



Pre Congress CAP Seminar

The new CAP and Italian farm competitiveness

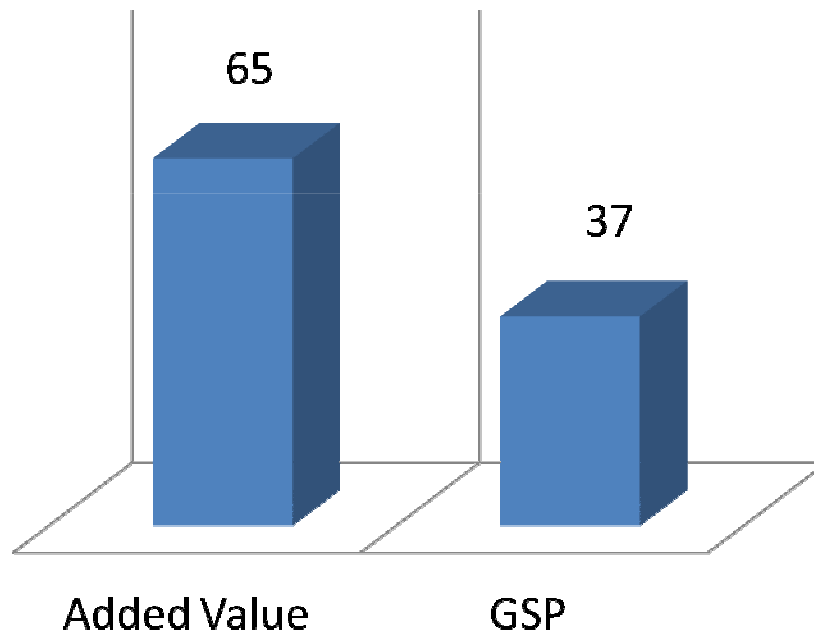
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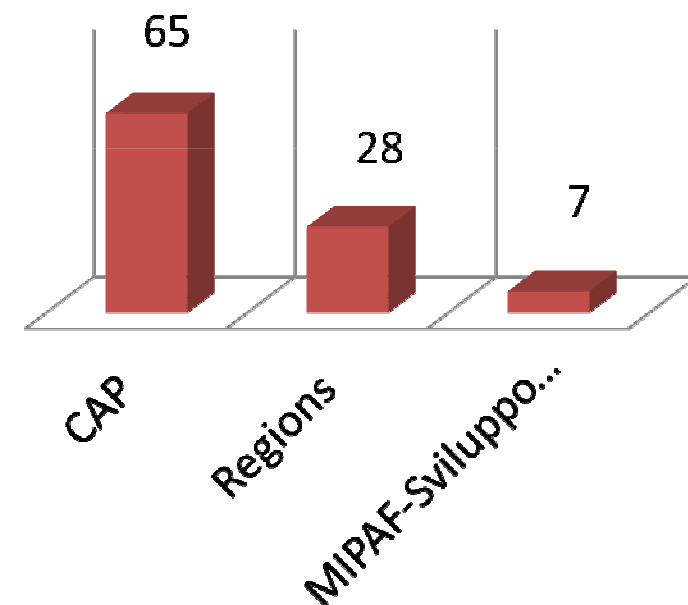
Key facts

CAP contribution

**Incidence of public support
to agriculture (in %)**



**Transfer to the agricultural
sector in (%)**



The EU with 65% of transfers is the main actor in public support for agriculture and reducing transfers might have big effects on the sector

Key facts

Farm structure and strategies

Italian agriculture is mainly composed of **small** and **medium** farm holdings (average **7.9 Ha**), which mainly produce **undifferentiated products** and where farmers have **little bargaining power**

Key facts

Farm efficiency

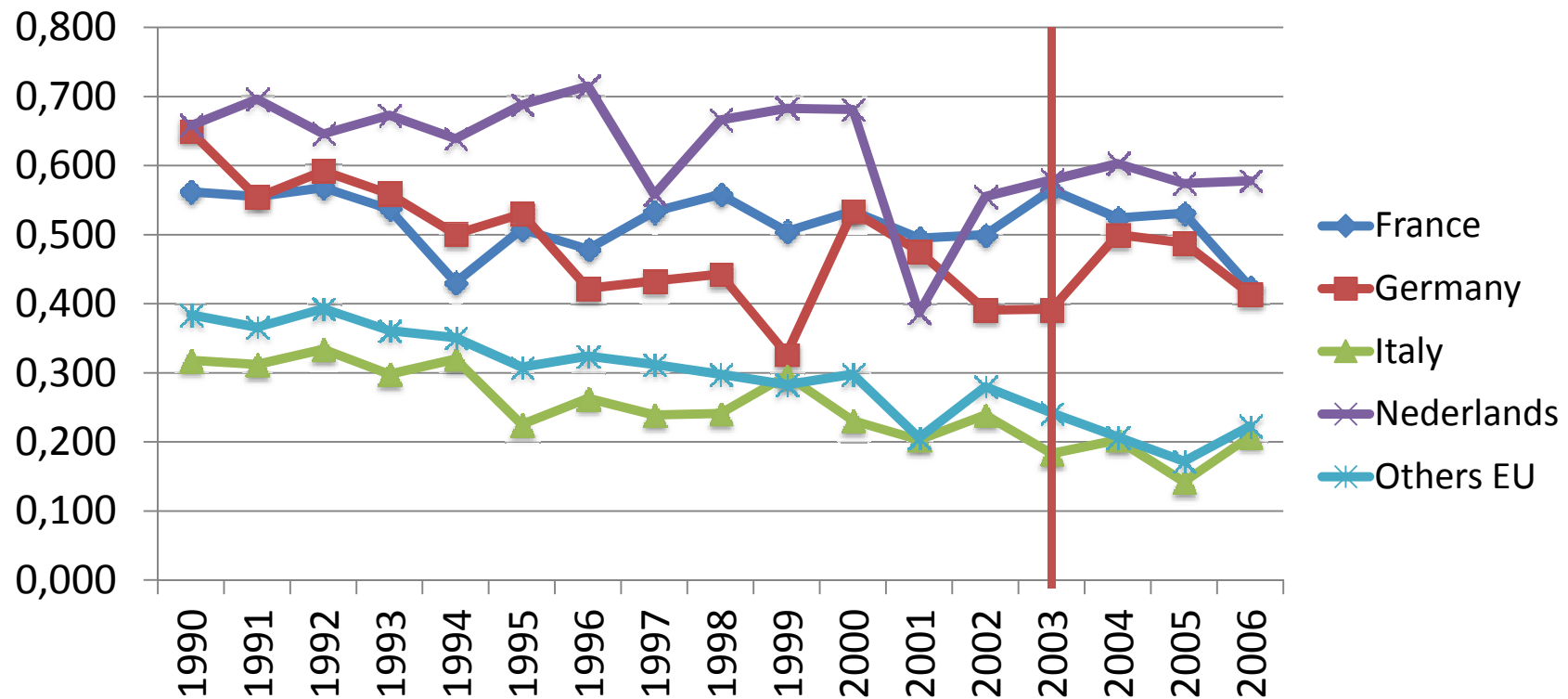
Efficiency depends on the resources available (in quantity and quality), managerial skills and cost differences obtained through technological innovation or growth processes

Productivity is affected by yields, commodity prices and input costs, by agricultural and structural policies and by entrepreneur ability to set efficient production plans.

Key facts

Farm efficiency

Technical Efficiency of FADN sample - FT1



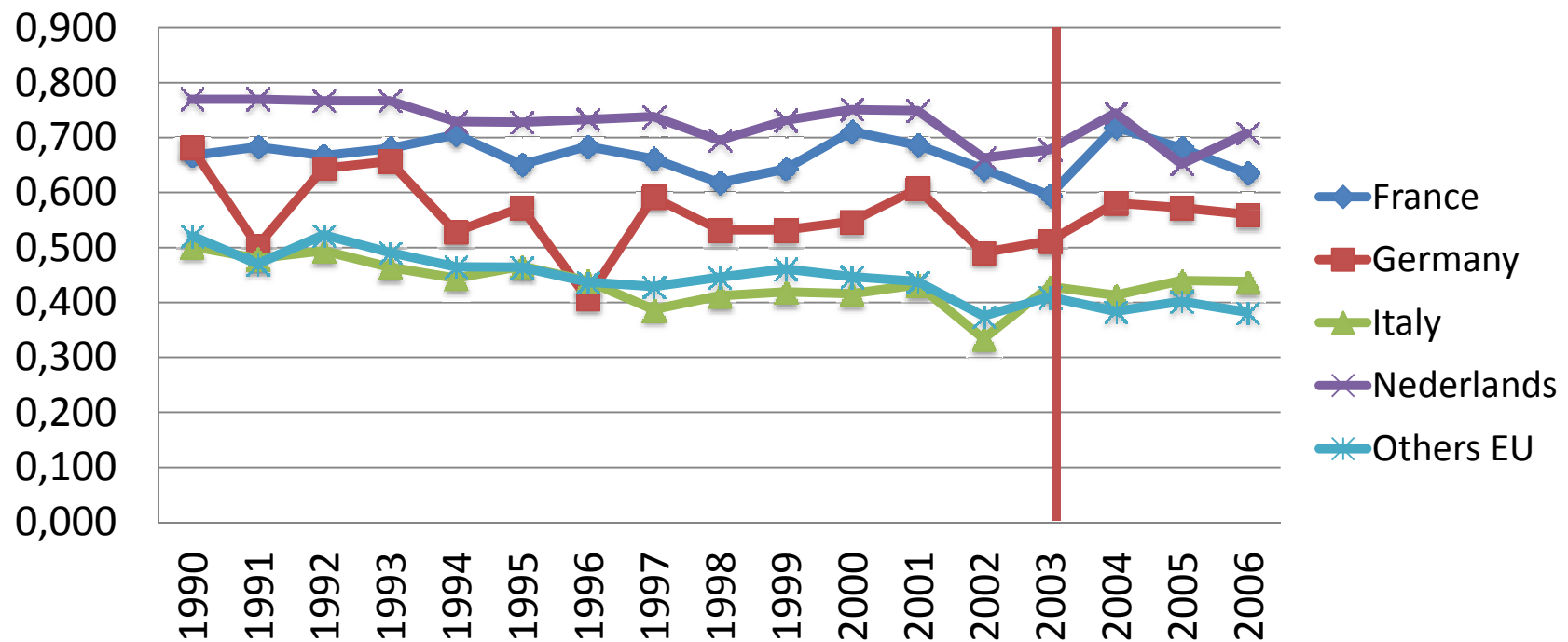
Source FACEPA, Deliverable No. D 5.2,

Trento - June 4th, 2012

Key facts

Farm efficiency

Technical Efficiency of FADN sample - FT41



Source FACEPA, Deliverable No. D 5.2,

Trento - June 4th, 2012

Key facts

Farm efficiency

Assuming normal distribution of entrepreneurial skills among farmers, we can deduce that:

- partially coupled payments led to abandoning the goal of efficiency, because a subsidy component of income was guaranteed by the payments;
- the transition to decoupled payments (since 2003) has pushed farmers to consider more market drivers and positively influenced farm efficiency

Key facts

Farm efficiency

- Over time, average efficiency has decreased for European farms;
- Italian farms have not improved their level of efficiency compared to their European competitors, in fact ... the gap is getting wider;
- RD has a limited effect on competitiveness and does not change the trend;
- Italian farms are less efficient than farms in the rest of Europe: the CAP has not solved the structural problems of Italian farms and has not made them more competitive;
- CAP is set to return Italian farming to market conditions less efficient with greater uncertainty and lower income guarantee.

Objectives of the presentation

Analyze the impact of the new CAP on the **competitiveness** of the “*Italian farm*” compared to competitors represented by the Agri-food Industry (supplier and processor of input and output) and others European farmers

The theoretical framework and key drivers

Competitiveness and sustainability are the main objectives pursued by farmers.

Long-term competitiveness is reached using three drivers:

- ✓ achieving economic equilibrium
- ✓ enriching available resources
- ✓ strengthening the capacity utilization of available resources

CAP is the most **important policy** influence farmers in reaching economic equilibrium, but ... the enrichment of their resources and capacity utilization depends on the characteristics of the environment in which the enterprise operates.

The theoretical framework and key drivers

Competitive advantage depends on entrepreneur strategy in managing benefits and opportunities compared to competitors (specially, the agri-food industry and big retailers).

Competitive advantage - **operational efficiency** and **strategic positioning** in the marketplace.

Efficiency policy is not always necessary, but product differentiation and image promotion are always necessary.

Possible effects on competitiveness

The strategic objective of the CAP reform is to **increase the productivity and competitiveness** of the agricultural sector **by improving sustainable development and innovation** at individual and collective level.

Question: how will the transition to the new CAP (budget cuts, regionalization, greening) affect competitiveness?

Possible effects on competitiveness

Comparison of options by goal, value added, cost-effective

	Adjustment	Integration	Reorientation
Production profitability	++	+++	+
Sustainable management of natural resources and climate action	+	+++	++
Balanced regional development	++	+++	+
Value added	++	+++	+
Economic efficiency	+	++	+

Source: Impact Assessment. Common Agricultural Policy towards 2020, SEC(2011) 1153 final/2

Possible effects on competitiveness

Basic payments

Budget cuts

- **-12.5% 1st Pillar, 12.9% 2nd Pillar.** In addition to cutting the ceiling of 6% for convergence policy;
- Consequences: reduction of funds for investment and innovation as well as the structural renewal;

Abandoning the historical criterion

- Expansion of eligible farms;
- Reduction of cash flows for some farms (at constant prices);
- Reduction of investment capacity for some sectors;

Capping

- Less resources for investment (but it affects only 350 farms in Italy)

Possible effects on competitiveness

Basic payments

Introduction of minimum payments to 400 €

- 41.86% of the farms are interested;
- Limited economic impact;
- Big reduction of administrative costs;
- The savings of **120 million €** allowing more resources for others farms;

Active farmers

- A review of this concept would increase the flow of resources for professional farmers

Risk management (Art. 40 of IInd Pillar)

- It can encourage farmers to invest
- As entrepreneurs are more "protected" and can avoid saving units of resources coming from the Ist pillar.

Possible effects on competitiveness

Basic payments

Overall, the reduction of CAP funds may not be very dramatic and will certainly not significantly reduce the share of resources aimed at improving farm operations and their competitive position.

Possible effects on competitiveness

Greening

Greening requires the payments to farmers who agree to adopt an environmentally virtuous behavior, and represents **up to 30% of payments**;

SFP, under the constraint of greening, completely loses the status of a "**right**" to assume that the "**income support**" subject to the production of public goods;

- Represents a social agreement between EU society and agricultural world;

It is a constraint on business decisions and can reduce the optimization choices;

- They are a low cost for guaranteed income for farmers accounting for 15% value of Italian farming

By contrast, farmers could be forced to intensify their production level in areas free from greening;

Possible effects on competitiveness

Greening

The farmer can decide whether **to accept the basic payment** under the constraint of greening or be completely free from environmental constraints following a goal of flexibility and competitiveness for which benefits may be lost over the payment;

- Criticism of reduction of payments related to the greening of the basis **is correct** because it reduces the resources for competitiveness;
- Criticism of the future direct payments under the second pillar may **not be correct** because they are tied to the production of public goods to European society.

For Europe Greening is a tool to guarantee income for active farmers in challenging markets scenario.

Possible effects on competitiveness

Rural Development - IInd Pillar

- Once again the resources of IInd Pillar are only a potential tool to increase competitiveness. They are linked to farmers' willingness to invest and the ability to plan and spend of Italian Regions.
- Italy has shown low ability to plan for farming objectives in applying RD policies and in spending budgets.
- The credit crunch will not facilitate access to credit for agricultural enterprises and will reduce their propensity to invest.

Innovation for competitiveness

Income stabilization (art.40 of IInd pillar):

- **This may be the final measure in stabilizing income ...** and it will help farmers manage the risk of price change and avoid fall in income and farmers
- Until now this measure has been almost ignored in the CAP reform debate ... but in the future?

Food Chain organization (Article 28 Pillar II):

- In a highly fragmented agriculture with strong contractual weakness compared to its competitors the opportunity to organize food chains is the instrument in the hands of farmers to diversify production and control the supply
- This aspect of the reform is still mainly ignored as Italian agriculture...

Conclusion

- Italy hopes that Parliamentary debate will lead to modifications on several issues: budget cuts, greening implementation and the definition of active farmers.
- But... there are other problems, first of all the financial participation of MS in Rural Development and the recognized difficulty of Italian Regions in planning effective programs and their spending power

The future of Italy depends not only on EU policies but increasingly on the ability of institutional stakeholders (Regions and Ministry) to apply intelligently and efficiently the most important agricultural policy that Italy has ever had.

God save the farmers!!!

Thank you