



**COUNCIL OF
THE EUROPEAN UNION**

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NOTE

from: Mr Luca Zaia, Italian Minister for Agricultural, Food and Forestry Policy

to: Mr Eskil Erlandsson, President of the Council of the European Union (Agriculture and Fisheries)

Subject: Request to the Council to authorize an aid scheme in favour of land purchasing from January 1, 2010 until December 31, 2013 according to the article 88(2) of the Treaty establishing the European Community

Delegations will find attached a letter to the President of the Council of the European Union (Agriculture and Fisheries) from the Italian Minister for Agricultural, Food and Forestry Policy.

**Your Excellency
Eskil Erlandsson
President of the Council of the European
Union (Agriculture and fishing)**

Object: Request to the Council to authorize an aid scheme in favour of land purchasing from January 1, 2010 until December 31, 2013 according to the article 88(2) of the Treaty establishing the European Community

According to the article 88(2) of the Treaty establishing the European Community, the Italian Government is asking for an aid scheme in favour of land purchasing from January 1, 2010 until December 31, 2013 to be approved.

This request is due to particular circumstances to be considered taking into account important agricultural characteristics and the current situation of economic crisis.

1) Structure of Italian farms

In Italy, farms structure is characterized by a strong fragmentation (the exploited area of 73% of the farms correspond to less than 5 hectares; in terms of SAU, the medium size correspond to 7,6 hectares for each farm, against 13,3 hectares of the 27 EU members).

Between 2003 and 2007, a strong contraction of the farms has occurred (-14,5% in total) and it concerned above all very small farms. A limited increasing of the average size (1 more SAU hectare for each farm), equal to the one occurred within EU, leaves unchanged the gap among Italian farms. Moreover, the crisis has affected most farms managed by young people: between 2003 and 2007, the number of less than 35 year-old farm managers suffer a decrease of 36%.

Thus, the chipping of farms is not overcome by corporate aggregation of contractual forms, as it happens in other countries: cooperation, as well as forms of chain integration result to be extremely rare mostly in Southern Italy.

2) Constant decrease of incomes

A constant decrease of agriculture incomes has occurred even before the period of crisis; it was the result of the huge difference in growth between product prices and production costs. In fact, the costs of the current production means showed an annual average growth of 3,7%, equal to 3 times the growth showed by agricultural prices.

A higher concern for agricultural field comes from the side of profitability. During the first 9 months of 2009, trend contraction of agriculture products prices amounted to 13,5%, strongly influenced by cereals prices trend (-38,7%), by wine (-22,9%) and by a stock prices decrease of almost all agricultural division in the large. During the same period, factors costs showed a contraction on a trend level of 1,2% (thus lower than agricultural prices decrease of 13,5%).

Agricultural prices decrease reached consumer prices at a lower level: there is a strong gap between the decrease of agricultural production prices (-13,5%) and consumer prices (-0,6%). This caused a further damage to the family budget of farm managers because their purchasing power decreased.

3) Increasing of unemployment

Starting from the second quarter of 2009, a decrease on the side of employment within agricultural field occurred again.

4) Financial difficulties

In relation to farms financial solidity, crisis effects determined a gradual increase of the financial burdens volume, following a bust of the external funding average cost. Debts are more onerous in function of the reduced level of liquid assets that characterize firms of the sector under a structural aspect, firms that are damaged by a very low cash availability and credits volume compared to short-term liabilities. This might have driven banks to increase funding rates.

At the end of 2008, the burden of the interests on profit margins of companies of the sector reached very high levels. More than 50% of the gross operating margin of companies have been absorbed, on average, by financial burdens; the same value reaches the 42% in cooperatives showing strong difficulties to reach a profitability level suitable to continue the corporate activity: in 2008, the 43% of companies of the sector and the 31% of cooperatives, has been characterized by a negative result.

The data on the number of supplies in favour of farm managers that availed short-term, medium-term and long-term credits is considerably reduced this year compared to 2008 (-71% for short-term and medium-term credits and -94% for long-term credits).

5) Generational replacement

Agricultural field is, generally, more attractive for old people than for young people. The relationship between the number of farm manager under 35 and over 64 years of age is one of the lowest in EU.

Always few farms in Italy are managed by young farmers and it is believed that an intervention for land purchasing plays and might play a key role in stopping trend in action, above all in the present crisis period.

In 2007, young farm managers result to be about 114 thousand units, equal to 7% of the total; compared to 2000 there is a decrease of 48,0%. Also the changeover from relatives to relatives shows lower potentialities; in fact old farmers over 50 years old with at least a relative between 18 and 39 years of age, represent 16% of the total farmers over 50 years old of age – this shows a loss of around 5% compared to 2000.

6) Market price of agricultural land

The market price of the land in 2007 has kept growing significantly after two years of major stability. The average land value at the national level has crossed the threshold of 20.000 euros per hectare. However, it has to be considered the fact that, against this national average rate, there is a strong price differentiation at the local level.

In fact, the lands located in the Northern districts display an average prices more than doubled compared to those of the Southern areas; moreover, the lands in the plain areas are almost three times more valued than those in the mountains regions. Despite these strong differences, the average price of land in Italy is leading a hypothetical European ranking, where only countries such as Holland, Belgium and Denmark show similar values. Therefore, the purchase of land for Italian farmers may represents more than in other countries a barrier for the entrance in the sector. In addition, the difficulties in accessing to credit accentuated by the current economic crisis are particularly laying on the line the entry of young people in this area.

Description of the public aid system

The financial aid to be supposedly granted is equal to 100 million euro approximately and it should give the opportunity to sell 34.000 hectares of rural area starting from 2010 up to 2013. The system in question is supposed to have 1.200 beneficiaries while the average company amount will be equal to € 80 thousand euro approximately, in order to set up well-organized companies or improve the small existing ones. The single beneficiary will purchase about 28 hectares of land.

The financial aid will be granted as soft lending or “leasing”, to be provided with a buy-back provision. Furthermore, the related maximum amount should not exceed the market value of the good to be granted in leasing.

The level of aid to be provided to the beneficiary will be defined on the basis of the discounted value of the differential between the share of ordinary-rate and cut-rate interests. For this purpose, the reference rate will be the interest rate used as a reference by the Commission. Both in the case of financial lease or soft loan, the level of aid calculated (at the time of the grant aid and any subsequent control) will always be less than 40% in normal areas and 50% in the less favored areas. For young farmers these maximum rates will be up to 45% in normal areas and 55% in the less favored areas, within five years from the date of settlement.

The aid is only granted to those farms that may demonstrate their profitability by assessing the prospects and whose farmers possess the adequate professional knowledge and skills. In order to be eligible to aid, farms must meet the minimum Communitarian requirements on environment and animal health and welfare. In the case of young farmers, these conditions can be met within a period not exceeding the three years from the date of the settlement.

The contributions provided by the abovementioned measure may be added to different public aids in compliance with the maximum limits established by the Communitarian guidelines on State aid in agriculture.

In the illustrated scenario of exceptional crisis, farms face an extreme difficulty in the purchasing of agricultural lands.

The state aid should allow the unemployed to acquire the land and consequently find a new occupation; at the same time, it should allow the farms to develop stronger and more efficient structures. The state aid framework for the land reorganization, in fact, was designed to promote a generational turnover in agriculture, the land consolidation and the establishment of more proficient farms.

The current crisis makes the aid intervention an alternative tool to the credit access, especially for young farmers with smaller risk assessment grids.

So, for all the mentioned reasons, I would like to bring to the attention of the Ministers of the Member States, the exceptional circumstances that justify the need to authorize the aid scheme for land reorganization from 1 January 2010 to 31 December 2013 and to support the decision for the approval of the request.

The Republic of Italy duly declares that it will annually inform the Council and the Commission of the results of the implementation of the State aid resulting from the Council Decision on the granting of a State aid by the authorities of the Republic of Italy for the purchase of agricultural land between 1 January 2010 and 31 December 2013 as well as present a list of beneficiaries of the measure.

Luca Zaia