

*Franco Sotte*

## **Italian agriculture and the new CAP**

### **1. The evolutive scenario of Italian agriculture**

#### ***1.1. The three kinds of Italian agriculture***

Agriculture in Italy can be roughly divided into three parts.

The *first* represents about 20% of the agricultural surface (the Po Valley and other plains with capital-intensive agriculture). It has a high technological level, competitive enterprises, good organization; it also produces mainly “continental” products recompensed by the CAP (cereals, milk, industrial products), is solidly placed in the market (high cooperation and marketing boards, typical products such as: parmesan cheese, Parma ham). It may have conjunctural problems, but is generally competitive at a European level, and presents considerable negative environmental effects (mainly due to the effect of heavy fertilization and high concentration of animal waste) to which are added high urbanization and industrial concentration (Adriatic pollution).

The *second* part of Italian agriculture, covers another 20% of the agricultural surface, and consists of the Alpine range and the central-southern Appenines. It presents harsh natural limits, which prevent farm survival in a free market framework. Depopulation and agricultural abandonment are widespread. The process of decline has already begun, except in traditionally tourist areas. A policy of consistent public transfer is necessary for safeguarding the common goods (environmental, cultural, social, etc.).

The *third* part, about 60%, is hilly land, interspersed with numerous small plains with labour-intensive agriculture in small farming enterprises. This kind of agriculture *can produce high quality products, both “traditional”* (wine, oil, vegetables, fruit, citrus fruit, typical cheeses, meat from local breeds), *and “new”* ones (rural tourism, organic foods, soft fruit). These are products for which there is a large potential European market, and which, by their very nature, are not commodity goods and therefore not object of contention with the rest of the world.

#### ***1.2. Strategies for high quality agriculture***

This third kind of agriculture is potentially of high quality but presents considerable *structural handicaps* largely due to small dimensions, old age and, especially in the south, to over-employment. These limits are reflected in a latent need (which up to now has been met most inadequately) of mobility and land

agglomeration policies, which would include young people in agricultural enterprises and develop possibilities of non-agricultural work.

But there is also an organizational limit, as increasing the quality of the entire food chain process poses great problems. In the production phase there is very little technical assistance, professional training, specific input, quality standards. In the concentration and transformation phases, the role of collective organizations (producer cooperatives and marketing boards) is inadequate, food transformation is technologically backward and badly run, there are few instruments and services with which to introduce new products.

On the other hand *product coordination with the market* is fundamental for these productions. From this point of view, the CAP guarantee has certainly great responsibilities in having limited the possibilities of success of this kind of agriculture. It rewarded above all, standardized “commodities” (generally capital-intensive and labour-saving) with higher prices, compared to niche products<sup>1</sup>. It also encouraged the production of poor quality products (such as in the case of wine) making them artificially more competitive than higher quality ones.

The greatest drawback, however, was that the EU market policy was *exclusively a price policy* while the market policy necessary in these cases has a much wider definition. It consists of a system of rules, standards, brands of quality and guarantee, aggregation of offers, products, policies of quality marketing, consumer education.

The McSharry reform did not resolve the problem, because, till now, it only concerned the COP cultures, which in Italy make up only 18% of the GDO of cultivations (compared to 27% of potatoes and vegetables; 12% of wine, 6% of olive oil; 21% of fruit and citrus fruit<sup>2</sup>. In fact the problem increased because of still stronger competition between the COP and other cultures<sup>3</sup>. The compensations, given on the basis of mean regional yields, independently of the quality and quantity produced, encouraged an agriculture *which used less chemical inputs* but also *paid less attention to the correct execution of agronomic practices*; in fact oleaginous are produced only for the compensation received, otherwise production is at a loss<sup>4</sup>. This is especially important because in Italy the agricultural-environmental problem has two aspects: in the Po Valley the main causes are, as in most of Central-Northern Europe, overuse of chemicals in agriculture and the problem of animal waste disposal, while in the Central-Southern hill land it is the result of over-mechanization and of a simplification of the productive systems (resulting in monoculture) which affects the holding

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<sup>1</sup> One must be aware of the wide variety in the Mediterranean products: not only is the list of products much longer and the productive systems more complex, but each product is present on the market in numerous varieties: such as wine, but also vegetables and fruit.

<sup>2</sup> If one also considers the proportion of livestock breeding on the overall agricultural GDP: 39%, it is much lower than North European average.

<sup>3</sup> Devaluation of the lira (about 30% from 1993 to the present day) has also helped this situation by practically annulling the foreseen lowering of ECU prices. On the other hand, the present high prices in the world have brought about a situation of exceptional profitability especially for cereals.

<sup>4</sup> For example the sale price for one hectare of sunflowers is 1.4 million lira compared to 2.6 million of costs; only the compensatory integration of 1.8 million makes the culture profitable and it has substituted other cultures in the last few years. Vasco Boatto, *Quando i conti tornano*, Terra e Vita, n.4, 1996.

capacity of the slopes (landslides) and water control (flooding). In this sense, the permanency of an agriculture guided by long term objectives constitutes, on its own, a guarantee of environmental equilibrium.

*The solution therefore must consist in overcoming (or at least containing) the compensation policies of the COP cultures (mainly capital-intensive and labour-saving) and at the same time establishing a rapid and definite CMO reform regarding Mediterranean products based on a definition of market policy much wider than adopted until now. Structural policies and those which valorize the environment must be aimed at stimulating entrepreneurs above all young ones, encouraging horizontal and vertical integration of enterprises and, above all, promoting the formation of a network of services which will increase the market value of “quality”.*

### **1.3. Models of integrated rural development, the “Third Italy” and diffused development**

Possibilities of success of this kind of agriculture are also linked to the relations between agriculture and the overall economic environment: there are many so-called “diffused development” experiences, where agricultural economy is highly integrated with the development of small and medium-sized enterprises, artisan work, decentralized tourism in rural areas. This type of decentralized development is not casual. When economic literature talks about the “Third Italy” it defines areas that, though not belonging to the traditional polarization of development which in the North is concentrated and in the South is assisted by public transfer, have undergone considerable progress in recent decades<sup>5</sup>. The success of Italian fashion industry, for example, does not only depend on the “Italy” brand or on the ingeniousness of Valentino, Armani and Benetton<sup>6</sup>. Their connections with agriculture are many: farmer origin of the entrepreneurs, exchange of productive factors and products to and from agriculture, possibility to live in the country, social contacts.

The economy of the *integrated districts*, where this has occurred, has made it possible to revitalize the smaller urban centres and link them to the countryside in a relationship of mutual exchange. The strong point of this model is in its **integration** and **flexibility** which can be guaranteed even over a long period if the sectors maintain the characteristics which make them complementary to, and in harmony with, nature and the land. But this implies that changes in agriculture, as in other sectors, cannot simply be left to the market. The market could, as has often happened, push agriculture towards roles of passiveness and speculative exploitation of its fertility (e.g. a predatory kind of monoculture induced by short-

<sup>5</sup> The strong-point of this economy is, above all, its ability to resist and react quickly during negative periods of the economic cycle.

<sup>6</sup> The phenomenon regards other many other sectors, some of which highly technological and innovative: mechanics, shoe manufacture, furniture, goldsmiths, typical artisan work, etc. It is widespread in several Italian regions and mainly in the North-East and Centre.

term interests of machinery service enterprises, the simplification of productive systems by part-time, the increase of ageing of farmers, etc.). The market could also direct industrial activity to rural areas only if conditions (like an excess of work) permit low costs and high competitiveness, and then move elsewhere once social conditions are equalized and the short-term opportunities have been exploited.

To pursue this alternative in most rural Italian areas is obviously a very complex task: the design of agricultural policy must be adapted regionally and be carefully programmed and controlled. However, it outlines a strategy where, with the crucial contribution of rural development policy, it is possible to identify a long-term evolutive pattern (economic and environmental) stimulated and regulated by the Integrated Rural Policy, but essentially guided by the market.

The alternative is that the market, if not regulated, will eliminate the agricultural entrepreneurs, as is presently happening, and lead to short-term speculative activity on the land, run by machinery service enterprises, or by part-timers who are only marginally interested in agriculture. This would be a loser's game from the economic profile with serious environmental consequences. The entity of this risk can already be seen in terms of landslides and floods (in all the clayey areas of the Appenines), of impoverishment of the agricultural land, land erosion, loss of organic elements of the soil, and pollution of the waters. This in turn leads to a loss of social cohesion and adhesion to imported values and life styles.

Necessary intervention would mean costly public support in order to compensate or repair the environmental damage.

*It must therefore, be stressed that only two alternatives exist for more than half the Italian territory .*

*Either public intervention is **preventive** and aimed at:*

- restoring the considerable market potentiality by choosing the path of integration and quality;*
- ensuring the maintenance of equilibrium and complementarity among the productive sectors and environmental tolerability.*

*Or it will have to be **subsequent**, and certainly not less costly, to cover environmental and social disasters and to compensate for the lack of market solutions.*

## **2. The general scenario of agricultural policies**

### ***2.1. Why aren't CAP-orientation funds often fully used in Italy ?***

A recurrent characteristic of community orientation policies when applied to Italy is that they are slow and biased. Introduction times of structural policies in Italy are slow, the procedures for their implementation just as long. For this

reason, Italy often does not manage to utilize the available community expenditures.

This phenomenon has existed since the beginning of CAP-orientation: it in fact characterized the approval of socio-structural directives in 1972, introduced in Italy by the national reception law in 1975 and applied by the Regions in 1978<sup>7</sup>. From then on, all regulations suffered great delay in being applied or were only partially applied<sup>8</sup>. The phenomenon is also evident in the application of the regulation 2052/88: final data in 1993 show that, though the amount of resources available was not much higher in Italy than elsewhere, the ratio payment/commitments during the four years 1989-93 was recurrently lower in Italy than in other EU countries<sup>9</sup>.

***Community Support Framework - Implementation 1989-93  
Ratio % between payment and undertakings***

	EU Mean		Italy	
	Total	Feoga	Total	Feoga
Objective 1	85.2%	84.4%	73.1%	60.4%
Objective 2	74.0%		59.6%	
Objective 5b	75.2%	73.5%	61.4%	56.4%

Obviously the reasons are numerous. Certainly the large number of enterprises and beneficiaries of the intervention makes it often difficult to organize, collect and deal with all the demands.<sup>10</sup> Also bureaucratic organization is often poor.

But the main reason for difficulties in implementing must be looked for in three particular characteristics of Italian agricultural policies.

1) The first derives from the different selection criterion adopted by internal structural policies compared to the community policies. The rules for selecting the beneficiary have, in Italy, always privileged *status*, while for the community what was important was the *project*. In fact, selection in Italy depends on the possession of formal characteristics: land ownership, personal data, residence. Support of a political party or farmers' union is also often important<sup>11</sup>. In Europe instead, an alternative model, always based on a *project* (a programme, a plan),

<sup>7</sup> Many funds have not been used.

<sup>8</sup> For example, one can look at the directive 268/75 for less favoured areas. Considering that it was introduced when the EEC was still made up of six member states it can be assumed that it was meant to compensate the difficult situation that most Italian agriculture found itself in. After more than 15 years since being applied, the LFAs in Italy cover the same amount of land (52%) as in the EU (54%) and, as in Germany (53%), but the compensation paid to potential beneficiaries is much lower (Italy: 10%, EU: 27%, Germany: 59%). A.Bonnet, P.Coulomb, H.Delorme, V.Mechineau, D.Perraud, *Le financement des politiques socio-structurelles dans la Cee*, Groupe transferts, INRA/CERI-Engref, 1993.

<sup>9</sup> The Implementation of the Reform of the Structural Funds in 1993 - Fifth annual report

<sup>10</sup> This also regards the policy of price integration: for example, there are about one and a half million producers of olive oil.

<sup>11</sup> This is the case of considerable amounts of money, assigned, not always efficiently, and often too easily not considering the economic and financial status, to the cooperatives.

was proposed right from the start. The “farm development scheme” of the directive 159/72, the “improvement plan” of regulations 797/85 and 2328/91, the “Integrated Mediterranean Programmes”, the “development plans” of regulations 2052/88 and 2091/93, the Leader programmes, etc.

2) the second Italian peculiarity, which is a consequence of the first, consists in the *simplicity* of the procedures which are necessary to have access to national policies: their aim is to be widely accessible<sup>12</sup>. The procedures established by the community policies appear to be *relatively more complex*. It must be remembered though, that there is insufficient preparation to draw up and carry out plans and programmes and, often, there is considerable passiveness regarding CAP procedures<sup>13</sup>.

3) Lastly, intervention in Italy has always been *fragmentary*: support is considered for the access to single factors<sup>14</sup>. The fact that the enterprise was not regarded as a whole, enabled the better structured farms (those for example only lacking machinery or a stable) to have access to public support, while access was made difficult, and often impossible, for those farms and territories with considerable structural delay. Without regional and local plans<sup>15</sup>, there were often no macroeconomic reference framework and infrastructures complementary to private investments.

It must also be noted that, unlike other EU Members, structural delay in Italy is widespread<sup>16</sup>. If one takes into account that, up until the 80's, the funds of CAP orientation available were few, while national funds were many, it is understandable how the “bad money” of national agricultural policies drove out “good money” coming, not without difficulties, from the Community.

The lack of programming and selection of Italian agricultural policies has often been denounced. It has also been often officially recognized. In particular, the institution of the Regions in 1970 offered great expectations, but the partial legislation framework actually repropounded the centralized and bureaucratic attitude of the Ministry at a regional level. Art. 117 of the Constitution delegates agricultural matters to the Regions, but regionalization of agricultural policies has not been completed. The conflict between State and Regions is still open, so much so that in 1994 a referendum took place to abolish the Ministry of Agriculture on request of 10 Regions (out of 15). The Ministry was suppressed (over 70% of votes in favour), but was then reconstituted under the new name of MIRAAP (law 491/1994). The dispute in fact produced a more favourable distribution of expenditure to the Regions which now have a right to at least 80% of the funds available for agricultural policies.

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<sup>12</sup> The reasons for this policy are also political-electoral: the widely accessible kind of policy does not select and deal with the roots of structural problems, but maximizes the electoral support in the rural areas. The farmer unions, choosing this kind of intervention, played an important role.

<sup>13</sup> This regards farmers, bureaucracy and the political and union representatives in the rural area.

<sup>14</sup> Without a plan, the enterprise had to present a separate applications for every investment support required: land, tractor, irrigation, stable, etc.

<sup>15</sup> Italy has an extremely diversified agricultural panorama: literature often talks about the “100 agricultures” which are said to exist in the country.

<sup>16</sup> This can be seen with the socio-structural directives of 1972: a large part of Italian agriculture was so greatly under the comparable income that it was impossible to reach that level in relatively normal times.

*The basic point is this: enterprise and the entrepreneur have never had a central role in agricultural development within Italian agricultural policy. It has also been a centralized policy which has never been programmed. In this sense it was often in conflict with CAP-orientation and, given the small amount of funds, managed to prevail. This attitude has prevented Italy from playing a determining role in defining the old and new CAP and therefore made it more difficult to apply reforms in Italy, once they were approved.*

*It is interesting to point out here how the McSharry reform established a direct link between agricultural income and administrative efficiency. The consequence of this decoupling is that agricultural income now depends not only on competition between farms on the unprotected markets, but also on the efficiency of the administrative systems responsible for compensation management.*

## **2.2. A general framework of agricultural policies in Italy before the reform**

The aim of this paragraph is to illustrate how an analysis of CAP effects is carried out within an overall vision of public intervention.

The funds assigned to the sector are extremely high (52.4% of the value added)<sup>17</sup>.

The division is as follows:

### ***Financial resources of agricultural policies in Italy***

#### ***Percentage***

<b>CAP</b>			<b>40,3%</b>
of which:	guarantee	34%	
	orientation	6,3%	
<b>Tax and social security reductions</b>			<b>27,2%</b>
of which:	tax	17,3%	
	social security	9,9%	
<b>Regional and national expenditure</b>			<b>32,5%</b>
of which:	Ministry and central	6,6%	
	Regions	25,9%	
<b>Total</b>			<b>100,0%</b>

<sup>17</sup> Media 1990-92, Source: Inea, Annuario dell'Agricoltura Italiana, 1994.

The support given to agriculture through reductions (tax and social security) does not come under the responsibility of agricultural policy makers (for fiscal matters: Ministry of Finance; for social security: Ministry of Labour). The importance of the Ministry of Agriculture is greater than appears from data, in fact the Ministerial budget centralizes all expenditure of community guarantee interventions (through Aima which is the institute responsible for market support), and also transfers (often with constraints) a large part of the Regional expenditure.

The destinations of public intervention are the following:

***Destination of agricultural policy funds in Italy***

***Percentage***

Investment support	15,0%
Support to intermediate consumption and services	9,9%
Fuel price reduction	6,9%
Support to agro-food industry	5,9%
Support to products	40,4%
Income support	22,1%
<b>Total</b>	<b>100,0%</b>

It can be seen that a large part of the expenditure is not destined for other purposes than for the general support of income either directly (tax exemption) or by sustaining prices (and now tax compensations)<sup>18</sup>. The lowering of fuel prices is a significant incentive to use machines. Few resources are instead destined to sustain structural and infrastructural transformation, and also service provision and all non conventional inputs. For this reason, the agricultural policy in Italy can, on the whole, be defined as passive and unselective.

It must be added that a considerable part of intervention is received by categories and social classes other than agricultural entrepreneurs: 49% of Aima support (CAP guarantee) goes to the agro-food industry. Tax exemptions go above all to landowners<sup>19</sup>. Support to non conventional input (training, technical assistance, agricultural accountancy, etc.) goes mainly to farmers' organizations, which provide services to farmers, but whose qualitative levels, often do not correspond to the funds used, also due to insufficient coordination and control.

Regarding the distribution of CAP expenditure per product, it is highly unbalanced. While for some products, the CAP guarantee expenditure sustained by Aima is sometimes even greater than the GDO: this is the case of oil seeds

<sup>18</sup> Given the technical characteristics of these policies, income support is progressive in both cases.

<sup>19</sup> On the other hand, also a large part of expenditure generically destined to the enterprise on the basis of general formal requirements tends to transfer to factors of production owners characterized by the most rigid supply curve. This is also the case of support policies for prices and incomes.

(111.3%) or tobacco (129.9%); in other cases it is considerably reduced: fruit and vegetables (5.9%), wine (14.6%)<sup>20</sup>:

This is reflected in the unbalanced distribution even from a geographical point of view: the benefits tend to be concentrated in the North, where agriculture, as mentioned before, is structurally more efficient and competitive.

This unbalanced distribution is also a feature of the structural expenditure of CAP. Paradoxically, investment support is concentrated in the North, while income support is mainly directed to southern agriculture.

### *Socio-structural community regulations*

#### *Total amount paid in the period 1989-91 (billions of lire 1990)*

	Investments		Transformation		Income support		Services	
	Billions	%	Bill.s	%	Bill.s	%	Bill.s	%
<b>North</b>	463.0	<b>56.9</b>	153.6	40.8	272.7	<b>18.2</b>	62.5	71.3
<b>Centre</b>	285.5	<b>35.1</b>	79.2	21.0	288.5	<b>19.2</b>	8.9	10.1
<b>South</b>	64.6	<b>7.9</b>	143.4	38.1	930.0	<b>61.9</b>	16.4	18.7
<b>Total</b>	813.0	100.0	376.4	100.0	1501.0	100.0	87.7	100.0

This certainly depends on the competition, stronger in the North than in the South, between easily accessible national policies and the relatively more complex community ones. It is not sufficient for Italian agriculture that the European Union simply define a good CAP. It is also important to implement it correctly and quickly and that its implementation be controlled and exploited. It is also necessary to converge national (and regional) policies with European ones.

*In conclusion, the CAP is only a part of agricultural policy in Italy. If it cannot be integrated with national and regional policies, it will have little effect.*

*What the Italian situation can also demonstrate is that the overall effect of policies does not only depend on the choice of correct paths to be taken, but also on the complex procedure of implementation. If, in particular, the expenditure is not analysed and controlled, it can in fact be directed towards different objectives from the original ones, or even be ineffective.*

### **2.3. The prospects after the McSharry reform and the structural policy reform**

Various circumstances presuppose a possible change in the situation at the beginning of the 90's.

Some stem from the change of the institutional situation and of the role of social bodies in rural areas: the crisis of some key institutions of centralized power in the rural areas<sup>21</sup> and the loss of political importance of the main

<sup>20</sup> Media 1990-93. Source: F. Sotte, P. Bernacconi, "La spesa dell'Aima, Studio per il consolidamento dei flussi finanziari di politica agraria in Italia (1983-1992)", in: R. Finuola (a cura), La spesa pubblica in agricoltura, Inea, 1995.

<sup>21</sup> Among these, the crash of the strong National Federation of Farmer s' Unions and the economic crisis of many cooperatives, unable to stay on the market without the substantial public support they had in the past.

agricultural unions and cooperative associations have resulted in pressure towards the reduction of national and regional agricultural expenditure<sup>22</sup>. Also facility reductions and above all those regarding social security have been greatly lowered.. These circumstances are considerably weakening (in terms of available funds) national and regional agricultural policies.

Certainly, however, CAP-orientation, after the reform of structural funds has assumed much greater importance: first of all because available funds have increased<sup>23</sup>, and also because the regional and de-sectorized kind of approach of integrated rural development policies has met the requirement of coordination which is absolutely necessary in rural areas. On the other hand, the basic principles of community intervention (intervention by *programmes*, *copartnership*; *addictionality*; *subsidiarity*.) have led to adaptation which is an absolute novelty, otherwise this meant exclusion from benefits. It is still too early to come to any conclusions and early data on the activation of community policies still show inevitable delays (due above all to difficulties met by some Regions in paying their financial quotas in the copartnership schemes). But the signals of renewed involvement seem clear.

*Of course the success of community policies depends on various circumstances: above all on the progressive convergence of national and regional policies towards a model based on regional and local programming and controlled enterprise transformation programmes. It is extremely important to monitor the implementation reports, not only to approve or exclude renewed financial demand, but above all to measure the efficiency and effectiveness of the policies carried out. Monitoring and controlling the management of community intervention also means evaluating to what degree community policies coordinate with regional and national ones.*

*There is also, however, the problem of the volume of expenditure. If in the future, community funds will still concentrate on compensation and no redistribution will be given to policies of orientation and quality support, it will be very difficult to change the actual situation in any significant way.*

### **3. What can be learnt from the Italian experience?**

The main aspect that emerges from the Italian situation compared to other European States (above all North European) is the much greater **complexity**. The problem of rural development is not only (simply) to identify ways of containing negative environmental externalities produced by competitive agriculture, or, on the contrary, to identify ways of compensation to guarantee the production of environmental public-goods from farmers who would otherwise be out of the market<sup>24</sup>. The greatest problem is to identify a policy, or rather a mixture of

<sup>22</sup>It must be remembered that public debt in Italy reached a record volume of 120% of the GDP. This forced the state administrations to fiercely cut expenditure with the result that now the public sector presents a primary surplus, net on the interests of public debt.

<sup>23</sup> Accompanying measures are also working along the same lines, above all those of Regulation 2078/92, which had a difficult start, but seems very promising.

<sup>24</sup> In these cases, it would not even be correct to use the term "integrated rural development". First of all because there is no real integration, and then because on the one hand economic development already exists but some of its effects should be avoided, while on the other it is not so much as

policies which will stimulate entrepreneurial energies to activate a potentially existing market, but one still lacking the conditions to become spontaneously active. The alternative is to intervene with generalized policies to compensate economic and environmental damage, the costs of which would be prohibitive if applied to most of the Italian territory.

The solution is integrated rural development<sup>25</sup>, based on complementarity between economic sectors and, where agricultural and industrial products are quality-oriented, even between economy and environment. In this case close coordination is necessary between market and State behaviour at various political-administrative levels: Community, National, Regional.

It is also necessary to acknowledge that balanced development is not guaranteed once and for all, but must be dynamically managed and implemented: it is therefore extremely important to monitor not only the evolution of the system (economic and environmental), but also the efficiency and effectiveness of the political-administrative measures taken.

*If the terms of the Italian problem, as presented in this paper, are accepted; and if the proposed solutions are agreed with, other questions still remains to be asked. Is this problem only relevant to Italy, or can it be found in other EU States? Are there other aspects of the Italian situation which can be used as elements to identify models and strategies of rural development also in Central-Eastern European States?*

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question of development as of conservation and maintenance.

<sup>25</sup> In this case the term is quite appropriate.