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DIRECT PAYMENTS 2014-2020: A QUALITATIVE METHOD FOR EVALUATING RESOURCE ALLOCATION SCENARIOS IN ITALY

JEL classification: Q18

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Abstract. *The recent inter-institutional decisions about the Common Agricultural Policy (CAP) 2014-2020 introduced a strong national flexibility to the management of European agricultural policy. Italy and the other Member States (MS) play key roles in the allocation of resources from Pillar 1, which establishes the percentages of the financial ceiling that will be assigned to each specific support scheme, from a more target-oriented perspective.*

The need to implement an efficient and effective policy involves an objective and impartial evaluation of the potential effects that could be caused by the application of different measures and this could aid politicians in their decision-making process. The article takes six different allocation scenarios that

combine all of the new typologies of direct payments (mandatory or optional) and proposes a new qualitative method for evaluating the consistency between the possible results and the priorities that were identified by the European Commission (EC).

The purpose is to show how a qualitative evaluation method may be helpful in demonstrating the main potential economic and social effects of certain interesting allocation scenarios and be used to analyse how different combinations of direct payments could affect the Italian agricultural sector in different ways, either achieving or missing certain targets.

Keywords: CAP, direct payments, policy assessment.

1. Introduction

The debate over the Common Agricultural Policy (CAP) 2014-2020 began several years ago. After an extensive public discussion, the European Commission began an inter-institutional debate with the Communication ‘The CAP towards 2020’ (European Commission, 2010), which defined the challenges that are faced by the incoming reform (Greer and Hind, 2012; Swinbank, 2012). In the meantime, the European Parliament (EP), which was involved in the initial definition of the CAP, adopted on its own initiative a report about the reform and its implications for the Europe 2020 Strategy (EP, 2010). These discussions contributed to the debate on the proposals that were presented by the Commissioner for Agriculture and Rural development, Dacian Cioloș, on 12 October 2011¹. In that text, the EU tried to respond to

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¹ European Commission (2011). Proposal for a Regulation of the European Parliament and of the Council establishing rules for direct payments to farmers under support schemes within the framework of the Common Agricultural Policy. COM 625 final/2.

new economic, social, environmental, climate-related and technological challenges by identifying new objectives and new policy measures that could improve the socio-economic condition of European farmers (Huang *et al.*, 2010). Ciolos's proposals confirmed the current CAP architecture (i.e. 2 pillars and 2 funds) and introduced several new elements, especially into Pillar 1, 'Direct Payments'. The need for a better targeting of support, which would improve the quality of spending and remunerate farmers for the public goods that they provide, led to an innovative scheme of direct payments (Westhoek *et al.*, 2013). They will be organised into seven different components, which will be described in detail in the following paragraphs.

The method that was adopted enables the authors to express some preliminary remarks about the future set-up of CAP in each Member State (MS), with special attention being given to Italy. It clearly shows that each allocation scenario of direct payments simulated has different impacts on the expected objectives identified by the European Commission (EC) (Piorr *et al.*, 2009). The article is organised into four parts. After a brief description about the future direct payments scheme and the role of MSs in adopting a broad national flexibility, the CAP objectives and the related indicators of their results are described, and a quantitative simulation of six different allocation scenarios is provided. The qualitative method for evaluating each scenario is then presented and the main findings are discussed, with reference to summary tables.

2. The new direct payments

CAP is currently organised into two pillars, with the first one being related to direct payments and Common Market Organisations (CMO) and the second one being related to rural development policy. Historically, Pillar 1 is the most important pillar in financial terms, and it currently consumes more than 60% of the overall CAP resources (Erjavec *et al.*, 2011; Henke and Coronas, 2011). The current direct payments system, which is known as the Single Payment Scheme (SPS), will be redesigned by the future CAP reform 2014-2020, which has a few similarities to the Swiss scheme (EP, 2010). To this purpose, the Communication '*The CAP towards 2020*' introduced six direct payment components².

During the following months, the European Parliamentary Committee on Agriculture and Rural Development³ and the Agriculture and Fisheries Council wrote their counterproposals and defined another direct payment, which was called the 'redistributive payment'. Finally, on 26 June 2013, the three EU Institutions reached an agreement and approved the new direct payments scheme, which was organised into several components that will come into operation in January 2015 (DEFRA, 2013).

2.1. A brief description of the new direct payments scheme

The new direct payments system will preserve certain features of the current SPS (Tranter *et al.*, 2007). Farmers must own or obtain entitlements⁴ and possess eligible hectares, as well as

² These include the basic payment, the payment for agricultural practices that are beneficial for the climate and the environment (greening), the young farmers' scheme, the coupled support, the payment for areas that have natural constraints and the small farmers' scheme.

³ European Parliament (2013). Decision of 13 March 2013 on the opening of, and on the mandate for, inter-institutional negotiations on the proposal for a regulation of the European Parliament and of the Council establishing rules for direct payments to farmers under support schemes within the framework of the Common Agricultural Policy.

⁴ To hold the new entitlements, farmers must satisfy an 'active farmer test' that is set up by MSs.

observe the cross compliance rules (DEFRA, 2013). The new scheme will be composed of an income support component (the basic payment and young farmers' scheme) and a 'public goods provision' component (greening) (Overmars *et al.*, 2013). As shown later, MSs are able to activate other optional payments (Table 1). This policy choice will determine the financial ceilings

Payment	Mandatory/Optional	Financial ceiling
Basic payment scheme	Mandatory	Residual (68%-18%)
Redistributive payment	Optional	30% max
Payment for agricultural practices that are beneficial for the climate and the environment (greening)	Mandatory	30%
Payment for young farmers	Mandatory	2% max
Payment for areas that have natural constraints	Optional	5% max
Coupled support	Optional	13% max + 2% (support protein crops)
Small farmers' scheme	Optional	10% max (sourced from direct payments scheme)

Source: Regulation (EU) No 1307/2013 of the European Parliament and of the Council of 17 December 2013

for each payment because only the greening percentage is established directly by the EU⁵.

The basic payment and the greening and young farmers' schemes must necessarily be activated by each MS. The basic payment scheme's ceiling is obtained by deducting from the national ceiling the amounts that are utilised for the other (mandatory or optional) payments⁶.

The payment for agricultural practices that are beneficial for the climate and the environment will receive a fixed percentage, 30%, of the annual ceiling. To receive this payment, the farmers must comply with three standards⁷.

The young farmers' scheme will receive a percentage of the annual national ceiling that is not higher than 2%; it provides a payment to farmers with specific features⁸. With regard to the optional payments, the coupled support scheme could be used to maintain levels of production in certain sectors⁹ or in certain regions where specific types of farming or specific agricultural

⁵ Regulation (EU) no 1307/2013 of the European Parliament and of the Council of 17 December 2013 establishing rules for direct payments to farmers under support schemes within the framework of the Common Agricultural Policy and repealing Council Regulation (EC) No 637/2008 and Council Regulation (EC) No 73/2009.

⁶ It could, therefore, vary from a minimum of 18% to a maximum of 68%.

⁷ These include crop diversification (which refers to cultivating at least two or three crops, based on the amount of arable land that is owned), permanent grassland (which does not allow farmers to plough the designated, environmentally sensitive areas), ecological focus area (EFAs) (which refers to maintaining at least 5% of arable land as EFA).

⁸ These features include the following:

- 1) being no more than 40 years of age when submitting the direct payment application;
- 2) setting up, for the first time, an agricultural holding as the head of the holding or setting up such a holding previously during the five years that preceded the first submission of an application to the basic payment scheme;
- 3) respecting further criteria regarding skills and/or training requirements.

⁹ These include cereals, oilseeds, protein crops, grain legumes, flax, hemp, rice, nuts, starch potato, milk and milk products, seeds, sheep meat and goat meat, beef and veal, olive oil, silk worms, dried fodder, hops, sugar beet, sugar cane and chicory, fruit and vegetables and short rotation forestry.

sectors encounter difficulties and are particularly important for economic, social and/or environmental reasons. Because Italy allocated more than 5% of its amount available for payment to granting the specific supports to Article 68¹⁰ for the period of 2014-2020, it might decide to use the maximum percentage (13%) of the annual national ceiling¹¹. This percentage may be increased by up to 2 percentage points in those MSs that decide to support the production of protein crops.

The payment for areas that have natural constraints could be granted to farmers whose holdings are fully or partly situated in disadvantaged areas, which are designated by MSs. To finance this payment, up to 5% of the annual national ceiling could be used.

The redistributive payment could receive up to 30% of the amount that is available for direct payments. If Italy adopts this option, no more than the first thirty hectares of each farm will receive a supplement, which could reach up to 65% of the average payment per hectare.

Finally, the small farmers' scheme will replace the other direct payments. To finance this payment, MSs shall deduct the amounts to which the small farmers would be entitled from the other direct payments funds¹².

2.2. The role of MSs

The main result of the inter-institutional debate, which is known as Trilogue, was the increase in national flexibility for implementing the CAP. It was probably this new administrative and managerial set-up that led to the final agreement between the EP, which is the defender of stakeholders' interests, and the Agriculture and Fisheries Council, which is the expression of national Governments, because it provides MSs with a large amount of freedom of choice. Each MS shall provide a list of decisions to the EC by 1 August 2014. The decisions most importantly include the allocation of payment entitlements in 2015¹³, the way to apply the payment scheme¹⁴, the annual ceiling for the basic payment, the value of these entitlements and the list of areas that are considered EFAs. Furthermore, the Governments will have to decide on the optional payments to be activated and their annual ceilings (DEFRA, 2013).

These decisions will represent a crucial turning point for orienting the political actions of every MS. For this reason, investigating a few of the likely effects related to different resource allocation scenarios could be a useful research issue. National flexibility should allow greater coherence between national socio-economic targets and the policy instruments; therefore, the CAP 2014-2020 will offer an opportunity for the creation of a better-targeted policy action due to Pillar 1 funds (Erjavec *et al.*, 2011; Westhoek *et al.*, 2013).

¹⁰ Council Regulation (EC) No 73/2009 of 19 January 2009 establishing common rules for direct support schemes for farmers under the Common Agricultural Policy and establishing certain support schemes for farmers, amending Regulations (EC) No 1290/2005, (EC) No 247/2006, (EC) No 378/2007 and repealing Regulation (EC) No 1782/2003.

¹¹ Through the use of derogation, MSs that have allocated, during at least one year of the 2010-2014 period, more than 10% of their available payment amount to grant specific support (Article 68) may decide to use more than 13% of the annual national ceiling if the Commission approves.

¹² Farmers who are included in this simplified system will be exempt from the greening rules and receive an amount that is no less than €500 and no more than €1,250.

¹³ This possibly establishes a limitation on the number of payment entitlements to be attributed and on the minimum size per holding (which is expressed by the amount of eligible hectares), for which the allocation of entitlements may be requested.

¹⁴ Regional or National level.

3. CAP objectives and related indicators

3.1. CAP 2014-2020: general and specific objectives

The need for improving the effectiveness of the spending of public resources requires a clear link between policy decisions and CAP targets (Grant, 2010; van Ittersum *et al.*, 2008). Obviously, these choices must also be related to the national context and its priorities and, therefore, should be adopted only after a thorough analysis of the primary sector's socio-economic indicators. To meet this goal, allocation criteria that orient policymakers' decisions should be defined, as shown by Monteleone and Pierangeli (2012)¹⁵.

As is known, the CAP 2014-2020 will address a set of challenges, a few being unique in nature and a few being unforeseen, that put pressure on the EU to make a strategic choice for the long-term future of its agriculture¹⁶ (Figure 1).

On the basis of these main targets, certain priorities have been acknowledged for each pillar. The logic for intervention under Pillar 1 involves seven specific objectives that are to be achieved by direct payments:

- a. contribute to farm incomes and limit farm income variability in a manner that involves minimal trade distortion;
- b. improve the competitiveness of the agricultural sector and enhance its share of value in the food chain;
- c. maintain market stability;
- d. meet consumer expectations;
- e. provide public goods and pursue mitigation of and adaptation to climate change;
- f. foster resource efficiency through the use of innovation;
- g. maintain diversity in agriculture across the EU.

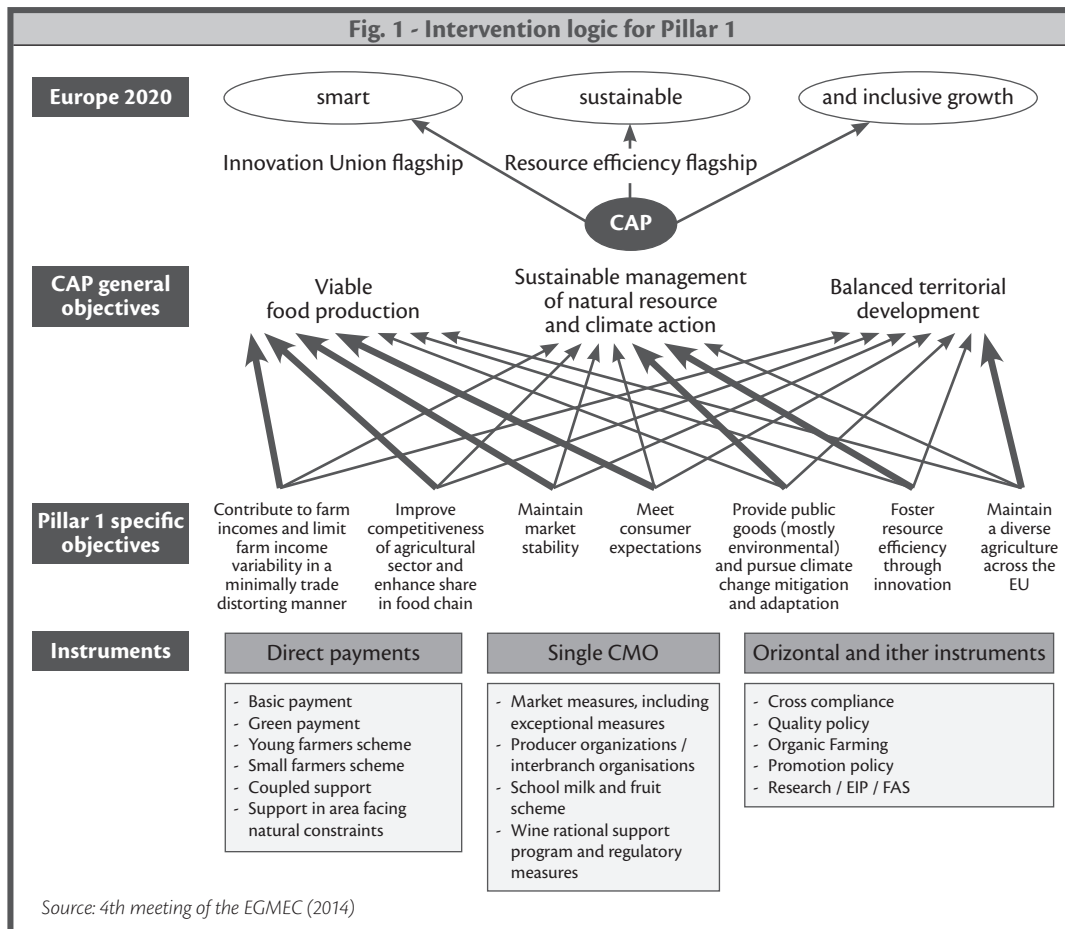
¹⁵ The method that leads to this goal includes the following:

- i. identify general political objectives;
- ii. describe priority/specific objectives;
- iii. break these objectives and priorities into indicators (criteria);
- iv. select and define the suitable indicators for a defined geographical level (i.e., EU, MS, regional level);
- v. calculate the value by considering caveats regarding the use of data.

¹⁶ To respond to these future challenges, three general objectives have been identified:

- A. guarantee viable food production;
- B. promote sustainable management of natural resources and climate action;
- C. foster a balanced territorial development in rural areas.

Fig. 1 - Intervention logic for Pillar 1



3.2. Indicators used to measure CAP 2014-2020 performance

Article 110 of the Horizontal Regulation¹⁷ proposed the establishment of a common monitoring and evaluation framework that includes a set of indicators to measure the performance of the CAP¹⁸. To this end, the Expert Group on Monitoring and Evaluating the CAP (EGMEC), which assists the EC in the preparation of legislation and in policy definition, has provided a set of indicators for each pillar. Table 2 shows a selection of indicators that refer to Pillar 1¹⁹ and can be used to create an *ex ante* evaluation of the results produced by national choices (e.g., distribution of the financial ceiling for direct payments) (van Ittersum *et al.*, 2008).

¹⁷ Regulation (EU) no 1306/2013 of the European Parliament and of the Council of 17 December 2013 on the financing, management and monitoring of the Common Agricultural Policy and repealing Council Regulations (EEC) No 352/78, (EC) No 165/94, (EC) No 2799/98, (EC) No 814/2000, (EC) No 1290/2005 and (EC) No 485/2008.

¹⁸ Regulation (EU) no 1306/2013 of the European Parliament and of the Council of 17 December 2013 on the financing, management and monitoring of the Common Agricultural Policy and repealing Council Regulations (EEC) No 352/78, (EC) No 165/94, (EC) No 2799/98, (EC) No 814/2000, (EC) No 1290/2005 and (EC) No 485/2008.

¹⁹ Presented at the 3rd meeting of the EGMEC held in Bruxelles (Belgium) on February 27, 2013.

Tab. 2 - First pillar objectives and indicators

General objectives	Specific objectives	Result indicators
Viable food production	Enhance farm income	- Share of direct payments in agricultural income - Variability of farm income
	Improve agricultural competitiveness	- Share of value added for primary producers in the food chain - Share of exports in world markets - Share of high value-added products in exports
	Maintain market stability	- Commodity price compared to the rest of the world - Commodity price volatility - Commodity price volatility compared to the rest of the world
	Meet consumer expectations	- Share of organic area in total UAA - Share of organic livestock in total livestock
Sustainable management of natural resources and climate action	Provide environmental public goods	- Share of (permanent) grassland in agricultural land - Share of arable land - Share of EFA in agricultural land
	Climate change mitigation and adaptation	- Net greenhouse gas (GHG) emissions from agricultural soils
Balanced territorial development	Maintain diverse agriculture	- Structural diversity (distribution of holdings according to their size in Ha) - Share of UAA that is supported in the area that has natural constraints

Source: 4th meeting of the EGMEC (2014)

This approach could permit the assessment of different allocation scenarios avoiding subjective considerations and providing reliable indications to the Italian Government if there were no critical limits to consider (EC, 2012). It must be considered that for certain indicators, the national level is the smallest geographical breakdown, and this might create complications or limitations regarding evaluations where a more detailed geographical level is needed²⁰. Moreover, given the wide range of data used, much effort should be made to facilitate access to the indicator data. Finally, certain indicators are influenced by both the contributions of Pillar 1 and of Pillar 2 measures, and more detailed statistics are difficult to provide.

4. Objectives and scenarios

The shift from the SPS to the new direct payments architecture is a milestone of the CAP 2014-2020. As a MS, Italy has the option of redistributing the direct payments funds between farmers, but it also has the responsibility for using these resources to obtain certain significant policy results. The new CAP offers an important opportunity to adapt economic and financial instruments (direct payments) better to the policy targets (Erjavec *et al.*, 2011). For this reason, policymakers' choices should be based on rational and objective criteria.

This article aims to provide a few elements that could guide the policy decision process in

²⁰ The Italian Government could have difficulty in exercising certain national options without a previous political agreement with regional authorities.

Italy. In the framework of the national allocation of the budgetary ceiling for direct payments²¹ and the flat-rate for the entitlement values in 2019²², it shows how different allocations of the national ceiling between the seven components of direct payments may affect the results. These results are considered in terms of their relationship to the specific objectives (priorities) of Pillar 1, which are defined by the EC, and the related result indicators that are provided by the EGMEC (EC, 2010). The article describes six scenarios²³ (Table 3) that differ in their allocation of national ceilings between the components of direct payments²⁴:

- A. undifferentiated support scenario, which only presents the three mandatory components (basic payment, greening and young farmers);
- B. productivistic scenario, with a large amount of attention given to coupled support;
- C. public goods scenario, which provides funds to the areas that have natural constraints;
- D. redistribution choice scenario, which applies payments to the ‘first hectares’;
- E. target-oriented scenario, which describes the ‘all inclusive’ solutions;
- F. policy agreement scenario, which simulates a feasible political option for Italy.

Next, the EGMEC’s result indicators were used for the investigation of every scenario through the use of a qualitative approach, which attempts to do the following:

- note the single impacts on each specific objective;
- analyse the overall effects/results produced;
- evaluate these results by attributing them a numerical rating;
- show policy implications;
- provide indications to Italian policymakers.

Tab. 3 - Allocation scenarios in Italy (value expressed as % of the national ceiling)

Scenario	Basic payment	Redistributive payment	Greening	Areas that have natural constraints	Young farmers’ scheme	Coupled support
Undifferentiated support	68	0	30	0	2	0
Productivistic	53	0	30	0	2	15
Public goods	63	0	30	5	2	0
Redistribution	38	30	30	0	2	0
Target-oriented	18	30	30	5	2	15
Policy agreement	48	5	30	0	2	15

5. A qualitative simulation of resource allocation scenarios

An objective evaluation of the effects related to different allocations of direct payment components established by EU Institutions needs to be supported by a reliable quantitative reference.

²¹ This discards the hypothesis of a regional allocation of the national ceiling, which is also suggested in the draft Regulation.

²² Article 22, paragraph 5 of the Regulation of new direct payments states ‘As of claim year 2019 at the latest, all payment entitlements in a Member State or, in case of application of Article 20, in a region, shall have a uniform unit value’.

²³

²⁴ The small farmers’ scheme has not been considered because, to finance it, MSs must deduct the amounts to which the small farmers would be entitled from the other direct payments funds. Therefore, this option will not imply a specific allocation choice.

Table 4 clearly states how the amounts of each direct payment in Italy, in regard to the hypothesis of a national flat-rate system in 2019, will vary depending on the national choices, with the only exceptions of greening (€93/ ha, if calculated as the annual payment for eligible hectares²⁵) and young farmers' support²⁶ (€45/ ha). By allocating the various percentages of the Italian ceiling²⁷, which are established by the Regulation (EU) No. 1307/2013 for direct payments, between the unfixed components²⁸ and then distributing the obtained amounts to potentially eligible hectares²⁹, the result is that the remaining mandatory payment (the basic one) will range from 210 €/ha in the undifferentiated scenario to only €56 /ha in the target-oriented one. The redistributive payment³⁰ will vary from €/0ha, if it is not activated, to €/141ha in the redistribution and target-oriented scenarios. The payment for areas that have natural constraints would be €30 for public goods and in target-oriented scenarios and €0 in the other scenarios.

The simulations show that Italian choices about the allocation of the Pillar 1 national ceiling will influence the distribution of CAP financial resources between the various typologies of farms and agriculture, depending on their physical characteristics (size and location), their organisational and productive structure (age of farmers, method of cultivation and type of production) and their managerial decision (repartition of cultivated areas).

Tab. 4 - Amounts of Italian direct payments in 2019 according to six allocation scenarios (€/ha)

Scenario	Basic payment	Redistributive payment	Greening	Payment for areas that have natural constraints	Young farmers' scheme	Coupled support
Undifferentiated support	210	-	93	-	45	-
Productivistic	164	-	93	-	45	n.a. (*)
Public goods	193	-	93	30	45	-
Redistribution (30 hectares)	118	141	93	-	45	-
Target-oriented (30 hectares)	56	141	93	30	45	n.a. (*)
Policy agreement (10 hectares)	133	35	93	-	45	n.a. (*)

(*) Not available. In fact, the coupled support payment depends on sectors and products that will benefit from this financial aid. Which agricultural sectors and products will receive this support and how it will be calculated is not currently predictable.
Source: Authors' calculations

²⁵ Alternatively, a MS that, by way of derogation from the calculation method referred to in the first paragraph of article 22, would differentiate the value of payment entitlements in 2015 on the basis of their initial unit value, could calculate the greening payment as a percentage of the total amount of basic payment annually received by each farmer.

²⁶ The amount of the young farmers' payment can be calculated by four different formulas. In this simulation, it is calculated as 25% of the amount obtained by dividing a fixed percentage of the national ceiling for the calendar year 2019 by the number of all eligible hectares declared in 2015.

²⁷ It will gradually decrease from 3,902 M EUR in 2015 to 3,752 M EUR in 2019.

²⁸ Coupled support is not calculable as payment per hectare, despite its potential importance for specific sectors and products.

²⁹ As reported in the 6th General Census of Agriculture carried out by Istat in 2010.

³⁰ Assigned to the first thirty hectares of each farm in the 'target-oriented' and 'policy agreement' scenarios and to the first ten hectares of each farm in that of the 'policy agreement'.

6. Materials and methods

6.1. Recent methods for evaluating the CAP

Over the last two decades, the need for evaluating the possible effects that are related to the implementation of public policies has been strongly increasing due to the scarcity of financial resources. Over time, CAP instruments have a tendency to increase their complexity by progressively combining several policy aims (Gomez y Paloma *et al.*, 2013). Consequently, a large amount of research has improved the ability to investigate how policy instruments can affect the private domain also by paying particular attention to environmental effects. The latter aspect has become increasingly important relative to the application of CAP reforms, especially since the beginning of 21st century, when, by dismantling the old market policy, certain environmental issues (particularly the provision of public goods) became the main aim of European agricultural policy (Henke and Coronas, 2011; Westhoek *et al.*, 2013).

Because the new CAP grants MSs a greater freedom of choice in implementing certain policy measures, the need for a well-balanced allocation of resources at the national level is greater. This is particularly evident for future direct payments because, as previously stated, each MS may perform a broad decision-making process, but in the meantime, it should also try to evaluate the main related effects caused by different allocation scenarios (Viaggi *et al.*, 2010).

6.2. A qualitative evaluation of the allocation scenarios

A way to evaluate these impacts is to consider how a distribution of resources between some/all of the components of direct payments could affect the result indicators that EGMEC has identified to be representative of and consistent with the specific objectives of CAP 2014-2020. This exercise corresponds to the first step in a greater *ex ante* evaluation process that is useful in guiding the decision process that Italy and other MSs will have to undertake. The methodology that is adopted consists of applying a scale of values that range from 1 to 5³¹ and refers to the probable impacts of a single allocation scenario to each EGMEC's result indicator. After completion of this evaluation, an algebraic operation allowed two simple but fundamental questions to be answered:

- which is/are the best scenario/s for each specific objective?
- which is/are the main objective/s that is/are achieved by each single scenario?

These answers are obtained by calculating a weighted average of the sum of impacts that are assigned to specific result indicator(s), as well as to the respective maximum impact levels for each objective³². By this method, each scenario is evaluated with a qualitative analysis that allows the authors clearly to highlight:

- how the scenarios could contribute in different ways to the achievement of a single objective;
- how a single scenario is differently tailored to all of the specific objectives.

Finally, comparing this information could show the overall consistency of the scenarios with the specific objectives of Pillar 1 and also suggest, as a first approach, which combinations of direct payments are the most or least appropriate for Pillar 1 purposes.

³¹ Here, 1 means no impact, 2 means limited impact, 3 means clear impact, 4 means marked impact and 5 means great impact.

³² As shown later, for each objective, the result is obtained as a weighted average of the sum of the impacts that are assigned to specific result indicator(s) and their respective maximum impact levels (for instance, $2/5 = 4/10 = 6/15$).

7. Main findings

7.1. The coherence between the scenarios analysed and the objectives of the CAP

The qualitative evaluation, carried out directly by the authors, using EGMEC's result indicators (Table 2) and their subsequent transformations into numerical values (Table 5) allows assessment of the coherence of each different allocation scenario with specific Pillar 1 objectives. The results (Tables 6 and 7) show that the 'public goods' scenario appears to be the one that is most consistent with the aims that the EC assigned to Pillar 1 payments (EC, 2010). In fact, it is able to contribute strongly to the achievement of a great number of objectives³³. At the same time, this scenario presents two weak points because it would not be able sufficiently to guarantee the stability of the Italian (and European) agricultural markets³⁴ or to improve agricultural competitiveness. The 'target-oriented' scenario is another scenario that could contribute to a positive outcome as regards Pillar 1. Its direct payment allocation would provide a significant contribution to the achievement of almost all of the objectives. This approach, which is better than the others, would allow every payment to be adapted to a specific objective, which would result in a high level of effectiveness and efficiency regarding public expenditure (Tangerman, 2011; Solovyeva and Nuppenau, 2012).

On the other hand, the 'productivistic' scenario presents many critical points in achieving the priority targets, and it would be unable to face the future challenges of Italian (and European) agriculture. In fact, over the past ten years (Fischler reform), the CAP has shifted from a protectionist/productivistic approach to a liberal/public goods approach (Lowe *et al.*, 2010; Tranter *et al.*, 2007) by dismantling the market policies (CMOs) and promoting a decoupled direct payment that is neutral in the market equilibrium mechanisms (Henke, Coronas, 2011). Therefore, this type of scenario currently appears to be extremely anachronistic because it aims to guarantee markets and farmers income stability in a time of high turbulence and price volatility rather than to foster the provision of public goods (Westhoek *et al.*, 2013).

The remaining scenarios have intermediate characteristics. In descending order of coherence with the specific objectives of Pillar 1, the 'undifferentiated support' shows an optimal attitude in enhancing farm income, as well as a satisfactory capacity to provide public goods and meet consumer expectations, but it would not bring any benefit to agricultural competitiveness. The 'redistribution choice scenario' reconciles, to a certain extent, the target of environmental sustainability with that of food security, but it fails to promote competitiveness and market stability. Finally, the 'policy agreement' scenario, which simulates an allocation scheme that could fit in the current Italian agricultural framework, has a good capacity only for stabilising agricultural markets and (weakly) improving farm competitiveness, but it would make only a marginal contribution to the attainment of the other objectives.

7.2. A few considerations about the EGMEC's indicators

The results of this qualitative evaluation largely depend on the authors' points of view, the scale of values that is adopted, the aggregation method that is implemented and the EGMEC's

³³ In particular, this scenario contributes to the following:

- meet consumer expectations;
- provide environmental public goods;
- climate change mitigation and adaptation;
- maintain diverse agricultures.

³⁴ This specific objective has been entrusted to the new Common market organization (Regulation No 1308/2013).

indicators. Although the first three shortcomings could be overcome in the future by using valuations that are produced by a well-established panel of experts and introducing a sensitivity analysis, the latter intrinsically reflects the main orientations of the EC, which culminated in the Communication ‘The CAP towards 2020.’ It clearly reflects the fact that the debate over the CAP 2014-2020 began more than five years ago when the European agricultural sector and all of the national economies used a completely different framework, where environmental issues received a large amount of attention from policymakers. Over that period, the provision of public goods was announced to be the only way to continue guaranteeing direct support for farmers, without any distortion of competition, to avoid the violation of WTO agreements (Daugbjerg and Swinbank, 2012). Therefore, these aims strongly shaped the CAP architecture by increasing the budget share for environmental measures, particularly in the European Agricultural Guarantee Fund, due to the introduction of a ‘greening’ payment, as well as the instruments that were adopted for the evaluation of Pillar 1 results (Lowe *et al.*, 2010).

In this regard, a straightforward analysis of EGMEC documents (2014) clearly shows that a large number of the indicators that are provided is linked directly or indirectly to environmental issues, while only a few of them are related to ‘traditional’ specific objectives³⁵. The different attributions of importance between the various objectives also tends to unbalance the same evaluation logic by giving more importance to the ‘green side’ of the CAP rather than to the production and market-related aspects. Accordingly, the allocation scenarios that mainly focus on a sustainable and diverse agriculture receive a better overall assessment than the ones that aim to realise a more competitive market that is able to provide food security.

³⁵ Sustaining farm income, improving competitiveness, and stabilizing the market.

Tab. 5 - Evaluation of allocation scenarios using result indicators by EGMEC

Pillar 1 specific objectives	Result indicators	Undifferentiated support scenario	Productivistic scenario	Public goods	Areas that have natural constraints	Young farmers' scheme	Coupled support
Enhance farm income	Share of direct payments in agricultural income	□□□□□□	□□□	□□□□	□□□□	□□	□□□
	(Limit) Variability of farm income	□□□□□□□	□□□	□□□□	□□□	□□	□□□
Improve agricultural competitiveness	(Increase) % of value added for primary producers in the food chain	□	□	□	□	□	□
	(Increase) Share of MS exports in world markets	□	□□	□	□	□□	□□
Maintain market stability	(Increase) Share of high value added products in MS exports	□	□	□	□	□	□
	(Stabilise) MS commodity price compared to the rest of the world	□	□□	□	□	□□	□□
	(Limit) MS commodity price volatility	□	□□	□	□	□□	□□
	(Limit) MS commodity price volatility compared to the rest of the world	□	□□	□	□	□□	□□
Meet consumer expectations	(Increase) Share of organic area in total UAA	□□	□□	□□□	□□□	□□	□□
	(Increase) Share of organic livestock in total livestock	□□	□□	□□□	□□□	□□	□□
Provide environmental public goods	(Increase) Share of permanent grassland in agricultural land	□□	□	□□□□	□□	□□□	□□
	(Increase) Share of arable land	□□□□	□□□□□	□□□□□	□□□	□□□□	□□□
	(Increase) Share of EFA in agricultural land	□□□□	□□	□□□□	□□□	□□□□	□□
Climate change mitigation and adaptation	(Limit) Net greenhouse gas (GHG) emissions from agricultural soils	□□□□	□□	□□□□□	□□□□	□□□□	□□□
	(Increase) Distribution of holdings according to their size in Ha (structural diversity)	□□□	□□	□□□	□□□□□	□□□□	□□□□
Maintain diverse agriculture	(Increase) Share of UAA that is supported in areas that have natural constraints	□□	□	□□□□□	□□	□□□□	□□

□ = 1 = no impact; □□ = 2 = limited impact; □□□ = 3 = clear impact; □□□□ = 4 = marked impact; □□□□□ = 5 = great impact

Tab. 6 - Consistency with Pillar 1-specific objectives(*)

Pillar 1-specific objectives	Undifferentiated support scenario	Productivistic scenario	Public goods	Areas that have natural constraints	Young farmers' scheme	Coupled support
Enhance farm income	1	0.6	0.8	0.7	0.4	0.6
Improve agricultural competitiveness	0.2	0.25	0.2	0.2	0.25	0.25
Maintain market stability	0.2	0.4	0.2	0.2	0.4	0.4
Meet consumer expectations	0.4	0.4	0.6	0.6	0.4	0.4
Provide environmental public goods	0.65	0.55	0.85	0.55	0.75	0.45
Climate change mitigation and adaptation	0.8	0.4	1	0.8	0.8	0.6
Maintain diverse agriculture	0.5	0.3	0.8	0.7	0.8	0.6
Total	3.75	2.9	4.45	3.75	3.8	3.3

(*) For each objective, the result is obtained as a weighted average of the sum of the impacts assigned to specific result indicator(s) and the respective maximum impact level (for instance, 2/5 = 4/10 = 6/15)

Tab. 7 - Best and worst scenarios for each Pillar 1-specific objective

	Improve agricultural competitiveness	Maintain market stability	Meet consumer expectations	Provide environmental public goods	Climate change mitigation and adaptation	Maintain diverse agriculture
Best scenario(s)	Target-oriented/ productivistic/ policy agreement	Productivistic/ target-oriented/ policy agreement	Public goods/ redistribution choice	Public goods	Public goods	Public goods/ target-oriented
Worst scenario(s)	Undifferentiated support/ public goods / redistribution choice	Undifferentiated support/ public goods/ redistribution choice	Undifferentiated/ productivistic/ target-oriented/ policy agreement	Policy agreement	Productivistic	

8. Final remarks

This article makes a contribution to the policy debate about the implementation of the 2014-2020 CAP reform. The role of MSs is to pursue the general and specific objectives of Pillar 1, which were declared by the EC in 2010. This aim is not easy, and the paper seeks to offer a contribution. It shows, by means of a qualitative evaluation that uses EGMEC's result indicators, why the authors believe that six simulated resource allocation scenarios may provide different contributions in Italy to achieving the main targets established by EU institutions. The method adopted could be particularly interesting for future analyses that address the resource allocation of Pillar 1, but a well-established panel of experts who are involved in the evaluation process could provide further improvements.

Obviously, ways better to adapt the method adopted in this work to a single MS should account for the relevance of each EGMEC indicator, possibly varying quite a bit, depending on both the characteristics of every national agri-food system and on the political sensitivity to a specific issue (e.g., agricultural productivity rather than environmental sustainability). However, as demonstrated, the general guidelines and settings of the CAP 2014-2020, although intensely modified during the inter-institutional debate that ended in September 2013, have remained strongly oriented to the provision of public goods that have a target-oriented approach. These two elements (i.e. the positive externalities of agriculture and a policy with more targeted measures) will continue to lead CAP away from the traditional and protectionist phases (1965-1992), which aimed too strongly at productivistic targets. In a framework that is characterised by such a strong national flexibility, further insights ought to be provided to specify more accurately how different allocation scenarios are able to contribute to the attainment of specific national objectives, both in Italy and in the other EU Countries.

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