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**Latvian Ministry of Agriculture – World Bank  
DEVELOPMENT POLICIES FOR LAGGED RURAL AREAS  
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**STRUCTURAL POLICIES  
FOR  
RURAL DEVELOPMENT**

Problems and perspectives in Italy

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## Abstract

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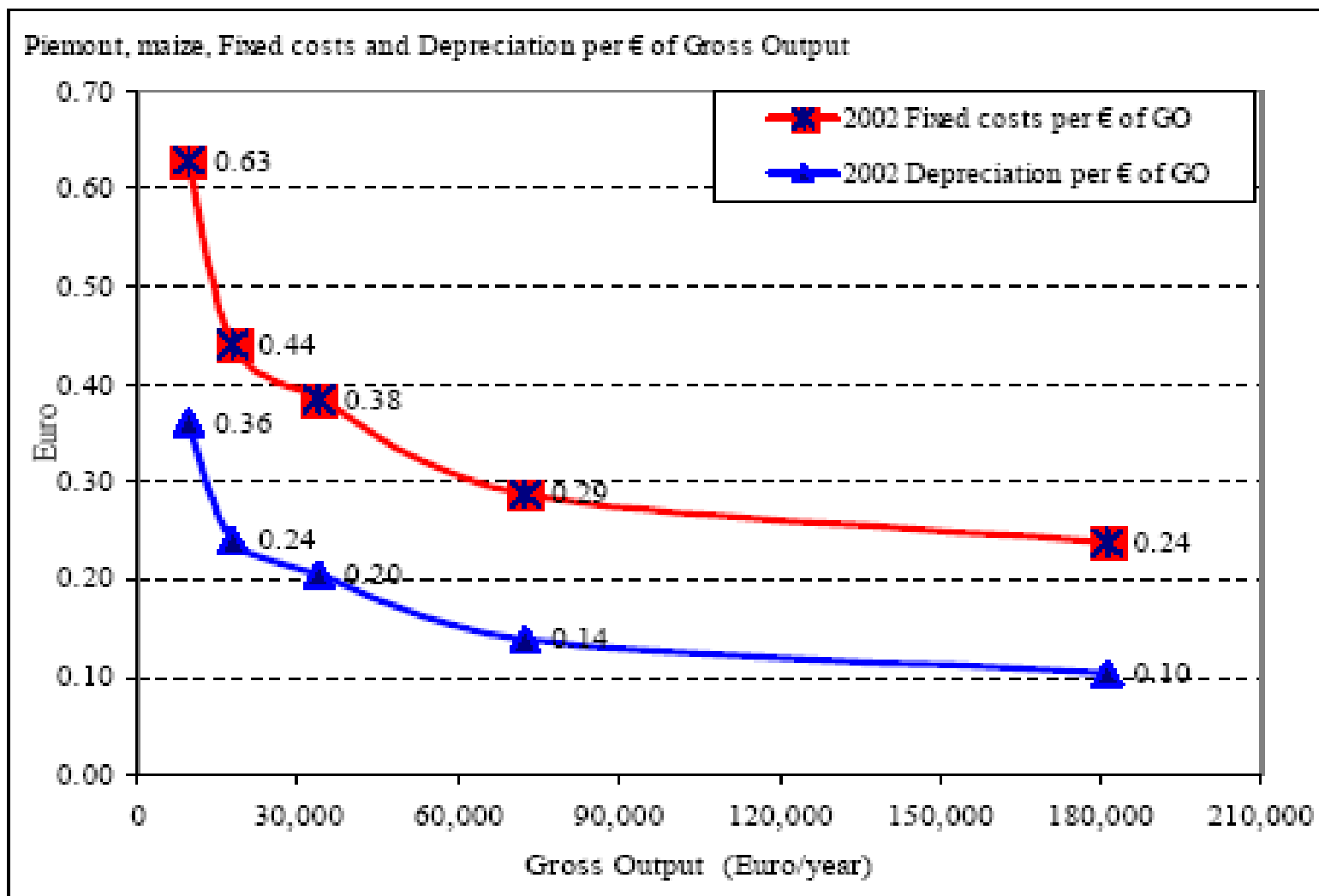
- ❑ **The Common Agricultural Policy (CAP), in contrast with the original design, concentrated almost all public resources to the agricultural market price support, generating inequitable income transfers and a huge waste of economic resources, while seriously hindering structural adjustment in agriculture and economic development in rural areas.**
- ❑ **The ongoing reform is allegedly shifting resources from the “market price support” (first pillar) to the “rural development” (second pillar). This shift of resources is however too limited and too diluted in time to make the reform biting and credible.**
- ❑ **Moreover regional “rural development plans” allocate only a minimal share of resources to structural adjustment and look much more like “agricultural assistance” plans rather than “development” plans for the whole rural economy.**
- ❑ **A strong shift of public resources to agricultural “structural” change and to the development of non-agricultural rural economic activities would avoid continuing the present misallocation of a large share of European citizens’ money.**

# Structural policy (for Italy): the settings in the 60es

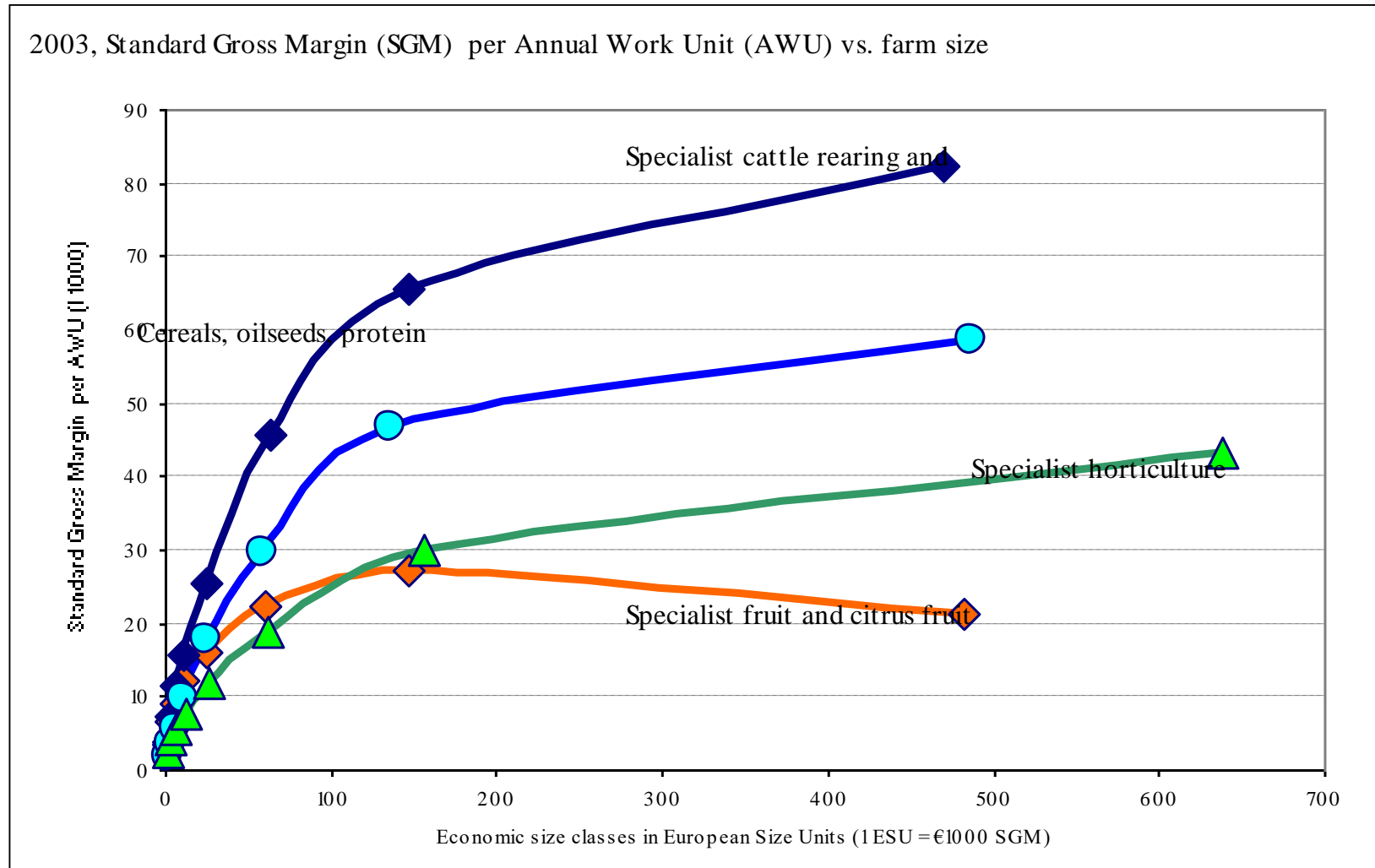
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- **Art. 39 Treaty of Rome (33 TEEC): objectives of CAP**
  - » (a) to increase **agricultural productivity** by promoting technical progress and by ensuring the rational development of agricultural production and the **optimum utilisation** of the factors of production, in particular **labour**;
  - » (b) **thereby** to ensure a **fair standard of living** for the agricultural community, in particular by increasing the **individual** earnings of persons engaged in agriculture; etc. ...”
- **Reg. 25 1962** at least one third of total expenditure for structural measures
- **Mansholt Memorandum (Plan)** Lower price support, **lower land and agricultural employment**, intersectoral labour mobility
- **Socio-structural Directives**
  - » **159 Modernization of farms**
  - » **160 Cessation of farming and reallocation of land**
  - » **161 Socio-economic guidance**

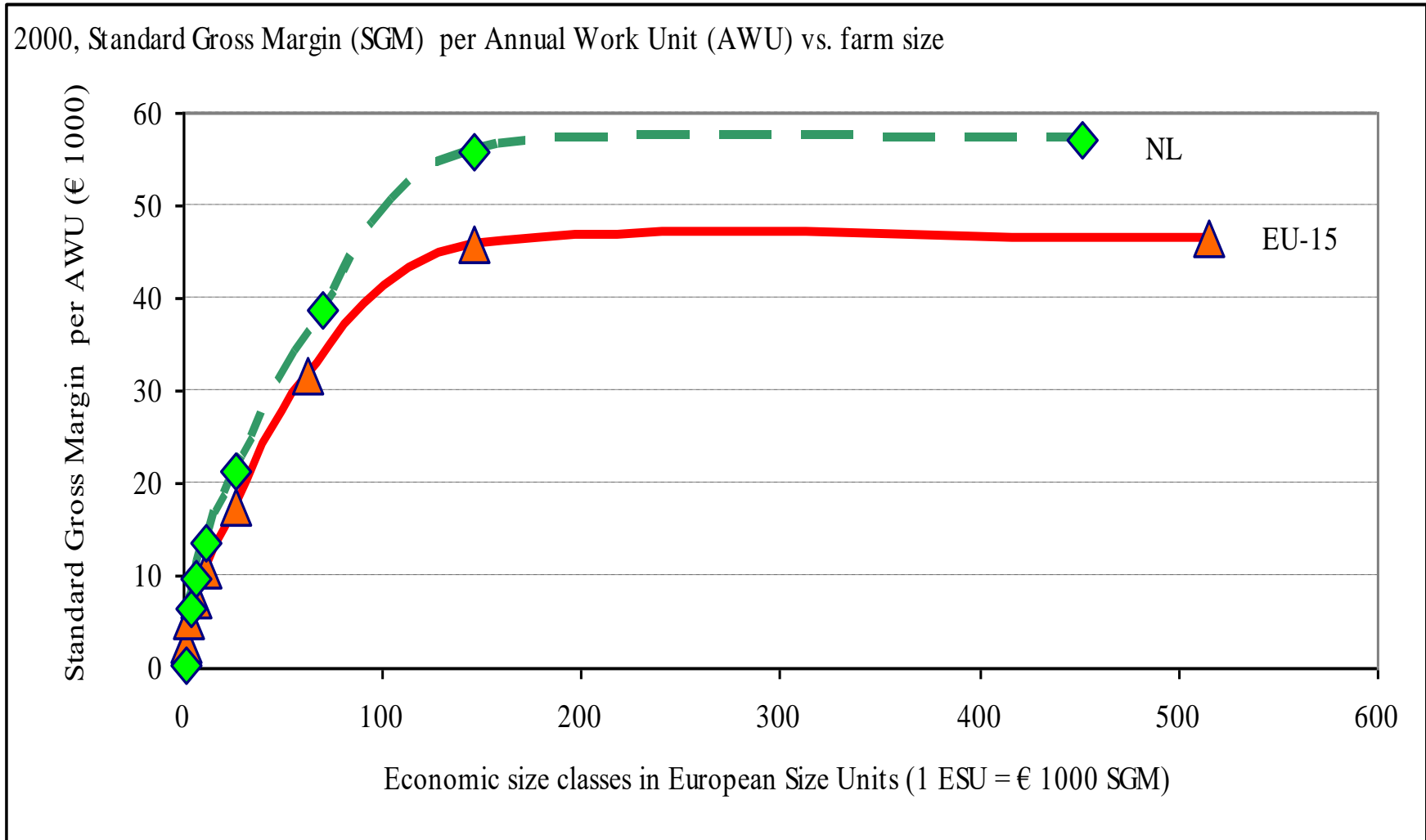
# Depreciation/output vs. size of farms



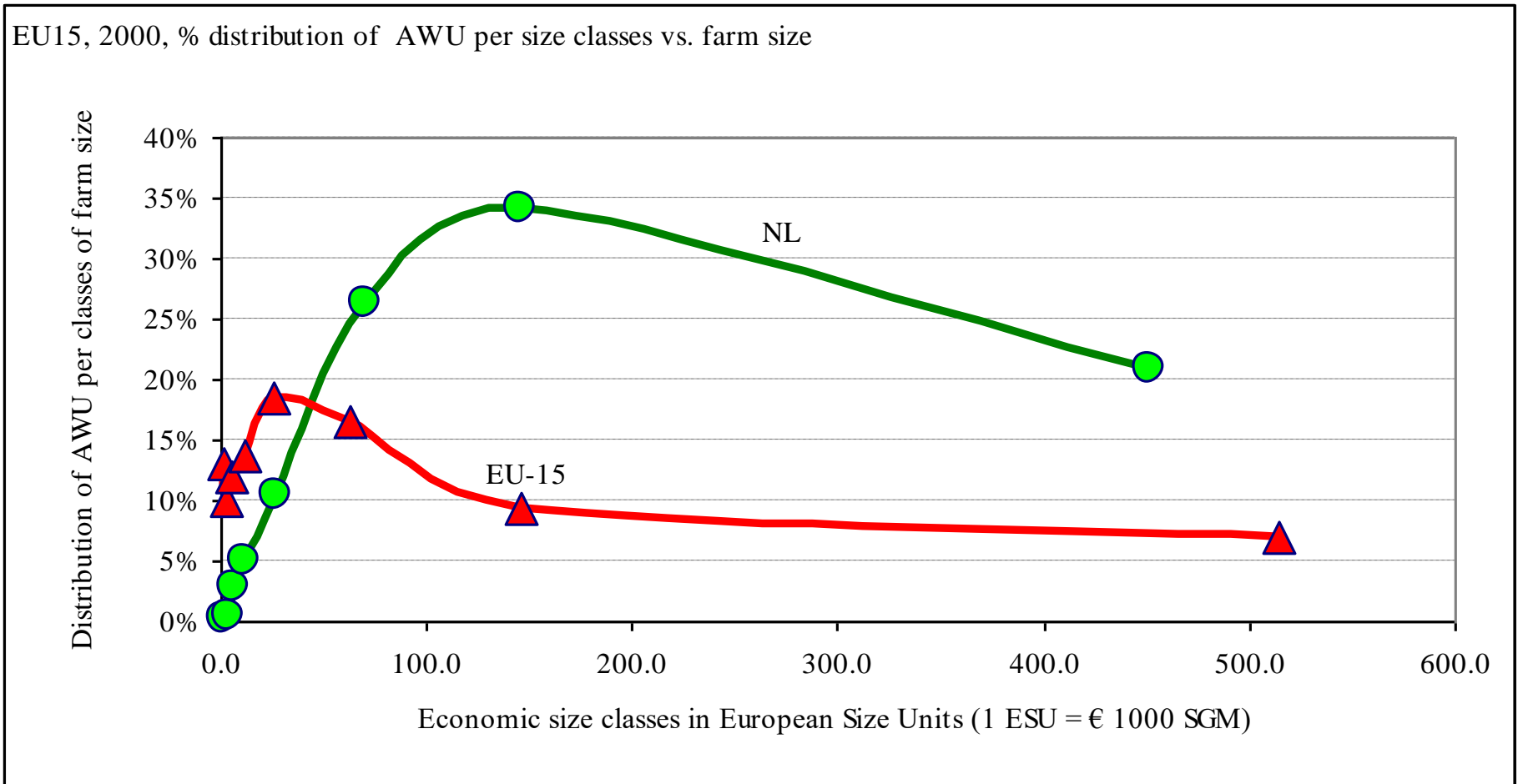
# Labour productivity vs farm size (EU15, 2003)



# Scale economies in EU agriculture (average)



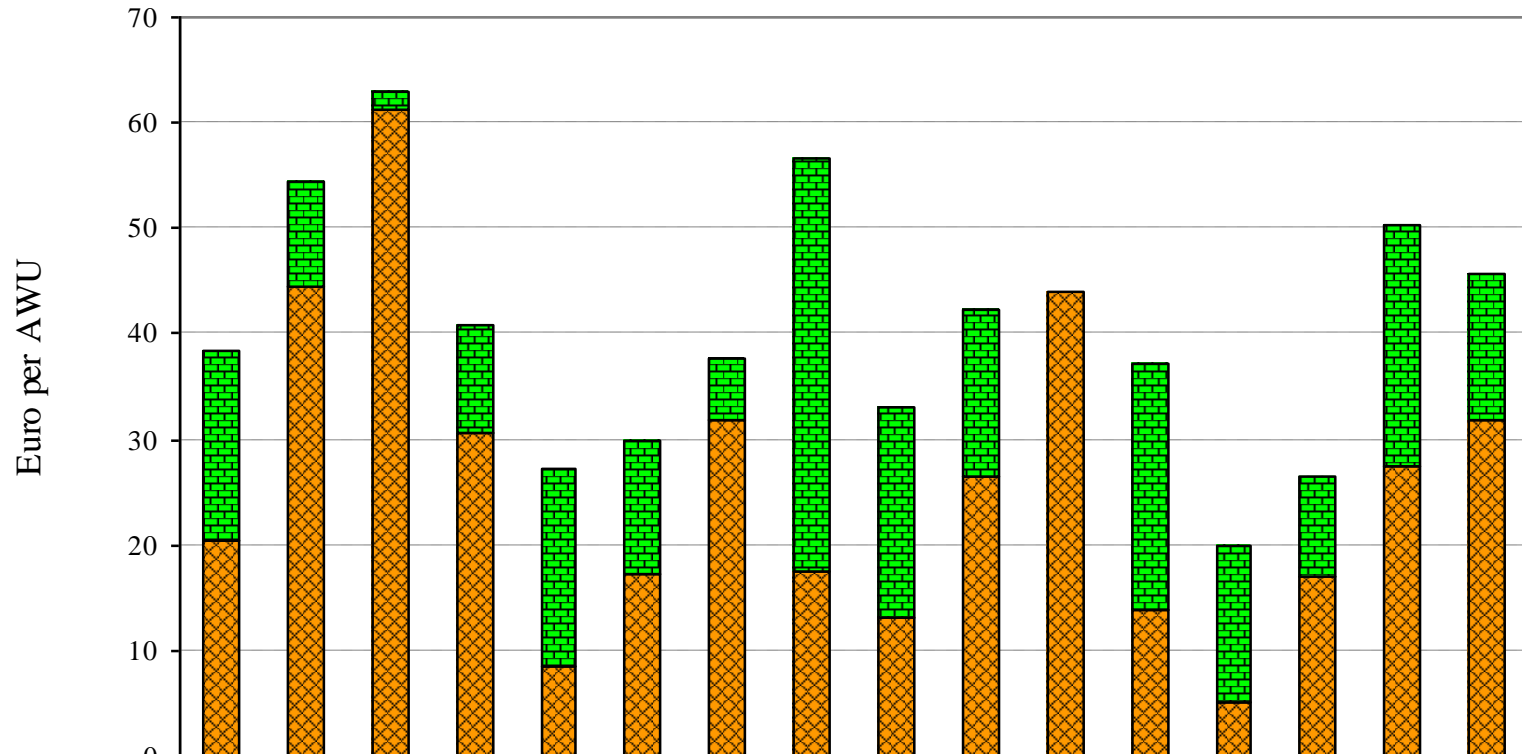
# Distribution of employment per size class of farms





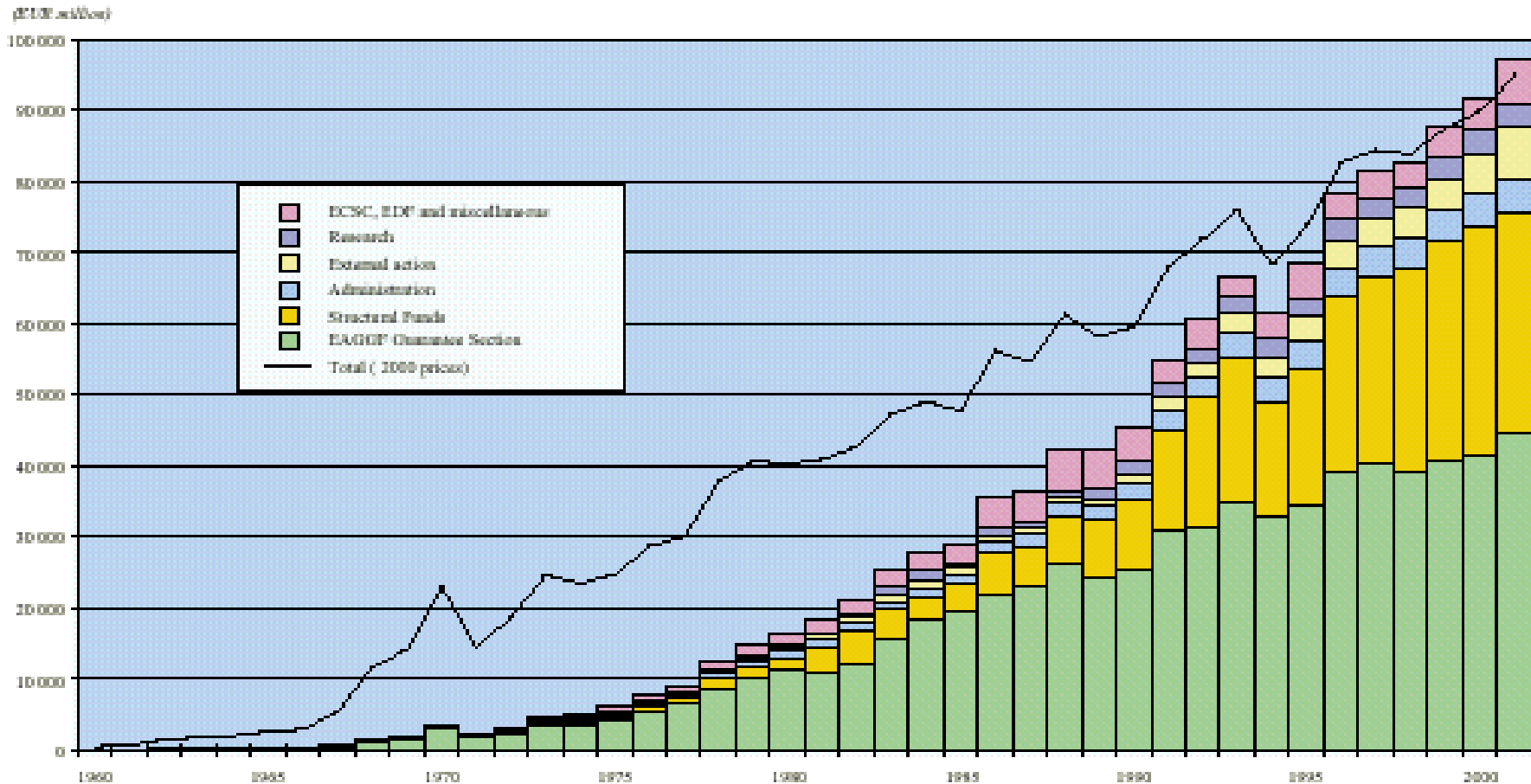
# Potential increase in average SGM (2003)

2003, Potential increase in SGM per AWU by improving farm size to NL distribution



	EU15	BE	DK	DE	GR	ES	FR	IE	IT	LU	NL	AT	PT	FI	SE	UK
Extra SGM/AWU	18	10	2	10	19	13	6	39	20	16	0	23	15	10	23	14
SGM/AWU	20	45	61	31	8	17	32	18	13	26	44	14	5	17	27	32

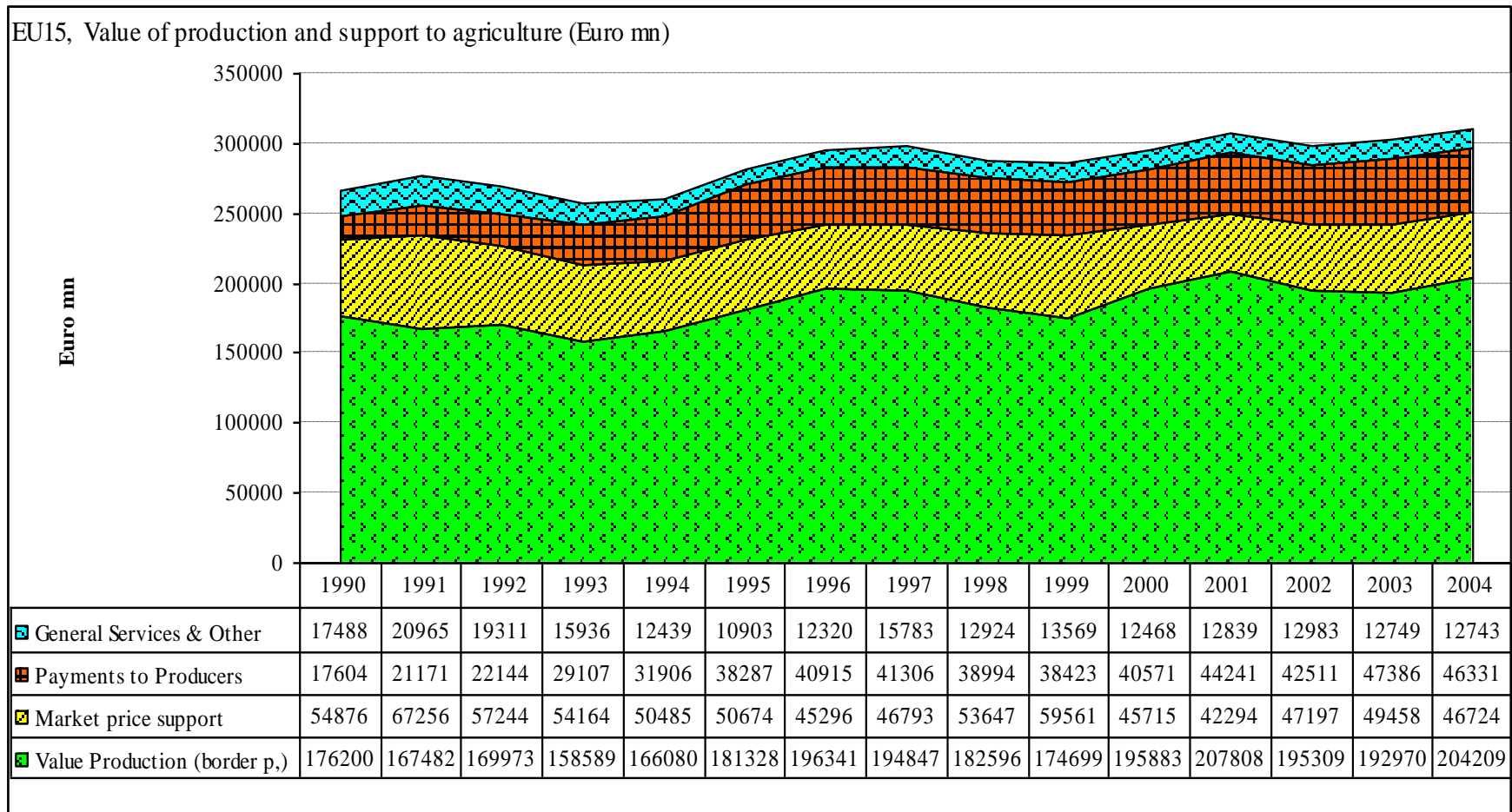
# Developments of EU budgetary expenditure



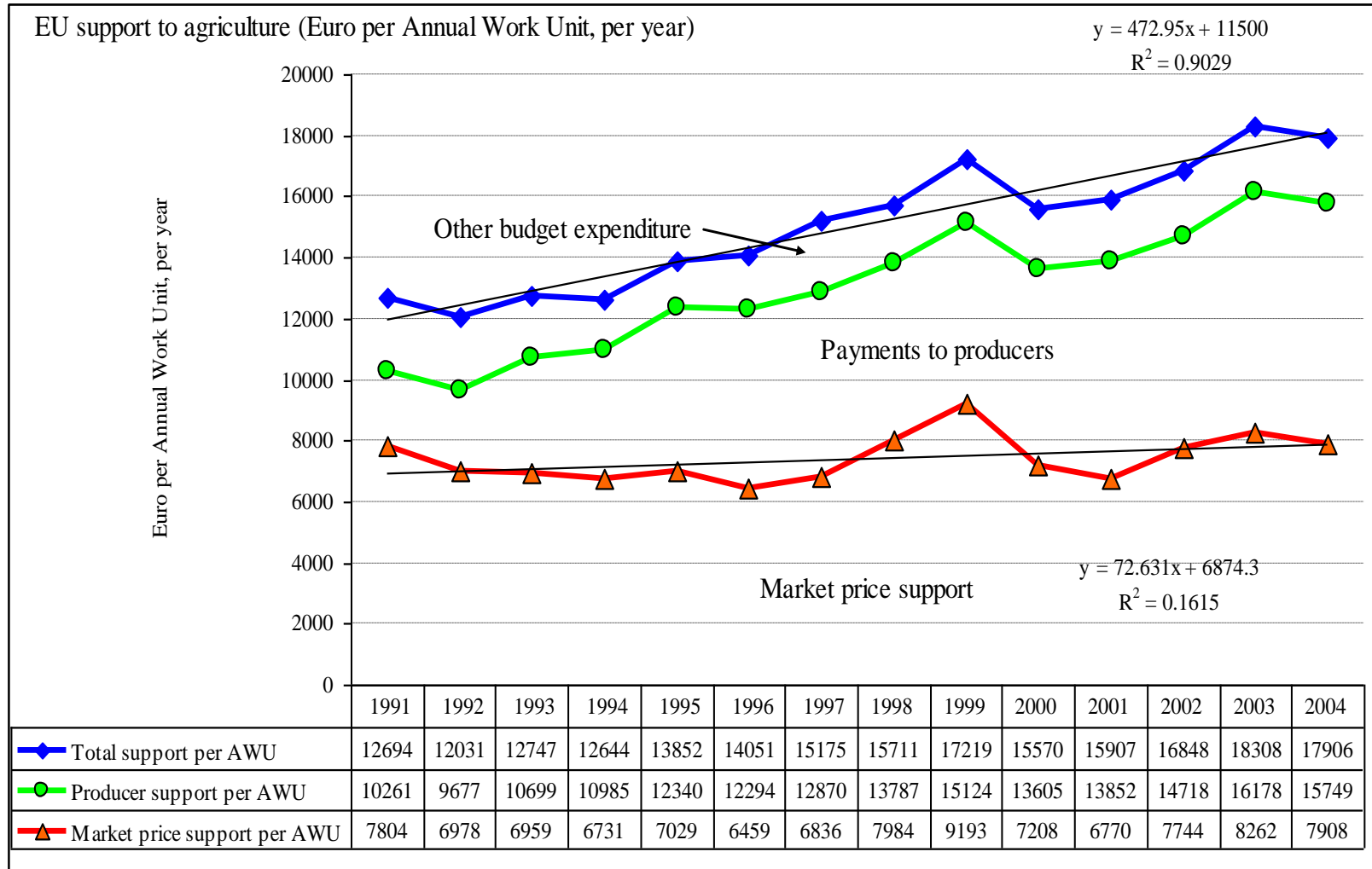
Legenda: FEOGA Guarantee (green), Structural funds (yellow), Administration (blue), External Action (light yellow), Research (dark blue), Other (pink). The black line indicates the total expenditure at constant (2000) prices.

Source: EU Commission, DG Budget, Public finance figures of the European Union.

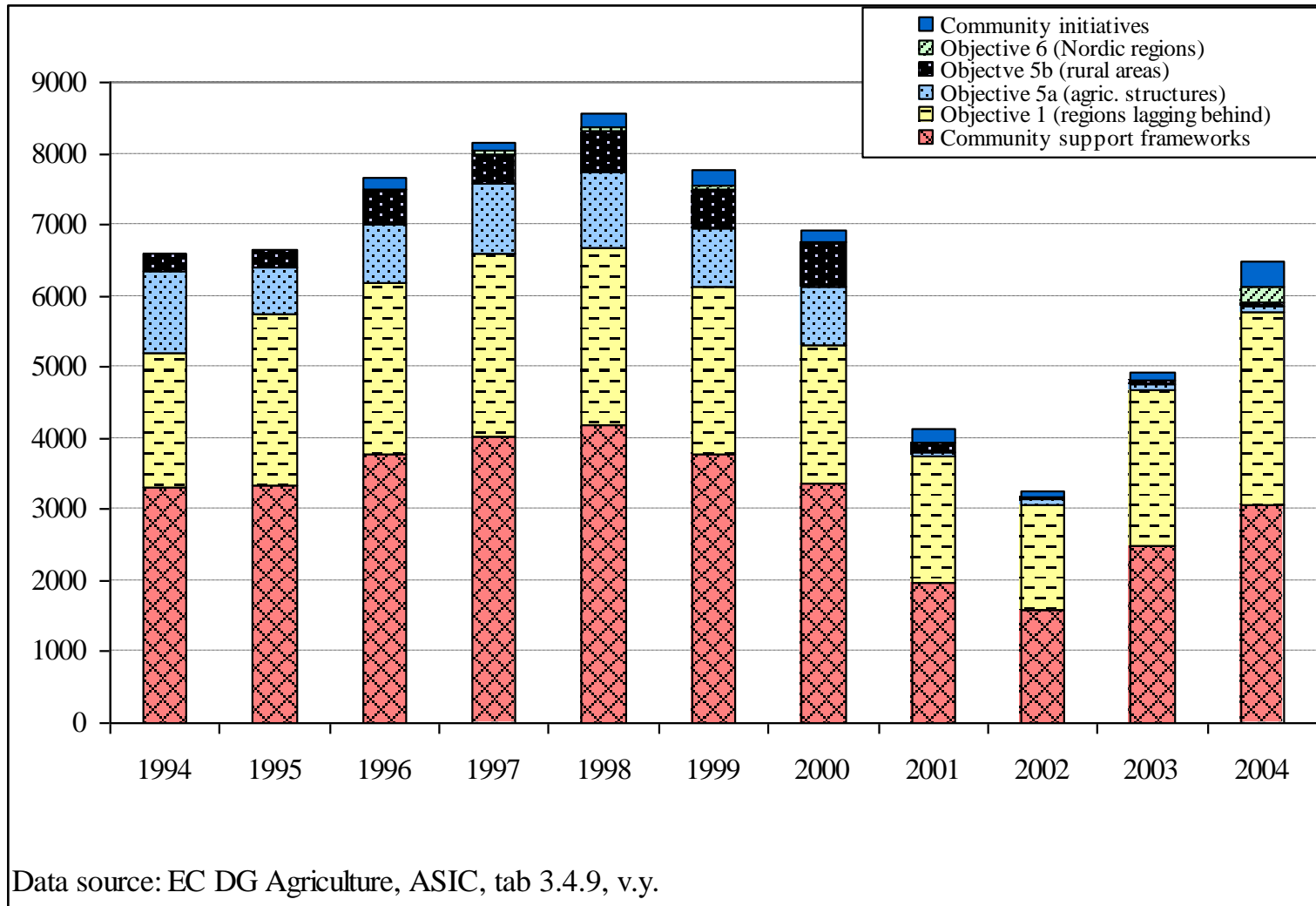
# Developments of the value of production



# Support per Annual Work Unit (EU15)

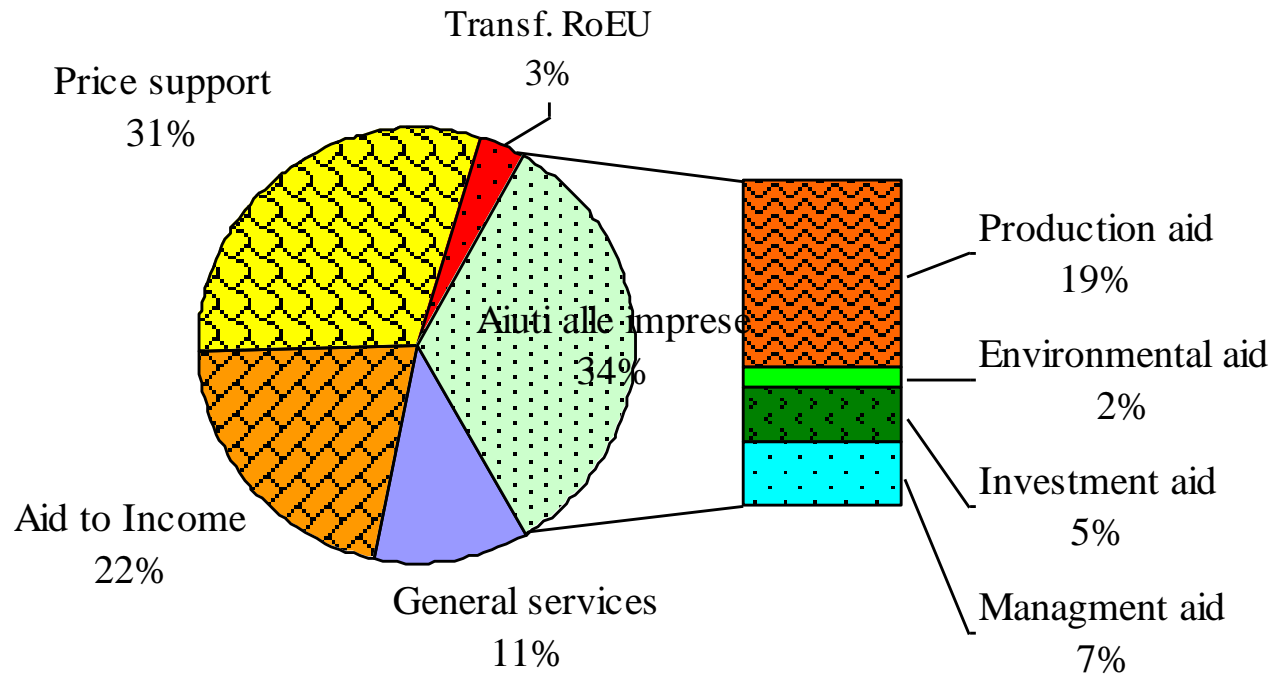


# Expenditure in FEOGA guidance section



# Present cost of agricultural policy in Italy

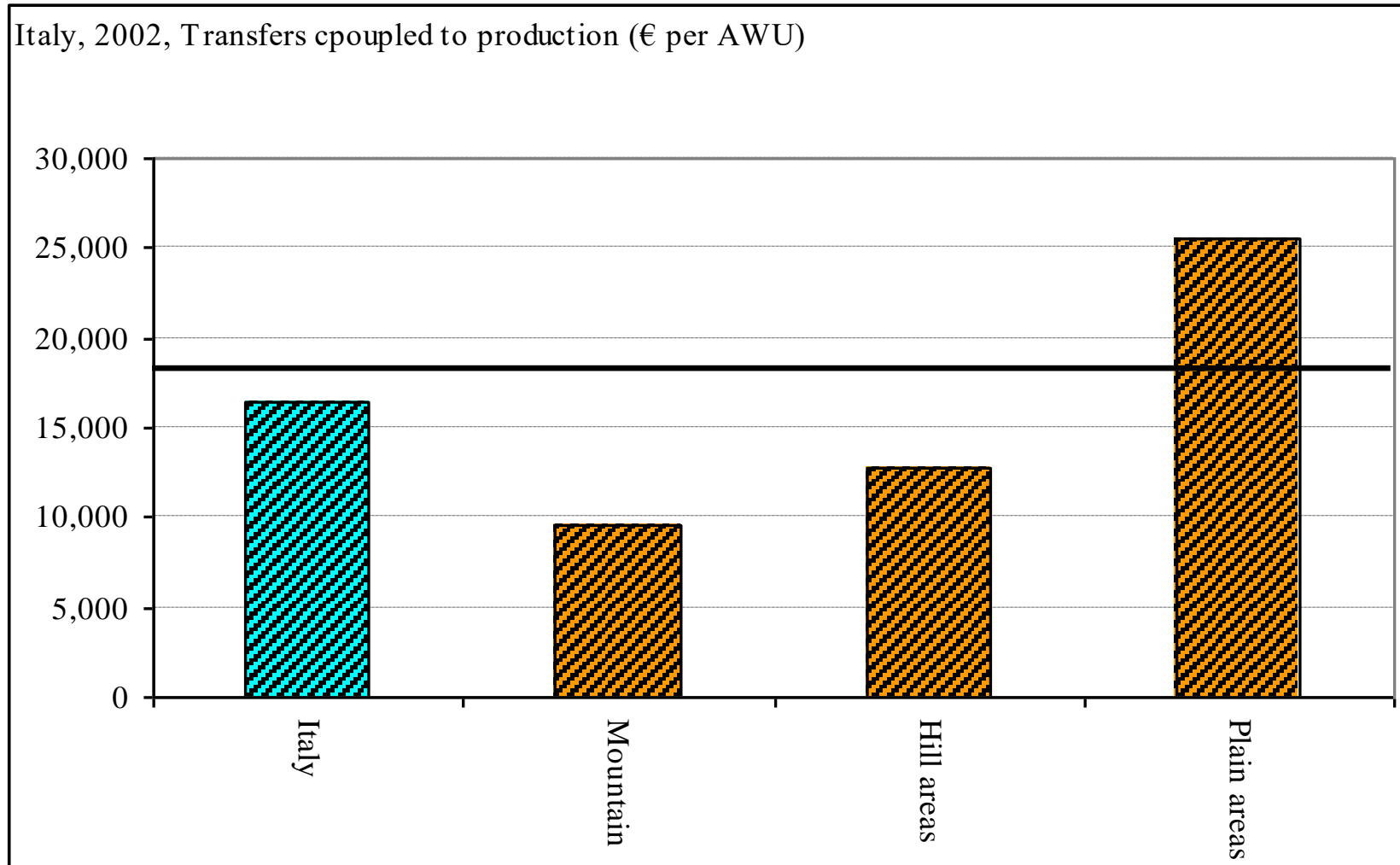
Agricultural support, Italy, 2004, €bn 24.7



# Less favoured areas in Italy

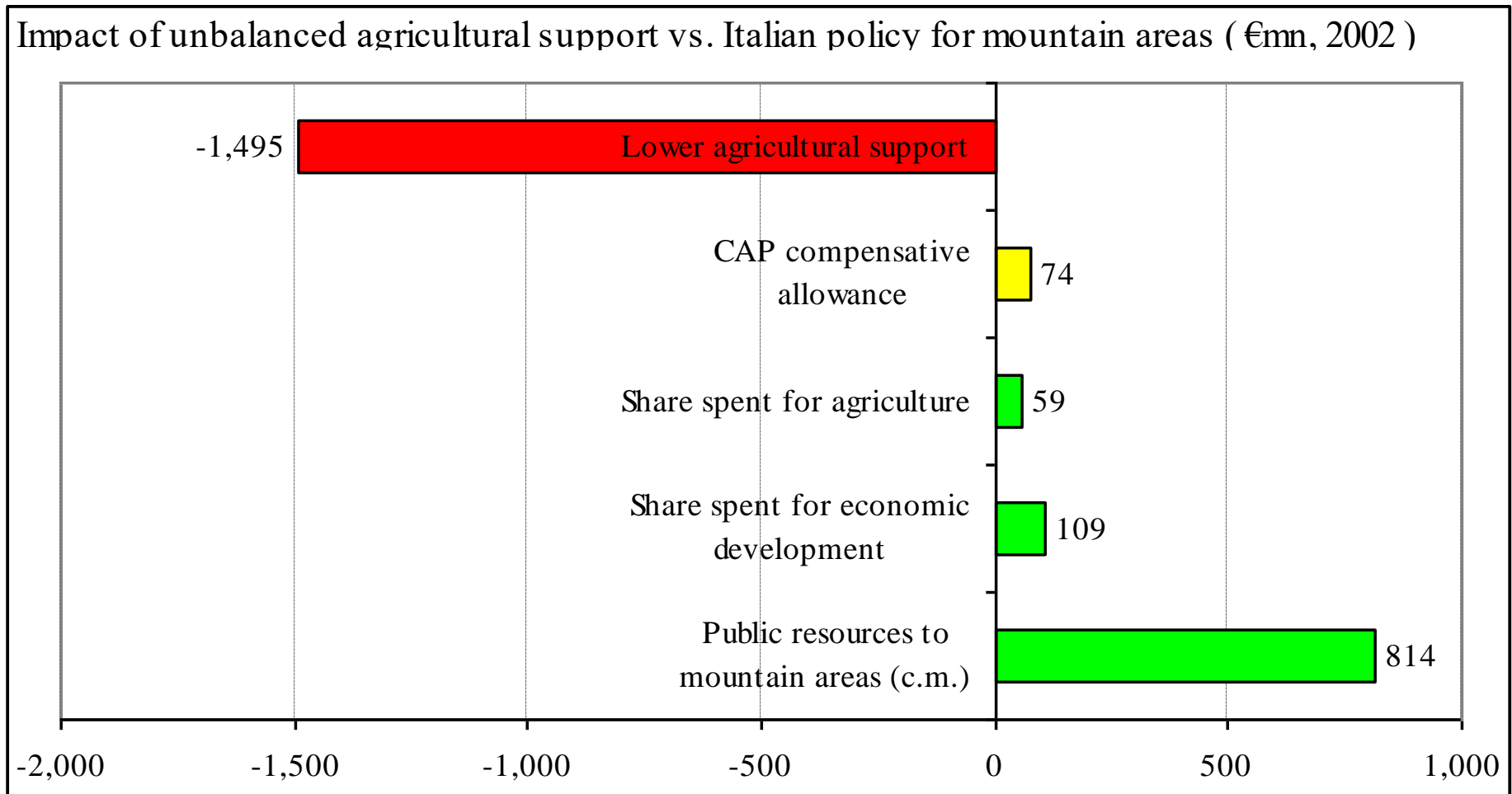
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# Transfers due to price support per altitude regions





# Transfers balance for less developed areas

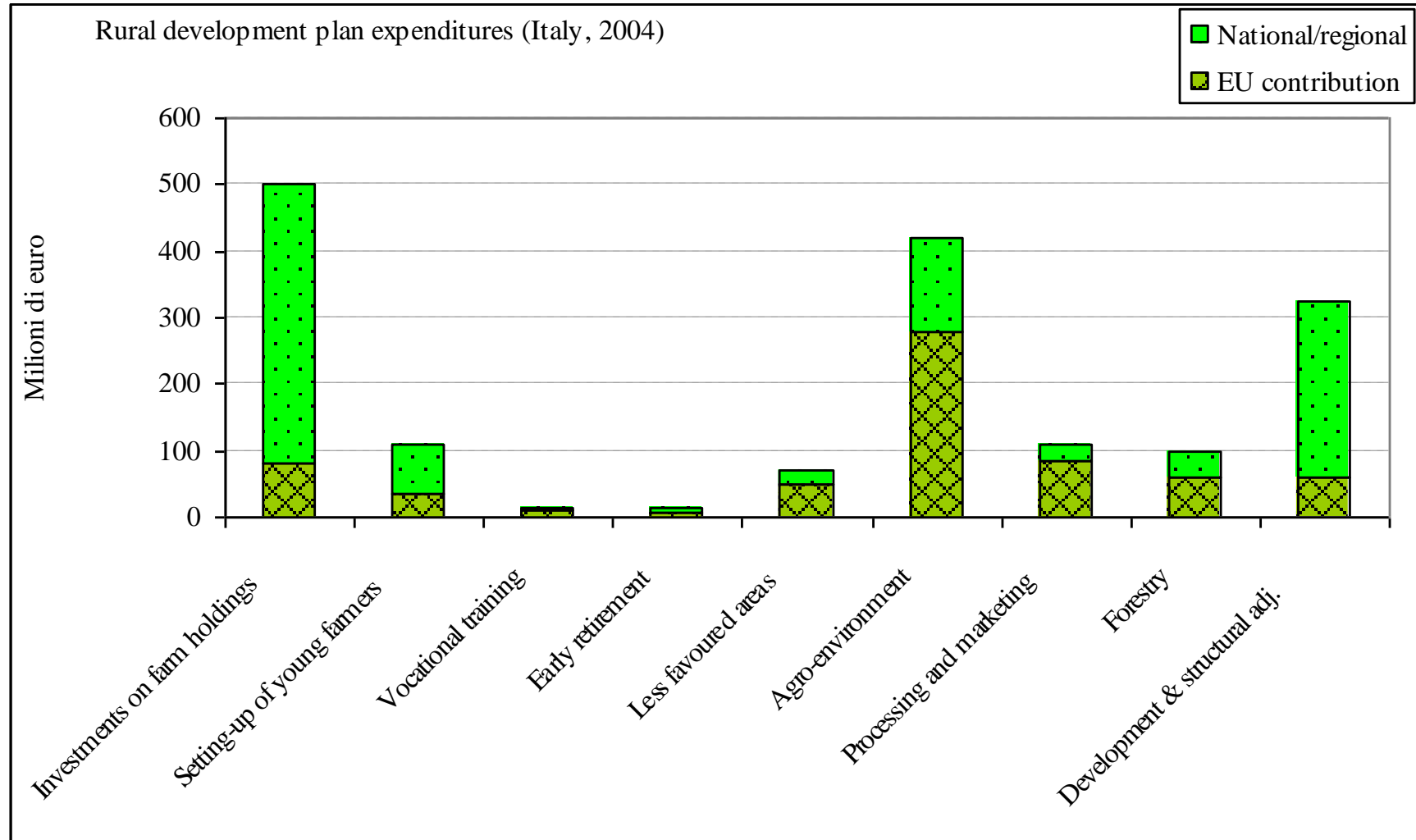


# Rural development policy in Italy

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- ❑ **Sectoral bias in government subsidies (limited to farms)**
- ❑ **Assistance-oriented subsidies (short-term, not oriented to structural adjustment)**
- ❑ **No lower-limits in economic size for granting farm investment aids**
- ❑ **Minimal farm size limits for subsidies to young farmers setting-up**
- ❑ **Difficult monitoring of social benefits in environmental subsidies (e.g. reduction in polluting inputs)**

# Expenditure in rural development, Italy, 2004



# Scenarios

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## □ **A: Status quo**

- Present policies continued (in practice, transfers maintained)

## □ **B: Equal footing (UK presidency proposal )**

- Trade liberalisation and reform of the EU budget recycling agricultural subsidies in R&D

## □ **C: Structural adjustment & rural development**

- Implementation of a pervasive structural adjustment policy
- Intersectoral rural development policy