# Evidence of CAP Support in Italy between First and Second Pillar

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# EVIDENCE OF CAP SUPPORT IN ITALY BETWEEN FIRST AND SECOND PILLAR

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Abstract

The main objective of the paper is to trace the composition of the CAP support for Italian farms at the eve of the implementation of the CAP reform. The paper is based on three regional case studies, that represent as many farming specialisation typologies: Veneto, in the North-East, where agriculture is largely integrated in the economic system; Valle d'Aosta, in the North-West, a typical Alpine region; Puglia, in the South, where agriculture is based on Mediterranean products. The three regional cases are compared with the national average as a benchmark with regards to production specialisation, territorial disadvantages, entrepreneurial choices. It is evident that at the national level the composition of support is highly in favour of the support coming from the first pillar of the CAP. However, if the analysis is shifted to a regional level, the composition of support changes and, in some cases, it turns in favour of the second pillar support.

Keywords: CAP reform, farm incomes, market policies, rural development policies.
JEL: Q12, Q18, R58

## 1. Introduction

The recent EU agricultural policy (CAP) stressed the need to balance public support between market policies (first pillar) and Rural Development policies (second pillar). Such orientation, risen at the beginning of the Nineties with the Mac Sharry reform, became increasingly evident with Agenda 2000 and after that with the most recent reform in 2003. However, even if the principle of re-balancing the two pillars of the CAP gained great momentum in the last decade, the actual effect in financial terms was rather poor: even today, market policies still include the largest amount of the total CAP support.

The issue of financial re-shaping of the CAP emerged thanks to many different factors:

- first of all, market policies have been increasingly considered distorsive at both domestic and international level;
- secondly, market policy implementation has ensured an indiscriminate support to farmers *per se*, not succeeding in incentivating good behaviours and practises;
- moreover, after the crisis of the "productionist" model of the CAP, the acknowledgement of new functions of the primary sector, not always remunerated by the market, has created the conditions for a new model of support to agriculture;
- finally, Rural Development policies, traditionally focussed on both sector based measures and territorial measures, are considered to be the most effective in addressing local needs, according to the EU principles of decentralisation, cohesion and planning.

The most recent CAP reform offers the possibility to member States to regionalise the first pillar of the CAP, implementing the single payment scheme at the regional level. However, such instrument seems to have found scarce consensus among most EU partners. If on one side regionalisation of de-coupled payments could create some (undesired) re-distribution effects among farmers and regional

disparities, on the other side it could have been a way to design a policy that result closer to the local needs and farming typologies.

Given such framework, the paper aims at tracing, at the eve of the implementation of the latest CAP reform, a map of the composition of EU support in Italy, with a specific focus on three different regions that are representative of three different territorial and economic features: Valle d'Aosta (North-West, fully Alpine region); Veneto (North-East, average high-intensive agriculture); Puglia (South, Mediterranean agriculture). The objective of the paper is twofold:

- to highlight the way first and second pillar support is articulated at the local level according to different dimensions: production specialisation (FADN Farm Types), territorial aspects (disadvantaged areas), entrepreneurial choices (low-impact production systems; certified production systems) (INEA, 2004);
- to highlight a "regional dimension" in the articulation of support that sometimes "drives" the articulation of support more than the production specialisation or the territorial diversification or even more than the management decisions.

The paper shows the different "sensitiveness" of farmers to policies, according to some simple synthetic indices: total public support/ net revenues; market policies/net revenues; a "specialisation index" in the market policies, that is the share of market policies in the total support for a specific group, in relation to the same share at the average national level.

Data are taken from the Italian FADN data-base; the reference year is 2002. It is evident that the reference to a single year can be very limiting in the effort of measuring the support, especially in the case of the Rural Development policies that are planned on a 7 year base. Furthermore, in 2002 in some RDP (or ROP) not all measures originally planned were activated; however, in the paper all financial resources planned for Rural Development policies were considered (RDP, ROP, OB 2, Leader) (INEA, 2002; Monteleone, Storti, 2004). Moreover, it should be kept in mind that Rural Development support is co-financed also by Member States, but the analysis here is limited to EU support.

## 2. Main benchmarks in the reorientation of CAP support

The process of CAP reorientation has been long and highly questioned; however, with the reform of 2003 it seems to have reached a sort of steady-stable state. Although there still is an evident disproportion in the financial structure of the two pillars, the process started at the beginning of the Nineties has reached some important results and the CAP today is deeply different from the one implemented slightly more than ten years ago. Moreover, the coincidence of the reform with the largest enlargement of the EU has re-launched important issues in the debate about the appropriateness of supporting agriculture and the best way to do that in a developed economic context.

After more than twenty years of a CAP highly oriented to market support that isolated the European agriculture from the international markets, the dominant model of support was finally put under discussion. The acknowledgement of an internal crisis involved scholars and experts first, then professionals and farmers themselves. Finally, the crisis crossed the borders of the primary sector thanks to the role of tax-payers and consumers, that started to question about the logic itself of a high support to a marginal sector like agriculture in a developed context.

At the beginning of the Nineties, a reform that takes into consideration the pressure coming from inside and outside the sector was not delayable. The Mac Sharry reform focussed on two main aspects: direct payments to farmers and agro-environmental measures. Direct payments were the first step toward the de-coupling of support from production, that ended up into the single payment scheme of the 2003 reform. With the agro-environmental measures for the first time environmental issues enter the CAP and support to incentive correct behaviours in the farming activity is granted. Such process of integration of environmental issues with agricultural policy is often referred to as the greening of the CAP.

At the end of the Nineties, with Agenda 2000, a new reform followed on the same path opened by the Mac Sharry reform. Direct payments were reinforced and became a sort of integration to agricultural income, loosing the status of compensations for the loss of income due to the reduction of institutional prices, while agro-environmental measures were integrated in the Rural Development measures. Moreover, with the horizontal regulation of Agenda 2000 (reg. 1259/1999) two new instruments were launched: modulation and conditionality of direct payments, whose implementation

was committed to Member States. These two instruments, although limited in their implementation, represent a new approach in the CAP, based on the idea that 1) direct payments might not be granted forever; 2) direct payments do not remunerate farmers *per se*, but are to be considered as a subsidy for the production of externalities whose production is joint with the main agricultural production.

The reform of Agenda 2000 acknowledged also that the CAP rests on two pillars: the first pillar that include market policies and price support; the second pillar, including Rural Development policies that gained independence and visibility from the structural policy and the agricultural market policy of the EU. Such acknowledgement, of course, solved only to a very limited extent the problem of the dramatic unbalance between the two pillars, one absorbing roughly 75% of the total amount of CAP resources (EAGGF), the other the remaining 25%.

The most recent reform, in 2003, can be seen as the conclusion of the long process of CAP reorientation for at least two reasons: 1) the total de-coupling of direct payments, and their mandatory conditioning to the fulfilment of minimum standards in specific fields (environment, animal welfare, plant and animal health) and in agronomic practises; 2) the farther reinforcement of the second pillar, with two new "accompanying measures". Moreover, soon after the agreement on the CAP reform, the Commission proposed a new approach about Rural Development policies, introducing the so called "single fund" for the financial support of the second pillar, to be implemented with the planning period (2007-2013).

With the total de-coupling of direct payments, the transition to a financial support for farmers fully independent from their status has been concluded (Sotte, 2004). Direct payments can be considered as a form of integration to farming income addressing different functions than that of producing food and fibres (multifunctionality of agriculture). Production of positive externalities – landscape care, environmental awareness, animal welfare – is a new function assigned to farmers and agriculture for which society shows an increasing willingness to pay (van Huylenbrock, Durand, 2003).

Moreover, both the single fund financing Rural Development policies and the introduction of two new measures go into the direction of making Rural Development more effective and visible. The single fund will be used for both Objective 1 and non Objective 1 regions, joining the two branches of EAGGF (guidance and guarantee) for Rural Development and simplifying the whole programming process. One of the two new "accompany measures" will support the whole process of reform, financing farmers to adjust to the new CAP. The other measure has to do with food quality, that becomes a relevant part of Rural Development policy, ratifying the crucial ties between the acknowledgement of food quality on one side and territory and sector structural adjustment on the other.

In conclusion, the CAP reorientation lies on two "theoretical" pillars that find partial application in the "policy" pillars (DATAR-ARL, 2003). One pillar derives from the traditional market policies but it has been (at least in part) re-oriented to support new functions of agriculture, through the conditionality of fully de-coupled direct payments, and higher quality systems. Such payments are also submitted to the cuts of modulation that is a way to remind that such payments are not necessarily fully and forever granted. The other pillar keeps in it the two relevant approaches of Rural Development, one sector-oriented, based on the modernisation of agriculture progressively constrained by environmental, animal welfare, landscape and quality food issues; the other territory-oriented, based on the integration of agriculture with other non-agricultural activities for the economic and social development of rural areas (Saraceno, 2004).

## 3. Financial framework of CAP support

As said before, the financial unbalance of the two pillars of the CAP is quite evident, in spite of the great emphasis put on the development of the second pillar since Cork in 1996. However, a certain motion in the financial trend is to be acknowledged, especially in the most recent years. First of all, the total amount of resources for direct payments and Rural Development policies (what can be considered the "total direct support" to farms) is supposed to grow from about 36 billion euro in 2002 to slightly less than 50 billion euro in 2013. Looking at the ratio of Rural Development resources to direct payments, it is about 24% in 2002 for EU-15 (under Agenda 2000, EAGGF Guarantee + Guidance). The same ratio should go up to 34% in 2007 and to 35% in 2013.

Table 1. Financial support for I and II pillar of the CAP, 2002-2013 (million euro)

| | 2002 | | 2004 | | | 2007 | | | 2013 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Italy | EU-15 | Italy | EU-15 | NMS | Italy | EU-15 | NMS | Italy | EU-15 | NMS |
| Direct Payments | 3.810 | 29.106 | 2.539 | 26.590 | 1.595 | 2.530 | 26.570 | 1.860 | 2.882 | 30.739 | 5.982 |
| Rural Development* | 1.072 | 6.980 | 1.071 | 7.123 | 2.638 | 845 | 7.020 | 5.993 | 845 | 7.020 | 5.993 |
| EAGGF Guarantee | 653 | 4.350 | 645 | 4.701 | 1.920 | - | - | - | - | - | - |
| EAGGF Guidance | 419 | 2.630 | 426 | 2.422 | 718 | - | - | - | - | - | - |
| TOTAL Direct Support | 4.882 | 36.086 | 3.610 | 33.713 | 4.233 | 3.375 | 33.590 | 7.853 | 3.727 | 37.759 | 11.975 |

**From 2007 Single Fund*

Source: elaboration on European Commission figures

It is important to keep in mind some crucial issues that can influence the amount of resources devoted to each pillar of the CAP and the expenditure effectiveness:

- In May 2004 ten new Member States joined the EU, and for them direct payments were granted on a progressive way, from 25% in 2004 up to 100% in 2013, while they enjoyed full support for Rural Development polices, alongside the SAPARD path that accompanied the pre-accession phase.
- Most of direct payments starting from 2005 will be enjoyed by farmers through the single payment scheme, in a fully de-coupled way. Up to 10% of such single payment can be cut and targeted towards "special types" of agriculture, included quality systems.
- Thanks to modulation of direct payments, around 5% of the total amount of direct payments under first pillar will be shifted to second pillar, joining the financial support for Rural Development and devoted to Rural Development programmes (RDP) (Henke, Sardone, 2004; Henke, Storti, 2004).
- The new programming period (2007-2013) will most probably be based on a single Fund for the whole Rural Development policy. This means, on one side, that there will be easier procedures and more transparency for expenditure, but, on the other, that the Rural Development expenditure, for Objective 1, will be totally independent from the expenditures in other structural Funds (Ahner, 2004).

Looking at the financial resources, it is well known how the CAP has been a powerful instrument of redistribution among the Member States, with an evident unbalance among net contributors and net beneficiaries. Before the enlargement, the net contributors were Germany, United Kingdom, Netherlands, Belgium and Sweden, being all the rest net beneficiaries (the most evident being France, Spain and Greece). Given the new CAP and the enlargement, the situation changes quite a bit, given that the NMS will all be net beneficiaries and the EU-15 worsening its net position. Italy, in particular, will become net contributor, the net beneficiaries will see their surplus reduce and the net contributors will see their deficit widen (Scoppola, 2004). Such transfer will be due for large part to the single payment (53%) and for the rest to the Rural Development policies (47%); on the other hand, considering the large unbalance among pillars, one can conclude that the potential redistribution power of the second pillar is much higher that the first one (Scoppola, 2004).

## 4. First and second pillar at the national level

The Italian FADN data bank shows that the number of farms that received at least some sort of help from the EU, in whatever form, is over 15.000.

In order to analyse the sensitiveness to different policies various aspects were considered: farm's net income (NI), total EU support (TS), total flow coming from the EU market policies (CMO), total flow coming from the EU Rural Development policies (RD).

Accordingly, two indices were used to carry out the analysis:

- TS/NI: it indicates the level of dependency of the income from the public aid in general;

- Specialisation Index (SI) in CMO: it shows the level of specialisation of CAP support in the market subsidies. SI is calculated as the ratio of the total market payments to the public payments for a specific group of farms, compared to the same ratio at the national level (Ferlaino *et al*. 1993).

On an average national level, data show a farm income of about 28.500 euro, against a total EU public aid of over 10.000 euro. The incidence of the support given results, therefore, as being equal to about a third of the revenue capacity. First pillar policies account, on average, for over 7.300 euro per farm, while support from Rural Development policies amounts to slightly less than 3.000 euro. As a consequence, and as it was expected, the first pillar appears to be the main source of aid for national agricultural farms.

Table 2. EU support for FADN farm types in Italy (euro).

| Num. | | NI | TS | CMO | RD | TS/NI% | SI |
|---|---|---|---|---|---|---|---|
| 2.336 | Arable crops | 26.763 | 15.384 | 13.699 | 1.685 | 57,5 | 1,32 |
| 158 | Horticolture | 25.132 | 4.390 | 954 | 3.436 | 17,5 | 0,28 |
| 1.095 | Vineyards | 40.114 | 5.394 | 1.004 | 4.389 | 13,4 | 0,27 |
| 588 | Fruits | 20.013 | 3.922 | 1.077 | 2.845 | 19,6 | 0,38 |
| 996 | Olives groves | 18.738 | 12.290 | 10.465 | 1.826 | 65,6 | 1,25 |
| 1.913 | Dairy products | 38.212 | 9.351 | 3.289 | 6.062 | 24,5 | 0,46 |
| 357 | Bovine meat | 30.713 | 15.418 | 12.426 | 2.992 | 50,2 | 1,14 |
| 1.371 | Other herbivores | 29.199 | 9.956 | 6.153 | 3.803 | 34,1 | 0,73 |
| 97 | Granivorous | 151.437 | 6.092 | 4.340 | 1.751 | 4,0 | 1,06 |
| 15.075 | Total Italy | 28.451 | 10.253 | 7.332 | 2.921 | 36,0 | 1,00 |

Source: elaboration on FADN data.

Looking at the main farm types (FT), only specialised ones have been considered, with the only exception of "other herbivores", since a large part included specialised farms in sheep and goats breeding. In the case of farms specialised in arable crops the level of support results as being over 15.000 euro against a net income of about 25.000 euro (table 2). In particular, first pillar subsidies account for over 13.500 euro, whilst the share of second pillar support amounts to only 1.600 euro. The specialisation index for market policies is equal to 1,32. Horticulture and almost all permanent tree crops, excluding olive growing, have a limited level of public support. For these types of farms sensitiveness to market policies is very low and therefore the specialisation index for the first pillar is relatively low, equal to 0,38. Farms specialised in olive production, on the other hand, show a certain sensitiveness to the market policies, which represent about 85% of the EU support. In this case, the value of the specialisation index is 1,25. As far as livestock is concerned, the analysis highlighted a marked distinction between the specialisation in dairy production and that in beef production (and other herbivores), also in consideration of the different market regimes concerning these types of farms. In the case of dairy farms, total support amounts to 24% of the income and the incidence of the first pillar seems rather modest, with a specialisation index of 0,46. Rural development policies for these farms are the main source of support offered, with values being double compared to those coming from the CMO. Farms specialised in meat production show a clear sensitiveness to market policies, with a significant specialisation index, estimated as 1,14. Public support has a relevant incidence on the net income of farms specialised in "other herbivores", amounting to 34% of the net income. However, the specialisation index in CMO is modest, being only 0,73. Finally, about farms specialised in granivorous livestock, it can be seen that public support has a small impact on net income. Here the main source of support is that offered from market policies, with a specialisation index of 1,06.

Placing the share of support on the net income and the specialisation index in market policies on two Cartesian axes, it is highlighted a group in the left hand side quadrant (figure 1). This type of farms, producing wine, fruit, vegetables and diary products, are characterised by a lower subsidy incidence than the national average and by a lower SI in market policies. A second group can be found in the opposite quadrant, which has a higher incidence of public subsidies and a higher SI in market policies. In this group we find farms specialised in arable crops, olive groves and bovine meat. Farms

specialised in granivorous livestock and other herbivores are localised in the other two quadrants in the diagram.

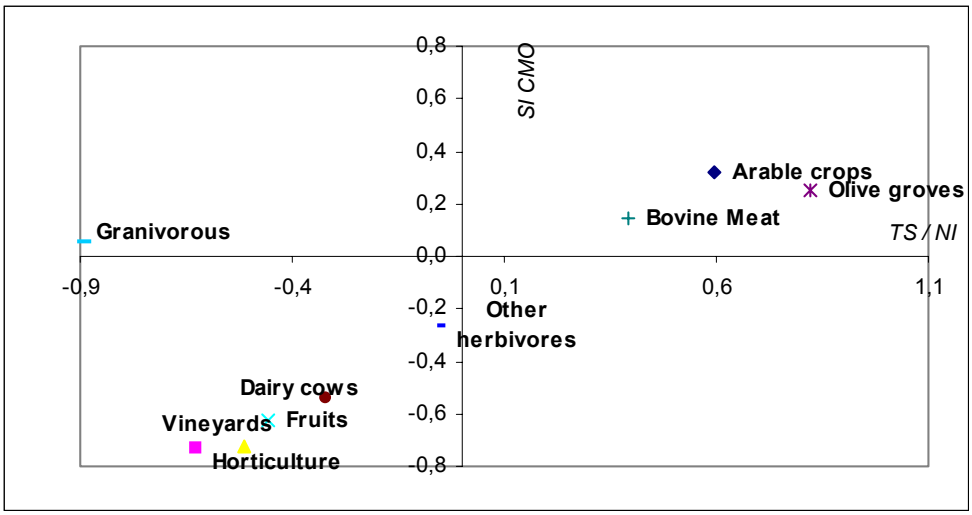


Figure 1. Distance from the national average of farm types for EU subsidies and CMO specialisation index.

Looking at the farm location, we referred to the classification of territories for different types of disadvantages, as in the directive 268/75; this classification includes: mountain areas which are partially (PM LFA)or totally (TM LFA) delimited (art. 3, par. 3); areas in danger of abandonment (RD LFA) (art. 3, par. 4); areas affected by specific handicaps (SP LFA) (art. 3, par. 5); non less favoured areas (Non LFA). The sensitiveness towards public support appears to be significantly different depending on the areas (table 3). Farms which are in areas defined as in danger of abandonment show an incidence of support on the net income higher than 50%; the majority of which comes from the first pillar (almost 10.000 euro, SI equal to 1,14). Areas with specific handicaps show a very similar situation both in terms of share of support on income and of the source of such support, however the index of specialisation is less than 1.

Table 3. EU support according to disadvantaged areas (directive 268/75) (euro).

| Num. | | NI | TS | CMO | RD | TS / NI | SI |
|---|---|---|---|---|---|---|---|
| 2.938 | RD LFA (par. 4) | 23.845 | 12.143 | 9.973 | 2.170 | 50,9% | 1,14 |
| 616 | SP LFA (par.5) | 22.539 | 10.964 | 8.528 | 2.437 | 48,6% | 0,97 |
| 1.009 | PM LFA (par.3) | 51.790 | 8.667 | 6.111 | 2.557 | 16,7% | 1,01 |
| 4.684 | TM LFA (par. 3) | 21.676 | 8.550 | 4.252 | 4.297 | 39,4% | 0,68 |
| 5.828 | Non LFA | 32.802 | 10.867 | 8.560 | 2.307 | 33,1% | 1,14 |
| 15.075 | Italy | 28.451 | 10.253 | 7.332 | 2.921 | 36,0% | 1,00 |

Source: elaboration on FADN data.

Farms located in partially mountain areas show a higher level of income and consequently the incidence of public subsidies is limited (17%), even if, looking at the absolute values, the flow of support is relevant. The most important part of the subsidy comes from market policies, equal to over two thirds of the total support and with a specialisation index equal to 1,01. It is worth stressing that, generally speaking, areas at the entrance to the valleys are considered partially mountainous. Such areas often have socio-economic and production characteristics which are more similar to farms in the plains rather than to those in the mountains and tend to have a draining effect on the valley resources, even if they do represent an important focus in the local development process (IRES, 2001).

Farms in fully mountainous areas show a lower incidence of public support on the net income compared to those in other LFA, but higher compared to areas with no disadvantages. Another aspect which should be considered is that for such mountain farms the main source of support is not the first pillar, but the RD policies. In fact, in mountain farms agricultural activity that is particularly sensitive

to CMO policies, such as arable crops, is often not feasible and there is a strong specialisation in dairy farming. In addition, given their characteristics (environmental maintenance, territorial functions, land stewardship, activities which are not solely agricultural) mountain farms are often part of various and different levels of Rural Development intervention. As a consequence, for this type of farms, the SI results quite limited and equal to 0,68.

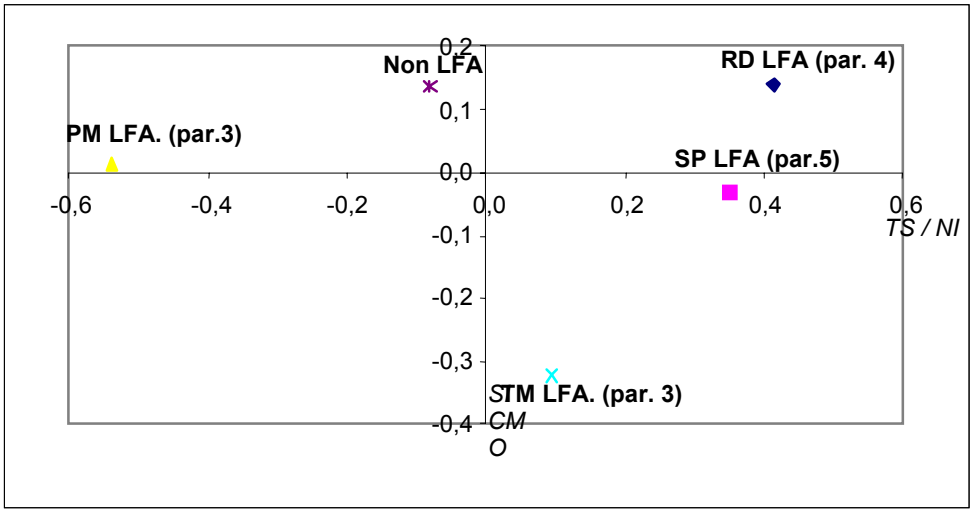


Figure 2. Distance from the national average of farms in disadvantaged areas EU support and CMO specialisation index.

In figure 2 a sort of polarisation in the quadrants is featured. Disadvantaged farms (specific disadvantages and areas at risk of depopulation) are all in the first quadrant, non LFA farms are in the second quadrant as well as farms in partially mountainous areas. In all these cases geo-climatic conditions do not necessarily hinder specialisation in production supported via CMO policies. This group, even if with different values, shows a lower incidence of support on income than the national average, while it is particularly sensitive to market policies compared to the average Italian level. The group of farms in totally mountainous areas are in the bottom-right quadrant: they are characterised by a higher level of subsidies on income than the national average and are not particularly sensitive to market policies.

As far as management choices are concerned, the first aspect analysed here is the use of reduced impact production techniques (RI), one of the agri-environmental measures within RDP. Farms not employing low impact techniques enjoy EU support for about 9.000 euro out of a net income of over 27.000 euro (table 4). The amount of support coming through the first pillar is considerably significant, equal to about 75% of the support. The effect of market policies is less relevant in farms using reduced impact methods. In case of partial adhesion, the share of support on the net income amounts to 44%. The share of market policies, even though it results as the largest part, is rather limited, while Rural Development policies have a marked effect (the specialisation index for market policies is 0,87). Farms using reduced impact techniques show a similar behaviour, even if in this case the effect of direct payments is contained and the role of first pillar seems to reduce further, with a specialisation index reaching only 0,70.

Table 4. EU support according to the use of reduced impact techniques (euro).

| Num. | | NI | TS | CMO | RD | TS / NI | SI |
|---|---|---|---|---|---|---|---|
| 11.398 | Non R.I. | 27.444 | 9.232 | 7.360 | 1.871 | 33,6% | 1,11 |
| 1.085 | Partial R.I. | 40.964 | 18.015 | 10.666 | 7.349 | 44,0% | 0,87 |
| 2.592 | Total R.I. | 27.643 | 11.493 | 5.810 | 5.682 | 41,6% | 0,70 |
| 15.075 | Italy | 28.451 | 10.253 | 7.332 | 2.921 | 36,0% | 1,00 |

Source: elaboration on FADN data.

Looking at farms supplying certified products, it is interesting to observe the different level of sensitiveness to market policies. In this case the concept of "certification" is intended in a very broad sense, such as certification of products, of processing, of farm itself, and also products with designated origin. Farms enjoying any of these certificates, which can be considered as a proxy of a more professional management (or at least more attention given to the quality of production), show a greater sensitiveness to Rural Development policies (table 5). The specialisation index concerning market policies, in fact, amounts to 0,70 for farms under certification and to 1,11 for those not supplying any certification. However, it should be highlighted that the effect of public support on net income is higher for farms without certification (40% against 28%), given the wide difference in their income (25.000 euro compared 41.000 euro), while in absolute value the amount of the subsidy is similar (10.000 euro compared to 12.000).

Table 5. EU support according to farm certifications (euro).

| Num. | | NI | TS | CMO | RD | TS / NI | SI |
|---|---|---|---|---|---|---|---|
| 3.552 | Certifications | 40.960 | 11.658 | 5.929 | 5.729 | 28,5% | 0,7 |
| 11523 | No Certifications | 24.595 | 9.819 | 7.764 | 2.055 | 39,9% | 1,11 |
| 15.075 | Italy | 28.451 | 10.253 | 7.332 | 2.921 | 36,0% | 1,00 |

Source: elaboration on FADN data.

## 5. First and second pillar at the local level

This part of the study supplies a picture of the level and the effect of public subsidies for agricultural and rural areas at a regional level, featuring three different study cases.

The investigation is based on the same steps proposed for the national analysis. Results presented in the previous part, in fact, are here used as a benchmark (regional typology of farms compared to the same typology at the national level) to evaluate to what extent the single regions differ from the national level. The regions selected are:

- Valle d'Aosta; a highly less favoured Alpine area, characterised by a low production rate and a low level of direct market subsidies;
- Veneto; a North-East region featuring professional integrated agricultural production for both crop and livestock;
- Puglia; a Mediterranean region in the area Objective 1.

Table 6. EU support in selected regions in Italy (euro).

| Num. | REGION | NI | TS | CMO | RD | TS / NI | SI |
|---|---|---|---|---|---|---|---|
| 381 | Valle d'Aosta | 21.242 | 19.875 | 1.535 | 18.340 | 93,6% | 0,09 |
| 836 | Veneto | 50.399 | 14.106 | 11.682 | 2.424 | 28,0% | 1,22 |
| 968 | Puglia | 18.878 | 15.464 | 13.021 | 2.444 | 81,9% | 1,26 |
| 15.075 | Italy | 28.451 | 10.253 | 7.332 | 2.921 | 36,0% | 1,00 |

Source: elaboration on FADN data.

Region Valle d'Aosta shows a high incidence of public subsidies on income, but the share of market policies results very limited (table 6); subsidies from CMO are not marginal, however Rural Development policies play a crucial role (around 19.000 euro). In Veneto the share of public support on farms' income is much more limited: it is less than 30% of the net income. The largest share comes from the first pillar and the specialisation index is very significant, equal to 1,22. Farms in Puglia enjoy support for about 15.000 euro, compared to a net income of almost 19.000 euro. The incidence of market policies is significant (13.000 euro per farm) and the specialisation index reaches 1,26.

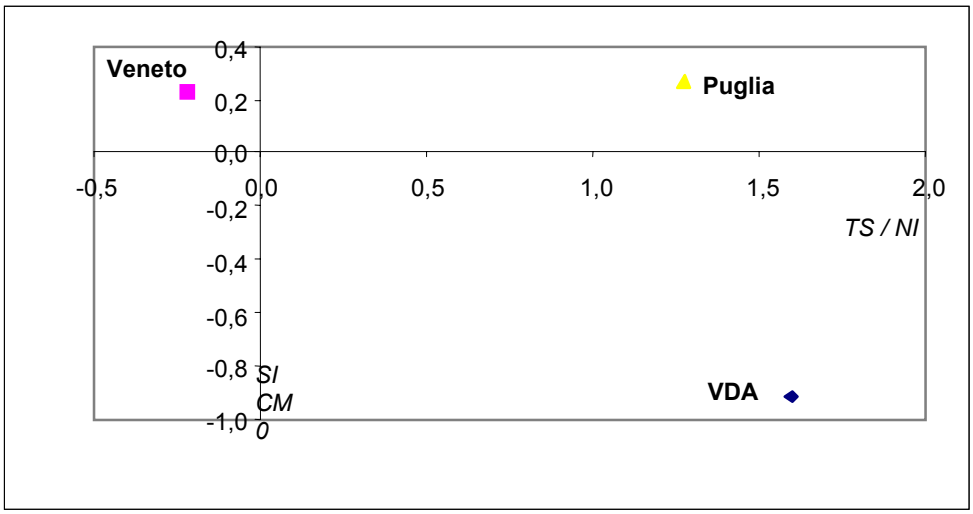

Figure 3. Distance from the national average of selected regions for EU support and CMO specialisation index.

The graph showing the distance of the national average of the two variables considered (SI in CMO and TS/NI) confirms the difference in behaviour (figure 3). In the first quadrant we find Puglia, which shows an incidence of the subsidies and a sensitivity to market policies both higher than the national average. Valle d'Aosta, characterised by a marked share of the public subsidies and a reduced specialisation in the market policies, is located in the fourth quadrant. Finally, Veneto is located in the second quadrant, with a low incidence of subsidies and a marked specialisation in CMO compared to the national values.

In providing these regional details, and given the farm types, it is possible to observe how the geographical and productive variables feature different roles (figure 4). In Veneto the distribution of cases has a certain correspondence with the distribution of the farm types at the national level. Dairy farms are located in the second quadrant, vine farms in the third and arable crop farms in the first, not far from the intersection of the axes (national average). As far as Puglia is concerned, certain types of farms largely follow the national level (arable crops and olive growing), even if there is a higher incidence of payments. On the other hand, farms specialising in vine growing show a rather differentiated behaviour from the Italian vineyards average; however, a significant share of such farms in Puglia is interested in CMO payments (i.e. arable crops). Finally, the only case analysed for the Valle d'Aosta provided a result which was significantly different from the same production at national level: in this region dairy farms, in fact, show an incidence of public subsidies on the income to be considerably higher and have a very low level of SI in market policies.

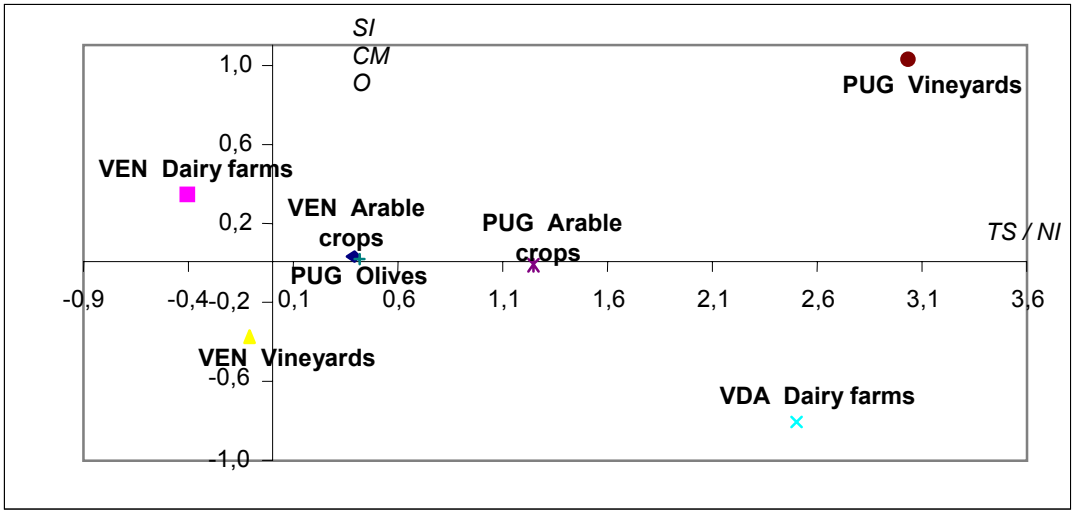


Figure 4. Distance from the national average of farm types in selected regions for EU support public and CMO specialisation index.

The analysis of territorial localisation, and specifically of less favoured areas, provides some points of interest (figure 5). Non LFA farms in Veneto, in the second quadrant of the graph, show a significant proximity to the national level, while the other cases show a significant difference compared to the Italian general picture. In particular, on the one hand it comes out a group with a SI in CMO similar to the national level and with an increasing incidence of public subsidies; such farms, ranked according to TS/NI, are: RD LFA (risk of depopulation) and Non LFA in Puglia and SP LFA (specific handicaps) in Veneto. On the other hand, mountain farms are highlighted, characterised by an important EU support incidence. However, in TM LFA farms two very distinct situations are featured thanks to the specialisation index: on one side, in Puglia these farms show a higher level of SI compared to the national average, while in Valle d'Aosta SI appears significantly lower than the national level. In the light of these considerations, we have to remember that in Puglia the specific RDP measure (compensation allowances) was not activated in 2002 and., moreover a significant share of mountain farms in Puglia enjoy in any case CMO payments.

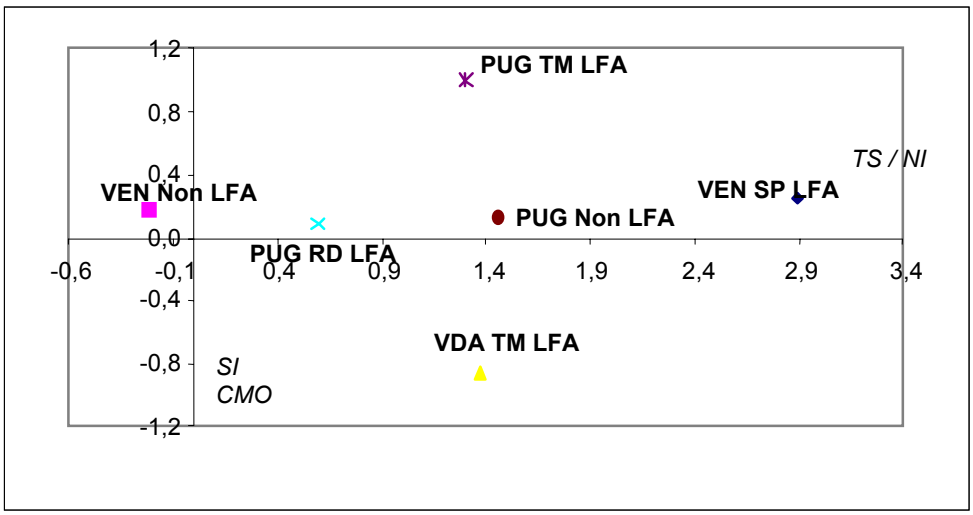


Figure 5. Distance from the national average of disadvantaged farms in selected regions for EU support and CMO specialisation index.

Looking at the effects of management choices, the analysis about the use of reduced impact techniques is shown in figure 6. In Veneto farms which do not employ low impact techniques and farms fully employing RI techniques are not far from the national average. In Puglia farms both with

or without RI techniques, always result as being characterised by a rather high incidence of public subsidies and by a sensitiveness to market policies. With regards to Valle d'Aosta, farms without low impact techniques seem to receive more public support, compared to the national Non RI farms benchmark, than those which do use such techniques.

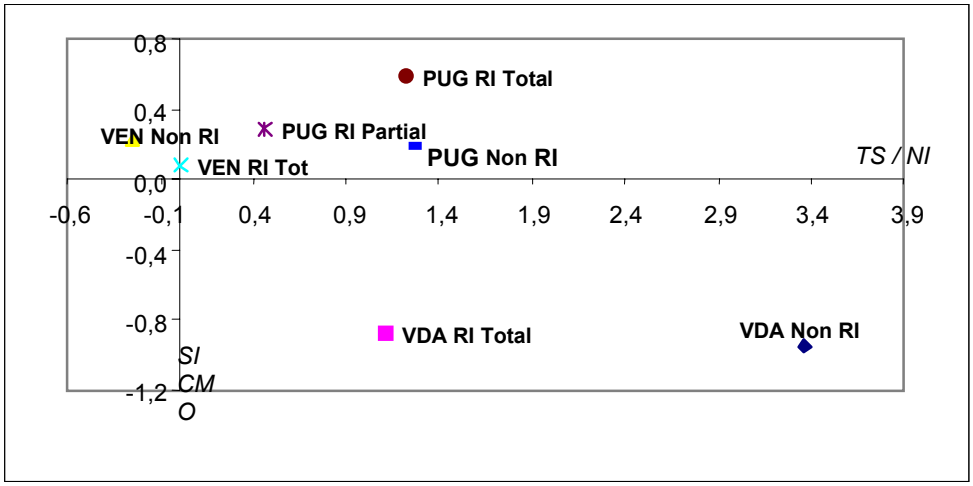


Figure 6. Distance from the national average for reduced impact in selected regions for EU support and CMO specialisation index.

Finally, the last dimension analysed is farm certification. As in the previous dimension analysed, here the geographical dimension has an important role. In fact, looking at figure 7, three groups can be identified, corresponding to the three study cases: Puglia in the first quadrant, Veneto in the second and Valle d'Aosta in the third. In the light of these considerations, one can conclude that the presence of any certification, in comparison with the national benchmark, is less relevant than the geographical dimension. Nevertheless, it is worth underlining that, compared to the national level, where certifications provide a specific difference in the farms performance, at the regional level farms' behaviour tends to be quite similar.

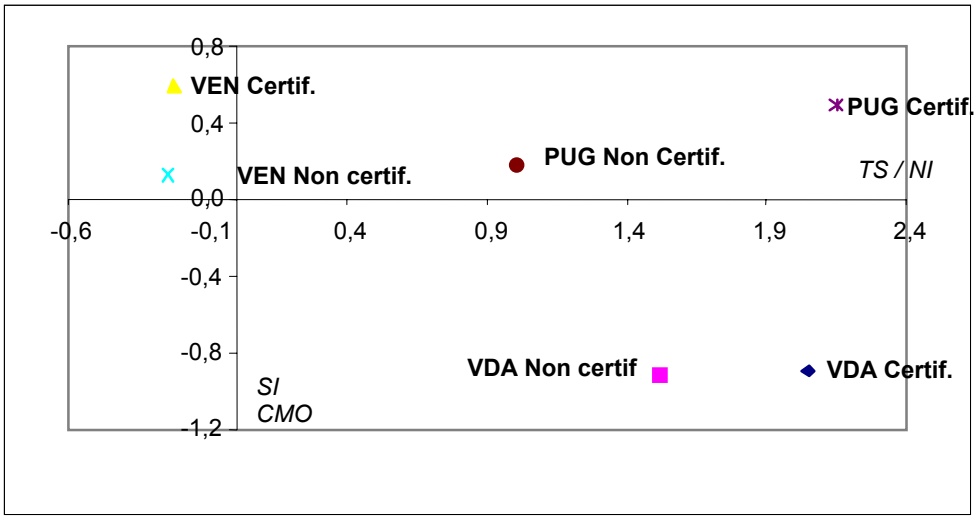


Figure 7. Distance from the national average for certified farms in selected regions for EU support and CMO specialisation index.

In Veneto certifications do not imply different levels of support incidence, compared to the national level, whereas in Valle d'Aosta a general low sensitiveness to market policies is confirmed. In this case, certified or non certified farms locate at about the same level (very low) of SI. Lastly, in Puglia and Valle d'Aosta farms with certifications show a greater distance in support incidence from national average, than those with no certifications.

## 6. Conclusions

The main evidence in the composition of CAP expenditure at a very aggregated level is that CAP support is still highly concentrated in the first pillar. This is generally true, but it is interesting how, disaggregating data analysis according to farms typologies and to the local level, an articulated composition of support emerges.

Looking at the farm type, it is quite obvious that farms specialised in crops that enjoy a direct payment support are more sensitive to the first pillar than to Rural Development. Generally speaking, farms specialised in permanent crops and vegetables have a lower share of support on revenues and more attention to the RDPs.

With regards to less favoured areas, farms' localisation in areas with different degrees of disadvantages does not always influence their behaviour, in spite of the compensation allowances. It seems that productive possibilities are still very relevant. It also emerges that the share of support on revenues, as well as the sensitiveness to Rural Development support is particularly high only for fully mountainous areas. Given the structural restraints for production and the need to off-farm activity in order to integrate revenues, Rural Development policies offer a mix of tools that are relevant for farms in these areas. As a consequence, a rethinking of the definition of LFA alongside the new proposal can be considered a step ahead in the direction of better targeting this policy.

Looking at farms that have turned to lower impact practices, specific measures in the agri-environmental programmes are relevant in terms of support and shifts the composition of support on favour of the second pillar.

Finally, farms with certified products do, generally speaking, have a lower share of public support on revenues and a lower dependency from the first pillar payments. However, with regards to the former aspect, this is probably more a consequence of the higher revenues than of the actual amount of support granted. About the latter, certified products in Italy are very much tied to dairy products and wine, both not enjoying direct payments and often localised in mountainous areas. Such evidence will probably change after the introduction of direct payments in milk sector, in 2006.

Moving to the regional level, the analysis highlights a rather strong "local" component that tends to be more relevant in the support composition than the production specialisation or the physical disadvantages. In other words, regional characteristics are very important for Rural Development (and that was an expected result, given the rationale of Rural Development policies); but they seem to be important for the first pillar as well. Looking at the three case studies, it comes out that farms in Valle d'Aosta have a low SI and high support, regardless the enjoyment of any type of certification, or the adhesion to low-impact agricultural programmes. In Puglia farms have a constant higher "first pillar sensitiveness", both within and outside LFAs. Finally, in Veneto farms have the closest behaviour to the national average, however with a general lower share of EU support on net income.

Given the evidence of the regional dimension of all EU support, one can conclude on the missed opportunity, in Italy but also in other EU members, of the possible regionalisation of total support, also at the first pillar level, offered by the recent CAP reform. Despite the clear difficulties of a regional implementation of the CAP and the administrative burden related to that, in principle CAP regionalisation could have been a way to push support towards the territorial dimension and create stronger integration and synergy between the first and the second pillar of the CAP.

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