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Short communication

CAP 2023-2027: effects of direct payments internal convergence in Italy

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Abstract

The 2023-2027 CAP reform strongly emphasises Specific Objective 1, targeted to support viable farm income and resilience of the agricultural sector. The new CAP aims to achieve a fairer distribution of income support, in particular for small and medium-sized farms. This does not affect all Member States in the same way, depending on the choices made in previous programming periods. Italy has maintained the allocation of income support based on payment entitlements. Despite the internal convergence process that started in 2015, there are still important differences among farms in the level of unit support.

This paper aims to analyse the effects of internal convergence of the Basic income support for sustainability (BISS), according to the Italian decisions established in the CAP Strategic Plan 2023-2027. It exploits administrative micro-data containing the value of each of the 10.5 million payment entitlements stored in Italy in the Entitlement Register of the Integrated Administrative and Control System (IACS). The analyses are based on the development of an original simulation tool replicating the actual implementation methods adopted by Italy for the 2023-2027 period.

The results highlight that the internal convergence determines a significant modification to the financial allocation at both farm and territorial levels. Indeed, the internal convergence transfers support from very small and large farms towards small- and medium-sized ones. At the territorial level, the areas with a specialized agricultural sector experience a reduction of support to the benefit of more marginal and rural areas.

Keywords: direct payment, CAP, farm incomes, internal convergence

JEL codes: Q18, Q12

Highlights:

- Recommendations by the European Commission asked Italy to advance in the internal convergence process of direct payments to improve the fairness of support and its effectiveness.
- The internal convergence of the Basic income support for sustainability will determine a significant modification in the financial allocation at both farm and territorial levels.

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1. Introduction

After six decades and numerous reforms, the EU agricultural policy has radically changed its appearance, becoming an increasing community and less common policy, more in keeping with the changed socio-economic context of reference and better equipped to face the numerous challenges of the agricultural sector and rural areas (Buckwell, Tangermann, 1999; De Filippis, Salvatici, 2002; Swinnen, 2008; Sorrentino et al., 2011; Erjavec, Lovec 2017). The role of Member States (MSs) has also changed, becoming crucial not only for the application of the Common Agricultural Policy (CAP) on their territory but also in achieving its objectives. Among the many innovations of the 2023-2027 CAP reform, the most important one, on which the principle of the new delivery model is based, is the fact that the objectives of the CAP are made more explicit: three General objectives detailed into more concrete priorities by nine Specific objectives.

In particular, Specific Objective 1 (SO1) aims «to support viable farm income and resilience of the agricultural sector across the Union in order to enhance long-term food security and agricultural diversity as well as to ensure the economic sustainability of agricultural production in the Union», translating into concrete priorities the (economic) General objective of fostering «a smart, competitive, resilient and diversified agricultural sector ensuring long-term food security». Each MS must contribute to the achievement of SOs based on an assessment of national needs, according to the logic of intervention of the new delivery model. As regards SO1, Commission recommendations to Italy, before the presentation of the CAP Strategic Plan (CSP), highlight the significant differences in the distribution of support, due to the presence of direct payments, (still) based on historical individual references (European Commission, 2020). To strengthen the competitive position and resilience of the agricultural sector, the recommendations ask Italy to advance the internal convergence process of direct payments to improve the fairness of support and its effectiveness, also

using other available tools, such as the complementary redistributive income support for sustainability and the reduction of payments. Based on the Observations letter, received on the first draft of the CSP presented in December 2021 (European Commission, 2022a), Italy submitted a revised version of the CSP in November 2022, receiving formal approval on December 2nd (European Commission, 2022b).

The preliminary analyses underlying the Italian CSP (context, SWOT and needs analyses) highlighted the persistence of a gap between agricultural income and the average wage in the rest of the economy, especially for farms of medium-small size. The average agricultural income in terms of Farm Net Value Added per labour unit is approximately 77% of the average wage in the rest of the economy. To significantly reduce this difference, Italy decided to use the Basic income support for sustainability (BISS) and the Complementary redistributive income support for sustainability (CRISS) in a synergic way.

This paper aims to provide an overview of the redistributive effects of BISS internal convergence of CAP 2023-2027 in Italy, looking at the impact on farm size, unit value and territorial level. The national choices concerning BISS can be summarized as follows:

- BISS continues to be granted based on payment entitlements¹;
- Internal convergence is applied continuing to consider Italy as a single region (as for the 2014-2020 CAP reform);
- 48% of the national envelope for direct payments is allocated to BISS, reinforcing the internal convergence process through a progressive equalization of the unit amount of support;
- Internal convergence ensures that all payment entitlements below the national average value reach a value equal to at least 85% of the national average value by 2026, proceeding in four equal steps;
- The maximum loss of those who experience a reduction in the value of payment entitlements (those with a unit value higher than the national average) cannot exceed 30% (stop loss);
- The maximum level for the value of each individual payment entitlement is set at 2,000 euros starting from 2023; this value is subject to convergence, therefore by 2026 it reaches around 1,400 euros;²
- The stop loss is calculated not considering the reduction determined by application of the maximum level of value for payment entitlements.

It is worth noting that internal convergence is a process that started in the 2014-2020 CAP reform, at a pace differentiated by MSs according to national choices on the speed of convergence, point of arrival (uniform payment per hectare or historical individual references), maintenance or not of payment entitlements and inclusion in Basic Payment Scheme (BPS) of additional land uses not eligible before 2015 (i.e. vineyards, fruit and vegetables) (Henke *et al.*, 2015 and 2018).

An overview of national choices regarding basic income schemes in the last two periods is provided in Table 1. As can be seen, all MSs implementing internal convergence in 2014-2020 continue to do so in 2023-2027, except Slovenia.

Table 1. An overview of the EU MSs' choices on basic income schemes (BPS and BISS)

¹ Any payment entitlement is activated, by the farmer, upon declaration of the corresponding eligible hectare. Thus, in general, one hectare corresponds to one payment entitlement. However, one payment entitlement can be activated also declaring an area smaller than one hectare; in that case, the unit value of the payment entitlement is proportional to the area declared.

² The maximum level of individual payment entitlements differs from capping, applied by Italy in the 2014-2020 programming period but not confirmed in CAP 2023-2027, as the maximum level is applied on each payment entitlement regardless of the total amount of the Basic Income support received by each farmer.

	CAP 2014-2020			CAP 2023-2027		
	Basic payment scheme (BPS)			Basic income support for sustainability (BISS)		
	Partial convergence	Flat rate	SAPS	Partial convergence	Flat rate	SAPS
Belgium	x			x		
Ireland	x			x		
Greece	x (regional)				x (regional) 2026	
Spain	x (regional)			x (regional)		
Italy	x			x		
Portugal	x				x 2026	
France	x	x (Corsica)		x	x (Corsica)	
Netherlands		x			x	
Austria		x			x	
Croatia	x				x 2026	
Slovenia	x				x	
Malta		x			x	
Luxemburg	x				x 2027	
Germany		x			x	
Denmark		x			x	
Finland		x			x	
Sweden		x			x	
Bulgaria			x			x
Czech Rep.			x			x
Estonia			x			x
Cyprus			x			x
Latvia			x			x
Lithuania			x			x
Hungary			x			x
Poland			x			x
Romania			x			x
Slovakia			x			x

Source: own elaboration based on European Commission (2021) and CAP Strategic Plan webpage (link: https://agriculture.ec.europa.eu/cap-my-country/cap-strategic-plans_en#publishednationalstrategicplans)

Italy chose to maintain payment entitlements and proceed towards a more uniform payment per hectare, without reaching a flat-rate payment. Moreover, Italy decided to not apply for the optional

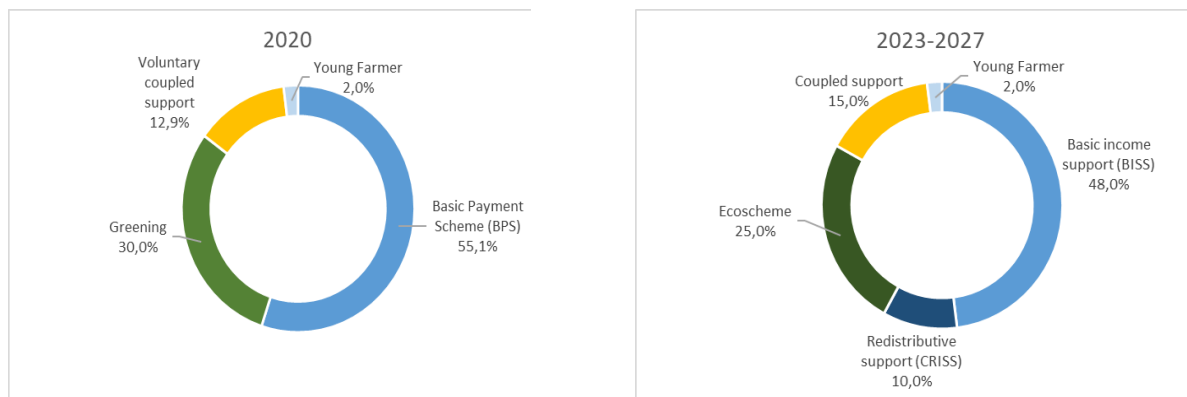
redistributive payment in 2014-2020, which became mandatory for the period 2023-2027. Although from national choices the existence of a “national path dependency” emerges (Henke *et al.*, 2018), the implementation of internal convergence considering Italy as a single region has an important redistributive effect, as highlighted by the European Court of Auditors (European Court of Auditors, 2018)³.

This paper focuses on the effects of internal convergence in Italy to highlight the redistribution of direct payments based on payment entitlements, to ensure greater equity by reducing the differences among farmers.

2. Data and methods: the exploitation of administrative data for Direct payments scenarios

On the effects of the internal convergence on farms, a key role is played by the financial allocation of the national envelope for direct payments, which in the 2023-2027 period is quite different from that in 2020. This is due to changes both in new CAP legislation (i.e., the abolition of mandatory “green payment”, the introduction of voluntary eco-schemes, the redistributive payment which becomes mandatory starting from 2023) and in national choices following the greater flexibility due to the *new delivery model*. All these changes led to a strong reduction in BISS in Italy. Indeed, while in the previous period the BPS received around 55% of the national envelope and another 30% was compulsorily allocated to greening (payment granted to farmers as a percentage of the total value of entitlements held by each of them), starting from 2023 the share allocated to BISS is 48% (Figure 1).

Figure 1. The financial allocation of the national envelope for direct payments in 2020 and 2023-2027



The definition of the Italian CSP required the development of simulations and analyses to provide timely assessment, during the programming phase, of the effects of different potential scenarios.

Specific tools and models able to simulate and evaluate the impact of such reforms on individual farms need to be developed (Louhichi *et al.*, 2015). This is particularly fitting for internal

³ «We found that not only the choice of the BPS model but also the criteria for the regional allocation of available budgetary ceilings could have a significant effect on the level of redistribution and farmers could retain particularly high support levels resulting from past production» (European Court of Auditors, 2018, pag. 46, par. 68).

convergence, which is characterised by another element of complexity: payment entitlements should be determined all together, simultaneously, implying the use of data concerning all farms.

To this aim, an original *EU-wide Simulation tool* (ST) was developed, in accordance with reg. (EU) 2021/2115, within the project New IACS Vision in Action – NIVA (Horizon 2020, Grant agreement n. 842009). The ST can generate simulations relating to 3 procedures:

- Payment entitlements and internal convergence – MS grants the BISS based on entitlements.
- Uniform amount of support per hectare – MS grants the BISS based on eligible hectares.
- Redistributive Payment – related to the CRISS based on eligible hectares.

Therefore, the ST can support policy-makers during the programming phase and in the implementation one, providing an assessment of different scenarios, tailored to MS's decisions; furthermore, it is useful for Paying Agencies in the implementation of the CSP.

In the following sub-sections, a description of data and methods is provided.

2.1. Data: IACS entitlement register

The simulations are based on administrative micro-data stored in Italy in the Entitlement Register, which is one of the main elements of the Integrated Administrative and Control System (IACS). The use of IACS data is needed for the proper implementation of the convergence process (Solazzo, Pierangeli, 2016), as the value of a single payment entitlement affects the value of all the others. The dataset contains information on the eligible area corresponding to each payment entitlement, the monetary value of each payment entitlement (claim year 2020⁴) and the farm identification code, namely the holder of one or more payment entitlements.

The dataset exploited in the simulations contains 10.5 million entitlements (corresponding to 10.04 million hectares) held by about 800,000 farmers in Italy. In general, each entitlement corresponds to an eligible hectare. However, entitlements accompanied by less than one eligible hectare also exist; in this case, the value of the entitlement is proportionally reduced.

Moving from the initial value, the ST quantifies the yearly value of each payment entitlement during the period 2023-2026 based on the MS's decisions in the CSP (see section 2.2).

2.2. Methodology: an EU-wide simulation tool⁵

The ST collects in a single platform the procedures for quantification of CAP Direct Payments based on MS's decisions, according to reg. (EU) 2021/2115 on CSP.

The rules provided by the Regulation on internal convergence are less exhaustive than those provided for the previous convergence of BPS under reg. (EU) 1307/2013 for the period 2015-2019. Therefore, some assumptions (at the bottom of the national choices described in Section 1) were fixed in the development of algorithms and procedures. The assumptions included in the procedures developed in the ST are:

1. the application of a maximum level for the value of individual payment entitlements takes place *ex ante* with respect to the internal convergence process;

⁴ 2020 is the latest data available at the moment. It represents a sound proxy for the claim 2022 (indicated in the regulation) because in the period 2020-2022 Italy didn't apply the internal convergence.

⁵ New IACS Vision in Action (NIVA), funded by the Horizon program (Grant Agreement No: 842009).
<https://www.niva4cap.eu/project/>

2. the contribution to the convergence is guaranteed, first of all, by the financial resources arising from application of the maximum level to the value of payment entitlements (see (1)) and, subsequently, by the reduction of the value of payment entitlements above the average unit value;
3. the reduction of the value of the payment entitlements above the average unit value occurs in proportion to the distance of the entitlement from the average value, taking into consideration only the excess part.

The ST allows simulations on the financial effects of the transition from the BPS to the BISS, quantifying the value of each payment entitlement. To do this, the ST is structured into four phases of the convergence mechanism: i) definition of the value of payment entitlements before convergence; ii) application of the maximum value for each individual payment entitlement and quantification of the related freed-up financial resources; iii) the “minimum guaranteed level”; and iv) the “maximum loss”, with a maximum decrease of at least -30% of the initial unit value. Each phase is made up of several steps.

Under the first phase (“Definition of the value of payment entitlements before convergence”) the ST determines – according to article 24(1) of reg. (EU) 2021/2115 – the unit value of payment entitlements before convergence by adjusting the value of payment entitlements proportionally to the modification of the national envelope, considering also the payment for greening.

Starting from these new values, the internal convergence process foresees the second phase (“application of the maximum level for the value of each individual payment entitlement and quantification of the related freed up financial resources”), which concerns payment entitlements of higher value than the maximum level. Indeed, according to article 24(3) of the Regulation, MSs finance increases in the value of the payment entitlements under the average unit amount, using the financial resources resulting from application of the maximum level. The maximum level of individual payment entitlement fixed in the Italian CSP is equal to 2,000 euro/ha as from 2023. This value is also affected by the convergence process afterwards.

Under the third stage (“minimum guaranteed level”), the ST aims at ensuring that no payment entitlement shall have a unit value lower than 85% of the average unit amount at national level in 2026. The ST aims at closing part of the gap between the national average in 2026 and the initial unit value of each entitlement in 2023, estimating the financial needs experienced by those farmers who, having an initial value lower than the national average, have the unit value increased by at least 85% of the average unit amount at national level, at the latest by the claim year 2026.

Finally, under the fourth phase (“maximum loss”), the ST applies the maximum loss fixed at -30% of the initial value of each payment entitlement before convergence, for those farmers who finance the internal convergence. This stage is based on a *routine*. So, after the contribution to the third phase (the maximum level is excluded by the quantification of maximum loss), farmers experiencing a decrease higher than -30% of their initial unit value are checked. When this condition is positive, a “stop loss” is applied. The *routine* runs as long as the condition is positive, reallocating at every round a smaller share of contributions exceeding the “stop loss”.

3. The internal convergence effects defined in the Italian CAP plan 2023-2027

The process of internal convergence provides for significant changes in the distribution of financial resources among different farm sizes, payment levels and territorial contexts. It is worth recalling that the unit value of payment entitlements, on which the internal convergence (2023 pre-convergence) applies, is determined by the value of payment entitlements for the claim year 2022 plus the related payment for agricultural practices beneficial for the climate and environment (greening) proportionally adjusted to the national envelope for BISS 2023-2027.

The analysis focuses only on the convergence effect, identified by comparing the initial year (2023 pre-convergence) and the final year (claim year 2026) of the 2023-2027 CAP reform. This comparison can be considered an intra-programming period effect. The analysis also shows an envelope effect from the comparison between the last year of the previous CAP reform (claim year 2020) and the beginning of the 2023-2027 reform before the application of convergence (2023 pre-convergence). This effect derives from the reduction of the national ceiling for direct payments, by the lower percentage of direct payments allocated to income support (BISS) and by application of the maximum level of payment entitlement. In this case, we can consider it an inter-programming period effect.

3.1. Effects by payment entitlement unit value

With the proportional adjustment between 2020 and 2023, a shift of payment entitlements towards classes with lower unit value is observed (envelope effect; Table 2). Focusing on the convergence effect, two factors affect the process applied at national level: the convergence towards the national average unit amount (equal to 167 euro/ha) and the stop loss (-30%), which safeguards the entitlements with values starting from 500 euro/ha. The unit value of payment entitlements increases in the classes with a unit value lower than the national average, in particular in the group below 130 €/ha. The contribution to this increase is granted by the other classes having a unit value higher than the national average and the reduction is steeper as the unit value increases.

The overall effect of the reform on the total value of payment entitlements is shown in figure 2, confirming the shift of payment entitlements towards classes with lower unit value.

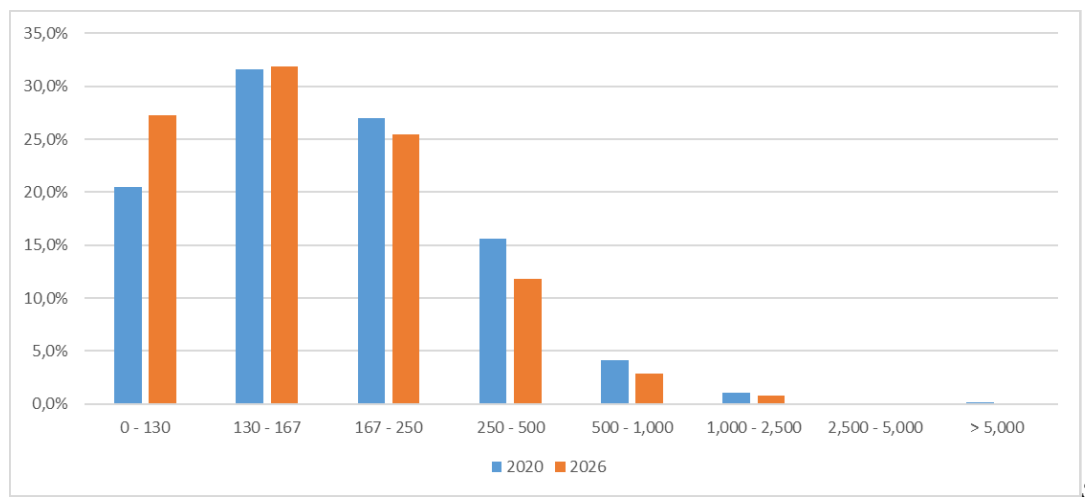
Table 2. The internal convergence effects by payment entitlement unit value

by payment entitlement unit value (rif. 2023 pre-convergence)	BPS+Green (2020) (euro/ha)	2023 pre-convergence* (euro/ha)	2026 (euro/ha)	Envelope effect 2020 vs 2023 (%)	Convergence effect 2023 vs 2026 (%)
0 - 130	201.4	106.7	142.1	-47	33
130 - 167	288.6	152.9	154.2	-47	1
167 - 250	354.8	188.0	177.1	-47	-6
250 - 500	598.5	317.1	240.1	-47	-24
500 - 1,000	1,233.0	653.2	456.8	-47	-30
1,000 - 2,500	2,403.4	1,262.0	882.3	-47	-30
2,500 - 5,000	6,116.1	2,000.0	1,400.0	-67	-30
> 5,000	16,330.1	2,000.0	1,400.0	-88	-30
National average	315.6	167.2	167.2	-47	0

Source: own elaboration using “EU-wide Simulation tool” developed by the “New IACS Vision in Action – NIVA” project (Horizon 2020, Grant agreement n. 842009) on AGEA data (2020)

* In the 2023 pre-convergence the maximum level for the value of individual payment entitlements is applied before the internal convergence process in the claim year 2023. See phase 2 section. 2.2.

Figure 2. The percentage of distribution of the total value of payment entitlements by class of unit value in 2020 and 2026



Source: own elaboration using “EU-wide Simulation tool” developed by the “New IACS Vision in Action – NIVA” project (Horizon 2020, Grant agreement n. 842009) on AGEA data (2020)

3.2. Farm size effects⁶

The analysis by farm size highlights that the internal convergence involves a net shift of resources in favour of farms belonging to size classes between 3 and 50 hectares with a decreasing benefit (Table 3). While the main contributors to the convergence are farms included in the classes up to 2 hectares and above 50 hectares.

The most significant contribution to the convergence is ensured by the class up to 1 hectare. This result on small farms – quite surprising in the EU context –, is because this class includes farms holding high-value entitlements deriving from the former special entitlements for livestock, entitlements deriving from sectors historically highly subsidized and, residually, from speculative activities. Therefore, the CAP reform 2023-2026 strongly affects these realities, (almost) completely neutralizing the entitlement historical reference period and reducing the variability between a minimum of 142 euros/ha and a maximum of 1,400 euros/ha by 2026.

Looking at the overall effect of the reform on the distribution of the total value of payment entitlements by farm size, a slight increase emerges in the share held by farms included in the classes between 3 and 50 hectares (Fig. 3).

⁶ The utilisation of administrative data from AGEA allows providing analysis of all farms (about 800 thousand). However, the dataset doesn’t allow analysis by farm economic size.

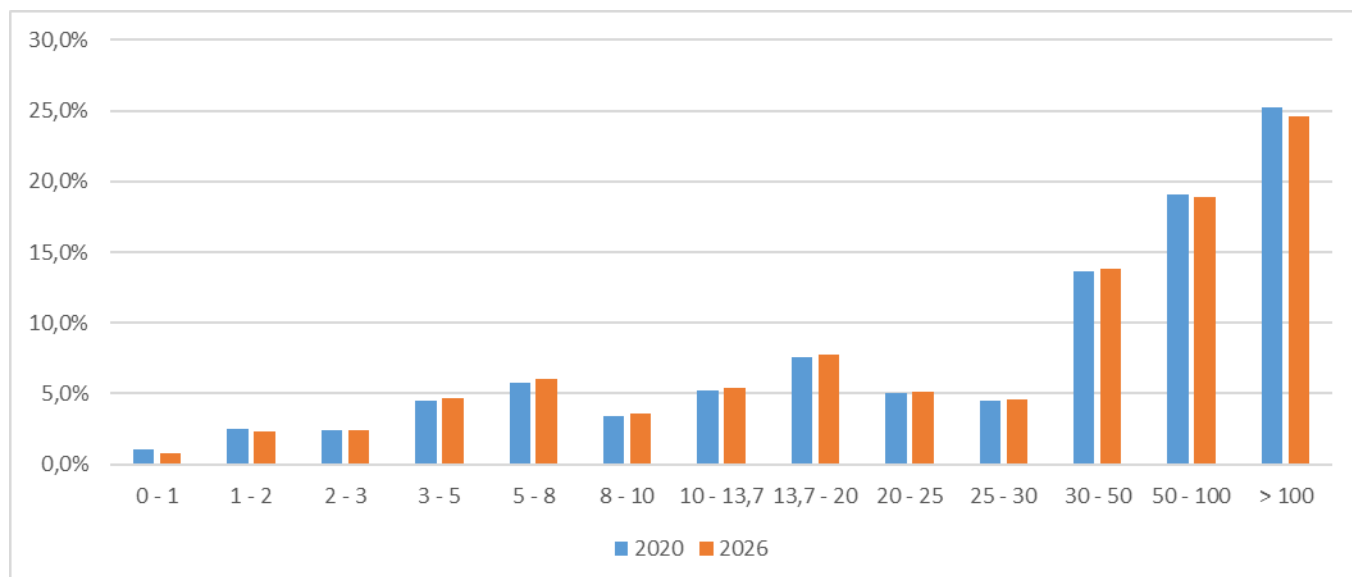
Table 3. The internal convergence effects by farm size

Farm size (ha)	BPS+Green (2020) (euro/ha)	2023 pre- convergence * (euro/ha)	2026 (euro/ha)	Envelope effect 2020 vs 2023 (%)	Convergence effect 2023 vs 2026 (%)
0 - 1	518.6	270.5	221.2	-48%	-18
1 - 2	365.0	192.6	179.5	-47%	-7
2 - 3	318.3	168.3	168.5	-47%	0
3 - 5	299.9	158.4	164.4	-47%	4
5 - 8	295.0	155.8	163.0	-47%	5
8 - 10	297.5	157.2	163.3	-47%	4
10 - 13.7**	299.6	158.4	163.7	-47%	3
13.7 - 20	302.8	160.0	164.1	-47%	2
20 - 25	306.3	162.2	164.8	-47%	2
25 - 30	306.5	162.3	164.7	-47%	1
30 - 50	309.0	163.6	165.2	-47%	1
50 - 100	320.4	169.6	168.1	-47%	-1
> 100	328.3	173.9	170.0	-47%	-2
National average	315.6	167.2	167.2	-47%	0

Source: own elaboration using “EU-wide Simulation tool” developed by the “New IACS Vision in Action – NIVA” project (Horizon 2020, Grant agreement n. 842009) on AGEA data (2020)

* In the 2023 pre-convergence the maximum level for the value of individual payment entitlements is applied before the internal convergence process in the claim year 2023. See phase 2 section 2.2.

** 13.70 ha is the average farm size at national level observed in IACS - entitlement Register

Figure 3. The percentage distribution of the total value of payment entitlements by class of farm size (ha) in 2020 and 2026

Source: own elaboration using “EU-wide Simulation tool” developed by the “New IACS Vision in Action – NIVA” project (Horizon 2020, Grant agreement n. 842009) on AGEA data (2020)

3.3. Territorial effects: rural areas

The territorial identification of rural areas was used, for the first time, in the Rural Development programming period 2007-2013. The methodology is still applied in the period 2023-2027. The Italian territory is classified into: Urban poles (A); Rural areas with intensive and specialized agriculture (B); Intermediate rural areas (C); and Less developed rural areas (D).

Table 4 shows the modification of the unit values of payment entitlements among territorial classifications defined above: the internal convergence negatively affects the areas characterized by intensive and specialized agriculture (B), historically benefitting from a high level of support, with a reduction of about -7.7% (2023 pre-convergence vs 2026), in favour of a more marginal territorial context localized in inner and mountain areas identified by Intermediate (C) and Less developed rural areas (D), which experiences an increase in the unit value of +2.1% and +6.9% respectively.

The financial allocation is modified accordingly, as shown in Figure 4.

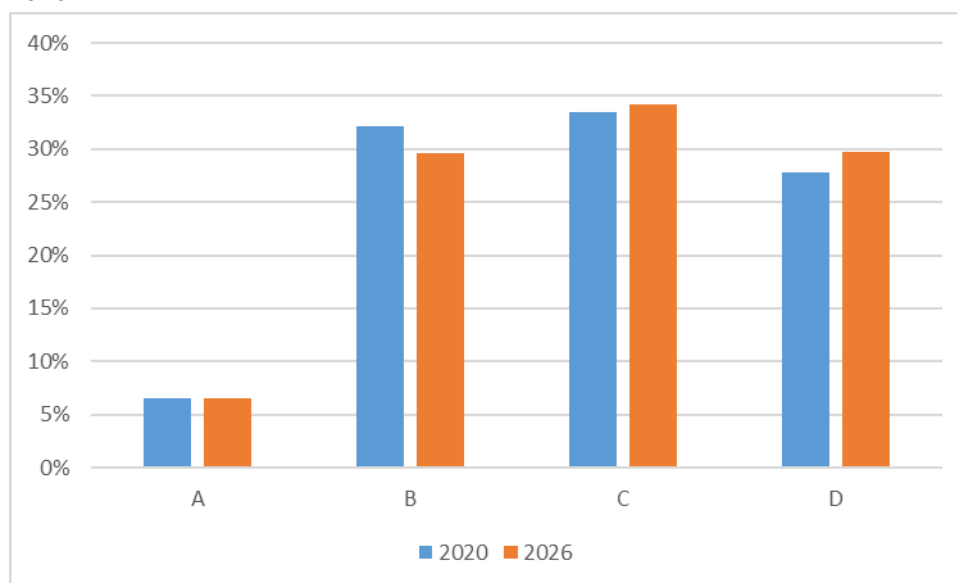
Table 4. The internal convergence effects by rural areas, euro/ha

	BPS+Green (2020) (euro/ha)	2023 pre-convergence * (euro/ha)	2026 (euro/ha)	Envelope effect (%)	Convergence effect (%)
A	317.7	167.9	167.4	-47%	0%
B	376.0	198.6	183.3	-47%	-8%
C	302.3	160.1	163.5	-47%	2%
D	278.2	147.3	157.5	-47%	7%
National average	315.6	167.2	167.2	-47%	0%

Source: own elaboration using “EU-wide Simulation tool” developed by the “New IACS Vision in Action – NIVA” project (Horizon 2020, Grant agreement n. 842009) on AGEA data (2020)

* In the 2023 pre-convergence the maximum level for the value of individual payment entitlements is applied before the internal convergence process in the claim year 2023. See phase 2 section 2.2.

Figure 4. The percentage of distribution of the total value of payment entitlements by rural areas in 2020 and 2026



Source: own elaboration using “EU-wide Simulation tool” developed by the “New IACS Vision in Action – NIVA” project (Horizon 2020, Grant agreement n. 842009) on AGEA data (2020)

3.4. Combined effects by territorial context and farm size

The effects described in the previous two subsections are, generally, confirmed also in this analysis aiming to combine the effect by territorial and farm size, with some peculiarities (Table 5). Indeed, the reduction of the financial contribution for farms up to 1 hectare and, at a lower level, up to 2 hectares is verified in all rural contexts. This means that, on average, these farms contribute to the convergence regardless of their territorial location. However, the situation is different for farms larger than 50 hectares. Their contribution to the convergence is observed only in areas with intensive and specialized agriculture (B) and in urban poles (A), while a positive effect of the convergence is estimated in the other rural areas (C and D).

Table 5. The internal convergence effects by rural areas and farm size, euro/ha (2023, 2026)

Farm size (ha)	A			B			C			D		
	2023 pre-conv*	2026	var.%	2023 pre-conv*	2026	var.%	2023 pre-conv*	2026	var.%	2023 pre-conv*	2026	var.%
0 - 1	261.9	215.9	-17.6	272.5	223.3	-18.0	256.3	212.6	-17.0	301.4	238.8	-20.8
1 - 2	185.1	175.5	-5.2	199.8	183.7	-8.0	186.1	175.6	-5.6	199.9	183.9	-8.0
2 - 3	161.6	165.0	2.1	184.0	176.4	-4.1	162.0	165.1	1.9	165.5	167.4	1.2
3 - 5	154.6	162.7	5.2	174.6	173.0	-0.9	153.3	161.6	5.4	152.8	161.4	5.6
5 - 8	151.9	161.3	6.2	172.5	171.9	-0.3	151.2	160.6	6.2	148.6	158.9	7.0
8 - 13,7	156.7	163.4	4.3	177.2	173.9	-1.8	152.2	160.7	5.5	148.5	158.2	6.5
13,7 - 30	160.8	164.2	2.1	185.9	177.2	-4.7	155.2	161.5	4.0	147.1	157.0	6.7
30 - 50	165.7	166.1	0.3	196.1	181.4	-7.5	158.7	162.7	2.5	143.4	155.1	8.2
50 - 100	171.8	168.6	-1.9	212.3	189.7	-10.7	162.5	164.0	0.9	142.9	155.3	8.7
> 100	173.0	169.6	-2.0	215.6	190.9	-11.4	163.8	164.2	0.2	144.4	155.9	8.0
National average	167.9	167.4	-0.3	198.6	183.3	-7.7	160.1	163.5	2.1	147.3	157.5	6.9

Source: own elaboration using “EU-wide Simulation tool” developed by the “New IACS Vision in Action – NIVA” project (Horizon 2020, Grant agreement n. 842009) on AGEA data (2020)

* In the 2023 pre-convergence the maximum level for the value of individual payment entitlements is applied before the effect of internal convergence in the claim year 2023. See phase 2 section 2.2.

4. Concluding remarks

The debate that accompanied the reform of the direct payments system, starting with the 2003 reform, has raised the question of the justification and fairness of direct payments. With the CAP 2014-2020, the Commission launched a process of internal convergence that aimed to make the unitary payment more uniform, giving MSs the possibility of reaching a flat-rate payment. The CAP 2023-2027 confirmed the need to proceed with a redistribution of support among farms, especially in favour of small and medium-sized ones, advancing the process of internal convergence and making the redistributive payment mandatory. Also in this case, Italy has confirmed its willingness to keep a part, albeit residual, of the payments based on historical references, to avoid destabilizing changes in the value of payment entitlements for farms. However, the choice to apply the convergence

considering Italy as a single region determines, as in the past reform, redistribution of support between territories, as the higher value unit payments are geographically concentrated by virtue of the historical production systems (Pupo D'Andrea, 2014). This evidence was also highlighted by the European Court of Auditors (2018), according to which «Italy [...] decided to define only one region with a 2019 target value per hectare of around 217 euro. The redistribution of support from 2015 to 2019 between farmers and regions will represent 10.7% of the total annual BPS ceiling» (par. 68 Box 6).

The reduced financial envelope for direct payments of the period 2023-2027 compared to 2014-2020 and the strong reduction in the percentage of direct payments devoted to BISS result in a lower value of all payment entitlements. Focusing on the 2023-2027 distribution, the internal convergence leads to a rebalancing in the allocation of financial resources to the advantage of small- and medium-sized farms (between 3 and 50 hectares) and of marginal rural areas (C and D) and a shift of entitlements towards classes close to the average unit amount. However, depending on farm characteristics, type of production and agri-environmental practices, farmers could balance the losses in income support (BISS) using other components of direct payments (i.e. Coupled support, eco-schemes, complementary redistributive support, young farmer support).

The achievement of a flat-rate payment in Italy is postponed to an (eventually) forthcoming reform when the convergence process probably will come to an end. However, even if we were to arrive at an EU flat-rate payment per hectare, this would not shield it from criticisms regarding its fairness, equity and targeting, putting the CAP under pressure for a reduction of financial resources allocated to the system of direct payments. To safeguard the CAP budget in the next future, direct payments should demonstrate the EU value added and their contribution to the achievement of the EU objectives fixed in the main common strategies: Green Deal, Farm to Fork, Biodiversity 2030, Forest Strategy for 2030.

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