

IMPACT OF DIRECT PAYMENTS CONVERGENCE IN ITALY: A TERRITORIAL AND SECTOR ASSESSMENT

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CAP reform development

- new architecture of direct payments (DPs)
- flexibility for Member States in DPs implementation
- three main objectives of the CAP
 - 1) a viable food production,
 - 2) a sustainable management of natural resources and climate action
 - 3) a balanced territorial development

...and the aim to pave the way for **convergence** of the level of support within and across Member States

- **Convergence:** sensitive and controversial issue during negotiations on MFF and CAP
- existence of wide individual differences
 - ▣ successive integration of various sectors into the SPS
 - ▣ use of old historical references, mainly 2000-2002

How to reach an equitable and balanced distribution of DP_s?

- ▣ A process of *progressive and partial convergence* of payments unit value to the national average was introduced
→ MSs flexibility

Stylized fact

- A reform difficult to analyses and evaluate
 - ▣ Flexibility
 - ▣ **Implementation and impact are farm specific**

it may provide different effects even between similar farms (*Louhichi et al., 2015*)
- Convergence mechanism does not allow to deal with payment entitlements (PEs) quantification separately. Each of them affects the value of all the others. They should be determined altogether, simultaneously

Objectives and methodology

Objective

- to analyse the convergence effects in terms of DPs (re)distribution at **farm, territorial and sector level**
 - ▣ estimating BPS and Green payment for each farm as from 2015 to 2019, moving from reference payments for 2012, in the whole Italy (NB: declining ceilings)
 - ▣ Matching the results with FADN database by fiscal code/VAT

Methodology

- Development of simulation tool (CAP2020-Simulation tool) implementing the partial internal convergence, in compliance with the Italian authority notifications to EC

Convergence in the simulation tool

Three steps

1. “Irish model”

payment entitlements (PEs) with an initial unit value $< 90\%$ of the national/regional u.v. in 2019 should, for 2019 at the latest, have the unit value increased by at least $1/3$ of that difference

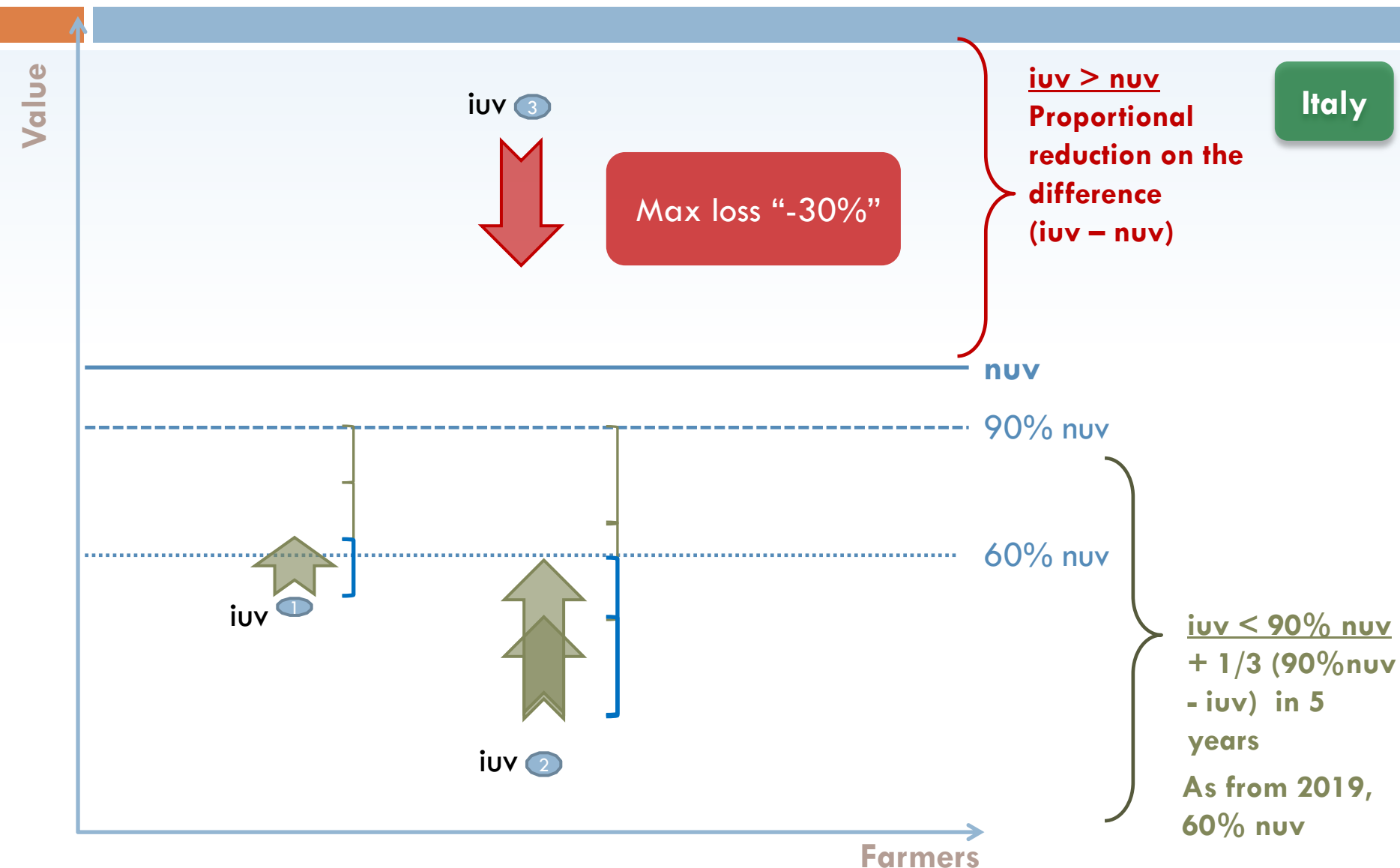
2. “Minimum guaranteed level”

PEs in 2019 should not have a u.v. $< 60\%$ of the national/regional u.v. in 2019

3. “Stop loss” (or maximum decrease)

convergence financed by reducing, on the basis of objective and non-discriminative criteria, the value of PEs $>$ national/regional u.v. MSs may limit this reduction to -30% of the i.u.v, even if such a limitation does not allow PEs to reach the minimum guaranteed level

Internal partial convergence



National decisions into the tool

Measure	Description	Reg.
Minimum size per holding	5.000 sqm	art. 24.9
Agricultural area	Eligible hectares	art. 32.5
Regionalisation	Italy as a unique region	art. 23
BPS ceiling	58% of Annex II ceilings (incl. National reserve 2015 and SFS)	art. 22.1
Increase BPS ceiling	3%	art. 22.2
National reserve	3% of BPS	art. 30.3
Convergence method	1° step "Irish model"	art. 25.4 (1)
	2° step minimum guaranteed level: 60% of national u.v. in 2019	art. 25.4 (3)
	3° step "stop loss": -30% of initial unit value	art. 25.7
Green direct payment	30% of Annex II annual ceilings	art. 47
	Payment proportional to the total value of PEs under the BPS	art. 43.9 (3)
Measure not in the tool	Description	Reg.
Young farmer payment	1% of Annex II annual ceilings	art. 50
Voluntary coupled support	11% of Annex II annual ceilings	art. 53
Small farmer scheme		art. 63.2 (b)

Mapping MSs implementation BPS(SAPS) and convergence

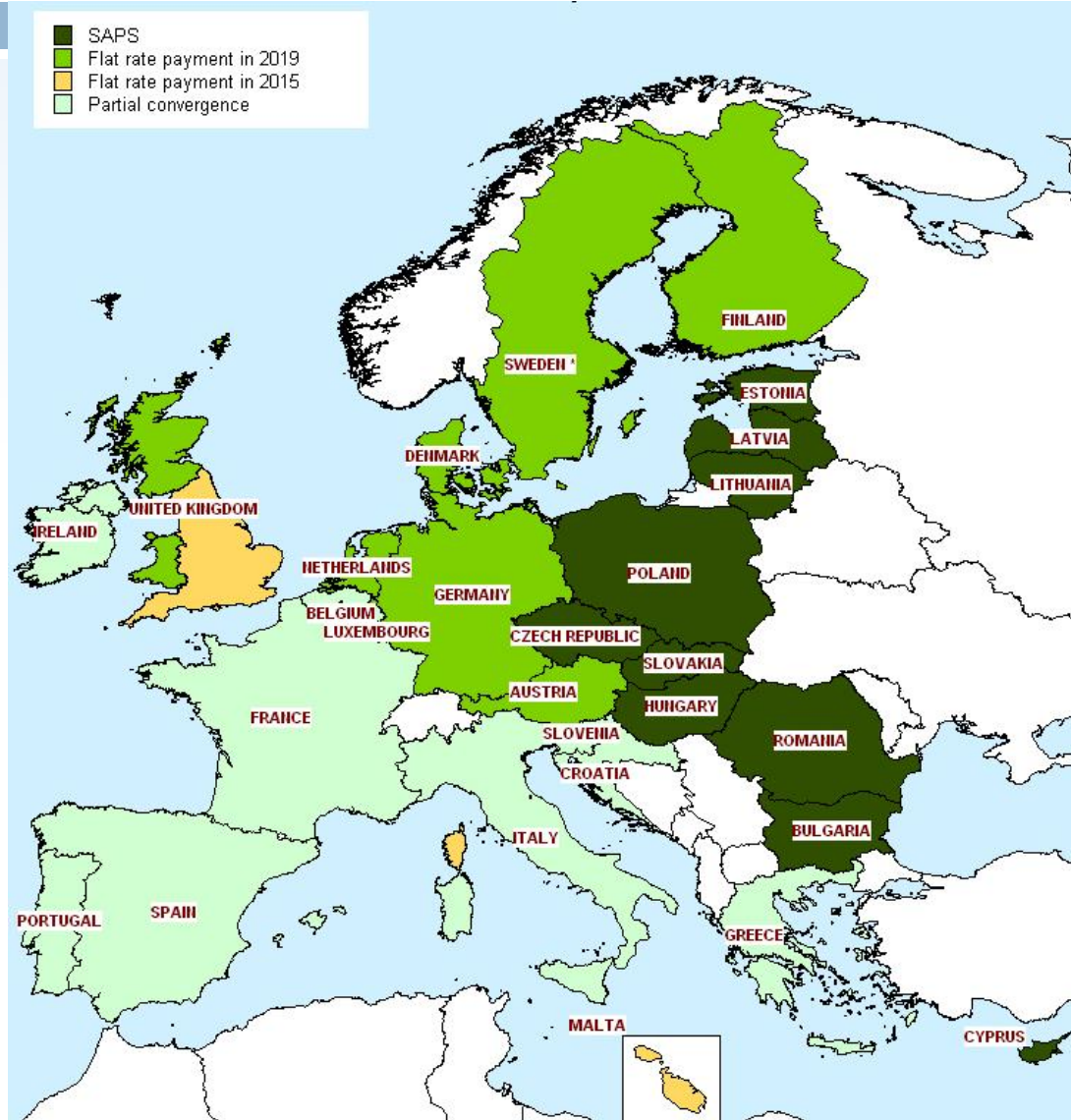
Partial convergence

11 out of 28 MSs

Greece, Spain, Italy, Croatia,
France (Hexagon), Portugal
together with Ireland, North
Ireland, Luxemburg, Slovenia and
Belgium (Flanders-Wallonia)

7 of them opted for “stop loss”
(excl. HR, Lux, IE, NI)

3 of them opted for
regionalisation: Spain, Greece,
Belgium



CAP2020-Simulation tool

Input Data

- ❑ National administrative datasets at farm level
 - ❑ Integrated Administration and Control System (AGEA), for Direct support paid for 2012 under SPS and art. 68 (tobacco, flower)
→ 1,196,000 farms
 - ❑ National Farm Register in 2014 for Potential Eligible Area (AGEA)
→ about 2,000,000 farms

Databases matched by fiscal code or by VAT number

- ❑ Detect minimum dimension: 0.5ha
 - ❑ potential eligible farms identified: 1,620,000
 - ❑ Potential eligible area: 12.3 million hectares
- ❑ Final match with FADN database for sector analysis: 11,029 farms

The three steps of Simulation tool Irish model

- a) Quantification of initial unit value (iuv) and national unit value (nuv)
- b) Comparison between iuv and nuv by farmer
- c) Quantification of financial needs by farmer
- d) Potential contribution and real contribution
- e) The effect of convergence on entitlements value
- f) The value of entitlements and the end of “Irish model”
- g) Check of total entitlements value against national ceiling and (eventually) calibration to ensure compliance with it

The three steps of Simulation tool

Irish model

IF $iuv < nuv = \text{recipient}$

□ **Financial need** = 1/3 of the difference between iuv and 100% of the nuv
in 2019

$$need_{ha} = \frac{1}{3} \times (nuv - iuv)$$

$$need_{tot} = need_{ha} \times n.PEs \quad \Rightarrow \quad \sum_{i=1}^n need_{tot}$$

$$need_{tot_year} = \frac{need_{tot}}{5} \quad \Rightarrow \quad \sum_{i=1}^n need_{tot_year}$$

The three steps of Simulation tool

Irish model

IF $iuv > nuv = \text{contributor}$

□ **Proportional contribution:** the larger the distance of iuv from nuv the higher the withdraw

$$contr_{ha} = nuv - iuv$$

$$contr_{tot} = contr_{ha} \times n.PEs \quad \longrightarrow \quad \sum_{i=1}^m contr_{tot}$$

$$contr\% = contr_{tot} / \sum_{i=1}^m contr_{tot}$$

□ **Real contribution:** calculated matching the % of contribution of the single farmer with the total need of all recipients.

- $\sum \text{potential contribution} \geq \sum \text{real needs} \rightarrow \text{calibration on needs}$
- $\sum \text{real contribution} = \sum \text{real needs}$

The three steps of Simulation tool

Minimum guaranteed level

- a) Quantification of 60% of nuv
- b) Check entitlements uv at 2019 against 60% of nuv by farmer
- c) Quantification of financial needs for extra convergence by farmer
- d) Potential contribution and real contribution
- e) The effect of extra convergence on entitlements value
- f) The value of entitlements and the end of “extra convergence”
- g) Check of total entitlements value against national ceiling and (eventually) calibration to ensure compliance with it
- h) Quantification of Green “individual” payment

The three steps of Simulation tool

Stop loss

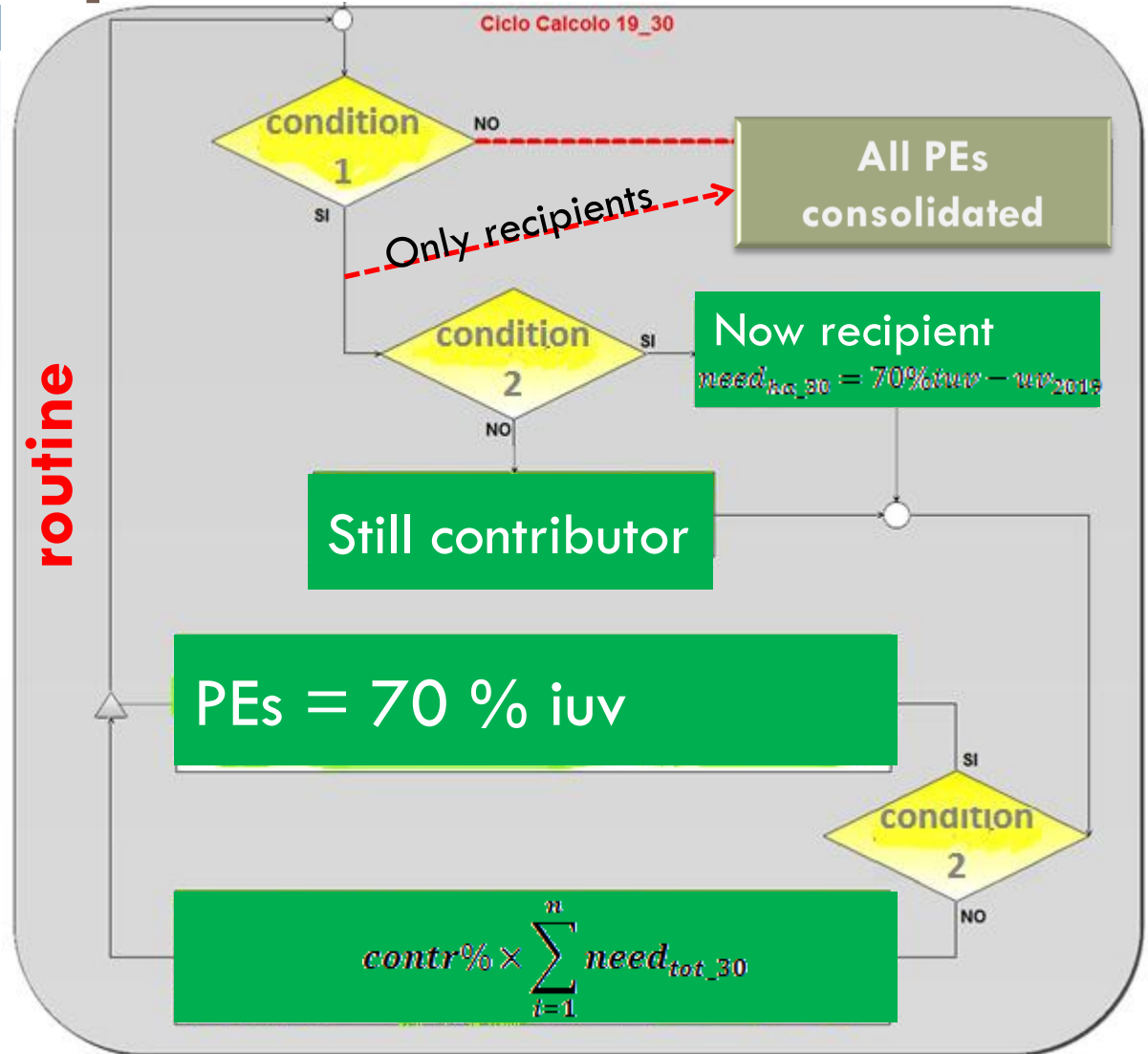
- a) Consolidation of PEs unit value for farmer with $iuv < nuv$
- b) R1 → Check % reduction: evidence of decrease larger than -30% of iuv in 2019
- c) R2 → Set Stop loss to -30% of iuv for farmer with larger decrease
- d) R3 → Partial redistribution of their contribution exceeding the maximum reduction
- e) Routine from R1 to R3 as long as R1 is “positive”
- f) Check % reduction and stop routine
- g) Consolidation of entitlements unit value for all farmers
- h) Check of total entitlements value against national ceiling and (eventually) calibration to ensure compliance with it
- i) New quantification of Green “individual” payment

The three steps of Simulation tool

Stop loss

Condition 1)
Is the var% of $uv_{(year)}$ compared with iuv lower than -30%?

Condition 2)
(for contributors only) Is the farmer affected by a reduction lower than -30%?



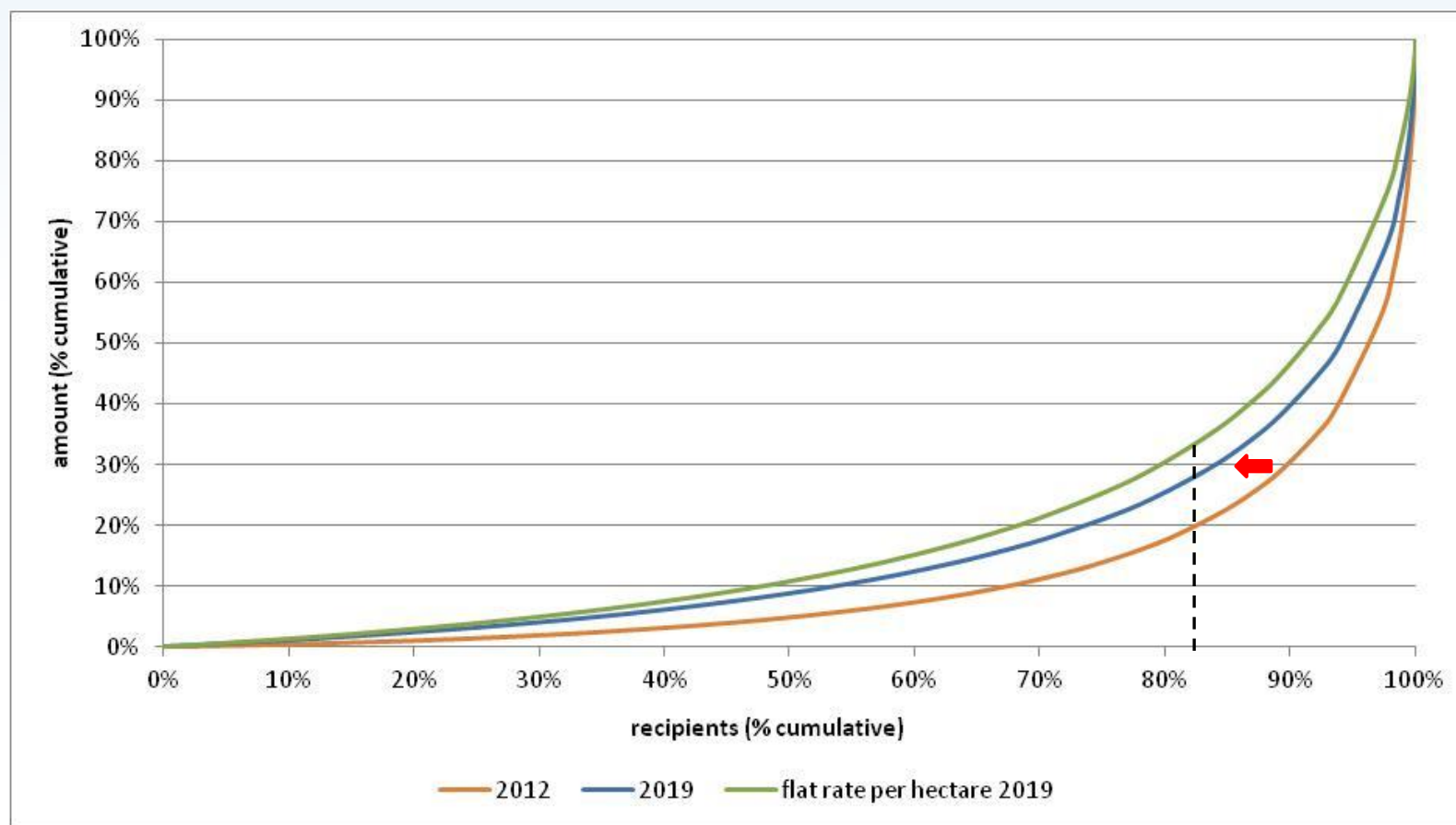
CAP2020-Simulation tool

Results

- ❑ *At farm level*
- ❑ *At territorial level*
 - 1. *By municipalities*
 - 2. *By altimetric areas*
 - 3. *By Rural areas in National Strategic Programme*
 - 4. *By Inner areas in Partnership agreement*
- ❑ *At sector level*

Results: at farms level

The distribution of farm is shown by the **Lorenz curves**



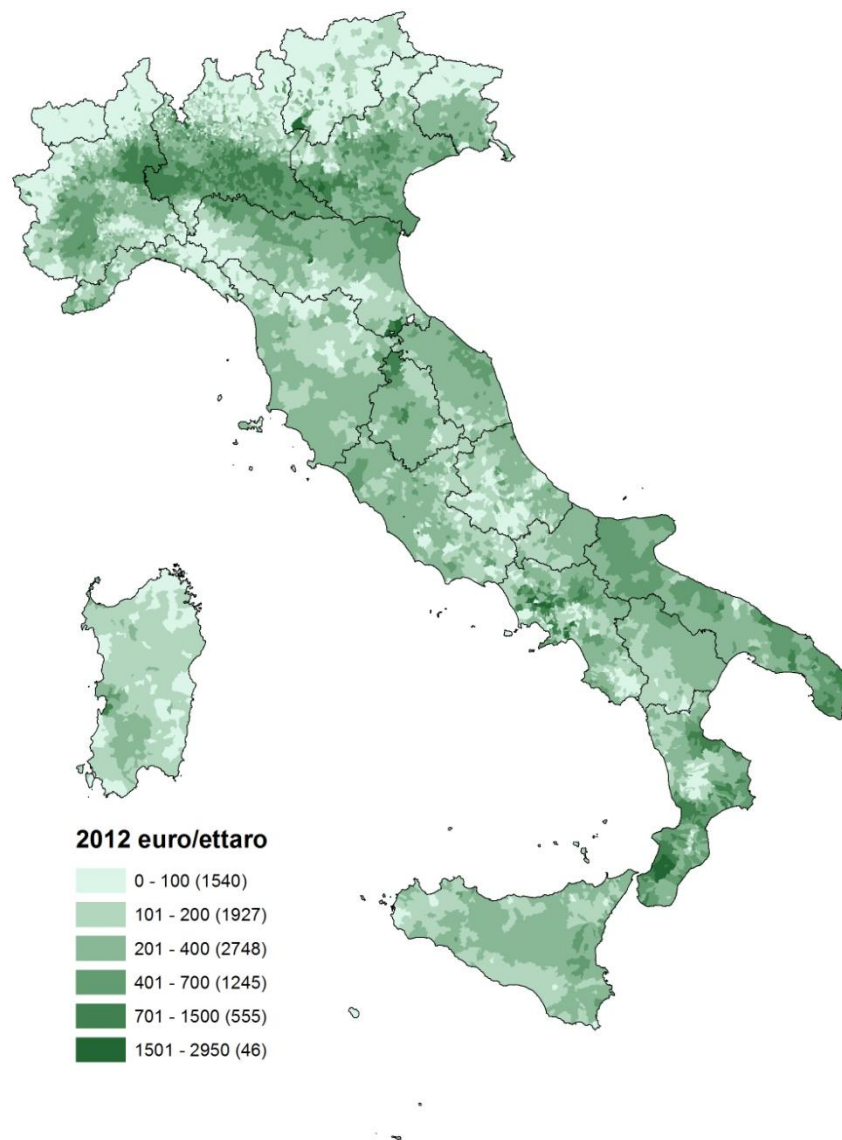
Source:

2015-2019: calculation on CAP2020-Simulation tool (CREA). 2012: calculation on AGEA

2012

DPs: SPS & Art68

Results: territorial level



2012

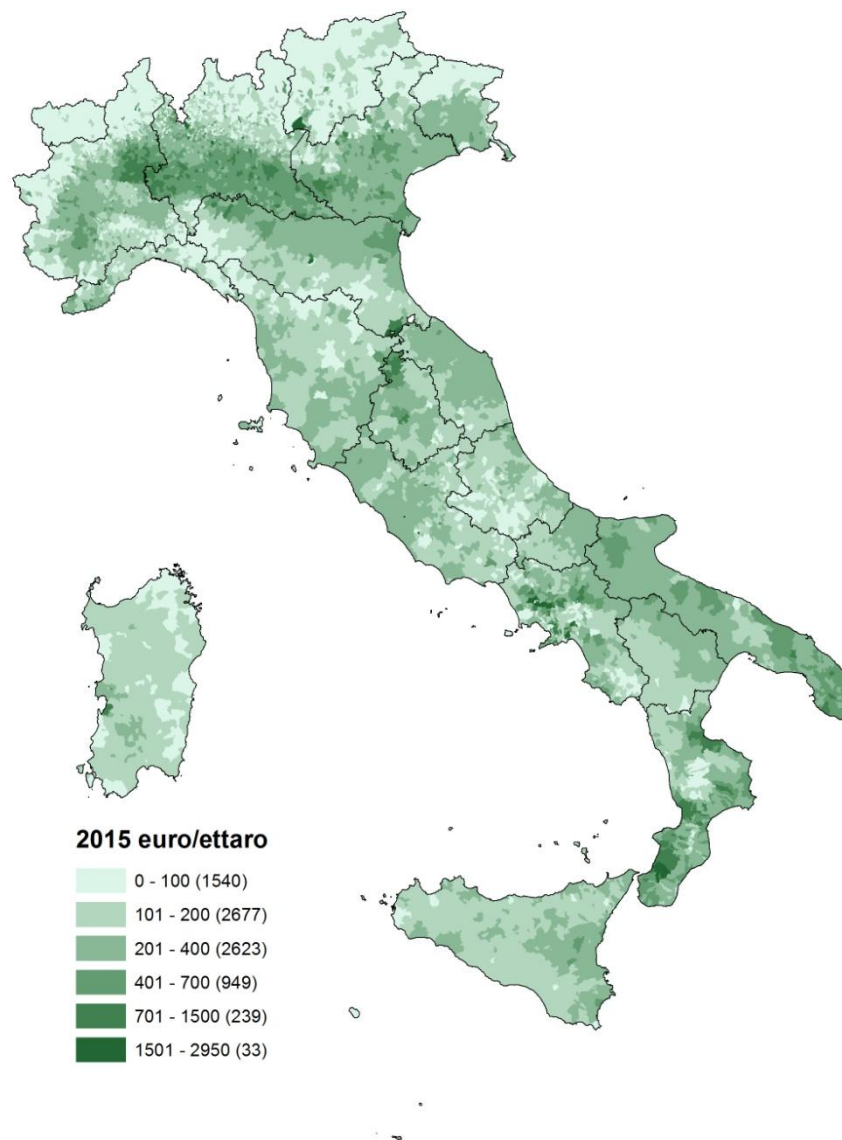
2015

2019

2015

DPs: BPS & Greening

Results: territorial level



2012

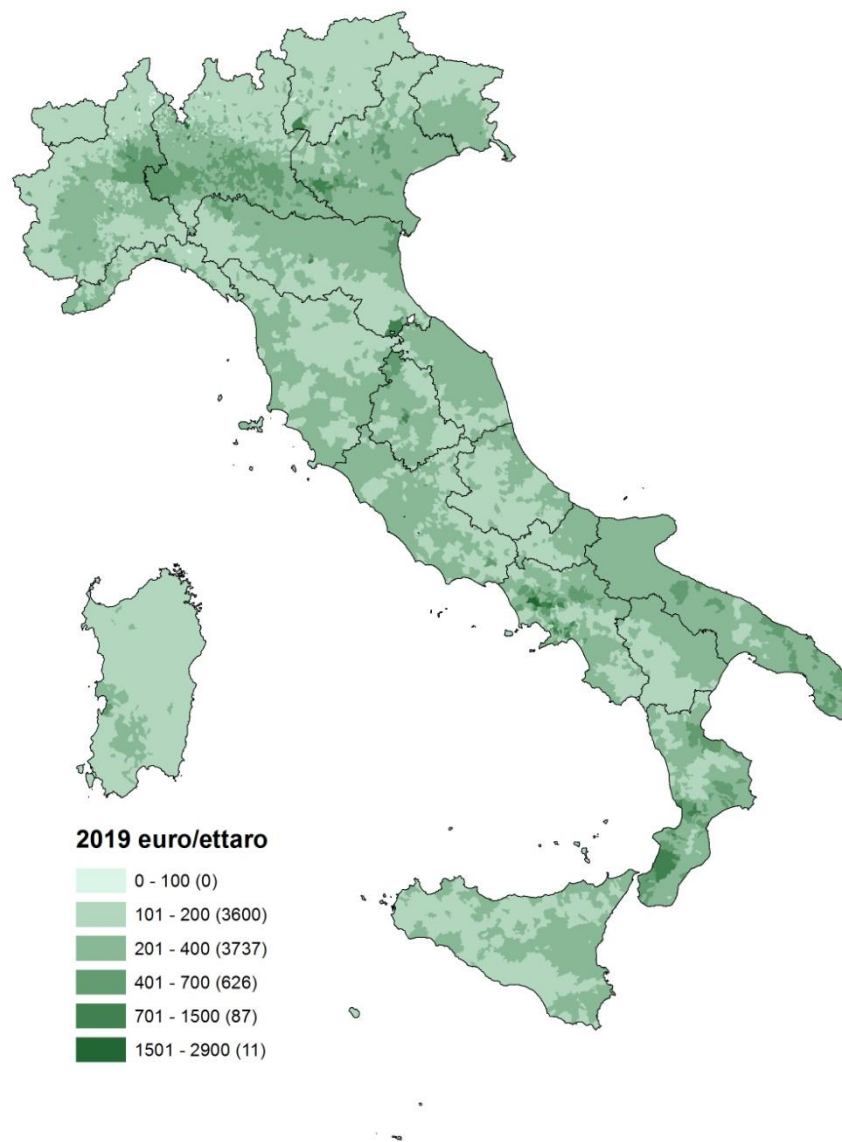
2015

2019

2019

DPs: BPS & Greening

Results: territorial level

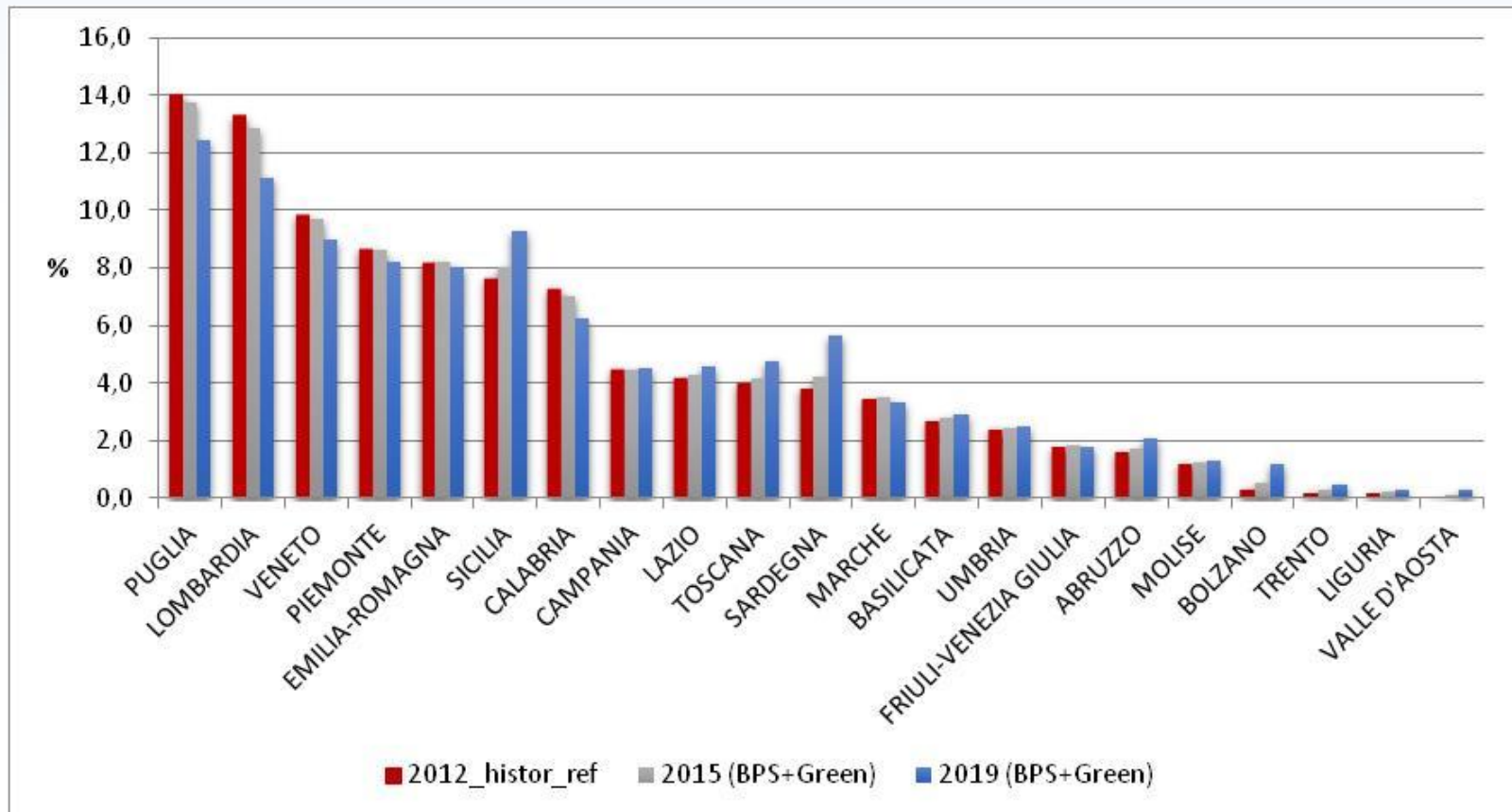


2012

2015

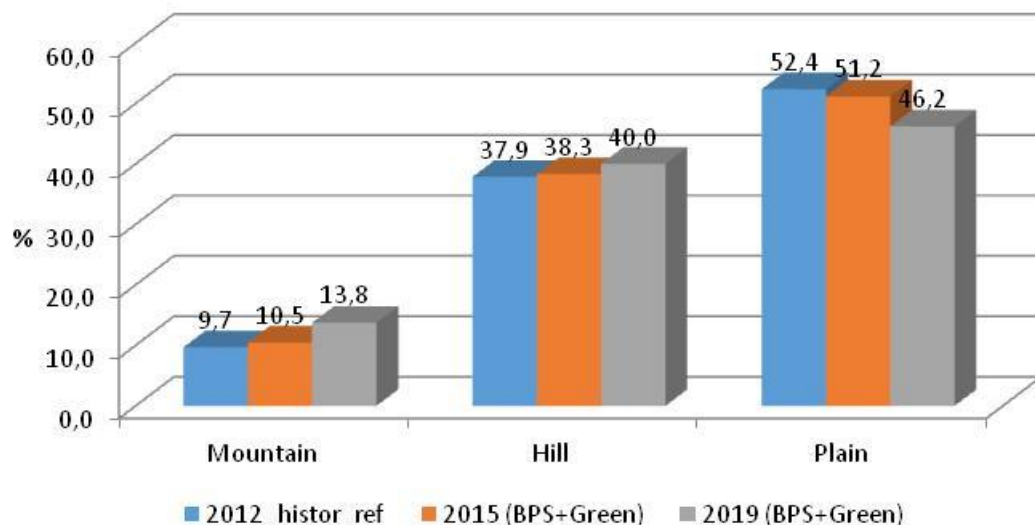
2019

Results: territorial level



Results 2:

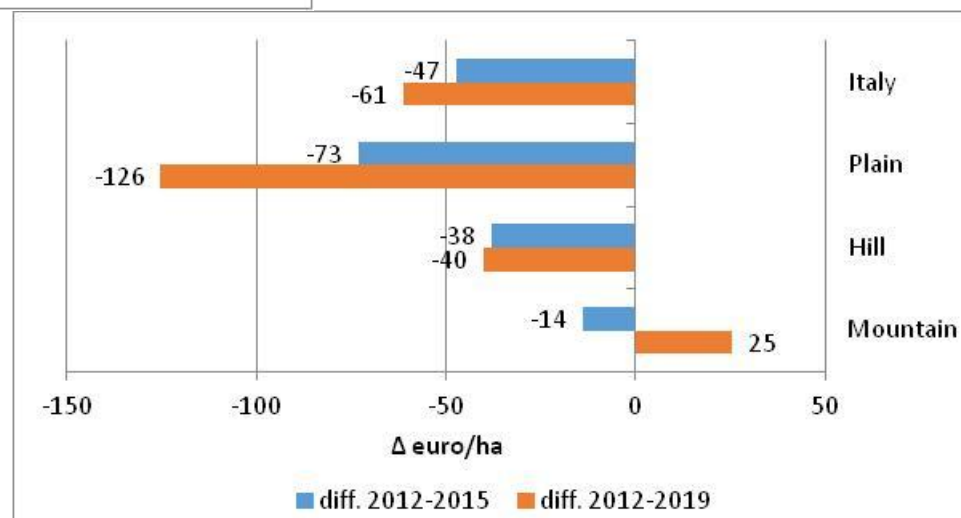
Altimetric Areas in Italy



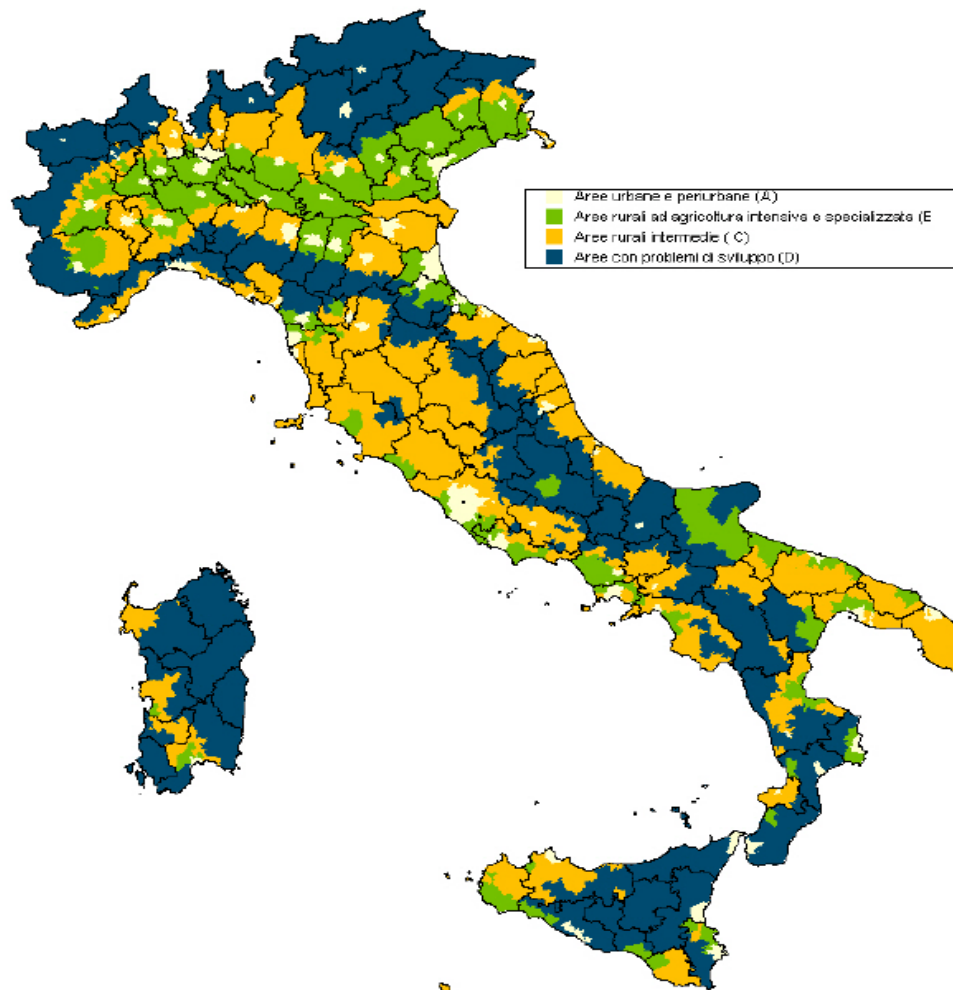
Regardless the general reduction of national ceilings, **Mountain areas** will experience a net increase of resources, due to convergence process.
..in particular for inland mountain

This increase will be financed by Plain areas.

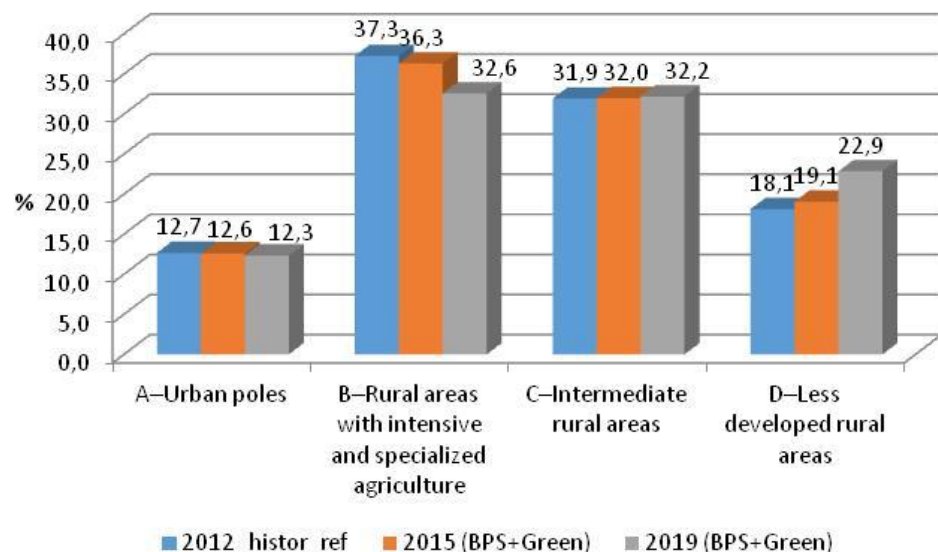
The reduction expected for hills is lower than the national trend



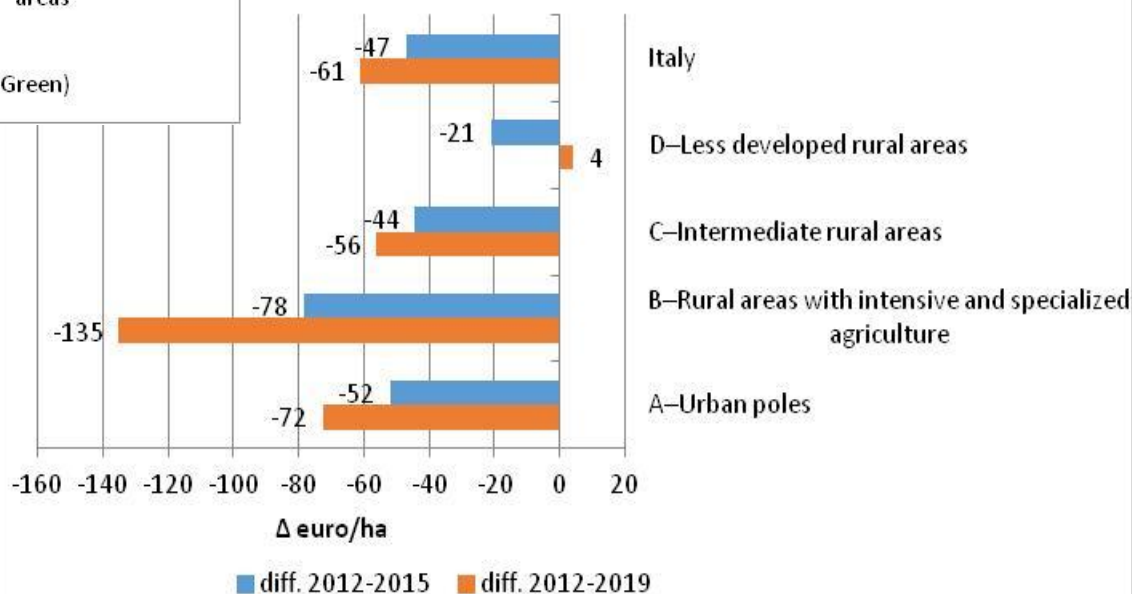
Results 3: Rural areas in NSP



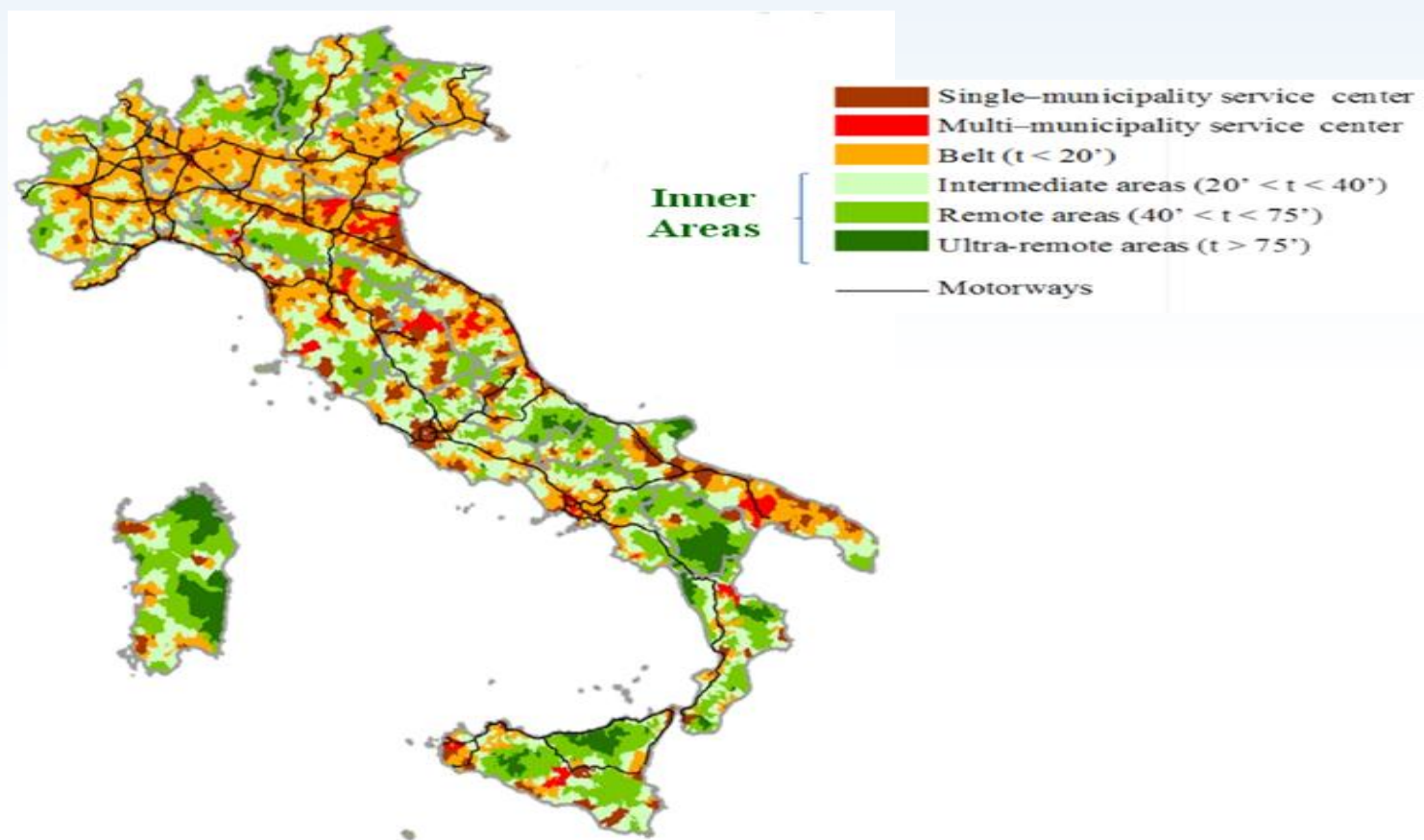
Results 3: Rural areas in NSP



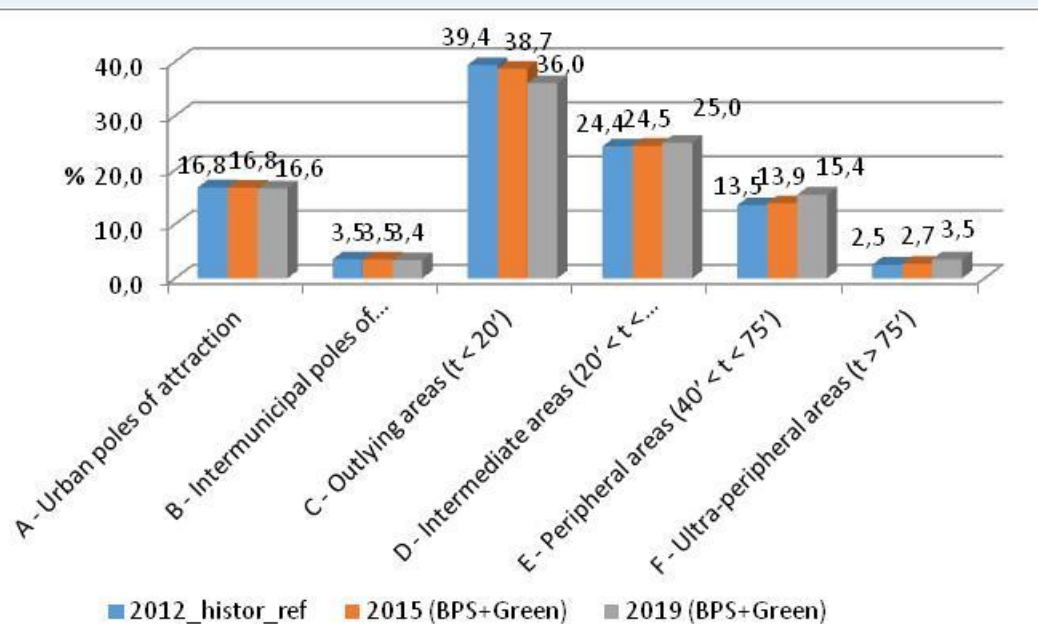
In this classification, convergence mechanism is at the benefit of “Less developed rural areas”



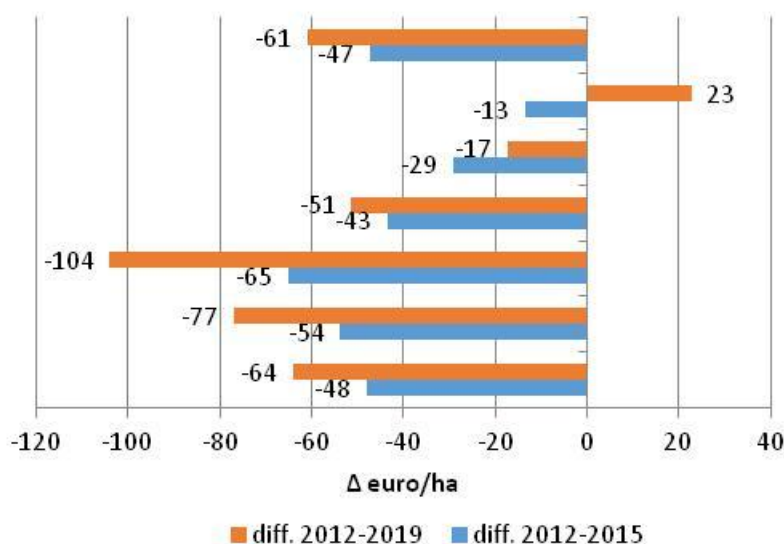
Results 4: Inner areas in Partnership agreement 2014-2020



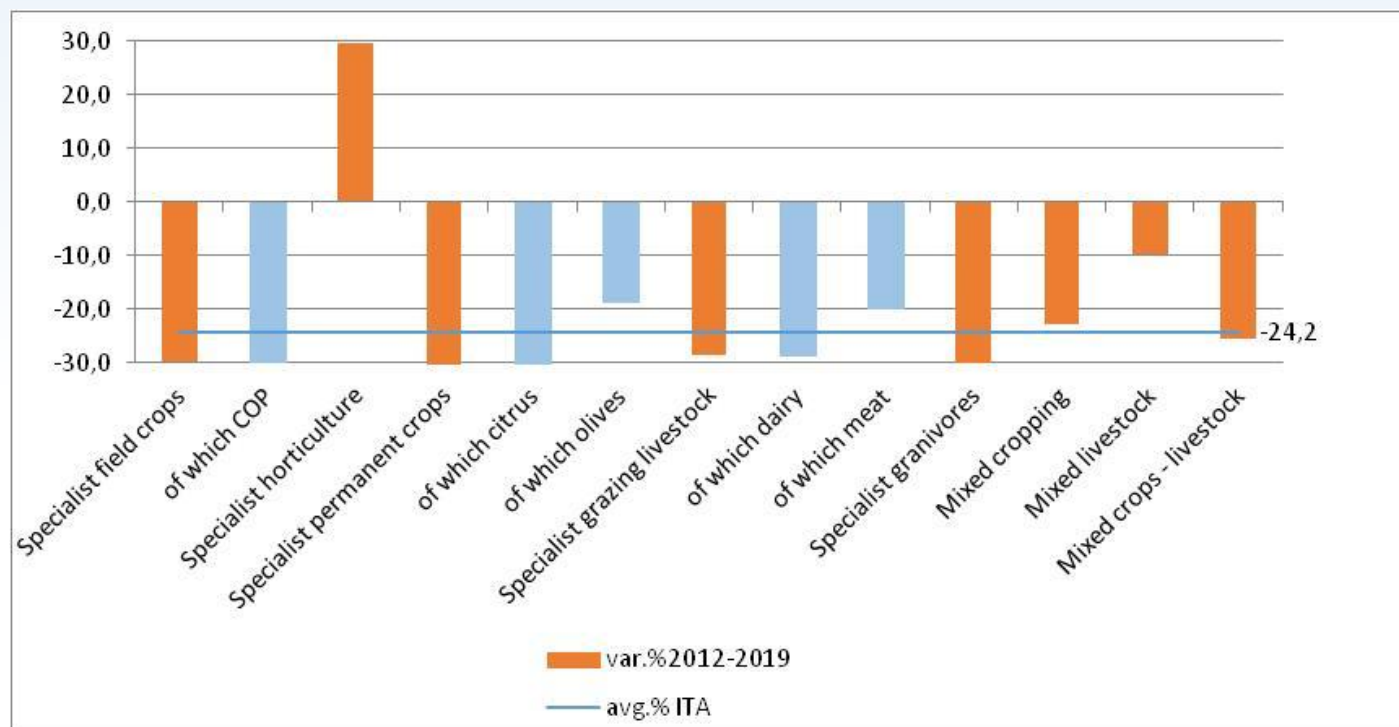
Results 3: Inner areas in PA



Inner areas are expected to explain 44% of the PEs allocation in 2019, respect to the 40% in the reference period



Results: at sector level



Conclusions

- **It is the first CAP reform determining an evident redistribution of DPs, in Italy**
- **Partial convergence a “conservative” choice but Italy as a unique region is a “level play field” and determines transfer of resources between farms, territories and sectors**
 - ▣ Increase in mountain areas, esp. Inland mountains
 - ▣ Increase in less developed rural areas
 - ▣ Increase in Inner areas, esp. Ultra-peripheral areas

Thanks for your attention!

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