public expenditure) leads to foresee a modest impact.

## **5. Concluding remarks**

The analysis of measures applied in Italy within the RDPs and the ROPs (2000–2006) has highlighted some interesting cues, in terms of their degree of consistency with the principles of de-coupling, targeting and transparency as stated by the EU itself in relation to “desirable” support measures in favour of NTCs.

The measures for which most financial resources have been allotted are those aimed at the modernisation of production structures and to safeguarding and improving the environment. In the case of measures aimed at the modernisation of production structures, the intervention “target” is clearly the agricultural sector; they are meant more to improve competitiveness and to increase the profitability of farms rather than to support non tradables. Such measures affect production, prices or the amount of inputs. Moreover, despite the fact that eligibility criteria

were set to forbid intervention in sectors and areas that contribute to the EU production surplus – or rather just because of such specificity – those measures do not fully comply with the definition of “de-coupled measures”. Said that, it is also important to highlight that investments aimed at the modernisation of structures are supposed to pursue employment in rural areas, improvement of labour conditions and consequently a better welfare system, a reduction of pollution in the rural environment. However, given that the increase of farm income and competitiveness is the main goal of these measures, their production appears uncertain, as well as their effectiveness in achieving non-market objectives.

With regards to measures aimed at the environmental safeguarding, it was observed that the highest share of financial resources is assigned to agri-environmental measures. Conceived as “accompanying measures” of the former CAP market policy, they have been recently included into the Rural Development policies. It is worth noting that alongside the CAP recent evolution, from the Mac Sharry reform in 1992 to Agenda 2000, agri-environmental measures have gained in importance and in financial resources. The objective of these measures is to promote the spread of environmentally sound techniques through targeted intervention and, therefore, the creation of side effects as a result of production activities. Although some of the implemented actions have a specific environmental goal, most of them have been conceived in a way to be fully overlapped with the old accompanying measures. On one side it is clear enough that payments for agri-environmental measures reward the production of positive externalities for which society is willing to pay (care of landscape, rural amenities). On the other, they are conceived also as incentives to limit the production of negative externalities (use of polluting inputs, organic farming, and so on). One could object that in these cases the simple application of the *polluter pays principle* would be more appropriate and transparent. Moreover, the main limit of agri-environmental measures is their “double” nature: the integration of environmental objectives into the agricultural policy of the EU has been a success in terms of re-gaining consensus for the agricultural policies, but it does not fully address the specific issues of the environmental protection. A truly honest environmental policy for rural areas should be of a more comprehensive nature, not being constrained only into sector boundaries.

Paradoxically, measures aimed at the promotion of rural development and training, that better respond to the NTC objectives, are those for which the least amount of financial resources is located. This is the case for the most innovative set of measures, which provide for territorial intervention rather than intervention in the agricultural sector. Those measures are thus freed from production constraints and therefore fully addressing the objective of shifting resources from the first to the second pillar of the CAP, according to a territorial approach to rural development. Their targets are the same elements of the EMA that the NTCs refer to. This is an evidence of the long way to go in the direction of a deep change in the common policies for rural areas and in the building of a “second pillar” which is really different and of the same “dimension” of the first – sector based – pillar of the CAP.

All the considerations made here need, of course, to be taken with all due caution, as long as they rest on a purely qualitative analysis. Nevertheless, it is still possible to maintain that they lead back to a more general question, namely that the present set of actions that fall under Rural Development is still dominated by a sector-based intervention. A genuine rural policy is still to come and at the moment one can find only “good seeds” in the RDPs. There is some good potential in those seeds, but they need some courage (both on the financial and to the political

side) in order to give good plants, that is to move from the old to a really new paradigm. However, it is important to point out that even the current set of Rural Development policies represents a “relatively new” element within the CAP, which is not just a mere negotiation position in the international arena, but respond to a growing pressure coming from society. In the future, once strength and true impact capacity of rural development policies have been tested, they will most likely gain more room.

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**Table 1: Measures provided for in Italian structural plans (RDPs and ROPs) by typology of intervention**

| Measures and sub-measures   | Typologies of projects                                     | Effect on output | Production of non tradables | Degree of consistency with NTCs |
|---|--|------------------|-----------------------------|---------------------------------|
| <b>Modernisation of production structures</b>                       |  |                  |                             |                                 |
| <i>Investment in farms</i>  |  |                  |                             |                                 |
|   | Intervention on farm productive systems                    | ++               | --                          | -                               |
|   | Variety conversion   | ++               | -                           | -                               |
|   | Replanting   | ++               | -                           | -                               |
|   | Construction/improvement of farm buildings                 | +                | +                           | --                              |
|   | Livestock purchase   | ++               | -                           | --                              |
|   | Land purchase  | ++               | -                           | --                              |
|   | Machinery and equipment purchase                           | +                | -                           | --                              |
|   | Intervention for farm irrigation                           | ++               | ++                          | --                              |
|   | Intervention for land improvement                          | ++               | ++                          | --                              |
|   | Intervention for farm diversification                      | +                | ++                          | +                               |
|   | Accident prevention  | --               | ++                          | ++                              |
|   | Introduction of computer equipment                         | --               | --                          | --                              |
|   | Systems for waste recovery/processing                      | --               | ++                          | ++                              |
|   | Systems for saving energy                                  | -                | ++                          | ++                              |
| <i>Investment for the processing and marketing of agr. products</i> |  |                  |                             |                                 |
|   | Plants improvement and rationalisation                     | ++               | ++                          | --                              |
|   | Recycling waste products plants                            | --               | ++                          | ++                              |
|   | Purification and waste removal systems                     | --               | ++                          | ++                              |
|   | Introduction of new technologies                           | +/-              | +/-                         | +/-                             |
|   | Innovative investments                                     | +/-              | +/-                         | +/-                             |
|   | Introduction of systems for product quality control        | --               | --                          | --                              |
|   | Investments for improving hygienic and sanitary conditions | --               | ++                          | ++                              |
|   | Plants for packaging of products                           | +                | --                          | --                              |
| <i>Setting up of young farmers*</i>                                 |  |                  |                             |                                 |
| <i>Early retirement*</i>  |  |                  |                             |                                 |
| <i>Land improvement</i>   |  |                  |                             |                                 |
|   | Agricultural hydraulic maintenance                         | +/-              | +                           | ++                              |
|   | Land reclamation and drainage works                        | +/-              | ++                          | ++                              |
|   | Erosion prevention works                                   | --               | ++                          | ++                              |
|   | Flood prevention works                                     | --               | ++                          | ++                              |
| <i>Reparcelling</i>   |  |                  |                             |                                 |
|   | Farm reparcelling  | --               | -                           | ++                              |
|   | Plans for reparcelling                                     | --               | ++                          | ++                              |
|   | Surveys and feasibility studies                            | --               | ++                          | ++                              |

\* Measures which provide for the simple granting of premiums to beneficiaries

**Table 1 (cont..)**

| <b>Measures and sub-measures</b>   | <b>Typologies of projects</b>  | <b>Effect on output</b> | <b>Production of non tradables</b> | <b>Degree of consistency with NTCs</b> |
|--|--|-------------------------|------------------------------------|--|
| <b>Training</b>  |  |                         |                                    |  |
| <i>Training</i>  | Courses  | --                      | ++                                 | ++                                     |
|  | Tutoring   | --                      | ++                                 | ++                                     |
|  | Internships  | --                      | ++                                 | ++                                     |
|  | Extension services   | --                      | ++                                 | ++                                     |
|  | Demonstration visits   | --                      | ++                                 | ++                                     |
| <b>Promotion of rural development</b>  |  |                         |                                    |  |
| <i>Marketing of quality products</i>   |  |                         |                                    |  |
|  | Information networks   | -                       | --                                 | -                                      |
|  | Studies, surveys, projects aimed at obtaining a certification of quality | -                       | --                                 | --                                     |
|  | Systems for product quality control                                      | -                       | --                                 | --                                     |
|  | Investment for the constitution of consortia and/or associations         | +                       | --                                 | --                                     |
|  | Collective infrastructures   | +                       | --                                 | --                                     |
| <i>Diversification of activities in agric. sector and related activities</i> |  |                         |                                    |  |
|  | Farm buildings used for agri-tourism                                     | --                      | --                                 | ++                                     |
|  | Structures and services of a collective nature for agri-tourism          | --                      | --                                 | ++                                     |
|  | Structures and services for recreational and educational activities      | --                      | +                                  | ++                                     |
|  | Promotional activities and territorial information                       | --                      | ++                                 | ++                                     |
|  | Other investments for pluriactivity                                      | --                      | ++                                 | ++                                     |
| <i>Incentives to tourism and handcrafts</i>                                  |  |                         |                                    |  |
|  | Aid to handcrafts enterprises  | --                      | ++                                 | ++                                     |
|  | Creation of centres for handcraft activities                             | --                      | ++                                 | ++                                     |
|  | Aid to tourist enterprises   | --                      | ++                                 | ++                                     |
|  | Collective structures and services for rural tourism                     | --                      | ++                                 | ++                                     |
|  | Intervention for territorial promotion                                   | --                      | ++                                 | ++                                     |
| <i>Start-up of services for management replacement and assistance</i>        |  |                         |                                    |  |
|  | Replacement services   | -                       | +                                  | -                                      |
|  | Management assistance services   | -                       | +                                  | -                                      |
| <i>Essential services for the rural economy and population</i>               |  |                         |                                    |  |
|  | Transport services   | --                      | ++                                 | ++                                     |
|  | Welfare services   | --                      | ++                                 | ++                                     |
|  | Cultural activities  | --                      | ++                                 | ++                                     |
|  | Restructuring of buildings for common and social ends                    | --                      | ++                                 | ++                                     |
|  | Services to the rural economy  | --                      | ++                                 | ++                                     |
|  | Information networks and services  | --                      | ++                                 | ++                                     |

**Table 1 (cont..)**

| <b>Measures and sub-measures</b>   | <b>Typologies of projects</b>  | <b>Effect on output</b> | <b>Production of non tradables</b> | <b>Degree of consistency with NTCs</b> |
|--|--|-------------------------|------------------------------------|--|
| <i>Financial engineering</i>   |  |                         |                                    |  |
| <i>Renewal and improvement of villages and protection and safeguarding of rural heritage</i>                       |  |                         |                                    |  |
|  | Restructure of rural buildings and dwellings                                   | --                      | ++                                 | ++                                     |
|  | Restructure of rural hamlets   | --                      | ++                                 | ++                                     |
|  | Restoration of historical, artistic and cultural goods                         | --                      | ++                                 | ++                                     |
|  | Surveys, studies and market research   | --                      | --                                 | ++                                     |
|  | Projects for cultural enhancement and local tradition                          | --                      | ++                                 | ++                                     |
|  | Information centres  | --                      | +                                  | ++                                     |
| <i>Water resources management</i>  |  |                         |                                    |  |
|  | Irrigation basins  | +                       | +/-                                | +/-                                    |
|  | Inter-farm irrigation networks   | +                       | +/-                                | +/-                                    |
|  | Catch works  | +                       | +/-                                | +/-                                    |
|  | Hydraulic systematisation  | +                       | +/-                                | +/-                                    |
| <i>Development and improv. of rural infrastructures connected with agric. development</i>                          |  |                         |                                    |  |
|  | Intervention on water supply system  | +                       | ++                                 | ++                                     |
|  | Intervention on rural roads  | -                       | ++                                 | ++                                     |
|  | Intervention on the electrical power network                                   | -                       | ++                                 | ++                                     |
|  | Other infrastructure intervention  | -                       | ++                                 | ++                                     |
| <i>Rebuilding of damaged agricultural potential</i>  |  |                         |                                    |  |
| <b>Safeguarding and upgrading of the environment</b>   |  |                         |                                    |  |
| <i>Safeguarding of the environment in relation to agriculture, forestry and the conservation of nat. resources</i> |  |                         |                                    |  |
|  | Networks for agri-meteorological data recording and environmental monitoring   | --                      | ++                                 | ++                                     |
|  | Environmental maintenance works  | --                      | ++                                 | ++                                     |
| <i>Other forestry measures</i>   |  |                         |                                    |  |
|  | Afforestation of non-farm areas  | +                       | ++                                 | ++                                     |
|  | Start-up of forestry associations  | -                       | ++                                 | ++                                     |
|  | Intervention for enhancing the economic, ecological or social value of forests | +/-                     | ++                                 | ++                                     |
|  | Intervention for fire prevention   | --                      | ++                                 | ++                                     |
|  | Intervention to reconstitute damaged forests                                   | +/-                     | ++                                 | ++                                     |
| <i>Agri-environmental measures</i>   |  |                         |                                    |  |
|  | Development of biological and integrated production                            | +/-                     | ++                                 | ++                                     |
|  | Development of cultivation for vegetable cover                                 | +/-                     | ++                                 | ++                                     |
|  | Increase in organic matter in soils  | -                       | ++                                 | ++                                     |
|  | Permanent grass covering permanent crops                                       | --                      | ++                                 | ++                                     |
|  | Environmental assessment of bovine milk and meat production                    | --                      | ++                                 | ++                                     |

**Table 1 (cont..)**

| <b>Measures and sub-measures</b>           | <b>Typologies of projects</b>                                  | <b>Effect on output</b> | <b>Production of non tradables</b> | <b>Degree of consistency with NTCs</b> |
|--|--|-------------------------|------------------------------------|--|
|  | Farm environmental planning                                    | --                      | ++                                 | ++                                     |
|  | Development of extensive meadowland cultivation                | --                      | ++                                 | ++                                     |
|  | Restoration and/or conservation of natural areas and landscape | --                      | ++                                 | ++                                     |
|  | Set-aside for environmental purposes                           | --                      | ++                                 | ++                                     |
|  | Safeguarding of genetic biodiversity                           | --                      | ++                                 | ++                                     |
|  | Safeguarding of breeds threatened by extinction                | -                       | ++                                 | ++                                     |
| <i>Afforestation of agricultural areas</i> |  |                         |                                    |  |
|  | Increase in permanent woodlands areas                          | --                      | ++                                 | ++                                     |
|  | Increase in tree plantings for protection against erosion      | --                      | ++                                 | ++                                     |

*Source: elaboration of Italian RDP and ROP plans*

**Table 2. Typologies of intervention provided for in Italian structural programmes (ROPs and RDPs) and allocation of financial resources for the 2000-2006 programming period (million euro)**

|   | <b>Programmed<br/>spending</b> | <b>public % of total</b> |
|---|--------------------------------|--------------------------|
| <b>Modernisation of production structures</b>                   | <b>4.618,6</b>                 | <b>33,6</b>              |
| <i>Investments in farms</i>                                     | 2.379,9                        | 17,3                     |
| <i>Processing and marketing</i>                                 | 1.224,6                        | 8,9                      |
| <i>Setting up of young farmers</i>                              | 694,4                          | 5,1                      |
| <i>Early retirement</i>   | 41,7                           | 0,3                      |
| <i>Land improvement</i>   | 41,9                           | 0,3                      |
| <i>Reparcelling</i>   | 236,2                          | 1,7                      |
| <b>Training</b>   | <b>118,8</b>                   | <b>0,9</b>               |
| <b>Promotion of rural development</b>                           | <b>2.480,8</b>                 | <b>18,1</b>              |
| <b><i>Diversification (of which:)</i></b>                       | <b>590,6</b>                   | <b>4,3</b>               |
| <i>Commercialisation of quality products</i>                    | 137,1                          | 1,0                      |
| <i>Diversification of activities in the agricultural sector</i> | 359,9                          | 2,6                      |
| <i>Incentives for tourist and handcraft activities</i>          | 93,6                           | 0,7                      |
| <b><i>Infrastructures and services (of which:)</i></b>          | <b>1.890,1</b>                 | <b>13,8</b>              |
| <i>Services for replacement of and assistance to management</i> | 109,4                          | 0,8                      |
| <i>Essential services for the economy and population</i>        | 167,5                          | 1,2                      |
| <i>Village renewal and protection of rural heritage</i>         | 157,2                          | 1,1                      |
| <i>Water resources management</i>                               | 654,0                          | 4,8                      |
| <i>Development and improvement of rural infrastructures</i>     | 643,9                          | 4,7                      |
| <i>Rebuilding of damaged agricultural potential</i>             | 104,5                          | 0,8                      |
| <i>Financial engineering</i>                                    | 53,5                           | 0,4                      |
| <b>Environment</b>  | <b>6.509,3</b>                 | <b>47,4</b>              |
| <i>Agri-environmental measures</i>                              | 4.021,9                        | 29,3                     |
| <i>Afforestation of agricultural areas</i>                      | 804,1                          | 5,9                      |
| <i>Other forestry measures</i>                                  | 675,0                          | 4,9                      |
| <i>Environmental protection</i>                                 | 453,8                          | 3,3                      |
| <i>Compensatory allowances</i>                                  | 554,5                          | 4,0                      |
| <b>Total</b>  | <b>13.727,5</b>                | <b>100,0</b>             |

\* Not included in the total are resources for evaluation and for certain previous measures.

Source: elaboration of Italian RDP and ROP financial plans