

Integration and competitiveness in the governance of rural development

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ABSTRACT

During the last decade, the European agri-food system has been facing major challenges due to the dynamics of the globalization of markets, the changed international context, increasing competitiveness. From the MacSharry reform in 1992, Fischler in 2003 with the *Mid-Term review*, Fischer Boel with the *Health check* in 2009, to 2014-2020 structural policies, has been modified the method of sector support (partially decoupled support) and, above all, initiating a rural development policy to improve the competitiveness of rural areas, protect the environment and rural heritage, promote the multifunctional role of agriculture. The competitiveness of the sector is an inseparable component of other important objectives, such as the multifunctionality of agricultural activity, the "non-productivistic" functions of agriculture. In this sense, the functions are enhanced environmental, landscape, social and recreational activities as characterization of the "European agricultural model" based on the small size of companies, the relevant presence of multiple employment and strong integration between agricultural activity and territory.

Keywords: integration, competitiveness, the new CAP, supply chain, agri-food chain, rural development

1. INTRODUCTION AND METHODOLOGY

The contents of the regulations for the Common Agricultural Policy after 2013 substantially confirm the system of rural development policy so far established. Frame this policy within the framework of the European structural policies, rely on the Member States the tasks of defining strategic choices in a context of multi-level governance, oriented, co-financed and controlled at European level.

There are numerous novelties introduced. From the methodological point of view and of synthesis this paper aims to illustrate a critical analysis of the most important and innovative details of the new CAP, highlight the differences compared to the current rural development policy, to frame this policy in the overall context of the CAP reform and the long-term prospects of the European Union.

2. EVOLUTION OF RURAL DEVELOPMENT POLICIES

Origins and evolution of rural development policy are essential to understand and interpret the current policy dynamics, distinctive characters, limits and potential. We highlight the interdependencies of this sector with other public policies, such as the agro-industrial complex, territorial development and cohesion and, finally, the environmental one, of territorial maintenance, forestry, handicraft, tourism and social.

Rural development policy fits on agricultural, to give a different development to the CAP and to move part of public support from market policy to the structural one, with the aim of making this support less distorting and fairer. In addition, after the 1980s, new ideas and instances have emerged on the borders of agricultural policy, from that environmental, of the consumer protection, to the quality of organic products, local products and food safety. These

adjustments and innovations have emerged in a moving context and are combined with macro-level dynamics that pushed towards the liberalisation of the markets in the direction of globalization, simultaneously to the anchor to the territory, the recovery of traditions and specificities, decentralization of governments towards local management.

Inevitably, the rural development policy is influenced by these composite origins and, with the approval of Agenda 2000, maintains the different souls: agro-productivist and modernizing, territorial-environmentalist-conservative, post-productivist of promotion of quality and typicality. Aspects that, if properly governed, are composition and can lead to "virtuous" actions for rural development. The challenge precisely lies in governance mode, or in the choice of strategies and tools to drive change and hold together the complexity (of interests and ideas, of public and private actors), without falling into non-virtuous choices in favour of continuity and consensualism.

From the point of view of the objectives and principles of policy, breaking with the past and the news are identified in communications, decisions and EU regulations adopted since 1999 for the implementation of Agenda 2000. From the point of view of the tools and strategies, i.e. actual procedures by which objectives and principles translate into action, they can only present the characteristics of flexibility, adaptability, of ongoing adjustment according to local specificities, but also of the global input. In a general policy design defined by the logic of government, EU regulations and national plan, is to develop a governance, based on a non-hierarchical logic, of horizontal coordination, encourage the exchange of resources among the different parties involved, make stable networks of relationships between the various actors, set interdependencies with other sectors of policy.

The Cork Conference (1996) on rural development in Europe, Agenda 2000 and the concept of multifunctionality define, therefore, the origins temporal, strategic and conceptual of rural development policy. Three main ideas emerged are: a) the multipurpose role of rural areas, which are important for the productive function but also the capital of natural resources, for the development of crafts and SMEs; b) sustainable development as a key principle of multifunctional and integrated role of these rural areas, to outline a different non-sectoral model of agriculture and structural policies; c) strengthening financial resources to use on a territorial basis and integrated approach that could derive only from a reform of the CAP, that is the reduction of price support, from decoupling and thus from innovation of the tools used.

These ideas and principles incorporated and better specified in Agenda 2000, in which the continuation of the CAP reform and the streamlining of the structural funds, lead to the establishment of the second pillar of rural development and the elaboration of the concept of multifunctionality. The aim is to characterize the "European agricultural model" that, alongside a reformed market policy, gives to the second own pillar the task of enhancing the diversity of territorial socio-economic environments, promoting local orientations differ, agri-environment type, agritourism, and agro-craftsmanship. Also the quality and typicality of agrifood products becomes the subject of rural development policies if the territory provides conditions for their development under the economic and trade aspect. The eco-friendly or environmental sustainability policy is another constituent element and can take the forms of reforestation, extensive methods, good farming practices and animal health.

It is innovative ideas that have opportunities to be translated into political thanks to the consolidation of European environmental policy, the strengthening of cohesion policy and the structural funds, the continuation of the path reform of the CAP begun in 1992, continued in 1999, deepened with the *Mid-term review* of 2003 and confirmed by the *Health check* in 2008. The innovative aspect is related to the tools with which these policies are conceived and designed. The strategic principle of integration, that of subsidiarity, those of transversality for environment and cohesion redefine the boundaries of sectoral policies, make it far less rigid divisions of responsibilities and powers between levels of government

and allow new actors to have access to the political process and decision-making. In concrete terms, is it placed at the center the territorial dimension and around this position themselves actors, strategies and actions more appropriate and effective to value it.

2.1. The actors and composition of different interests

Farmers are not the only relevant actors of rural development policies, they are in the same way the environmentalists that, especially at the local level, have the power to restrict the exploitation of natural resources and block activity that causes negative externalities on the landscape. They are consumers who have found a way to make their voices heard by shifting demand and purchasing choice on traditional quality products, certificates, secure. They are tourists and tourism operators because they choose places, residences and activities related to the resources of the territory. These are SMEs and other economic actors of rural areas that in the promotion of the territory and of their small-scale productions, find guarantee of work and income. These are the local communities to protest and block infrastructure, works and settlements that are harmful to their eyes. These are still local authorities, public officials and are obviously the medium or small farmers that operate in these areas and over time have to share financial resources, services and financial aid, even to redefine their identity and their roles in relation to a different way of conceiving and promoting development.

It is not surprising, then, that the redirection of resources to rural development policy meetings much resistance from some Member States, as well as to policy makers at national and local level, of agricultural interest groups. Continue with the setting and the practices of the past is obviously easier, as much literature on path dependence (Pierson, 2004) and on policy legacy (Rose, Davies, 1994) have shown, and, therefore, it is more difficult to manage aid on innovative measures, services, training and incentives to young people, rather than on enlargement of a barn; the complexity of controls often translates into bureaucratic excesses and additional costs (Bureau, Mahé 2008). To have priority in fact need strong policy assumptions and need to build coalitions of actors that share them and support.

It is no coincidence that, in the distribution of resources among the axes and in the count of applications already made, even for the period 2007-2013 prevail considerably easy policies, transfers and less innovative projects (Dax 2005; Sotte, Camaioni 2008); so as before were most popular environmental measures and reforestation, whose administrative costs are limited while large are the financial benefits to farmers (De Filippis, Storti 2001).

Objectives, strategies and axes are the result of choices made by other levels of government according to the logic of government and establish priorities and lines of action for regional and local governments (De Filippis, Sotte, 2006). Their operational translation, however, can only follow logic of governance: the success and failure of these policies is measured on horizontal coordination capacity, negotiated choices, shared priorities and tools of implementation and effective control and appropriate to the situation, differentiated according to the different objectives and productivist post-productivist. Only a set of networks and formal and informal connections can hold together a multiplicity of actors who do not belong to the agricultural world, but are related to what should become a new domain, that of rural development.

2.2. Governance. From “axes” to “priorities”

It is obvious that we cannot have the evolution of a rural development policy entirely homogenous in Europe. The definition of policy established in the last decade from Cork to the *Mid-term review*, in different contexts and with different institutional frameworks, the combination of new and old objectives, composition of strategies and instruments, the number, the type of actors and networks are clearly different in different European countries and perhaps also in the different regions. This poses a problem of governance at EU level on how legitimate the common commitment of resources for a territorially-focused policy not

only in solutions, but also in institutional and policy dynamics, where the mix between public and private sectors might move in favour of the second in which the weight of the agricultural sector could be reduced over time in favour of tourism or crafts. And, of course, also a problem of governance at the national level where the different solutions of the different systems of governance for rural development must have specific connotations, for territorial areas for priority objectives, number and type of actors, while some common traits should be and remain connected with Community provisions. Horizontal coordination, sectoral integration and multifunctionality are general principles which are already taking form and substance based on ideas and traditional roles that the primary sector has in the economy, also according to levels of government involved and other relevant economic sectors (crafts and tourism, the environment, forestry) (Dragulanescu, 2010).

Extending the boundaries of the rural development policy as well as agricultural, of issues object of attention, the number of actors who participate is a process in place; governance structures that will grow in individual cases will be crucial to its success. The old system of rural development policy was in fact a rigid construction and over-simplifying. It is excessively rigid because often the measures within an Axis at the same time could respond to objectives of another. Oversimplified, because within the same axis coexisted policies different from each other, so as to suggest in some studies to reclassify the measures as appropriate in "political" in order to grasp the link between resources committed and objectives (Sotte, 2009).

The first novelty is the suppression of the Axes and the introduction of six Priorities. The old titles of the Axis, in effect, are preserved in the new rural development policy, but transformed into objectives defined as follows: "competitiveness", "sustainable management of natural resources" and "balanced development of rural areas", within the framework of the Mission: "contribute to the achievement of Europe 2020 strategy for smart, sustainable and inclusive growth, in a complementary way with other EU policies". To the six priority (tab. 1) are associated some keywords that clarify the meaning and, which constitute as many objectives of synthesis. Every measure should be associated with them, integrating where possible and appropriate, more priorities.

Table 1 - The six new priorities of rural development policy 2014-2020

Priority	Keywords
1 Knowledge transfer in agriculture	Human capital, networks, innovation, research
2 Agriculture's competitiveness and viability of companies	Restructuring, market diversification, generational change
3 a. Organization of food chains b. Risk Management	Integration, promotion, quality, short chains Risk Management
4 Preserve and improve ecosystems dependent on agriculture	Biodiversity, landscape, water, soil
5 Transition to a <i>low carbon economy</i>	Use of water, energy, waste, emissions-sequestration of CO ₂
6 Development of job potential and Rural Development	Diversification, <i>job creation</i> , social inclusion, poverty, local development

The first priority, "transfer of knowledge in agriculture" is now properly clarified in relation to the recognition of the growing importance of human capital and organizational aspects in the pursuit of competitiveness. The second priority aims to the objectives of traditional European structural policy. It focuses in particular on supporting the structural and infrastructural improvements, instruments of market access, and the various forms of diversification and of generational change. The third priority covers two objectives: a) The

first, the "Organization of food chains" and forms the explicit recognition of the need for a systemic approach that integrates agriculture in food chains to which it belongs; b) The second, "risk management" was introduced as a response to sensitivity of agricultural incomes compared to the increased volatility in international markets for agricultural commodities. The assignment of this policy to the second pillar and not the first, as it would have been more appropriate, it will create many problems, both because it will contribute to erode the already scarce resources overall, both because it will need to find not easy chords and aggregate management mode. The fourth and fifth Priorities responding explicitly to the goal of sustainability (maintenance of the relationship among agriculture/forestry and public goods) and the need to cope with those from the CAP Health check of 2009 were named "new challenges" means biodiversity, water management, renewable energy and climate change. The Sixth Priority groups overall the objectives more explicitly territorial, of rural development policy which, in current programming falls within the action of third and fourth axis. In essence, the European Commission collects the two axes in a single strategy aiming at closer integration of the of rural development policy thus defined by other European territorial policies financed by other European funds.

2.3. Integration strategy and financial support

A substantial innovation that should concern all EU structural policy for the period 2014-2020, including therefore the rural development, links the specific regulation concerning the second pillar of the CAP with those relating the other key EU policy: structural policy, regional and cohesion. It is in fact the regulations, and in particular to that of the "common provisions" to all EU Funds (European Commission, 2011b), which refers to the proposal for a Regulation on rural development policy. There will be no more, in fact, the Community Strategic Guidelines (CSG) and the National Strategic Plan (NSP) specific to guide the rural development policy. At the center of all future territorial action of the EU, there will be two general strategic documents: at the level of the whole Union, the *Common Strategic Framework* and, at the level of each Member State, a *Partnership Contract*. The first translates the strategic objectives of the EU in priorities and *focus areas* for action of all European funds (including EAFRD) and is adopted by the Council and Parliament after the approval of cohesion policy regulations. The second aligns the action EU Member State to strategic objectives facilitate territorial coordination, integrates the strategies to the needs in the territory, takes care of the efficiency and effectiveness of the interventions. It is submitted by the Member State to the Commission within three months and is approved by this within six months after the approval of all its underlying programs (including Rural Development Programs - RDP). With these tools the EU and Member States shall ensure coordination among all European funds EAFRD, ERDF, ESF, EIB, the European Fisheries Fund, the Cohesion Fund and other financial instruments. To verify the good execution of the Contract of partnership on the part of each Member State is provided the presentation to the European Commission of two *Progress Report* after 3 and 5 years (in 2017 and 2019). The configuration of European territorial policy have thus two instruments defined and administered at the regional level, ROP and RDP, joined in the action by a strategy and a single coordination at European and national level. This is to ensure overall investment strategy in accordance with the objectives of the EU 2020 Strategy.

To implement the rural development policy, along with other regional development policies financed by Brussels, each Member State must establish a partnership. The partnership brings together a series of representative institutions (European Commission, Member State, authorities or institutions designated by the Member State, regional or local authorities) and social (economic or social partners, civil society organizations, NGOs). The Member States are responsible for the involvement of partners. The partnership is involved in the definition of partnership contracts, in the processing and analysis of *Progress reports*, in

monitoring and evaluation activities. In the new proposals for regulations of the second pillar of the CAP, the ways of financing of rural development policy are confirmed with some differences compared to today. In approving each rural development plan (RDP) will be defined the contribution of the EAFRD and the corresponding national co-financing. The EU ceilings are differentiated by type of regions (evaluated at Nuts level): 85% for the so-called "less developed regions" and 50% in other regions, with a minimum of 20% anyway.

Two directions should be noted. The first concerns the classification of European regions. The "less developed regions" (similar to the current "convergence regions") are those with a GDP per capita below 75% of average per capita GDP of the European Union. "Regions in transition" are those with GDP per capita between 75% and 90% of the EU average. The second concerns the level of co-financing.

2.4. Ex-ante conditionalities and rural development programs

One of the limitations to the European structural policies generally, which is not without rural development policy, is that the difficulty often encountered in ensuring the correspondence between objectives and results. This is a problem, reported by more than one research and also by some of the European Court of Auditors reports (eg, European Court of Auditors, 2011). To overcome these problems, the general regulations for the management of European funds establish the modalities to ensure the proper achievement of results. These consist primarily in the provision of 5% of the funds available for each RDP (as every European Fund) in order to constitute a "performance reserve" (reserve of effectiveness and efficiency) that will be available (for the same or other RDP or other RDP of Member State) only once exceeded the *Critical Milestones* programmes at the priorities level, based on information and evaluations provided in the implementation status reports submitted by the Member States in 2017 and 2019. A second option proposed to ensure the good achievement of results concerns the so-called "Ex-ante conditionalities".

Each Member State must demonstrate in the Partnership Contract that it has sufficient ex ante conditions in terms of human resources, technical assistance and innovative initiatives to animate the actions, tools and capacity for monitoring and evaluation, and to possess organizational tools and solutions appropriate for the definition of local development projects. These *ex ante* conditions are defined for each European Fund. If the ex ante conditionality were not fulfilled at the date of transmission of the Partnership Contract, Member States shall include in it a summary of the actions to be taken at national and regional levels and the time schedule of implementation in order to ensure the fulfillment of these conditions within two years maximum of the adoption of the Partnership Contract. The failure to complete actions to fulfill an *ex-ante* conditionalities by the deadline set in the program constitutes a reason for the suspension of payments by the Commission.

The ex-ante conditions relating to the second pillar financed by the EAFRD are shown meticulously in Annex 4 of the Regulation and are schematically summarized in table 2.

Table 2. The Ex ante conditionalities for rural development

Priority	Ex-ante conditionalities
1. Knowledge	Existence of a strategy for innovation. Sufficient capacity for technical assistance
2.-3. Competitiveness, food chains and risk management	Measures to encourage and facilitate the start-ups
4. Eco-systems	Definition of good agronomic and environmental conditions. Definition of basic criteria for fertilizer use and environmental protection. Existence of national systems of risk assessment and disaster management

Priority	Ex-ante conditionalities
5. Efficient use of resources	Policies to reduce greenhouse gas emissions. Energy-saving policies. Water pricing policies. Waste management plans. Renewable energy promotion policies
6. Rural areas development	Access to the FESR. Measures to encourage and facilitate start-up economic activity. Policies for internet access networks of new generation
Horizontal conditionalities	Administrative efficiency in the Member States. Allocation of human resources. Selection criteria for local development projects

They are collected for individual priorities of rural development policy and end with some ex ante conditions "horizontal" valid for all Priorities.

The rural development programs (RDP) covering the period January 1, 2014 - December 31, 2020. Each Member State can opt for the realization of one or more RDP entrusting the formulation and management to the regions. Member States which present regional programmes may also submit for approval a National Framework "national legislation" containing common elements to these programs, without a separate budgetary allocation and a list of the specific measures to be included in the RDP for environmental objectives, economic or social identified at national level. A significant innovation for rural development policy 2014-2020 consists in the fact that the Member States (or regions) may insert in the rural development programmes of the thematic sub-programmes, which contribute to the achievement of EU Priorities for rural development and respond to the specific needs identified, particularly with regard to young farmers, small farms, mountain areas and short supply chains.

As for the contents, similarly to the provisions in the current rural development programming, each RDP should treat a long list of issues, including: an analysis of the situation in terms of strengths and weaknesses, opportunities and threats (SWOT) and the identification of needs to be met in the geographical area covered by the programme; the description of the strategy, including targets for each EU priorities for rural development; the evaluation of preconditions (ex-ante conditionality) and, where appropriate, the solutions adopted to make sure that they are guaranteed; the description of the selected measures; the description of the mechanisms of coordination between the local development strategies and cooperation; the description of the approach adopted in innovation; the analysis of the needs in terms of monitoring and evaluation and the evaluation plan; the financing plan and the arrangements for implementing the program.

3. EVOLUTION OF THE AGRI-FOOD SYSTEM

The organization of the agricultural product markets, in recent years, is involved in deep evolutionary dynamics that lead to a more direct comparison between a limited number of suppliers and a demand more and more concentrated. In this context, small agricultural producers are facing a situation of constant crisis since it can no longer do come easily their products to the final consumer. Even the traditional wholesale markets, and cascading the local markets, that were the fundamental place where trade took place in the cities and where small farmers were selling their products, are now in a situation of continuing loss of market share as compared to more modern forms of sale.

Many scholars, therefore, have started to analyze theoretical models of reference to describe all the steps that a product must achieve in order to reach from production stage to the final consumer. In this regard, it highlights how some terms, such as *production chain* or *supply chain* has entered into the common lexicon and sometimes they tend to overlap them. In reference to this last aspect we see how the evolutions of the agri-food system have posed the need to give the correct interpretation of these two theoretical concepts.

3.1. The characterization of the agri-food system

In recent years, profound changes have affected the agri-food system. These changes were determined by a few key factors: new guidelines on food consumption, structural and organizational renewal of agro-industry, large retailers and HORECA channel (Hotel-Restaurant-Café), the increasing liberalisation of markets and the numerous innovations that have affected the system.

The evolution of consumption, in particular, is characterized by two trends: on the one hand the homogenization of consumer tastes and, on the other hand, the emergence of segments and niche markets increasingly specific, in connection with certain patterns of behavior. The destructurement of meals and changing habits of their preparation are moving the buyer's attention towards products that incorporate a high level of services. The agri-food industry, on the other hand, is in a way quite dichotomous, with large companies, very competitive on the global market and whose brands are widely known by consumers, and small and very small companies with a predominantly local scale reference. Also the modern distribution has experienced over the last twenty years an intense expansion. This has led to the displacement of increasing bargaining power downstream along the production chain. In particular, the banners of modern distribution shall require their suppliers increasingly sophisticated partnerships, in relation not only to the quality and type of requested products, but also with regard to additional services, from packaging to logistics, management of linear, up to the promotion and advertising. Finally, the retail trade, in recent years has completely outclassed the traditional retail and has effectively assumed the role of guarantor of last resort towards the consumer. The propensity to concentration of purchases from customers (one stop shopping) causes them to be carried out in a single day of a week and in a single store. This has encouraged the emergence and development of distribution typologies that meets this trend, with increasingly large surfaces and the widest assortments possible. The development policy implemented by the big distribution, in order to accommodate the new demands of consumers and the profitability, is divided into specific axes of intervention:

- the separation of the logistics from the commercial;
- the replacement of storage facilities with logistics platforms;
- the progressive shortening of the chain, through the exclusion of the wholesale market in the process of product distribution.

The logistic function has become in recent years a strategic role for the entire agri-food system. In fact, it has helped to give positive responses to the increasing complexity of the activities along the chain. Logistics, therefore, can be seen as a real organizational innovation, which has led to greater control of production and to achieve greater economies of scale.

In particular, for *large-retailer organized* (LRO) applying efficient logistics management leads to the possibility of minimizing the impact of stocks, through the replacement of traditional storage function with logistics platforms, which occur as centers of receiving orders and in which products can be subjected to manipulation processes and subsequently be sorted (fig. 1). There are different forms of platforms:

- producers, which occur as platforms of concentration, located mainly in the areas of production;
- distributors, located close to consumer markets, which can operate on non-homogeneous products;
- logistics providers, managed mostly by transport companies that can offer their customers on-time deliveries (thanks to better knowledge of the territory), reliability in the preservation of goods (these platforms are often organized with both dry and refrigerated warehouses depending on the type of product they carry), ad hoc insurance on products handled.

3.2. Supply Chain

The concept of agro-food supply chain is based on the evolution of the traditional notion of chain (Malassis and Padilla, 1986). In fact, in the studies regarding the agri-food sector is often used the term supply chain, with which we want to define a succession of stages sequentially close together, from a technical and technological point of view, needed to transform raw materials into the finished product, ready to be purchased by the final consumer.

The agri-food products, therefore, are transferred along the chain and undergo physical transformations, treatments and conditioning treatments needed to prepare them for final sale. In this process, however, it is not take into consideration the actual requirements and expectations of the consumer. Since the early 1980s, then, some works (primarily Filser, 1989) have begun to emphasize the role played by the consumer in the process of organization of the upstream sector. The basic idea is that the consumer is changing, and changing researches increasingly in foods, health attributes, nutritional and organoleptic, hygienic and safety, as well as features to make it easier to use in preparing meals. The producer therefore, has to adapt to all these changes.

It follows that the chain approach alone fails to explain the complexity of the changes of the consumer, distribution, transport, production and so on. In this process, then, the notion of the agri-food supply chain can better interpret the ways in which the various operators in the agri-food sector (agricultural producers, intermediaries, wholesalers, food manufacturers, retailers, etc.) are called to confront the new challenges of economic environment and, at the same time, the new needs of consumers. The concept of agri-food supply chain starts from the consideration that, in order to adequately respond to these new challenges, the agri-food sector should try to create a more collaborative environment in relations between operators upstream and downstream. This leads inevitably to a search for solutions and relationships between operators so to simplify procedures reduce the uncertainty among the different stages and increase confidence of final consumer. Moreover, this system creates the conditions for the management of new frontiers for the control of supply chains and the traceability of products. In particular, the traceability of agrifood products (mandatory for all products starting from January 1, 2005) requires an adequate system that allows following products from farm to fork, integrating information on the origin and characteristics of the product to those related to logistics management of goods. The most important information should be identifiable on the individual consumption unit.

Consequently, the organization of circulation of goods in the model of supply chain corresponds to an adjustment of the upstream sector by the downstream sector. Instead, a model that is based on the concept of supply chain considers as an element of analysis the management of the flow of goods and information flow connected. Supply chain approach, therefore, adds a few dowels to the theory of the supply chain: the flow of goods to which corresponds that to information, concatenation between economic actors close sequentially, so that they affect each other in an idea of "circularity" between the flow of goods and information flow with the ultimate goal of maximizing the utility of the consumer. The consumer needs and/or of a downstream economic agent are received by the upstream economic agent that seeks, according to the own productive structure, to respond in a way more satisfying to the customers.

Ultimately, considering the agri-food system through the supply chain approach allows making actually applicable instruments, fielded both by the legislature and by companies, to reassure consumers about the quality and safety of products. It also allows inserting new subjects (logistics service providers, managers of software systems, etc.) among the strategic factors that may or may not influence the strategies of success and competitiveness of the agri-food system as a whole. We continue, however, to talk about chain essentially because this term has entered the common lexicon and now all (scholars, practitioners, policymakers, and others) tend to express by it all processes sequentially close (from upstream to downstream) that carry the product from field to fork, extending the concept more in the

supply chain sense than of Malassis's agri-food approach. An example of what is meant by supply chain and how it is represented is shown below (fig. 2).

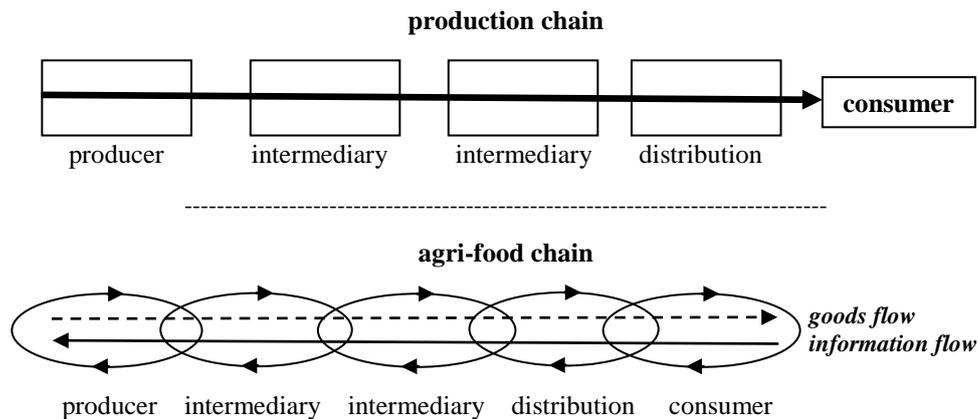


Figure 2. Graphical representation of the notion of production chain and agri-food chain

4. THE FACTORS OF COMPETITIVENESS

Business competitiveness is a complex topic which was studied by theoretical and methodological approaches also, very different. Nevertheless, a usual definition of competitiveness of enterprises regarding their ability to "stay on the market," or, according to the definition of Lagnevik and Pitts (1998, De Stefano, 2003)," the enduring ability to acquire and maintain with profit a certain share of the internal market or internationally". Among the various approaches that have characterized the study of matter, often linked to various theoretical paradigms, Porter's work emerges for the different applications to which it gave rise, especially in advanced economy countries (De Stefano, 2003). Porter's theory (1985) is based on the idea of comparative advantage, namely the identification of corporate competitiveness factors that enable the company to achieve a dominant position on the market. In this view the interaction of various factors which characterise the activity of the undertaking, as productive resources, infrastructure used, demand for goods, the structure and strategy of competitors and the action of the institutions determine the conditions for the adoption of innovations that can create competitive advantages. The company is thus able to gain a competitive advantage over the competition when, through an optimal combination of inputs, manages to create a stable value for consumers. According to Porter there are three strategies that enable companies to achieve this competitive advantage on the market:

- *cost leadership*: this strategy is based on the ability of the company, to offer similar products or equivalent to those offered by competitors, but at a lower price. This strategy is particularly relevant in areas where products are highly standardized and competition between companies is based prevalently on price factor;
- *differentiation*: this strategy is the ability of the company to offer products with an added value or differential factors. These items must be able to be recognized by consumers, who will be willing to pay a higher price because of the presence of these "unique" features of products;
- *the focus* is a strategy that can be cost-oriented or differentiation. A company can then aim at pursuing a cost advantage limited to one or a few segments of the market, or go to differentiation, trying to identify a customer segment that is particularly sensitive to the quality of its products.

However Pretolani (2003) highlights how these strategies are not fully applicable to the context of farms, as Porter's model is based on conditions such as the presence of a small number of companies and their ability to impose prices on the market, which are rarely found in the agricultural system. Similarly the differentiation of products from farms is done

according to peculiar dynamics to the sector, in particular, is generally linked to collective marks rather than to the brand of products.

Despite these important limitations, the conceptual framework developed by Porter allows accurate determination of the factors of competitiveness, which has also found important applications to the business reality of agriculture. Pretolani (2003), based on this theoretical framework, has divided the factors that determine the competitiveness of agricultural enterprises into four main types:

- 1) *the characteristics of enterprises*: the analysis of the competitiveness of agricultural farms should primarily be based on the examination of the structural characteristics of the companies (in the double sense of physical dimension and economic). The parameter of economic dimension of enterprises becomes particularly important if in addition to the effective competitiveness of enterprises would be analyzed their survival strategies (Sabbatini, 2006). At the same time it is necessary to detect physical and social characteristics of entrepreneurs (age, sex, type of company's management, etc.);
- 2) *the economic and institutional environment*: as already mentioned above, the competitive potential of enterprises is highly influenced by the set of factors that make up the economic and institutional framework in which they operate. In the case of agricultural enterprises becomes particularly interesting to note the role of the public sector in determining competitiveness (for example, assessing the weight of community support);
- 3) *the conditions of production factors*: the competitiveness of companies is linked to the availability and cost of major inputs, such as labor and capital. Other determining factors are the geographical location of companies and their infrastructure endowment;
- 4) *company's relations with the markets*: from the point of view of competitiveness are fundamental the relationship that the company has with the market. Such factors may include both goods and services produced by companies (downstream linkages), but also those assets that companies use as factors of production (upstream links).

The qualitative analysis of these factors allows having a comprehensive framework on the competitive position of firms in the market, taking in the main strengths and their weaknesses. At the same time, the calculation of enterprise income and remuneration of the factors of production allow to have an important quantitative basis for evaluating the competitiveness of agricultural enterprises.

4.1. Territorial competitiveness and profitability

The profitability or the capacity to produce income (profit), is an indicator that certainly plays a major role in assessing the competitive level of business. In this regard it should be noted that, in the agricultural sector, the optimal combination of factors of competitiveness and the implementation of the strategies described above (for example, of leadership, cost or product differentiation) are almost always aimed at maximizing enterprise income (Pretolani, 2003). The income of a farm, defined as Real Net Income (RNI), corresponds to the difference between the gross marketable production value (GMPV) and the sum of fixed costs (CF) and variable costs (VC):

$$\mathbf{RNI = GMPV - (CF + VC)}$$

The enterprise income, together with other economic characteristics and productive farms, can be analyzed through the use of the database FADN (Farm Accountancy Data Network), which is the official source of EU. Many scholars have tried to interpret the competitiveness in territorial key, by inquiring on the issue whether the territory affects the competitive capacity of enterprises or if the latter are to affect the competitiveness of the territory where they are located. In fact, in order to properly address this assessment must start by clarifying

the level of analysis chosen, i.e. competitiveness between companies or between territories. Competitiveness, in fact, can be referred to the company, its product and to a given geographical area; it is, therefore, a relative concept, with a meaning adaptable to the different fields of references and, however, ambivalent, expressing at the same time a sense of conflict and cooperation (Nardone, Sisto & Lopolito, 2005). The territorial approach, with the concept of *milieu innovateur* (Camagni 1989, 1994) and with the approach of the districts (Bramanti, Maggioni 1997; Varaldo, Ferrucci 1997; Becattini 2000; Garofoli, 2001; Rullani, 2003) sees competitiveness as the result of the diffusion of knowledge and innovations at the level of the territory. The choice of the territory, as a starting point in the study of the competitiveness of the agro-food companies, in particular, is based on the consideration that it takes place in a complex plot of activities (production, processing, marketing, services, etc.), sometimes linked in a functional manner the one and the other and for which it is extremely difficult to find the limit of a component over another.

The territory is, among other things, the factor with which to interact and integrate economic forces, political and social issues (Cesaretti, Green, Hammoudi, 2006). In the territories are simultaneously present multiple activities and, there is facing an extreme heterogeneity of actors that contribute to the production of goods and services and a complex cultural and economic structure, which determines the constraints but also strong local identities (Dragulanescu, 2007). On the other hand, the agri-food production, considered in its entirety, is confronted with a set of differentiated outlet markets both of territorial type (agricultural intermediaries, wholesale markets, centrals purchasing of modern trade) and extra territorial (linked or no to the local ones). Finally, the territories, and the companies that operate within it, are confronted with numerous rules and regulations of local, national and European level.

In addition to the above noted is highlighted how territorial articulation of the agro-food business is confronted with an increasingly global reality on the one hand and local level on the other. This leads to the need for territorial governance that would allow to the different companies that have an impact on a specific territory to gain a competitive position in the global market and "defend" its position on the local market. The territory, then, represents the starting point for the creation, interaction and integration of the activities that make up the agri-food system and an essential logical basis for any strategy of improvement the competitiveness of the agri-food supply chains.

The issues on what are the factors of competitiveness of territory/agri-food companies and the best combination to achieve it is nowadays a key discussion item. The agri-food system, in fact, with the different evolutionary dynamics and related complexity, increasingly orients itself towards development patterns that lead to obtaining a certain competitive positioning within global scenario, both of companies and of the territorial systems. Ultimately, from our point of view, the competition of companies depends not only on factors related to individual companies, but from the action of many other actors involved in territorial system in which the company is located. In this context, acquires a strategic role the availability, from the business universe, of a set of common goods such as: adequate endowment of infrastructure, the dissemination of efficient business models and administrative, but especially encouraging innovation and the sharing of information and knowledge. We can say, thus, that the ability of enterprises to compete in today's global context depends on the skill of the territorial systems of which they are part, to support development, providing to the resources already present in the territory, innovative tools capable of resolving issues related to distortions, delays or to an inefficient allocation of resources. In other words, the territorial system competitiveness also depends on its ability to innovate and improve.

The study of objective measurement systems, and related indicators, is an exercise that always involves many scholars. In fact, it seems that there are not, at present, the aggregate competitiveness indicators, but only some specific factors. For example, some indicators start

from the consideration that the competitiveness of a territory is based on the socio-economic relationships that exist among companies and actors and their level of modification over time. The competitive capacity of the territories is strongly correlated to the degree of bureaucracy of the public administration, the relations between enterprises (the presence or absence of cooperatives), the characteristics of the banking system, a territorial propensity and relations with the local productive system and the presence or absence of criminality.

In this regard, some research institutes and institutions have tried to make a measurement of competitiveness. For example, the WEF (World Economic Forum) takes as reference an indicator of global growth competitiveness (developed since 1979), which is measured based on 12 indicators grouped in three macrogroups: indicators of economic development (functioning of the institutions, infrastructure, macroeconomic stability, education and health), economic efficiency indicators (labour market efficiency, financial market, production level, etc.) and indicators of technological innovation. Moreover, also the WEF calculates an index of the degree of competitiveness of firms in a certain territory using the so-called "Business Competitiveness Index (BCI)".

4.2. The strategy for innovation

The framework, although summary thus far presented, on the proposals for future EU rural development policy is completed with confirmation of the strategy of animation, management support, technical assistance and dissemination so far implemented, at European and national level within Member States. In particular, it confirmed the *European Network for Rural Development* and the *System of National Rural Networks* in order to stimulate the participation of stakeholders in the implementation of rural development improve the quality of rural development programmes, helping to inform the public about the benefits of rural development policy.

Rural Networks collect, analyze and disseminate information, increase the involvement and commitment of stakeholders for rural development, collect, validate and disseminate best practices, create and manage thematic groups and/or workshops for exchanges of experiences, inform and organize conferences and seminars, support the national networks and transnational cooperation initiatives, support the activities of local action groups. Within the framework of the *European Rural Network* has confirmed the role of the *European Evaluation Network for Rural Development*. It is also so confirmed the prominent role that within rural development policy is attributed to evaluation at all stages of the process *ex ante*, ongoing and *ex post*.

A novelty is the initiative of the PEI (*European Innovation Partnership*). To support the PEI on the productivity and sustainability of agriculture has established the PEI Network that aims to establish and operate a help desk on innovation, animate the debate at the level of each RDP, encourage the establishment of *Operational Groups for Innovation* (GOI) at national or regional level, disseminate research results and extend knowledge, individuate consolidate and disseminate good practices, organising conferences and workshops to disseminate information within the scope of competences of PEI. To stimulate the innovative effort has established a prize to innovative local cooperation in rural areas which can apply two or more partners from different Member States, annually from 2015 to 2019. After a pre-selection by a maximum of 10 projects per Member State are identified at European level 50 winners per year, to this is awarded a prize equal to the maximum of 100 thousand euros.

5. FINANCING THE RURAL DEVELOPMENT POLICY

The financing of rural development policy is the sore point of the overall proposal. The distribution of EU budgetary resources among all European policies, as was to be expected, penalizes the CAP. Less expected was that this penalization hit in the same way the first and the second pillar, but slightly more the second one (-12.9% between 2013 and 2020) compared to the first one: (-12.5%

in the same period), with the result that it will contract in the EU total budget from 9.5% in 2013, to 8.0% in 2020 (European Commission, 2011d). The entire latest step in the long process of CAP reform, in fact, had been marked by the transfer of funds from the first pillar to the second one (or directly in the resource allocation, or gradually with the so-called "modulation").

This process had gradually increased the weight of the rural development policy over the whole of the original Pac approximately 10% of the Agenda 2000 (when the two pillars were established) to the current about 24%. It was still far from the goal of giving to the two pillars the task to support in equal measure the scaffolding of the CAP (hence the choice to call them "pillars"). But the rapprochement between the two was gradually ongoing. The interruption of this flow of more resources is not a major surprise. It was widely announced, considering that back in November 2010, in the initial Communication of the preparatory phase of the new CAP (European Commission, 2011b), the rural development policy was tackled shortly before conclusions (while to first pillar was granted six times larger space than the second one).

In that text were expected three options for the future CAP: the first one (*adjustment scenario*) "continues the current policy", the second one (*integration scenario*) "greening direct payments" and the third one (*refocus scenario*) "progressive abolition of direct payments and strengthening of rural development policy". But it was implied that, among the three, there was really no alternative and the second scenario was definitely the favorite. This choice was on the other hand both supported by many agricultural organizations, and by many new Member States, opposed to any form of co-financing of agricultural policy and for these supporters of the first pillar. The final endorsement to this choice was made by the Agriculture Committee of the European Parliament when interpreting in this way, its power of co-decision; it is aggregated to the Commission that had submitted proposals simply less conservative and, in fact opening to the third scenario.

Table 3. The expenditure for the CAP inside the MFF 2014-2020 proposals

	2013	2014	2015	2016	2017	2018	2019	2020	2014-2020
Absolute values in 2011 price (billions of euro)									
P1 Agricultural market and direct payments	43,5	42,2	41,6	41,0	40,4	39,6	38,8	38,1	281,8
P2 Rural Development	13,9	13,6	13,4	13,1	12,8	12,6	12,3	12,1	89,9
Total PAC	57,4	55,9	55,0	54,1	53,3	52,2	51,2	50,2	371,7
Total EU budget	145,6	142,6	144,0	145,1	146,4	147,3	148,9	150,7	1.025,0
Percentage values									
P1 Agricultural market and direct payments	29,9	29,6	28,9	28,3	27,6	26,9	26,1	25,3	27,5
P2 Rural Development	9,5	9,6	9,3	9,0	8,8	8,5	8,3	8,0	8,8
Total PAC	39,4	39,2	38,2	37,3	36,4	35,4	34,4	33,3	36,3
Total EU budget	100,0								

It can be certainly see that, having taken note of the balance of power in favour of maintaining direct payments, efforts to rationalize the CAP have concentrated in the direction of "unpacking" of the first pillar and in an attempt to make it more "green", trying to get similar results in this manner (with more money) and freeing at the same time, the second pillar of some environmental tasks, with regard to young people and areas with natural

limitations. However, we must see how "green" payments will be effectively green or will not result only – as is likely to happen even in relation to their *one size fits all* for all EU hectares - practical effects limited, or even perverse: (a) duplication of tasks with the second pillar (b) additional complication and (c) bait and switch, in an attempt to change as little as possible the current inefficient distribution of expenditure between companies and territories. Otherwise, why was ruled out a priori the hypothesis to move these tasks and related funds to the second pillar, bringing back to the first pillar the risk management.

The justification in favor of the first pillar based on the alleged slowness of spending of the second one it does not convince. First of all, because the problems of difficulties to spend regard specifically certain regions, while the most of the other (as in the rest of the European Member States) has been shown the ability to make timely use of available resources. It is then clear that if there are problems of efficiency, these should be addressed by improving the instrumentation, the organization and competence and certainly not lowering the attention to the quality of expenditure or adhering to formulas in which the connection between spending and goals is uncertain and probably very poor. Rural development policy, then, will have to cope with fewer resources and, above all, with a series of measures for risk management entirely inconsistent with the objectives of rural development, which will trigger strong pressure both for the need of a solution by farmers, and for the interests (insurance) that will move around them. The risk is that these further drain funds and leave the rural development policy itself even less resources, especially if the increase in ceilings EU quota for co-financing in the least developed regions should be seized as an opportunity to lower national co-financing, thus removing other funds to the availability of overall spending.

A solution at least partial, to the problem of diminishing resources, could be offered by the so-called "flexibility between pillars". In fact, the regulation on direct payments to farmers (European Commission, 2011) provides for the possibility for Member States to make available as additional support for the measures under rural development programmes up to 10% of annual national ceiling for the first pillar (for some Member States is also granted to move 5% in the opposite direction from the second to the first pillar). Taking into account the relations between the two pillars, a small percentage of transfer from the first pillar could be a very significant increase of funds for the second one. Where, for example, the risk management measures should be retained in the second pillar, this flexibility could be used at least to cover with funds from the first pillar these policies that should have been appropriately addressed by it.

6. CONCLUDING REMARKS

There are many positive aspects to be noted in judging the future rural development policy 2014-2020. In designing the new articulation, the Commission appears to have made the experience carried out so far in the two programming periods elapsed so far: that of Agenda 2000 and the present one. The positive aspects can be roughly summarized as follows: (a) the passing of the Axes for Priority, (b) the simplification of the menu of measures with greater attention to the objectives, the fixing of measurable goals and therefore the efficiency and effectiveness of expenditure, (c) the possibility of formulating thematic sub-programs for specific sectoral and regional problems, (d) the more freedom of choice in the distribution of expenditure between measures and between objectives, (d) the emphasis on innovation, networking and horizontal measures (e) the possibility, through flexibility between pillars increase the availability of the second pillar to the detriment of those in the first. Naturally, in the architecture of rural development policy, there are negative aspects. These are the main ones: (a) the inappropriate inclusion in the second rather within the first pillar of the measures for the risk management, (b) increasing the EU co-financing rate in the less developed regions with the risk of a cutting of overall expenditure, (c) the presence of consistent and increased duplication of tasks between the first and second pillar, (d) the undefined and

therefore uncertain distribution of funds in total available for the second pillar between Member States, contrary to what has been done for the first pillar.

But the most negative aspect concerns not only the rural development policy, but the quality of the overall proposal for the reform of the CAP for the *septennial* 2014-2020, is that the "reformers" of the Commission opted for the choice of preservation, interrupting a process by focusing on the second pillar, it could make even more acceptable a more gradual dismantling of the first one. It was decided to maintain and consolidate direct payments (even unpacked and reformed) as a key measure of the CAP. The introduction of direct payments was the interim solution adopted by Fischler in 2003 and completed by Fischer Boel with the Health Check of 2009, to get the full decoupling without penalizing farmers immediately. Precisely in transitoriness, was their justification. But, after the transition, some "coupling", in terms of clearly and unequivocally link between public spending and the goal that are pursued with it, is essential. The proposed re-coupling (de facto) with the eligible hectare, although regionally or redefined however, does not solve the problem absolutely, and weakens the overall proposal.

Ultimately, it was not focus on the rural development policy, despite integrates regions and local actors (in fact in accordance with the principle of subsidiarity as set out in the Treaties), despite multiplies the funds available through co-financing, despite the objectives of a policy aims at specific targets and suitable for them (targeted and tailored) is the better implementation, despite responds better to the objectives of the EU, although it integrates better with other EU policies.

"The CAP is facing several challenges (...) that push the EU to make strategic choices for the long-term future of its agriculture and its rural areas"; future CAP "must be effective in orienting towards these challenges" and "contribute to the EU 2020 Strategy". In the Pac future, the three key objectives "smart growth", "sustainable growth" and "inclusive growth" will mean respectively: (a) "increase the efficient use of resources and improve competitiveness through innovation"; (b) "maintain renewable the productive base (...), producing environmental public goods" (c) "unlocking the economic potential of rural areas" (European Commission, 2010a; European Commission, 2010b).

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