

The future of European agricultural policy. Some reflections in the light of the proposals put forward by the EU Commission.

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1. The path to reform the Common Agricultural Policy

We are on the eve of a new operation to reform the Common Agricultural Policy (CAP), the fifth since 1992, when the then Commissioner for Agriculture, Ray MacSharry, was the main actor in the first great reform of European intervention in support of agriculture.

These were the years of large financial outlays directed at subsidizing exports and withdrawing some of the overproduction from the internal market in order to ensure stability. European farmers were protected for three decades by agricultural policy measures aimed at increasing the supply of agricultural goods through a system of guaranteed prices. This productivist vision was the basis of the philosophy of action that had its roots in the need to rebuild European agricultural potential and ensure an adequate level of self-supply for the citizens of

Abstract

In this paper we carried out an analysis of the path to reform the Common Agricultural Policy (CAP) aiming to introduce some reflections in the light of the proposals put forward by the EU Commission.

The series of four reforms has radically changed the face of the CAP and today we are moving to a new act on this long road, but one which seems set in a very different scenario from that experienced in the past. We present the reasons and implications of the unusual scenario in which the post-2013 CAP is set. An era of declining prices had accompanied the so-called "green revolution" and the formulas used in government intervention to stabilize agricultural markets had been rendered anachronistic. Today the situation is different and the rise and volatility in agricultural commodity prices recorded in recent years are pushing us towards a horizon of systematic market instability, in which the issue of security of supply has returned to the top of the agenda. In this context, we emphasized both the new institutional framework into which the reform is set, and the 2020 Strategy and the financial prospects of Europe against the backdrop of the economic crisis. We analyzed in details the key points of the Commission's proposal, in the light of the evolution of the economic and institutional scenario, underlining the implications of the reform proposal for the Mediterranean areas.

Key words: CAP reform, food security, rural development

Résumé

Dans ce travail, nous analysons le parcours de révision de la Politique Agricole Commune (PAC) en vue d'introduire des éléments de réflexion, compte tenu des propositions avancées par la Commission européenne.

Les quatre réformes qui se sont succédées ont impliqué une refonte radicale de la PAC et à l'heure actuelle, nous allons engager une nouvelle étape de ce long chemin, même si dans un contexte tout à fait différent par rapport au passé. Nous allons donc illustrer les enjeux de ce scénario inédit dans lequel s'inscrit la PAC d'après 2013. La « révolution verte » a été accompagnée d'une phase de réduction des prix et les formules adoptées dans les interventions des gouvernements pour stabiliser les marchés agricoles se sont avérées anachroniques. Aujourd'hui, la situation est différente et la hausse et la volatilité des prix des produits de base, enregistrées ces dernières années, nous entraînent vers un horizon d'instabilité systématique du marché où le thème de la sécurité alimentaire est redevenu prioritaire. Nous allons donc considérer le nouveau cadre institutionnel dans lequel s'insère la réforme, d'une part, et la Stratégie 2020 et les perspectives financières de l'Europe face à la crise économique, d'autre part. Par ailleurs, nous analyserons en détail les points fondamentaux de la proposition de réforme de la Commission compte tenu de l'évolution économique et institutionnelle, en soulignant les implications possibles pour la région Méditerranéenne.

Mots-clés: Réforme de la PAC, sécurité alimentaire, développement rural

the six founding countries of the European Economic Community after the end of World War II. The model of intervention thus conceived was extremely effective in the short term but was already in crisis by the mid-1970s. In the eyes of public opinion as well, the surpluses became the symbol of financial, economic and social unsustainability of this first phase of implementation of the CAP.

Under the MacSharry Reform Europe looked again at the tools available for the agricultural sector, given the pressure of an increasingly international setting oriented to facilitate the process of trade liberalization and facing the pressure of environmental emergencies caused by an entrepreneurial system shielded from market signals and encouraged to operate only along a production-oriented path.

The reduction of institutional prices and measures to limit production and polluting emissions (the quota system, set-

side, early retirement, afforestation etc.) became the waymarks for a new route for the CAP, which witnessed further significant progress with the subsequent reforms (Adinolfi *et al.*, 2008).

Agenda 2000, in fact, supplied a further important contribution in bringing farmers closer to the marketplace, further

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reducing the role of guaranteed prices and the weight of protectionist measures. In parallel, the tools available for operations of a structural nature were reviewed and the budget, especially for such steps, was strengthened. In this fashion the planning for the European Rural Development Programme came about, in which, for the first time the intervention in the agricultural sector left its sectoral enclosure to take on a more general aspect, embracing all the economic, social and environmental impacts of the rural systems (De Castro *et al.* 2010; De Castro *et al.*, 2010; Capitanio *et al.*, 2011).

With the Mid-term Reform (2003) this process continued along the path set. On the one hand the funding available for rural development programs was strengthened through the mechanism of modulation whilst on the other, direct support to farmers, a totally different route was undertaken. The new Single Farm Premium (SFP) was not only finally fully decoupled from production but was also associated with the production of public goods, such as animal welfare and environmental protection (Buckwell, 2009). This represented a transformation of extraordinary importance, marking the definitive end of the productivist vision and a shift to a paradigm of intervention, particularly with regard to direct support, which was oriented towards the recognition of features related to the public functions connected to agricultural activity and compensation for the associated costs through the mechanism of cross compliance.

With the 2009 Health Check the value of environmental commitments by farmers was also permanently decoupled from any reference to the historical value of payments.

It is, thus, to outline what Garzon (2006) defines as the bridge from a sectoral and welfare paradigm to a multifunctional one; a step that is not yet fully complete (Buckwell, 2009; Swinnen, 2009) but that over the last two decades has led to the progressive reduction of so-called distorting components of the European intervention (placed in the “amber” and the “blue” box of the WTO) and replaced by forms of support fully or partially compatible with the so-called “green” box. The financial weight of the market measures, which until the early nineties was greater than 90%, is now equal to just under 7% of the total EU budget devoted to the CAP. In addition to their financial importance, these measures have also lost many of their more protectionist connotations and are now being viewed more as a safety net than as real tools to stabilize markets (Adinolfi *et al.*, 2010).

2. Reasons and implications of the unusual scenario in which the post-2013 CAP is set

The series of four reforms has radically changed the face of the CAP and today we are moving to a new act on this long road, but one which seems set in a very different scenario from that experienced in the past.

The previous steps took place against a backdrop of relative stability in international agricultural commodity markets. An era of declining prices had accompanied the so-called “green revolution”⁵ and the formulas used in government intervention to stabilize agricultural markets had been rendered anachronistic. Today the situation is different and the rise and volatility in agricultural commodity prices recorded in recent years are pushing us towards a horizon of systematic market instability, in which the issue of security of supply has returned to the top of the agenda. Beyond the causes and implications of international politics that flow from them and that, in the past, have given rise to an abundant literature on the subject, this new scenario changes the framework along which the path of reform of the CAP has developed to date.

One of the main drivers of this scenario of instability is the rapid and intense growth in population and food consumption in the emergent areas of the planet, particularly in the so-called BRIC (Brazil, Russia, India and China). The population growth of these areas has, in fact, been accompanied by an equally rapid growth in wealth and the consequent transformation of diets that traditionally accompanies the processes of economic development - changes that have merely slowed somewhat during the recent years of global economic recession. This is what has been called the “convergence of dietary habits” and is raising international concerns of the possibility of an imminent era of food shortages that could lead to a further extension of the area affected by poverty and malnutrition. Assuming that rates of growth in productivity in the future do not exceed those of the past decade, the most optimistic scenarios indicate an increase in prices, in real terms, by 2050 of between 75% and 110% for maize (corn), between 30% and 80% for rice and between 40% and 60% for wheat (FAO 2010).

These represent medium to long term trends but are now accompanied by sudden and intense fluctuations in prices, which in part are of course related to the growth in demand and partly due to a number of factors mainly related to climate variability, the organization of markets and commercial policies.

With respect to the former, it should be recognized that the traditional exposure of farming to climate risks has become more widespread in recent years. The first price peak in 2007 coincided with a remarkable fall in grain harvests. The drought hitting Australia in those years, one of the largest exporters in the world together with the heavy rains and frost which struck the agriculture of another big exporter, Canada, led, in fact, to a reduction in the aggregate supply of these two countries (which account for over 30% of global exports) of more than 20% below the levels achieved in 2005. At the same time, the drought reduced yields by almost 10% in Russia and Ukraine. Of a similar impact were weather events that occurred in 2010 that led to a further reduction in the supply of cereals after the re-

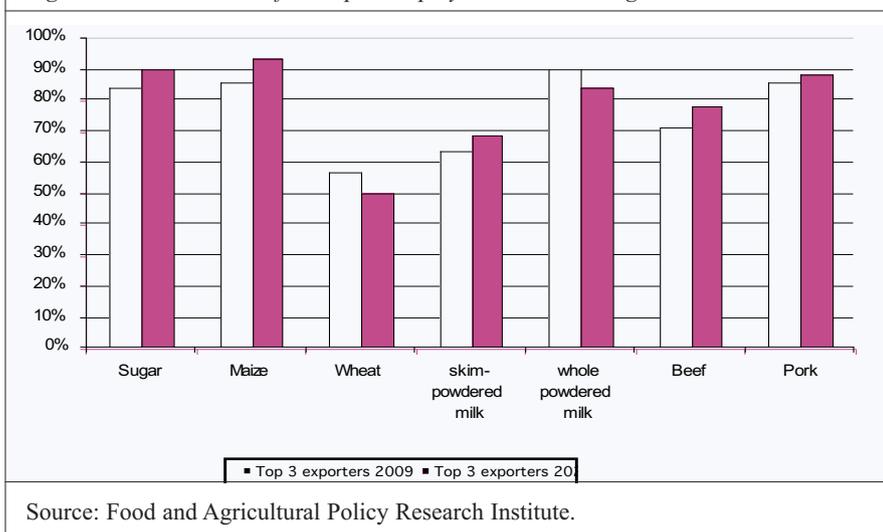
⁵ An expression which refers to the impressive increase in global agricultural productivity from the early 1960s through to the late 1980s.

covery and subsequent fall in prices experienced in 2009 with similar trajectories seen for the prices of other strategic commodities such as maize (corn), soyabeans and sugar. Poor sugarcane harvests in Brazil and India in 2009 led to a sharp contraction in supply and a rapid rise in prices. Subsequently, the high yields of 2010, accompanied by slower growth in demand for ethanol due to the economic recession, pushed prices back down, but only for a few months before rising again, driven by adverse climatic conditions occurring in Brazil and Australia, respectively, the world's first and third largest sugar exporters.

A not inconsiderable role is also played by the structure of markets in which the modest size of the volumes traded and the small number of exporters are contributing decisively to the variations in price. Only 12% of maize (corn) and 18% of wheat produced is destined for international markets, the rest remaining in the producer countries. This means that, even with modest shocks, effects on prices can be significant and the return to equilibrium may take a very long time (De Castro *et al.* 2012) because even small variations in the quantities exported or import requests, generate measurable fluctuations.

coinciding with the first peak in prices, many grain exporting countries banned or limited exports. Ukraine initially imposed maximum export quotas which later turned into outright bans. In Argentina taxation on the export trade was increased with the same steps being taken in Russia and China. Similar policies were adopted by the major global rice producers such as India, Indonesia and Vietnam. In 2010 a new cycle of the same type of measures perhaps contributed more than any other factor to market instability. Russia, followed by Ukraine, banned exports of wheat following the large fires that hit domestic cereal production, while in other countries, in parallel, importers began subsidizing imports or reducing taxation, so that world wheat prices rose between 60% and 80% between July and September 2010, merely following the Russian export ban (FAO 2011). These effects, though reduced in their scale and duration, and protecting consumers from inflationary pressures, have negative effects on the standards of living of farmers in the countries that restricted exports, who suffered a depression in domestic prices while international costs rose along with the cost of inputs with an inevitable compression of operating margins.

Figure 1 - Market share of the top three players in the main agricultural commodities.



The decisions of individual States in matters of trade policies are also making a significant contribution to the instability in the commercial arena. The reactions of governments to price spikes are often aimed at stabilizing the domestic supply as quickly as possible, through the adoption of protective measures (such as export controls or encouraging imports) or incentives (import subsidies), to relieve the impact of price increases on the spending power of their citizens. Unfortunately, these initiatives have only had the effect of exporting instability elsewhere, amplifying price fluctuations on international markets and triggering a vicious cycle that has actually made any market equilibrium even more precarious (Tangermann, 2011). In particular, the restrictive export measures have the effect of further compressing any spaces in the market. In 2007/2008 and

To this list, however, must be added other factors, the implications of which provide different perspectives (Baffes and Haniotis, 2010). First and foremost, the competition between food and non-food that fits into the wider issue of competing land-use. Incentive policies have literally "created" the bio-fuel sector. In 2020 13% of global production of maize (corn), 15% of vegetable oils and 30% of sugar cane will be grown for biofuels. There is no clear evidence of the extent to which this phenomenon is supporting the trend in rising prices, but it seems indisputable that biofuels represent an additional source of demand.

Many debates have been undertaken on the role played by financial speculation. Some governments, scholars and representatives of several international institutions have pointed the finger at financial speculation, identifying it as one of the main drivers of the recent boom in agricultural prices. The accusation of an excessive financialization of markets for agricultural commodities in the wake of the outcry created by the financial bubble that preceded the current global economic recession, has had a major impact on public opinion and the sentiments that label the activities of investors in agricultural financial markets as anti-ethical is ever more widespread. But the economic literature is largely skeptical when identifying a causal link connecting speculative activity and price increases. The functioning mechanism of financial markets actually seems to be quite helpful in ensuring that the prices realized in the commodity exchanges are consistent with the balances measured in the markets. The trend in the prices of the futures contracts is

theoretically linked to expectations with regard to the relationship between demand and supply, and tends, therefore, to converge on the true market value of the asset being traded as it nears the expiry date of the contract in question. This represents a mechanism that should in theory promote the transparency of market signals, at least in the presence of a sufficiently large spot market. This task is also facilitated by the standardization of contracts and the presence of compensatory mechanisms (a clearing house) that ensures the respect of parties in compliance with the obligations they have assumed, thus avoiding the risk of insolvency. The only certain way to influence the market is through the practice of moving simultaneously, by individual operators, both on the physical and the financial market. This can happen when an owner of a large food supply intentionally reduces its availability while acquiring, in parallel, large volumes of stocks on the derivatives market. This may, of course, generate large profits and distort the market, but it is a practice that is prohibited by the rules of governance operating on the commodity exchanges⁶. Of a different nature and probably having the highest impact, however, are the financial transactions carried out by the stock exchange circuits, the so-called “over the counter” market (OTC), where large institutional brokers process goods through non-standardized contracts and there are no guarantees of solvency available from the exchanges, although today the volumes traded in OTC derivatives that refer to agricultural products are still marginal.

3. The new institutional framework into which the reform is set

The institutional framework in which the post-2013 CAP is taking shape is rich in new elements.

In terms of international agreements it should be noted that, unlike the past in which the reforms were strongly influenced by the development of agreements on international trade (Buckwell, 2007, Daugbjerg and Swinbank, 2008), today, in the phase of continued stalemate in which the Doha Round finds itself, specific issues regarding international compatibility are no longer being raised. The current measures to support farmers and to regulate the markets are amply within the limits set by the WTO and can, therefore, continue to be applied. Europe’s total AMS (Aggregate Measure of Support) is approximately 12.5 billion euros, well below the limit established for the measures included in the Amber box (Matthews, 2011) and, for the first time the conditioning by the WTO negotiations is exercising only marginal weight in the process of CAP reform.

New elements are also to be found on the domestic front, particularly with regard to the ground where decisions on agriculture are made. In fact, with the ratification of the

Treaty of Lisbon and the consequent changes to the Treaty on European Union and its workings, agriculture is also included in the co-decision procedure, strengthening the powers of the EU Parliament in the legislative process. This translates into a role that is no longer advisory for the European Parliament but equal to that of the Council. This represents a new feature that could make a substantial contribution to the redefinition of the role played by the different positions expressed within European society, and of which the EU Parliament is a direct expression. In this regard it should be noted that the position taken by the Parliament has already proved crucial in the first decisions taken following the implementation of the procedure of co-decision-making, as occurred during the process for approving the Milk Package, which saw the acceptance of many of the amendments proposed by the Parliament, but even in the approval process of the CAP Reform itself the weight of parliamentary initiative is very apparent and becoming much stronger and decisive than in the past.

4. The 2020 Strategy and the financial prospects of Europe against the backdrop of the economic crisis

Whilst from a point of view of the strategic horizon, while recognizing the important role that can be played by agriculture for a perspective of sustainable, inclusive and intelligent growth, the adoption of the Strategy Europe 2020 is, however, reinforcing the traditional pressures on resources allocated to the CAP. The main cause is the expansion in the range of Community policies, in conjunction with the difficulties encountered in increasing the European budget related to the economic recession and the subsequent recovery effort which involves the Member States (MS). This reinforces a constant evolution in the European budget, which has seen a gradual reduction of the agricultural component in favour of other lines of action.

The relative weight of resources allocated to the CAP has gradually declined, both in relation to the overall scale of the European budget as well as in terms of percentage of European GDP. If, in the early 1970s, CAP expenditure accounted for between 80 and 90% of the EU budget, over the next its weight fell steadily in spite of the enlargement process which increased the size of the farming body and the EU’s agricultural area. On the eve of the first multiannual financial framework adopted by Europe (1987), CAP expenditure stood at around 67.5% of spending or 0.67% of European Community GDP. The first multi-year financial plans developed within what are known as the “Delors package” (1988/1992 and 1993/1999) also had the effect of defining very strict guidelines to the CAP spending limits, which accompanied the first major reform in 1992 and another important step in the process of enlargement, which led first to the inclusion of the territories of the former East Germany (1991) and then to the Europe of 15 (1995), ensuring that CAP expenditure remained fairly stable. In rela-

⁶ One of the cases of manipulation of financial markets of agricultural commodities was that of the Italian Ferruzzi group, which in 1989 purchased large volumes of soybean futures, but not before removing large quantities of this raw material from the market previously being sold by the group itself.

tive terms, however, CAP expenditure decreased during the 1990s, from 62% to 52% of the EU budget.

The last two cycles of financial planning (2000/2006 and 2007/2013) have consolidated this trend even further, to coincide with the exceptionally demanding events of the EU enlargement process, which led to the entry of countries from Eastern Europe into the Union and increased the number of Member States to 27.

Today, the agricultural budget, which still represents the largest item of expenditure in Europe, is once again under scrutiny and the negotiation on the next financial perspective has seen a vigorous debate on the financial weight of the CAP for the period 2013- 2020. The proposal launched by the Commission reflects the broadening of the objectives for the action urged under the European Strategy 2020, which would again witness a further cut in CAP spending, with its incidence reduced from 42% for the period 2007-2013 to 37% in the seven years 2014-2020. The proposal from the Commission, translated into constant 2011 prices, leads to a reduction of 10.9% in CAP resources when compared to the current financial framework, although to this sum must be added a further €15.2 billion of expenditure related directly or indirectly to agriculture, distributed under the other budget items and within the so-called “off-budget⁷” spending. The overall reduction when these additional resources are considered amounts to 7.2%.

In particular, with a view to restructuring the budget to make its organization more consistent with the nature and purpose of the proposed actions, the Commission proposes:

- a transfer of resources allocated to food safety policies, today included in the first pillar of the CAP, to the budget item “Security and Citizenship.”
- to transfer the support provided for the food assistance for the poor to the budget item termed “Smart and Inclusive Growth”.
- to allocate a sum of 4.5 billion Euros, within the common framework for strategic research and innovation, to research and innovation in the field of security of supply, the bio-economy and sustainable agriculture.
- to allocate a further 3.5 billion Euros to the measures for the management of market crises in agriculture that will be mobilized in the form of a Reserve for emergency aid
- by extending to farms the possibility of benefitting from the European Globalization Fund⁸, with the aim of assisting the adaptation of the agricultural fabric to the new situation resulting from the indirect effects of globalization and to mitigate any negative impacts associated with the development of the MERCOSUR trade agreement and other bilateral agreements.

⁷ For further details on the proposed MFF see Adinolfi et al. 2011, *La Pac nel quadro finanziario pluriennale 2014/2020* (<http://www.europarl.europa.eu/committees/it/studiesdownload.html?languageDocument=IT&file=66035>)

⁸ Regulation (EC) N° 1927/2006 (OJ L 406, 30.12.2006.)

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5. The Commission’s proposals for the future CAP

Following the passage of a new reform, both the socio-environmental requirements and those related to the economic viability of agricultural businesses will therefore be rendered more complex and articulated, especially in light of the need to re-assess the fundamental objectives of supply security and market stabilization assigned to CAP by the Treaty of Rome, from a modern perspective.

These themes have obviously been components of the public debate that is accompanying the work of reforming the CAP, which was formally opened by the European Commission with the launch, in April 2010, of a public consultation, the findings of which were made known the following July and then represented the preamble to the Communication dated 18th November that year on the future of European agricultural policy⁹. The Communication refers to three main options of reform:

- 1) the path of *continuity*, which is a prelude to small adjustments made to the current CAP, mainly because of the requirement to keep up with the possible advancement of internationally agreed commitments on agricultural trade. A choice within which to respond, at least in part, to the critical element internal to the current system of direct payments, in the highly unbalanced distribution of resources between the long-standing and newer Member States (MS).
- 2) The path of *evolution*, which directs actions towards greater targeting of the intervention, in order to render the link between resource costs and benefits produced more robust. A perspective which, alongside the need to continue directly supporting farmers’ incomes, aims to make the compensatory nature of some of the transfers more evident.
- 3) The path of *radical change*, which leads to abandonment of the instruments of income support and stabilization of markets and favouring forms of intervention to compensate for the public goods produced by the farmer, who becomes the beneficiary of agricultural policies only as a land manager.

Although not openly, the indications contained in the communication, are attributable to the second option, that of evolution. In fact the need for a different system of direct payments, able to pursue several goals simultaneously is highlighted, penalizing but not giving up completely the traditional function of income support for farmers, a choice more clearly set out in the legislative proposals that the Commission presented on 12th October 2011.

Above all the proposals modify the instrument of direct payments, both with regard to the distribution of the resources between the Member States and within these amongst the farmers themselves as well as in relation to its architecture.

The pattern of redistribution of resources between the Member States has the objective of reducing the gap that

separates the average payments per hectare that currently range from €750 in Malta to €95 in Latvia. A equalization model is put forward which should gradually lead to a reduction in the gap between the differing payments, establishing the new national envelopes on the basis of cuts that are dependent on that gap. In addition, it offers the definitive abandonment of historical references to direct payments by identifying the date of 1st January 2019 as the deadline for the definition of a uniform payment per hectare on a national or regional basis.

With regard to the system's architecture, the innovations are equally important. The aim of making the link between transfers and objectives of the CAP more solid is translated into a single payment structure based on five components, three mandatory and two dependent on the Member State in question.

The three required components are:

- the basic component, to which is entrusted the traditional function of income support, which should capture between 48 and 55% (depending on the size of the voluntary components) of the resources allocated to direct payments. It is a uniform payment per hectare, which continues to be tied to compliance with the conditionality criteria, undertaken with the 2003 Reform;
- the green component, which accounts for 30% of the budget for direct payments, to compensate for additional commitments made by the farmers in terms of environmental sustainability. This extra help is available to all farmers who are beneficiaries of the basic component that meet the conditions listed below:
 - diversifying production obtained from arable areas, wherever these are greater than three hectares, using at least three crops, and reserving no more than 70% of the utilized agricultural area (UAA) to the main crop and not less than 5% for the minority one;
 - preserve in the current state the surface area covered by meadows and pastures;
 - set aside at least 7% of the surface area to an ecological focus
 - organic farmers benefit from an additional payment;
- a youth component, which can cover up to a maximum of 2% of resources available, designed to provide an additional payment to young farmers, who have been in the profession for less than five years. The size of the payment is proposed as equal to a quarter of the value of the securities to payment for a maximum of 25 securities.

To these components are added two others that are voluntary and are represented by:

- a supplementary payment coupled to production to cope with serious crises that may have important sectoral and territorial implications. In exceptional cases, the proposal provides that the weight of this component may be brought, notwithstanding the Commission's approval, to 10% or 15% of the total budget dedicated to direct payments.

- a supplementary payment for agricultural land located in disadvantaged areas that may reach a maximum of 5% of resources available;

This architecture is complemented by a simplified scheme for small farms that may come to represent 10% of the resources available for direct payments available for the Member State.

Figure 2 - *The new architecture of direct payments proposed by the Commission.*

Compulsory components (for all Member States)	Voluntary Components (national choice)
Basic payment	Coupled payment
Greening payment	Payment for areas subject to natural limitations
Young farmers payment	
<i>All payments are subjected to respect of compliance criteria</i>	
In alternative	
Application of a simplified scheme for small farms (an obligation for the Member States, facultative for the farmers)	

In terms of rural development the most important changes proposed by the Commission are the greater flexibility with which the planning and provision of resources to support farmers in their access to risk management tools can be organized.

The first is placed in continuity with respect to those that represented the main evolutionary stages of rural development that, starting with experimental models in the early nineties, then found expression in the systematic reforms of 1999 and 2003. Along this route, the LEADER went from being a field of activity complementary to the rural development programming to being its methodological axis, strengthening the autonomy and the importance of local partnerships in the definition and implementation of rural development programmes. The proposals launched by the Commission for the 2014-2020 programme appear to reinforce these guidelines. The organization of rural development programmes is detached from the traditional conventional architecture based on three main priorities for intervention (competitiveness, environment, diversity and quality of life in rural areas), leaving more room for autonomy for the persons charged with its planning, including as regards the distribution of resources between objectives and intervention measures. Thus the Rural Development Regulations proposed by the Commission foresee that the Member States and/or Regions can define optional intervention sub-programmes in order to meet the specific needs of Europe's rural areas and construct interventions consistent with this. With this aim, more than in the past, emphasis is given to the role of partnerships in the design, and in the assessment and review of rural development programmes (RDP).

As far as risk management is concerned, the Commission, in its 2010 Communication, announced the inclusion of a “risk management tool kit” in the field of rural development. This choice was motivated by the need to provide a community response to the increase in both natural and market risks faced by farmers in conjunction with the need to reduce institutional intervention in agricultural markets (Capitanio and Adinolfi, 2009; Enjolras *et al.* 2011). To this end the Commission is proposing the optional introduction into the RDP of:

- 1) financial contributions, transferred directly to farmers to cover part of the premiums for insurance against adverse weather events and other natural hazards;
- 2) financial contributions towards mutual funds designed to compensate farmers for economic losses caused by natural hazards;
- 3) financial contributions to mutual funds designed to compensate farmers for not only serious economic losses due to catastrophic natural events but also related to adverse market conditions.

The first two measures fall within the programme for rural development; contributions that were made available under the Health Check, always on a voluntary basis, and located in the first pillar. The success of that experience has directed the Commission to the decision to include these resources in a multi-year planning framework, consistent with the characteristics of the funded instruments.

The third measure is, however, an important innovation. In Europe there are no institutionally disciplined formulas for the management of income risk, other than completely experimental ones. It represents a clear choice to promote a mutual tool with these aims, which could compensate farmers for losses that exceed 30% of the average income recorded in the previous three years, in compliance with the eligibility criteria defined for this type of intervention under WTO rules (Cafiero *et al.*, 2007; Capitanio *et al.*, 2011).

5.1. The implications of the reform proposal for the Mediterranean areas

The route pursued by the Commission is that of a better targeting of intervention, within which there is a reduction in the burden of income support for farmers and measures aimed at stabilizing markets. The targets set by the Commission are especially:

- promoting the convergence of direct payments through the Member States and within them;
- enhancing the contribution of farmers to the production of public environmental goods. This objective is translated into a planning of an ecological component of direct payment, and in the inevitable rise of agri-environment commitments located in the second pillar;
- compensating farmers for the disadvantages they face as a result of where they are located. This objective is realized through the possibility for the Member States to activate the “disadvantaged areas” component of the direct payment which is complementary to the compensatory interventions already present in the second pillar;

- promoting generational change by dedicating a portion of the direct payments budget component to young people, without prejudicing the traditional benefits foreseen in the second pillar, reserved for young people who undertake investments on their farms;
- less bureaucratic procedures for the CAP beneficiaries participating in the “small farmers” scheme;
- promoting consistency between local objectives and planning for rural development, making more room for autonomy reserved for the Management Bodies responsible for the RDP;
- promoting widespread access to “private” risk management tools.

The impacts of these proposals are relevant to most of the Mediterranean agricultural systems, in particular for those Member States (Italy, Spain, Greece) that still maintain the reference to historical premiums for the calculation of direct payments. The system proposed by the Commission for redistribution of resources between the Member States (EU convergence), together with the reduction of CAP spending proposed under the terms of the multiannual financial framework 2014-2020, in some cases (Italy and Greece) significantly reduces the total resources destined to direct payments. In parallel, the policy of national convergence should lead to a homogeneous per-hectare premium for all farmers. This means a significant transfer of resources between sectors and areas which will penalize some of the most representative elements of Mediterranean agriculture, including olive growing, durum wheat and citrus producers. In these areas, often characterized by a high supply of labour, direct transfers will suffer a drastic cut which will inevitably weaken the prospects for economic sustainability of the most fragile elements in terms of organization and structure.

Moreover, the commitments to the environment for access to additional payments provided by the green component will have a significant impact in shaping the very organization of production factors, especially for arable crops. In fact, if for agricultural wood crops and livestock activities the major environmental commitments can be met with the renunciation of 7% of the areas under management, destined for environmental purposes rather than production, the requirements for annual crops are much more challenging, diverting as much as 37% of the land from the production targets chosen beforehand by the farmer, in the case of specialized monoculture farms. It should also be stressed that the proposal from the Commission seems to overlook some specific and relevant characteristics of Mediterranean agricultural systems, within which environmental emergencies are often larger than those contemplated by the Commission. The water saving, soil erosion prevention and the contribution of permanent crops to the activity of CO₂ sequestration are absent from the “greening” proposed by the Commission and from the stated objectives of the 2020 Strategy.

All this is inevitably intended to lead to an agricultural

fabric in which the area of sustainable competitiveness is still present as a residual, in increased competitive pressures, accompanied by the risk of divestment of large portions of agricultural land, particularly in those sectors and those agricultural areas where the contribution of direct transfers has so far been necessary to ensure economic sustainability.

Moreover, these same plans covering the tools for crisis management do not include any new ones that one might have expected in a scenario of high market volatility. Although appreciated for their innovative content, the only changes introduced by the Commission on the management of risks have unfortunately assumed a residual profile. The placing of a risk management toolkit in the second pillar of the CAP, as noted by the EU Court, on the one hand does not seem to respond, to the aims of rural development policy and, on the other, leads inevitably to the setting aside of resources that are inadequate for an area of intervention that is so important.

The path of negotiations is still long and will really heat up with the reports brought to the European Parliament and with the debate that will then start with the Council. The positions formally adopted by the Parliament with the Lyon and Dess reports, as well as the positions adopted by the Member States, are the prelude to a request for a major overhaul that would touch, in particular, the setting out of the greening component of direct payments, the market crises management measures and the incentives to access to individual risk management tools.

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