

Evaluation of Article 68 measures



Executive summary

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E-mail: agri-evaluation@ec.europa.eu

*European Commission
B-1049 Brussels*

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EEIG Agrosynergie includes the following two partners:

ORÉADE-BRÈCHE Sarl and
64 chemin del prat - 31320 Auzeville FRANCE
Tel.: + 33 5 61 73 62 62
Fax: + 33 5 61 73 62 90
e-mail: t.clement@oreade-breche.fr
Represented by Thierry CLEMENT

COGEA S.r.l.
Via Po 102 - 00198 Roma ITALY
Tel.: + 39 6 853 73 518
Fax: + 39 6 855 78 65
e-mail: fantilici@cogea.it
Represented by Francesca ANTILICI



Consulenti per la Gestione Aziendale

This evaluation was directed by Lise Duval, with the assistance of Laurence Menet (Oréade-Brèche), Alice Devot (Oréade-Brèche), Marie Lebourges (Oréade-Brèche), Francesca Antilici (COGEA), Maria Queiroz (COGEA), Ezio Scotti (COGEA) and contributions of the national experts listed below:

Morten Kvistgaard	Denmark
Leonidas Nikolaous	Greece
Wieslaw Lopaciuk	Poland
Péter Toth	Hungary
Jordi Rosell and Lourdes Viladomiu	Spain
Pedro Serrano	Portugal

1 The Specific Support under Article 68

In 2003, a substantial reform of the Common Agricultural Policy (CAP) introduced the full decoupling of direct aids from production. This could have strong transitional effects. Member States were thus allowed to grant optional coupled payments in specific cases. This optionality was maintained after the CAP Health Check in 2009 with the introduction of Article 68 of Council Regulation (EC) 73/2009. It broadened the range of such Specific Support, with the possibility of granting coupled or decoupled payments depending on the objectives assigned. The objectives of the support were the following:

- (a)(i) for specific types of farming important for the protection or enhancement of the environment;
- (a)(ii) for improving the quality of agricultural products;
- (a)(iii) for improving the marketing of agricultural products;
- (a)(iv) for practising enhanced animal welfare standards;
- (a)(v) for specific agricultural activities entailing additional agri-environment benefits;
- (b) to address specific disadvantages affecting farmers in the dairy, beef and veal, sheepmeat and goatmeat and rice sectors in economically vulnerable or environmentally sensitive areas, or, in the same sectors, for economically vulnerable types of farming;
- (c) in areas subject to restructuring and/or development programmes in order to ensure against land being abandoned and/or to address specific disadvantages for farmers in those areas;
- (d) in the form of contributions to crop, animal and plant insurance premiums;
- (e) by way of mutual funds for animal and plant diseases and environmental incidents.

The budget for Specific Support was limited to 10% of national ceilings for direct payments, and payments linked to production to a 3.5% sub-ceiling¹ ((a)(i), (a)(ii), (a)(iii), (a)(iv), (b), (e)).

2 Objectives and methodology of the evaluation

The evaluation considers the conception, implementation, control system, results and impacts, coherence and optional character of the Specific Support. It covers the period of implementation of Article 68 measures (2009-2014) and all concerned European Union (EU) Member States and focuses on 10 Member States where National Studies were carried out: Denmark, Finland, France, Greece, Hungary, Italy, Poland, Portugal, Spain and The Netherlands.

Quantitative and qualitative empirical assessments were compared to theoretical hypotheses. To distinguish clearly between the effects attributable to Article 68 measures and those driven by other factors, observed results were compared with a counterfactual situation without Article 68 measures.

The quantitative empirical analyses were based on the EU databases (FADN, Eurostat, Agriview, CATS) complemented by data from national statistical offices. The qualitative empirical assessment was based on the notifications sent by the Member States to the European Commission as well as on the information collected during the National Studies. It was used for properly interpreting the quantitative results and identifying effects of external factors. In addition, a literature review was performed especially for questions related to environmental effects.

3 Implementation of Article 68 Specific Support

Twenty-six Member States made use of Article 68 (all but Luxembourg and Malta). For the three first implementing years (2010-2012), the expenditure of the Specific Support amounted to €3.8 billion. France and Italy had the highest expenditure (cumulating half of EU total expenditure for Article 68).

The most frequently implemented Article 68 measures aimed at supporting the competitiveness of sectors ((b) *specific disadvantages*, (a)(ii) *quality*) and enhancing the environment ((a)(i) *types of farming important for the environment*, (a)(v) *agri-environment measures*). Measures under objective (b) *specific disadvantages* were implemented by almost all the 26 Member States except Italy.

In terms of expenditure, the livestock sectors were the most supported (44% of the 2010-2012 expenditure in ten Member States studied), the expenditure being almost equally distributed between the dairy, sheep and goats and beef sectors. Specific Support for crop sectors was significantly granted for arable crop diversification under environmental measures (18%). Other specific crops (tobacco,

¹ This limit was extended to 6.5% of the national ceilings for the year 2014.

olive, durum wheat, etc.) were mostly supported under the quality objective (14%). The budget was also largely dedicated to cross-sectoral measures (22%), mainly insurance and organic farming.

4 Effectiveness and impacts of Article 68 measures

4.1 Economic viability, competitiveness and sustainability

Two types of measures were expected to have an effect on farms economic results: measures under Article 68 objectives (a)(ii) *quality* and (b) *specific disadvantages*.

Economic viability¹: The analysis concerning the global impact of the policy, showed that Specific Support helped reduce but not to cancel out the disadvantage in Return on Investments (ROI) of recipients relative to non-recipients (sheep and goats, cotton, durum wheat, tobacco). The analysis of the impact at the Member State level, showed that Specific Support was not sufficient to cancel negative ROI (ROI<0) in the cattle sector in France, Ireland, Poland, Finland, Slovenia, UK-Scotland and in the sheep and goats sector in France, Finland and Ireland. Furthermore, for cattle, dairy and olive oil, Specific Support recipients were on average already in a situation of relative advantage without Specific Support compared to non-recipients.

The analysis at recipient farms level showed that, in general, the percentage of farms with ROI>0 varied according to the sectors. Specific Support implementation allowed a part of producers to move from a non-viable situation to a viable situation. This was more significant in the tobacco and cotton sectors, while it was less significant in other sectors (sugar beet, dairy, and olive oil).

Competitiveness: In general, the impact of Specific Support on quality improvement was limited². The analysis of relative prices confirms this conclusion³. Only in the tobacco sector, the average quality increased relatively to the period before Specific Support. Between the CMO reform and 2010, the tobacco average price increased sharply in line with the improvement of the average quality. This increasing price trend was interrupted in conjunction with the implementation of Article 68, despite a further improvement of tobacco average quality. This suggests that, knowing the existence of an aid linked to production, buyers bargained with producers a lower purchase price. Therefore, through this lower price, producers actually lost part of the support, which was transferred (captured) to buyers.

Sustainability of primary production: The impact on production was rather uneven. Specific Support stimulated a production increase in the cotton sector (together with favourable market conditions – increase in world prices) and contributed significantly to slow down the decreasing trend in the sheep meat sector. In the other sectors, the effects were limited (beef) or null (dairy, durum wheat⁴, sugar beet and olive oil).

Sustainability of processing industries: The analysis concerned only the sectors for which the supply of raw materials produced locally is a determinant element of survival⁵. Concerning the stability of supply flows of raw materials, Article 68 was not sufficient to ensure the sustainability of the processing industries (except for cotton; tobacco represented a special case⁶). Concerning the impact on the industrial structure, the structural dynamics (strong decrease of the number of factories) are related to the 2003 CAP reform or other drivers and were not affected by the implementation of Article 68. However, the decrease of primary production in the sugar and tobacco sectors might have deteriorated the industry competitiveness (i.e. increase in fixed costs). Conversely, in the cotton industry in Spain, the growth of supply flows occurred in a context of price increase on the world market and of deep restructuring of the sector, with growth in the utilisation rate of the factories capacity at levels higher than those observed before the implementation of the 2003 CAP.

¹ Ability of a sector (product) to ensure the family work remuneration to the level of opportunity cost, as well as a remuneration of the invested capital. In absolute terms, for a sector to be viable, the ROI must be greater than zero.

² The analysis was carried out for beef and sheep meat, cow milk, sugar beet, tobacco and olive oil sectors (with different parameters according to the product) only for Member States that have implemented the measure.

³ The assumption was that there is a direct relationship between quality improvement and an increase of price. Durum wheat sector was also analysed. The lack of reliable data on sugar beet prices did not allow the analysis for this sector.

⁴ However, in Italy the implementation of the 'environmental' measure stimulated a new interest of producers: the measure contributed to areas stabilisation and, indirectly, also to production stabilisation.

⁵ i.e. slaughtering industry, dairy, industry of first processing of raw tobacco, cotton ginning industry, and sugar industry.

⁶ In the case of tobacco the decrease of quantities seems to have met the first processing industries' requests, as these are no longer obliged to handle (as before) a product of low quality not demanded by manufactures.

4.2 Competitiveness compared to sectors and Member States that were not supported

Competitiveness of the agricultural component of the supply chain: The analysis was carried out by analysing the gross margin, which all other things being equal, is a proxy of the level of competitiveness achieved by farms, in terms of: i) increased efficiency (cost competitiveness) and ii) a better market performance (higher sales prices due to improved quality).

Within each Member State, there were situations where Specific Support:

- a- may have generated or increased a distortion of competition among recipients and non-recipients (cattle, dairy, sugar beet);
- b- others in which Specific Support was not sufficient to close the negative gap among recipients and non-recipients (olive oil); and,
- c- finally, others where Article 68 managed to cover the existing negative gap and (in some cases) went even further generating a limited distortion of competition (sheep and goat, tobacco, durum wheat and cotton).

The significance of Specific Support on the gross margin of recipient farms varied according to sectors: the highest in the sectors of tobacco (over 27% of gross margin) and cotton (12.5%), the lowest in the dairy sector (3.3%). At the Member State level, the evidence showed a more complex situation, with some Member States where the incidence of Specific Support on gross margin was sharply higher¹ relative to the aggregated average or lower².

Competitiveness of the processing industry: In general, there are no strong correlations between the changes (positive or negative) in the average production share in value (VPS) of each country-system³ and the implementation of Article 68. Moreover, the changes in the competitive positioning were mainly caused by changes in relative prices, while changes in production shares in quantity played a more limited role. It should be noted that in the country-systems having lost VPS, the implementation of Article 68 proved to be insufficient to avoid this drop. Moreover, the measures did not artificially and significantly change the competitive positioning of the different country-systems existing in the previous period.

4.3 Territorial development

While the Member States had intended the measures to have territorial effects, the evaluative analysis did not show any significant effects on territorial development at the regional level. In ten regions of six EU Member States⁴, Article 68 could have a territorial impact (both the share of supported sectors and effects on farm viability were significant). In these regions, Specific Support enabled the maintenance of the production value of sectors, but these latter had a very low level of contribution to regional agricultural value. Moreover, in supported farm holdings, the employment trend was most often similar to regional trends and seemed to be mainly sensitive to regional and sectoral contexts. However, the measures sometimes targeted very specific sectors, located in specialised areas, where they might have significant effects that could not be identified at the regional level (tobacco in Spain, Italy and Poland; sheep and goats in France; dairy in Hungary; durum wheat and suckler cows in Greece, etc.).

4.4 Environment

Article 68 had two explicit environmental objectives ((a)(i) *types of farming important for the environment* and (a)(v) *agri-environment measures*) but measures set up under other objectives may also have had side-effects on the environment.

➤ *Measures with environmental objectives*

(A)(v) *agri-environment measures* had to be set up respecting the approach of the CAP Pillar II Agro-Environment Measures and to be approved by the European Commission. Member States had much fewer constraints for measures (a)(i) *types of farming important for the environment*; however they were subject to the 3.5% sub-ceiling. As a result, (a)(v) *agri-environment measures* had the potential to

¹ Greece and Finland in cattle; Hungary, Bulgaria and Slovenia in dairy; Bulgaria and Finland in sheep and goat; tobacco in Spain.

² Belgium, Poland and Denmark in cattle; Austria, Poland and Italy in dairy; the Netherlands, Portugal and Italy in sheep and goat.

³ i.e. the whole processing industry of a sector of each Member State.

⁴ EL-Thessalia, ES-Extremadura, FR-Midi-Pyrénées, FR-Rhône-Alpes, FR-Provence Alpes Côte d'Azur, HU-Közép-Dunántúl, HU-Észak-Alföld, IT-Piemonte, PL-Małopolskie, PL-Lubelskie

generate better results (specific needs were targeted, the measures were better designed, their effects were sometimes concentrated on areas with environmental interests).

A large and varied set of measures were designed by the Member States, but three major types can be identified in terms of budget, number of hectares and farms supported: arable crops rotation and diversification (at least 2 130 000 ha supported in 2013¹), extensive/organic farming (274 000 ha in 2013²), extensive pasturing (12 350 ha in 2013). Within each category, the level of potential impact is directly dependent on the level of uptake and the features of the measure. For each measure, results were uneven. Furthermore, the lack of monitoring data hindered the impact analysis.

Arable crops rotation and diversification measures: some measures consisted in per hectare payment (for protein/oilseed crops) with no conditions related to crop rotation/diversification (e.g. French support for protein crops); other measures (Italy and Spain) were targeted on specific regions and included conditions on crop rotation. The measures contributed to the development of protein and oilseed crop areas in Spain and Poland, and to their maintenance in Italy. The Spanish and Italian measures had potential positive impacts at the farm and regional levels, whereas this is true only at the farm level for the Polish and French (protein crops support) measures. On the other hand, the other French measure ‘diversification of crop rotation’ and the Finnish and Danish measures had no noticeable effects on the environment.

Extensive and organic farming: French measures (organic farming), one of the two Danish measures (extensive farming) and the Portuguese measure (protection of national olive-growing heritage) had positive environmental effects at the farm level. They had potential effects on larger scales, but these depended on the geographical location of the beneficiaries.

Extensive pasturing: the Portuguese and Danish measures have helped maintain extensive pasturing, which had a positive impact at least at the farm level.

➤ *Indirect impact of the measures set up under other objectives*

Based on the analysis of the main supported sectors (cattle and sheep and goats), it can be concluded that the measures set up under ‘non-environmental objectives’ either had no effect or maintained a type of production with very low positive impacts on the environment.

4.5 Animal welfare

The Netherlands is the only Member State that designed measures under objective (a)(iv) *animal welfare*. Some positive changes, in relation with the measures, have been noted by the stakeholders; however, the absence of monitoring makes it difficult to judge the level of contribution of Article 68. Environmental measures also had an indirect positive impact on the maintenance of livestock-rearing conditions in the Netherlands, Portugal, Denmark and France (extensive pasturing and organic farming).

5 Efficiency of Article 68 measures

Specific administrative procedures had to be set up in addition to the Single Payment Scheme and this generated a specific additional workload for all parties involved. This especially concerned environmental and quality measures because they tended to include more stringent requirements than the other types of measures. However, managing authorities made efforts to simplify eligibility criteria and conditions, so that procedures would not be too complex. Moreover, given that the majority of the measures existed in the past, the parties were already familiar with these procedures.

The national control arrangements were effective in controlling the Specific Support and ensuring the verification of the eligibility criteria. As regards the efficiency of on-the-spot checks, the verification of eligibility criteria was reported as burdensome in four Member States out of the nine studied.

As stated by the European Court of Auditors in its report on Specific Support, the evaluation confirms that indicators used to monitor the effects of Article 68 measures were weak or inadequate. Indeed, the major elements available consisted of the number of beneficiaries / hectares / animals supported, whereas no information was collected to assess the extent to which the objective was achieved.

¹ The number of hectares supported does not take into account data of France and the Netherlands, unavailable for 2013.

² The real figure is probably much higher given that the area supported in France is not included (data not available).

Member States were responsible for identifying measures potentially overlapping with other CAP instruments and setting up the corresponding procedures (specific rules or mutual exclusion). These were reported to have been properly set up and effective.

6 Relevance and coherence of Article 68

6.1 Relevance of the measures

Environmental measures were generally relevant to the needs of the Member States, particularly (a)(v) *agri-environment measures* since they were based on the model of similar measures of CAP Pillar II. Risk management measures were also judged relevant to the growing volatility of agricultural markets. However, they received a small share of the budget. Conversely, the measures (b) *specific disadvantages*, (a)(ii) *quality* and (a)(i) *types of farming important for the environment* were more often the source of relevance issues:

- Measures were often poorly targeted towards specific needs, especially measures (b) that were precisely supposed to address *specific disadvantages*.
- Measures often lacked criteria aimed at changing or improving previous practices, thereby generating deadweight effects. This was often the case for measures aimed at improving the quality of agricultural products (Italy, France, Greece and Poland among studied Member States).
- Support under objective (b) *specific disadvantages* was channelled to sectors in order to maintain them, but most often without any requirement concerning the structural or strategic adjustments needed to favour the long-term viability of these sectors. One could question the sectors' capacity to survive without the support. In the beef and veal sector in particular, many Article 68 measures maintained the same support that was already existing in the past.
- Finally, the budget allocation rarely resulted from a detailed analysis of the level of support required to meet the needs, but more from a political choice.

From a budgetary perspective, measures with the most significant expenditure implemented by the main users of the Article 68 budget, Italy and France, were judged as relevant¹.

6.2 Supplementary role and coherence of the measures

In theory and given its optional character, Specific Support measures should have been implemented when Member States could not use other existing schemes in the CAP. Except for mutual funds, all measures were a continuation of previous or existing supports (with some adaptations) financed from Pillar I, Pillar II or national budgets. Consequently, mutual funds were the only new measure.

In the case of Agro-Environment Measures shifted from Pillar II, Article 68 provided Member States room for manoeuvre, by allowing them to implement other actions using the budget of Pillar II. These measures were often the most relevant; however, provisions of Article 68 were poorly adapted since budgets could not be managed over several years as in Pillar II. Furthermore, effectiveness problems may arise from the standardisation of the level of payment among the concerned regions and from the lack of a commitment period of farmers over several years.

Article 68 measures were generally coherent with measures of Pillar II and, in several cases, their actions were complementary ((b) *specific disadvantages measures* and modernisation support or Article 68 (a)(v) *agri-environment measures* and these of Pillar II). However, a coherence issue arose between Less Favoured Areas support of Pillar II, as they often targeted the same farmers, and the Member States had the same specific objectives for applying those measures as was the case of Less Favoured Areas payments.

6.3 Optional character of the scheme

One way of financing Article 68 was to reallocate a given percentage of direct payments to specific sectors or farmers. However, the impact on the value of Single Payment Scheme payments was generally low, because Specific Support was partly financed from unused funds².

¹ Support to sheep and goats (10% of EU Article 68 expenditure for 2010-2012), crop harvest insurance (5%) and organic farming (4%) for France; contributions to insurance premiums (11%) and support to crop rotation in Italy (7%).

² i.e. unspent funds arising from the Single Payment Scheme execution or retention on the national reserve. This possibility was not available to New Member States applying the Single Area Payment Scheme.

The relevance of the optional character depends on the type of measures. It was relevant for risk management measures; however, management of budgets over several years, offered by Pillar II, would fit the needs of the measures better. For environmental measures, optionality was relevant in the case of local environment issues, even though Pillar II would also have been more appropriate; on the other hand, by definition, it was less relevant in the case of general issues that need to be tackled by measures at the EU level and should apply to all Member States. Finally, some measures implemented under competitiveness objectives would have been more relevant in the framework of Pillar II, since they were supposed to produce environmental and social amenities.

In the case of competitiveness measures, if the objective was to support the transition of a sector in order to be able to maintain on the market, then optionality was relevant provided that the measures were well tailored to the needs. In that case, support may not generate any distortion of competition. However several measures were implemented with significant budgets (most measures in the dairy sector, Greek and Spanish measures in cattle and sheep and goats sectors), even though viability indicators of supported farms were relatively better than those of farms of the same sectors in Member States that did not implement the measure, thereby generating distortion of competition within the EU single market. Furthermore, several measures were not intended to target specific disadvantages affecting farmers inside one Member State (especially in the cattle and the sheep and goats sectors).

The efficiency of the optional character is limited because measures had a limited effectiveness and generated additional administrative burden, particularly competitiveness measures that received 63% of expenditure.

7 Lessons learned

- *Some measures would have been more effective if implemented under CAP Pillar II*

Several measures implemented under Article 68 pursued objectives of CAP Pillar II: measures with explicit environmental objectives as well as measures with implicit environmental and territorial objectives. It would be more effective, efficient and coherent to implement these measures under Pillar II, in order to benefit from its programming approach and multi-annual budgetary framework. The rationale of (b) *specific disadvantages* measures targeting Less Favoured Areas and other specific disadvantaged areas, whose objectives were mainly territorial and environmental, should be to reward the social cohesion objectives or amenities generated, rather than to maintain production as such. From this point of view, CAP Pillar II would be more suitable as a framework for designing the proper supports. The implementation of such measures in CAP Pillar II would have required its budget to be increased to cover the extra-costs entailed.

- *Some coupled measures should have included restructuring requirements*

Many (b) *specific disadvantages* measures were channelled to sectors that had been supported for a long time. This support could have been more effective if it had been based not only on short-term analysis but also on long-term analysis of sectors' weaknesses and needs. The scheme may thus include not only coupled support but restructuring measures in line with long-term strategies for the sectors.

- *The optional character was not justified for some measures*

When environmental issues at stake can be considered as general, it would be relevant to extend the obligation to tackle them to all Member States, instead of leaving the decision to the Member States.

- *The optional character of the Specific Support would have required setting clearer objectives*

Results could have been improved by introducing approval by the European Commission of all measures, but this would have considerably increased the administrative burden. Therefore, the best solution would have been to define much more precise objectives for the Specific Support as well as stricter implementing rules (for setting up, presenting and justifying to the European Commission and monitoring the measures). This would have reduced the margin for interpreting the regulation and improved the relevance of the measures at Member State level. Especially, provisions should have been set for stricter targeting rules in the measure design.

