Dedicated to

Ma, Leela and Shanti Tilak

EUROPEAN COMMUNITY'S COMMON AGRICULTURAL POLICY : A CRITICAL STUDY, 1973-1992

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CERTIFICATE

This Dissertation entitled "European Community's Common Agricultural Policy : A Critical Study, 1973-1992", is certified to be the bonafide research work of Ms Minu P. for the Degree of Master of Philosophy. It has not been previously submitted for any other Degree of this or any other University.

We recommend this Dissertation to be placed before the examiners for their consideration for the award of the Degree of Master of Philosophy.

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PREFACE

The post Second World War period stood a witness to a significant change in Western Europe, from a climate of economic gloom, mutual suspicion and hatred to a close European cooperation in the fields of security, trade and regional development. The European integration implied a major challenge for non-member states, particularly with regard to trade in agricultural commodities. The European Economic Community (EEC) consist of twelve member states, with a rich and protected market of 350 million consumers.

The Treaty of Rome (1957) singled out agriculture for special consideration and initiated the Common Agricultural Policy (CAP) with the objectives to increase productivity, to attain a fair standard of living for the farming community, market stabilization and reasonable food prices. Despite the fact that agriculture accounts for only 2.7 per cent of Gross Domestic Product (GDP) and 7.7 per cent of Community's employment, the CAP is important both in itself - the benefits accruing from joint policy making and common management, and a symbol and indicator that real policy integration is possible at the Community level.

Since 1960s the EEC's agricultural economy has been almost completely detached from the world market. Prices are set by political decisions and they vary between a target price - the price the European ministers would like to see prevail - and the lower intervention price. The CAP protects the Community farmers from foreign competitors by imposing import levies and gives export restitutions. Price guarantees have kept land in production and has produced a steady rise in output. The surplus production in the EEC has continued to outstrip average world yields. Since 1973, the overall production has risen in volume terms by approximately 3 per cent per year. The continuous surplus production and price guarantees have grown both in scope and cost and it accounted for 56 percentage of the Community's budget expenditure in 1992, which has over the years generated rifts amongst the member countries.

The attempt on the part of the regional groupings to use agricultural trade restrictions on imports and export refunds has added an element of uncertainty to an already unstable world agricultural market. The agricultural prices are increasingly influenced by the political rather than economic factors.

The CAP has a dramatic impact on trade flows within Europe and between Europe and rest of the world. The growing prosperity has restored the self-confidence and a sense of security amongst the West European countries, which encourages them to pursue their interests with little regard for the interests of others.

The 'protectionist' attitude of the European communities has impinged the rules of international trading system and has generated trade tensions between Europe and the United States (US), and with other major agricultural exporting countries. Pertinently, agriculture and food matters command a great deal of attention in the ongoing Uruguay round - General Agreement on Tariffs and Trade (GATT) -- talks, with particular emphasis on the liberalization of the agriculture trade, reduction in the percentage of subsidies given to the farmers, food aid for third world countries and other related issues.

Thus, the mounting international pressure, coupled with the cost-factor, has forced the European Community to reform the CAP and act with more prudence.

This dissertation attempts to critically analyse the Common Agricultural Policy of the European Communities from 1973 to 1992. Chapter I presents the conditions which necessitated special attention to the agricultural sector and also deals with the evolution of the CAP. Chapter II discusses the pricing system in the EC and its implication, the political problems of sharing the cost of support given to the Community farmers. The next chapter throws some light on the issue of clash of interests amongst member states on agricultural decision making. It analyses the political dimensions of agricultural economic relations and lobbying by the specialized groups. It also touches on the frequent unsettled discrepancy between the EC and US on agricultural trade, with special reference to the 'corn war'. In the fourth chapter various reforms measures taken and compromises made, so far by the EC to improve the chances for progress is analysed. The final chapter contains the concluding observations.

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New Delhi,

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MINU P.

T_A_B_L_E_S

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CHAPTER I

INTRODUCTION

The trend towards farm modernization in Europe since the Second World War has witnessed a unique economic development, particularly in the agricultural sector.

The European land mass has been cultivated for many centuries, and, as a result, its farmers have acquired long experience of moulding their practices in tune with the geographical environment. The grass land belts are located in the Western coast of Wales, Ireland and West Scotland and the Northern portions of Sweden and Finland which promoted livestock farming. In the north comes the belt of oats, barley and potatoes, running from Northern Ireland and England through the central Scandinavia. The agriculturally important belt, that of winter wheat and sugar beet, occupies Southern England, most of France, Belgium, the Netherlands, much of Germany and Austria. In the South comes the maize belt from Portugal through the north of Spain, Southern France and Northern Italy, a zone which also includes most of the wine growing areas, olives and fruits.[1]

Europe consists of many nations, and each presents a canvas of variations in their pattern of ideas, values and approach to life. Nowhere are the differences amongst

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1 Hugh D. Clout, Agriculture (London, 1971), p. 11.

the Europeans more conspicuous than in their ideas and achievements in the economic sphere.

The British took to manufacturing the trading because of their early industrialization and command over the seas. The natural environment led Denmark to become a nation of food exporters. The Netherlands developed both industrial and agricultural products for export and got engaged in international merchandising. The French and Germans had a different experience. In order to protect their infant industries from the British manufacturers and their special concern for the problem of military security, coupled with substantial influence of the land owning classes, their governments accorded special privileges and protection to their farmers.[2]

But, the common experience of the Europeans has been with regard to the supply of the basic factors of production. Unlike in Great Britain, the rapid expansion of population on the Continent preceded the increase in the demand for industrial workers caused by industrial revolution. This led to overcrowding in the countryside and in turn reduced the per capita returns in agriculture. The diminishing returns to farmers forced the governments to come to their aid.[3]

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2 P. Lamartine Yates, Food, Land and Manpower in Western Europe (London, 1960), p. 99.

3 Lawrence B. Krause, European Economic Integration and the United States (Washington, D.C., 1968), p. 76.

There are two ways of raising the income and living standards of farmers. First, by paying them more than the world price for a given amount of output. And second, by taking steps to raise output itself. The former is the method of protection and subsidies, practised to a greater extent nearly in every European country. This artificial boosting of farmers' income has helped in raising the living standards of the agricultural community. The alternative method is to increase the productivity per unit or output per man, by giving each farmer more land and livestock which would yield a bigger output.[4]

But, in course of time the overcrowding in farms was alleviated by the Industrial Revolution, which not only absorbed the annual increase in population, but actually started a reduction in the absolute number of farms.

European Agriculture Prior to the Establishment of European Economic Community (EEC)

Major differences existed amongst the European countries in their agricultural outputs, which was the result of the different stages of economic development reached by each country, and the nature of political, economic and social systems. The net result is that while Belgium, the Netherlands, Denmark and France are major exporters of foodstuffs, Germany, United Kingdom (UK) and Italy are major food importers.[5] The concept of self-

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4 Yates, n. 2, pp. 152-3.

5 See Tables 1 to 8.

sufficiency was yet to gain ground in many of the European countries in the first half of the present century.

The fragmentation of farms further intensified the problem of low output. Of the 14.3 million holdings in Western Europe, 3.8 million are less than 1 hectare in size. Of the remaining 10.5 million farms, about 5.3 million are less than 5 hectares in size. At one end are Portugal and Greece, with 80 per cent of farms in this size group, at the other are Denmark, with only 15.6 per cent, and Ireland, with 20.1 per cent, under 5 hectares. 70 per cent of Europe's farms are less than 10 hectares in size.[6]

The large farms are those which are above 50 hectares, the proportion of holding in this category reaches 15.5 per cent in UK, 6.2 per cent in Ireland and 2.9 per cent in Europe as a whole. In Britain, the "law of primogeni ture",[7] coupled with early industrialization and consolidation programmes, helped in retaining the farms unfragmented, whereas in the Continental countries the "Roman law"[8] of inheritance led to the further fragmentation. The owners of small farms, especially in Southern-West Germany, apart

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6 OEEC, General Conditions of Agricultural Production Annex 3B (Paris, 1952), p. 20.

7 Inheritance of property by the oldest son in the family.

8 Roman law of inheritance divided the property equally to all the children of the deceased.

from farming, depended on supplementary sources of incomes. In the smallest farms, the earnings from non-farm sectors provided 80 per cent of the family income.[9] The output were low in these farms because the use of modern equipment was not possible. Thus, Belgium, the Netherlands and Denmark, with small and medium sized family farms, had the highest levels of output per man in farming together with UK and Eastern parts of Germany, with larger properties and greater social stratification. The lowest levels of income per farm worker was recorded in Spain, Portugal and Greece. Moreover, the per capita income in agriculture was far below the non-agricultural sectors. This divergence of trends increased the absolute gap between the economic welfare of the agricultural workers and industrial workers. In addition, the European countries, which imported large quantity of agricultural goods, also suffered from balance of payments problem. The European experience of world wars brought to the fore the suffering that can occur to a population greatly dependent on imported foodstuffs, when political events interrupt normal international trade. The concept of self-sufficiency in food is undermined when agricultural output is crucially dependent on imported goods.[10] Thus, a reasonable degree of self-sufficiency in agriculture is needed for reasons of national defence.

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9 OEEC, n. 6, p. 23.

10 Krause, n. 3, pp. 77-79.

Consequently, the national governments in Europe, principally concerned with consolidating the farms and upholding rights in property, sought to alleviate overcrowding in farms by diversifying labour and improve output, through intensification of farming. Intensification increases the level of inputs and outputs from agriculture as farmer seeks to maintain or increase its margins of profitability.[11] The application of capital per hectare of agricultural land, and per worker, increases through the purchase of inputs such as chemical fertiliser, animal feed, petroleum fuel, machinery and pesticides. The new technology has helped to improve the yields of most crops and livestock, to increase the carrying capacity of agricultural land for the livestock and to raise the output per worker employed in agriculture. As a result, there has been a rapid increase of the livestock over the years. The statistics show that between 1870 and 1957 cattle in Denmark rose from 1.2 to 3.2 million, in Netherlands from 1.4 to 3.2 and in Italy from 3.5 to 8.6 million. Between 1949 and 1957 there was an increase in the livestocks by 13 per cent in Europe. Apart from the physical reasons, the output in livestock farming expanded due to increase in demands.

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11 I.R. Bowler, "Intensification, Concentration and Specialisation in Agriculture : The Case of the EC", Geography (Sheffield), vol. 11, no. 1, 1986, p. 16.

Industrialization ushered rapid growth in the purchasing power of the people which influenced changes in food consumption trends in Europe. In the more prosperous countries of North-Western Europe, there was a diminution in the importance of bread and potatoes and an increase in demand for meat, poultry, milk and cheese. In UK, between 1840 and 1890 the per capita meat consumption rose from 75 to 108 pounds. In Sweden the consumption rose from 75 to 108 pounds. In Sweden the consumption of meat and dairy products had increased by 80 per cent between 1870 and 1913.[11] But, in the Mediterranean zone, the consumption of livestock remained low because of low purchasing power of the people.

Further initiatives were taken for the improved understanding through scientific investigation and experiment of the factors governing the growth of plants and animals. The study of plants nutrient requirements has pointed out the importance of fertilizers, water supply, weed control, depth of ploughing, etc. Likewise, the study of animal nutrition suggested the provision of a balance diet commensurate the age of the animal and its capacity for giving milk or egg. The introduction of hybrid varieties in cereals had also shown positive results. Thus, among the average milk yields per cow in Denmark rose from 1000 litres, per annum, in 1870 to about 3,500 litres in 1956. Similar progress was registered in cereals, sugar beet, fruits and vegetables.

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12 Sir A. Daniel Hall, Reconstruction and the Land : An Approach to Farming in the National Interest (London, 1942), pp. 100-04.

All this had a great "commercialization" effect on the farmers' purchasing power. The farmers began to use fertilizers, feedingstuffs, pesticides, selective weed killer, tractors and fuel and the lubricants to run them. Also, they used electric motors, field machinery, dairy equipments, etc. The consumption of fertilisers also had doubled. The use of tractors in farms had increased from 197,700 in pre-war years to 825,784 in 1950 and to 2,329,210 in 1957. The use of these factors has transformed the direction of farm into something like a factory which purchased raw materials, fed them into machines (land and animals) and marketed the product. Thus, the financial input in farms had increased. In UK, for example, the farmers spent 47 per cent of the gross receipts on purchasing the materials, while, in Southern Europe the Spanish farmers spent only 9 per cent in 1957.[13]

The national governments also devoted public funds to agricultural research and offered a variety of agro-training and education to the farmers. Exclusive agro-research institutions were established. It added to the intense awareness of technical progress mainly among the farmers of Northern and Central Europe.

Since 1945, unprecedented progress has been made in the European agricultural production. In fact, the phase of unusual rapid expansion wasso great that the

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13 Yates, n. 2, p. 202.

agricultural objectives had to be redefined. The initial problem of making lost ground and producing enough food gave way, in Western Europe, to try and cut back some aspects of production and disposal of surpluses. For instance, wheat production rose by 50 per cent, from 1,410 Kg/ha to 2,600 Kg/ha and remained clearly the highest for any of the world's major regions. In UK, it registered a 54 per cent increase -- from 2,680 Kg/ha to 4,130 Kg/ha. In the already highly efficient and intensive agricultural countries of Northern and Western Europe produced exceptionally high yields -- 4,480 Kg/ha in Netherlands, 4,030 Kg/ha in Denmark and 3,960 Kg/ha in Belgium in 1950s.[14] But, variations in agricultural output in the Continent continued to mark the progress made in 1950. During the decade 1948-1958, the agricultural output got increased by 85 per cent in Germany, 70 per cent in the Netherlands, about 60 per cent in Belgium and Italy and 30 per cent in France.[15]

Agricultural Policy in the European Economic Community

From the inception of the EEC, the Community's agricultural policy has played a central role. In 1958, agriculture accounted for 10 per cent of gross national product (GNP) and provided for 25 per cent of employment

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14 Clout, n. 1, p. 16.

15 Krause, n. 3, p. 80.

in the six member States of the EEC.[16] The economic philosophy of the EEC was the establishment of "a free trade area and a customs union". This entailed the removal of tariffs and trade barriers between the member States and their replacement by a common external tariff. Moreover, there was to be a complete freedom of movement, within the Community, of goods, persons, services and capital. But the whole process was to be achieved through a gradual phase, or over a transitional period during which the obstacles were to be systematically eliminated and integration to follow.

The principal bodies constituted for the purpose of initiating change or harmonization were the Commission, the Council of Ministers, the European Parliament, and a Court of Justice. The Community level decisions are implemented in member States by national parliaments and civil servants.[17]

The EC Commission, located in Brussels, is a body of professional civil servants recruited from, but not representing the specific interests of, member States. Each subject area is headed by a Commissioner, these areas being similar to those headed by ministers in member States. For instance, in the subject area of agriculture the Commission

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16 EC, Commission of the European Communities, "The Development and Future of the CAP", Bulletin of the European Communities Supplement (Brussels) May 1991, p. 9.

17 EC, European Communities, Treaties Establishing the European Communities, Abridged edition (Luxembourg, 1987), p. 263.

gathers information on which agricultural policies may be based and also now policies proposed. But, actual decisions are taken by the Council of Ministers, which, in this case, comprises the Ministers of Agriculture of member States. The Council may adopt or modify proposals from the Commission or ask the latter to suggest alternative policies. The European Parliament is empowered to debate policies and problems, but has no power to make decisions,[18] except on two matters - approve or reject, but not to amend, the EC Budget and the list of EC Commissioners proposed for appointment.

There are various Committees to lobby their cases. For agriculture, there are interest groups of farmers, farm workers, distributors, traders and consumers. Ultimately, however, here too, the power of decision rests solely with the Council of Ministers. Though, theoretically, this body is concerned with the well-being of the Community as a whole, there have been incidents when individual ministers have covertly nurtured national interests. If a minister considers that the adoption of a particular proposal would be detrimental to his country, he may block it with his veto.

Consequently, the Community policies reflect not only the Community goals for economic and social betterment, but also national political interest. They are the result of the political compromises and compulsions. The dynamics

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18 Ibid., p. 264.

of this aspect of the Common Agricultural Policy (CAP) will be dealt in detail in Chapter III.

The Main Objectives of the CAP

The agricultural policies of the six member States varied considerably prior to the formation of the EEC. Therefore, the primary concern was to subject agriculture to equal treatment in all member States. Title II of the Treaty of Rome (Articles 38-47) deals with agriculture. Article 39 clearly defines the objectives of the CAP. They are:

(i) To increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilisation of all factors of production, in particular, labour;

(ii) To ensure thereby a fair standard of living for the agricultural community, in particular, by increasing the individual earnings of persons engaged in agriculture;

(iii) To stabilize markets;

(iv) To provide certainty of supplies;

(v) To ensure supplies to consumers at reasonable prices.[19]

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19 Ibid., p. 265.

Increased productivity can mean: (*a*) the use of the same total resources but in a reorganized or qualitatively improved form; (*b*) the use of additional inputs leading to greater output; and (*c*) the maintenance of output at a constant level while reducing inputs.[20] The first two - (a) and (b) - have been used in the European Community (EC). The disadvantage at the Community level is that the increase in productivity leads to costly, and sometimes unsaleable, surpluses. The third method - viz. (c) - has not been pursued in any concerted way over the years. It did however form the basis of Mansholt Plan (1968). Mansholt envisaged a reduction of total inputs through the shedding of suggested amount of labour and land, accompanied by the reorganisation of the remaining resources into a new production structure. The intention was to provide adequate income for the farmers without the danger of surpluses.[21] The policy has provided for technical assistance to farmers, which included the funding of research and dissemination of information on improved outputs, as well as financial support given to farmers to adopt new technology. The training of farming personnel is aimed to improve the level of organization and management.[22] The other means of increasing the productivity

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20 Rosemary Fennell, "A Reconsideration of the Objectives of the CAP", Journal of the Common Market Studies (Oxford), vol. 23, no. 3, 1985, p. 257.

21 Ibid., p. 259.

22 John S. March and Pamela J. Swanney, Agriculture and the EC (London, 1980), p. 42.

is by ensuring rational development of agricultural production in economic terms -- first, by concentrating on commodities for which the Community has special aptitude; secondly, by promoting regional specialization; and, finally, through the adoption of policies which ensure a good balance between commodities in terms of the support given, ensuring that the individual farmer is assisted to achieve the rational development of farm. Aid to rational development is found in the promotion of a balanced approach to Community support, which means that support to commodities should be applied evenly so as to ensure that no one commodity is promoted at the expense of another. But, in practice distortions have occurred. The final means to increase productivity is to ensure the best use of the farm through consolidation programmes.

The second objective of the CAP (39.ii) is a fair standard of living and increasing the individual earnings of agricultural worker.[23] There are three related elements: (a) a fair standard of living; (b) the emphasis placed on the return of labour rather than on the return of capital or land; and (c) the explicit linkage between the achievements of fair standard of living and increased productivity.

The 'market stability' objective is pursued through a supporting price mechanism, which helps the farmer when

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23 EC, European Communities, Treaties Establishing the European Communities, n. 17, p. 265.

the market is weak. This includes the policy of guaranteed price and by controlling the flow of imports through import levies. The market-stability is maintained through the price policy of the Community. The danger of this system is that farming interest groups apply continual pressures on policy makers to increase the level of stability built into the system. For instance, there is a tendency to equate market stability with income stability, through the medium of price stability. It is viewed that price movements should act as a signal to the producers and the more they are restricted, the greater the danger that producers will not respond to changes in demand over the time, thereby risking an exacerbation of surplus situation. Greater stabilization means larger budgetary expenditure which is politically not viable.[24]

The fourth objective, of ensuring the availability of supplies, has long since been accomplished. Therefore, a number of options are available to the member States to react to the growing problems of excessive supplies. These options are: (a) to continue drifting along reacting to crisis as they occur; (b)the aim to achieve a level of production sufficiently in excess of internal requirements to allow exports on permanent basis; (c) to maintain a level of production which would be slightly in excess of internal requirements so as to be in a position to cope

24 A.M. Agraa, ed., The Economics of the European Community (Oxford, 1982), p. 141.

with seasonal fluctuations and adverse affects of weather and disease; (d) to reduce production to just below internal requirements and to accept that imports would make good any short falls in supply as and when they arise; or (e) to lower production so as to allow imports to cover a certain proportions of requirement on a permanent basis.[25]

Given the technological improvements which are continually taking place, there is a built-in tendency for the production to rise. Thus, in practical terms the most difficult option to achieve are (c) and (d), and the convenient option taken by member States is that of (a).

The final objective of the CAP is to ensure that the supplies reach the consumers at reasonable prices (39.v). This involves the use of consumer subsidies: (a) general, across the board, unit subsidy paid on all items of a particular commodity; (b) the selective subsidy on items sold to certain groups. Olive oil and christmas butter schemes are examples of the first, and the sale of cheap butter to the non-profit making institutions, and the school milk scheme are examples of the second.

The treaty further specified that in order to attain the main objectives of the CAP, a common organisation of agricultural market, incorporating common rules concerning competition and empowering compulsory

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25 Fennell, n. 20, p. 259.

coordination of various national markets organisations, should be established. Provision was also made in the treaty for a three stage progress towards the establishment of a Common market in agricultural products. The first stage allowed three years for the formulation of policies. The harmonization of regulations and prices in the second stage was to be completed by 1970, by which time industrial tariffs were also to be aligned. During the third phase, a complete integration of agricultural policies was to be attained.

The CAP's Price Support Mechanism

The price policy is the single most important mechanism of the CAP. It is based on controlling market to achieve a desired level of price. For each product concerned under the EEC, a common market organisation was introduced. Over a transitional period, differing national price levels were to be brought in harmony, so that a common price for each commodity can be applied throughout the Community. Although the CAP machinery varies from one product to another, the basic features are more or less similar. The farmers income is guaranteed by regulating the market so as to reach a price high enough to achieve the objective.

The price policy has two dimensions: (a) internal and (b) external. The domestic prices are maintained by various protective devices, which prevent the cheaper world imports, from influencing the EEC domestic price level. In addition, certain steps are also taken for official support for buying within the EEC so as to eliminate, from the market, any actual excess supply that might be stimulated by the guaranteed price level.

A 'target price' is set on an annual basis and is maintained at a level which the product is expected to achieve on the market in that area where a product is in the short supply. If the market price falls, a floor price or intervention price for selective major products becomes operative in the domestic market. In the event of surplus production it is bought by intervention agencies to maintain a minimum wholesale market price level.[26] The target price is not a producer price, it includes the cost of transport to dealer and store houses. The target price is variable in that it is allowed to increase on monthly basis, in order to allow for a storage costs throughout the year.

Externally, a common barrier operates in the form of minimum import prices (Threshold prices) set annually for goods from third countries. Variable import-levies compensate for the difference between the fixed Community price and fluctuating world market price. This protects the Community market from price fluctuations and competition from low priced imports.

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26 Swaney, n. 22, p. 26.

In the event of an EC surplus in a particular commodity, the relevant management committee introduces subsidies on exports of that commodity to third country. The export subsidy or restitution allows the Community produced goods, to be competitive in the world markets even though in most cases the EC domestic agricultural prices are above world prices.

The Green Rate

Various agricultural support-prices are fixed by the Council in Units of Account (UA). For each member state there is a 'green rate', at which the support prices are translated into national prices. The UA had originally a gold content equal to a US dollar, but since 1973, it was linked to 'joint float' which implies that if a member country devalues or revalues its currency, its farm prices expressed in terms of the national currency would rise or fall.[27] Since prices are expressed in UA when a member country decides to devalue its currency the prices of agricultural products will rise in terms of the domestic currency by the full percentage of devaluation. This increase will cause distortion in trade between member states. Therefore, to avoid such a situation a system of imposing taxes on the export and by granting equivalent subsidies to the import of the products, is followed. These taxes on, and subsidies for, agricultural products are used to

27 Brian Andy, "The National Incidence of the European Community Budget", Journal of Common Market Studies (Oxford), vol. 26, no. 4, 1988, p. 407.

maintain uniform agricultural prices. This is known as Monetary Compensatory System (MCA).[28] Intervention, Export restitution and the MCA system needs to be financed. The ensuing chapter will deal with the fiscal aspects of CAP.

On the whole, the Community's agricultural policy has been very successful in raising the level of production for most of its commodities. It has created an environment in which the producer prices have increased steadily, the prices of the commodities have been consistently above world market levels and has offered a climate condusive for investment. The Community objectives of security of food supplies,increasing productivity have been achieved.

However these positive results have been offset by the growing surpluses, differing price levels and shrinking of the Community's own market for imports. These negative trends have distorted the international trading system and has drawn the attention of the International Community, who have been exerting pressure on the EC to reform the CAP. Within the EC, the expenditure on market support has risen considerably, blocking the development of other policies in the Community.

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28 Ibid., p. 409.

Table 1

Cattle Imports[29]

(thousand heads)

Countries	1934/38	1948/52	1954	1955	1956
Belgium and Luxembourg	18.3	29.0	12.8	0.1	0.2
France	7.8	11.3	1.8	1.5	79.4
Germany	156.1	125.7	215.8	317.6	364.3
Italy	100.8	67.9	81.2	131.7	85.1
The Netherlands	-	34.5	10.2	7.9	55.2
United Kingdom	682.2	427.2	601.6	-	604.7

29 UN, FAO, Yearbook of Food and Agricultural Statistics (Rome), vol. 11, no. 2, 1957, p. 46.

Table 2

Imports of Beef (Fresh, Chilled and Frozen)[30]

(Thousand metric tons)

Countries	1934/38	1948/52	1954	1955	1956
Belgium and Luxembourg	11.4	18.3	2.9	2.4	10.3
France	12.5	6.6	3.1	1.9	15.7
Germany	-	3.5	1.8	4.4	7.7
Italy	0.2	1.4	0.8	0.8	0.7
The Netherlands	9.0	16.8	16.1	16.6	22.3
United Kingdom	572.4	279.0	273.2	357.4	445.8

30 Ibid., p. 52.

Table 3

Cheese Imports[31]

(Thousand metric tons)

Countries	1934/38	1948/52	1954	1955	1956
Belgium and Luxembourg	22.9	30.9	34.1	34.3	35.3
France	14.8	12.1	8.5	9.4	12.4
Germany	31.8	29.9	58.5	64.1	72.1
Italy	4.4	8.5	26.1	19.6	17.6
The Netherlands	0.4	0.3	0.3	0.6	0.5
United Kingdom	144.7	173.8	134.1	131.0	136.0

31 Ibid., p. 75.

Table 4

Butter Imports[32]

(Thousand metric tons)

Countries	1934/38	1948/52	1954	1955	1956
Belgium & Luxembourg	4.5	25.8	7.8	9.4	5.8
France	1.7	17.7	1.3	7.3	17.1
Germany	77.5	3.7	23.6	11.2	7.3
Italy	1.0	7.8	6.4	5.8	9.9
The Netherlands	0.2	-	-	-	-
United Kingdom	487.5	303.4	285.7	312.4	359.8

32 Ibid., p. 72.

Table 5

Import of Milk, Condensed and Powdered[33]

(Thousand metric tons)

Countries	1934/38	1948/52	1954	1955	1956
Belgium and Luxembourg	1.9	26.2	10.3	8.8	7.5
France	2.3	3.7	0.8	1.1	0.7
Germany	-	6.8	0.2	-	-
Italy	10.2	10.3	3.1	0.3	0.6
The Netherlands	-	-	-	0.1	0.3
United Kingdom	90.9	45.4	53.5	45.9	65.1

33 Ibid., p. 68.

Table 6

Barley Imports[34]

(Thousand metric tons)

Countries	1958/59	1959/60	1960/61
Belgium and Luxembourg	74.4	31.1	31.4
France	5.2	0.2	0.1
Germany	341.0	514.6	273.4
Italy	68.3	82.3	159.0
The Netherlands	293.0	316.3	280.3
United Kingdom	185.0	25.4	48.1

34 UN, FAO, *Yearbook of Food and Agricultural Statistics* (Rome), vol. 16, no. 1, 1962, p. 38.

Table 7

Maize Imports[35]

(Thousand metric tons)

Countries	1958/59	1959/60	1960/61
Belgium and Luxembourg	496.4	572.3	511.8
France	298.2	150.5	195.5
Germany	807.1	921.8	839.0
Italy	772.7	1,643.7	1,563.5
The Netherlands	1,008.3	1,224.2	1,427.9
United Kingdom	2,815,5	3,131.8	3,106.6

35 Ibid., p. 91.

Table 8

Wheat Imports[36]

(Thousand metric tons)

Countries	1958/59	1959/60
Belgium and Luxembourg	467.3	261.6
France	547.8	327.0
Germany	2,431.2	2,069.0
Italy	78.4	111.5
The Netherlands	825.8	769.9
United Kingdom	730.9	956.8

36 Ibid., p. 99.

CHAPTER II

THE ECONOMICS OF COMMON AGRICULTURAL POLICY

The functional details of the Common Agricultural Policy (CAP) emphasize the development of three fundamental economic policies - first, the necessity to have single Common Market for the entire Community; secondly, a system of promoting Community preferences; and, finally, the principle of 'financial solidarity', under which the cost of CAP will be borne by all member States, adopted to unify the regions of the Community and to facilitate the practical operation of the European Economic Community (EEC).[1]

The Budget-Revenue and Expenditure

The CAP is administered on a day-to-day basis by the European Commission and financed by the Community through the European Agricultural Guarantee and Guidance Funds (EAGGF), set up in April 1962. The Community makes a distinction between expenditure which is compulsory (or obligatory) and that which is non-compulsory (or non-obligatory) expenditure. The general budget of the Community makes the provision for the administrative

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1 EC, European Documentation, A Common Agricultural Policy for the 1990's (Luxembourg), May 1989, p. 338.

expenses of the various Community institutions - the Parliament, the Council, the Commission and the Court of Justice - provides funds for social and regional development, operational expenditures of the Commission, and the intervention expenditures, which include the large grants made by the EAGGF. Since the completion of the Customs Union and the introduction of the CAP, the European Council meeting, in December 1969, at Hague, decided to set up a system of the Community's 'own resources'[2] scheme. The new system was adopted in 1971 and fully applied later in 1979. Own resources consists primarily of the levies on import of agricultural produce and customs duties collected at Community borders, plus certain other taxes introduced under the CAP, such as agricultural and sugar levies and value added tax (VAT) collected from member States. VAT is remitted on exports and imposed on imports. VAT is in reality a direct national contribution to the budget. Initially, one per cent of VAT was collected from member States. But, owing to the growth in the Community expenditure, the full amount of available own resources was increased by raising the portion of VAT payable to the Community to 1.4 per cent.[3] Lastly, revenue is derived through the application of a rate (to a base) representing the sum of member States' Gross National Product (GNP) at market prices. The rate is determined under the budgetary

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2 Ibid., p. 36.

3 EC, European Documentation, The Budget (Luxembourg), June 1986, p. 15. Refer to Table I.

procedure in the light of the total of all other revenues and the total expenditure agreed. Thus, the federal budget is financed by federal revenues.

The EC expenditure can be roughly sub-divided into five categories, agricultural guarantee expenditure, structural policy expenses, specific measure costs, cost of collecting own resources and unallocated. Unallocated expenditure is moneys which cannot be attributed to individual member states, such as administration, research, energy and co-operation with developing countries.[4]

Most of EC expenditure is on CAP, predominantly, on the guarantee expenditure. The guarantee section is concerned with financing price support measures and guidance section with structural reforms measures. The first real step towards common structural policy was taken in 1962, when, to supplement and encourage the national governments, the Community provided for guidance section in the EAGGF. From 1964, resources from the Guidance Fund were used to finance individual projects submitted by each member State, or, on a Community level, in production or marketing (e.g. premiums for slaughtering cows and withdrawing milk products from market, aid to less developed region, hill areas etc.).[5] Aid was intended to assist those areas where

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4 A.J. Brown, "Fiscal Policy : The Budget", in A.M. Agraa, ed., The Economics of the European Community (Oxford, 1982), p. 219.

5 Ibid., p. 220.

the need was greatest. In practice, the amounts given have proved to be closely related to budgetary contributions of member States to the Common Fund. From the outset, the structural policy was always a smaller element in the CAP than the price and marketing support policy.

The guarantee section provides funds for expenditure connected with the Common Market and farm price policy such as: (a) refunds on exports to non-member countries; (b) the cost of intervention in internal market; and (c) the monetary compensatory amounts (MCA) to offset the effects of market fluctuations.[6] From the beginning, the market policy was geared to encourage productivity. Moreover, the member States sought to establish a balance between production and possibilities for outlets by taking into account the exports and imports which can be made, and of specialization, appropriate to the economic structures and natural conditions of the Community. Thus, the principal idea was to increase productivity and apply price policy to avoid excess production and allow agriculture to remain or become competitive. But, during the last three decades the CAP has led to improvements in productivity but failed to strike a balance between productivity and outlets. This

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6 Werner J. Feld, "Implementation of EC's CAP : Expectations, Fears, Failures", International Organization (Wisconsin), vol. 33, no. 3, Summer 1979, p. 341.

enabled the European farmers to raise the level of self-sufficiency and, hence, agricultural income in the Community. As the Community expanded in the early 1970s and 1980s the problem of accommodating the excess produce further intensified. As surplus grew, they became an increasing burden on the Community budget which was to cover the cost of disposing of them through paying for storage, destruction or export restitution to producers who sell them to third countries at prices below those prevailing in the Community. How the price support mechanism and the related policies helped in the over production of major agricultural goods, such as cereals, dairy products, meat and livestock and sugar regimes, are presented in the following analysis.

<u>Market Organization - Cereals</u>

The market organization for cereals was introduced in 1962. It has been much revised over the years, but is still based on the three main features common to most of the Community organizations:

(i) Prices are fixed each year by the Council (target, threshold and intervention prices);

(ii) A system of external trade based on a protection mechanism whose most original feature is a variable levy on imports; and

(iii) Internal market support, based on direct buying-in, in certain conditions by intervention agencies.

Prices are also supported by sales outside the Community, for which operators are granted aid, called export refunds, to bridge the gap between market prices inside the Community and what can be fetched on the world market.[7]

International trade of differentiated products in agricultural markets is typical with countries simultaneously importing and exporting products from a similar commodity grouping. This includes even the EC. High-quality wheat is imported from North America for domestic food consumption while soft wheat is exported by the EC to third country markets. Since 1970, EC has become an increasingly important net exporter of wheat.[8] The principal reasons for these trends is the manner in which the EC sets both the absolute price levels for high quality imports and low quality domestic supplies and their relationship to world prices for each. According to some analysts, the changes in world trade due to EC price policies are responsible for 85 per cent of the total decrease in world prices.[9] Some others view that the EC import price policy alone (in conjunction with

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7 EC, Commission of the European Communities, A Prognosis and Simulation Model for the EC Cereal Market (Luxembourg, 1982), p. 15.

8 Ibid.

9 A. Sarris and J.W. Freebrain, "Endogenous Price Policies and International Wheat Prices", American Journal of Agricultural Economics (Iowa), vol. 65, no. 2, 1983, p. 216.

Japan) alters the terms of trade that enhanced their economic welfare and that in its absence, the world wheat prices would increase cent per cent.[10] After international pressures, a modest tax of 3 per cent was imposed, in 1987, on grains but still 40 per cent of domestic cereals demand is exempted from tax because of allowances for small farmers.[11]

In 1990-91 cereal commodity exports of Community reached 30 million tonnes including 16.3 million tonnes of common wheat, 9.2 million tonnes of barley and 2.1 million tonnes of durum wheat. But exports of maize was restricted to processed products due to its production being hit by drought. Community imports of cereals in 1990-91 marketing year were around 4.5 million tonnes. Intervention stocks rose from 11.7 million tonnes to 18.7 million tonnes (8.5 million tonnes of common wheat, 5.5 million tonnes of barley, 3.2 million tonnes of rye and 1.5 million tonnes of durum wheat). These stocks are held mainly in Germany (48 per cent) and France (26 per cent). Community Rye production doubled in 1990 following the German unification. Rice imports in 1990-91 registered a 5 per cent fall and 15 per

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10 C. Carter and A. Schwitz, "Import Tariff and Price Formation in the World Wheat Market", American Journal of Agricultural Economics, vol. 6, no. 3, 1971, p. 519.

11 EC, Commission of the European Communities, "The Development and Future of the CAP", Bulletin of European Communities (Brussels), May 1991, p. 22. Refer to Tables 3 and 4.

cent increase in exports compared with 1988 level.[12]

Sugar

Sugar provides a particularly good window on the CAP because it has been the subject of controversy almost continually since 1971. In the period 1971-72, the British Government, while negotiating membership to the EC, sought to safeguard the interests of the cane sugar and beet sugar industry in Britain and the third world. Sugar is unique among agricultural commodities in that there exists two entirely separate and competitive sources of supply. Sugar-cane and beet cane is a tropical product, exported by relatively poor countries in Africa, Caribean, Latin America and Asia. Beet is a temperate product grown throughout Europe and North America and has benefitted substantially from government protection. Beet sugar is grown predominantly for domestic consumption, whereas cane sugar mainly depends upon export earnings. Substantial differences in the pricing and trading policies among the five producing countries in the EC made agreements on the basic principle of sugar regime very difficult. Of the five, Belgium, the Netherlands and France were easily the low cost producers and Germany and Italy on the other hand were inefficient and high cost producers needing to import to supplement

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12 EC, Commission of the European Communities, The Agricultural Situation in the Community : 1991 Report (Brussels, 1992), p. 45.

their own production. The Council of Ministers eventually compromised with the Commission's proposal for common prices which were set at a rate acceptable to high cost producers. In contrast to other commodities, quotas were imposed from the beginning to limit excess production. The sugar policy came into operation after the transitional year in July 1968, with uniform prices and quota's applying throughout the Community.[13] The high level at which prices were set initially led to an enormous increase in beet production for which the quota restrictions proved inadequate. The failure of Community consumption to match the production levels burdened the EAGGF with the heavy cost of disposing sugar surpluses.

Dairy Products and Beef

Likewise milk and milk products market has distinct features. There is an overwhelming problem of over supply at established prices. Only about one quarter of the milk produced in the Community goes for liquid consumption, emphasis is therefore on manufactured milk products. The target price set for milk delivered to the dairy is supported by intervention in butter, skim milk powered and cheese

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13 Chris Stevens and Carole Webb, "The Political Economy of Sugar : A Window on the CAP", in H. Wallance and Webb, eds, Policy-making in the European Community (Chichester, 1983), p. 323.

markets. No intervention price exists for liquid milk. In the early 1960s a common European cow produced annually just 2,400 kg of milk. But, in contrast, today it produces approximately 4,700 kg and the EC super cow of the future is expected to produce even more.[14] It is, in fact, only in dairy products that the Community has had a long standing surpluses (popularly referred to as butter mountains and milk lakes) and dairy products are expensive to store. Such large stocks has pushed world prices well below the EEC prices with the result that the Community had to pay out more and more restitution to cover the gap. The EC has sold its excess cheese and butter to Soviet Union at reduced prices. The largest producer of dairy products in EC is France with 26,606 million tonnes of milk, 517 million tonnes of butter and 1,353 million tonnes of cheese.[15] The Scandinavian countries and Germany are also substantial producers of dairy products. Attempts have been made to encourage dairy farmers to switch to beef and to curb over production, co-responsibility levy and quotas were also imposed. These policies have been ineffective. In fact, the switch to beef has created similar problems in meat sector. The cyclical problems of regularising the beef market are prevalent because most of EC beef is produced

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14 EC, Eurostat, Basic Statistics of the Community (Luxembourg, 1991), p. 223.

15 Ibid. Refer to Table 5.

from the dairy herd, thus changes in the policy for milk influences the production of beef. Other meats, for example pork, compete in the market place. Costs of pig production are in turn affected by alterations in cereal prices and hence the competitiveness of pork in the meat market is affected. There are important differences in the approach to regulating the market in pigs compared to the regimes for cereals, milk or beef. Prices are allowed to move freely, the industry is expected to take corrective action if prices fall or rise. The logic behind this differences is, tehnically, that the pig numbers can be expanded with relative rapidity. In economic terms, pigs are seen as processed cereals, so that the controlling cereal market involves a degree of stability of pig production. Politically pig production forms a small part of the activity of many farms but the relatively large modern factory units have little political influence compared with cereal growers or milk producers. Similar analysis applies to an even greater extent to intensive poultry systems. The Community meat production for 1990-91 is 30,728 (1,000 tonnes carcases weight), beef and veal 6,830, pigment 3,341 and mutton lamb and goat meat 1,042.[16] France, Germany and UK are the top three beneficiaries of this market organization.

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16 Ibid.

Monetary Compensatory Accounts (MCA)

In addition to the rapidly rising costs of the CAP, changes and fluctuations among the member State currencies have been a major cost factor. Between 1967 and 1969 farm support prices were exactly the same in all member States when expressed in national currencies. However, in August 1969 the French government devalued the Franc by 11 per cent and did not want to raise consumer prices as a result of more costly farm imports from member States. At the same time, the French government wanted the EC target and intervention prices in French Franc to stay at the pre-devalued level. While, around the same time, the Germans revalued the Deautsche Mark upwards in relation with other currencies of the EC states, the target and support prices in German Mark, if reduced, would impair the incomes of German farmer, hence politically undesirable. As a result, the French and German agricultural markets were sealed off both from the rest of the Community and from each other. Export levies and import subsidies were introduced for France and export subsidies and import levies for Germany were imposed to n neutralize the impact of currency changes on agricultural prices and to enable their products to be marketed throughout the Community at the prevailing official rate of exchange. This set the trend for Monetary Compensatory Accounts (MCA).[17] The illusion of common prices was

17 Gisela Hendriks, "Germany and the CAP : National Interests and the EC", International Affairs (London), vol. 65, no. 1, winter 1989, p. 78.

maintained by such artificial measures, domestic prices diverged considerably from the common prices based on the nominal exchange rates. Thus, the farm exports from high-value currency countries into low value currency countries receive subsidies to lower the cost (positive MCA) and exports from low value currency countries to high value states are subject to border levies (negative MCA). It is the EAGGF guarantee section which provides the funds for the MCAs and receives the border levies. Imbalances have also been generated by the transfer of resources from consumers to producers entailed in the high level of Community food prices and from tax payers to farmers as a result of surpluses. These transfers are reflected at national level in the form both of trade generated flows and of financial flows through the EEC budget from the member States, that are net importers of agricultural products, to those that are net exporters.[18] Thus, in budgetary terms, certain member States gain more, while still others stand to gain less, in comparison with their net payments.

When the policy as a whole is examined, countries seem to fall into three categories such as significant beneficiaries, marginal beneficiaries and those which just about break even on the policy. The major beneficiaries

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18 T.K. Warley, "Europe's Agricultural Policy in Transition", International Journal (Toronto), vol. 38, no. 1, winter 1991-2, p. 39.

of the policy are France, the Netherlands, Denmark, Ireland and Greece. France derives the highest absolute benefit from the policy. This is a reflection of the size of France and of the French agriculture. Thus, as a percentage of the GDP and per capita, France benefits from all regimes -- but cereals, dairy products and sugar are particularly important. The next highest absolute benefits are enjoyed by the Netherlands, which gains particularly from the dairy and meat regimes. Although the benefits to the Netherlands from the CAP are high, representing 1.61 per cent of the GDP and 155 ecu per capita, the policy is even more significant in the cases of Denmark and Ireland. Denmark, the third highest absolute beneficiary, is a relatively small country which again benefits from meat and dairy products. Ireland derives substantial benefits from the policy, again from the meat and dairy regimes. Being a small and relatively poor country, the benefits of 6.7 per cent of the GDP and 370 ecu per capita appear large. The other significant beneficiary is Greece. But, gains on Mediterranean products, cotton and cereals, are offset by losses on meat and dairy products.[19]

Marginal beneficiaries from the CAP are Germany and Belgium. In the case of Germany, losses on cereals and sugar are more than offset by gains on dairy products

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19 Brian Ardy, "The National Incidence of the European Community Budget", Journal of Common Market Studies (Oxford), vol. 26, no. 4, June 1988, p. 414.

and oilseeds, but the overall benefits are below the Community average. Belgium's losses on cereals is offset by gains on oilseeds and dairy products.[20]

Italy and the United Kingdom fall under the third category. Italian budget gains on Mediterranean products are largely offset by internal trade losses on meat, dairy products and sugar. The UK loses substantially from the sugar regime, offsetting gains on cereal, oil seeds and dairy products.[21]

The net benefits of the policy is best described as 'eccentric'. There is no consistent relationship between benefits as a percentage of GDP or per capita and GDP per capita. Thus, the highest relative benefits are enjoyed by Ireland, the country with second lowest per capita in the Community, while the next highest relative benefits are enjoyed by Denmark, the country with the highest per capita. This eccentricity might not be a matter of great concern, were agriculture, the only one of a number of significant policies but when it predominates the whole budget, is skewed by its effects. The CAP expenditure on agricultural guarantee section was around 11 billion ecu at the beginning of 1980s, then rose to 20 billion ecu in 1985 and 25 billion ecu in 1990 and 35.878 billion in 1992.[22]

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20 Ibid., p. 415.

21 Ibid. Refer to Table 6.

22 EC, Commission, Green Europe (Brussels), October 1992, p. 7.

Despite these huge budgetary expenditure at the Community level, together with other direct expenditures by national authorities and even larger indirect income transfers to farmers from consumers through elevated food prices, for a total transfer that ranged between 50 and 65 billion ecu per annum in the period between 1986 and 1990, the disparity between farm and non-farm incomes has not reduced. The out-migration of people from agriculture has slowed, but not halted and the economic and social disparities between the urban and the rural communities and between regions persist. Thus, the economic analysis indicate that the policy is cost ineffective, in the sense that direct and indirect income transfers from the Community's tax payers and consumers approached 1.40 ecu for every 1 ecu in the income gained by farmers. Because income support is provided through product prices, 80 per cent of the transfers were going to the 20 per cent of farmers with larger operations, who account for most agricultural output. Thus, the disparity of income within the agriculture got widened by a policy that was supposed to reduce income diaparities.[23]

Britain and the EC Budget

The British budget problem lies in the fact that, despite being one of the poorer members of the Community,

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23 Warley, n. 18, p. 44.

Britain has come to make the largest contributions to the budget. This is because Britain is the largest importer of agricultural products and, consequently, benefits comparatively little from agricultural expenditures which accounts for the lion's share of the EEC budget. The CAP was described as the Cuckoo in the EEC nest.[24] The phrase is apt, for years, the CAP has gobbled between 65 to 70 per cent of all EEC spendings. Out of the 1992 budget about 63,241 million ecu, agriculture claimed 53,048 million -- EAGGF guarantee expenditure 35,039 ecu and structural funds 18,009 ecu, together, 60 per cent of the budget. The spendings naturally benefit those countries with the largest agricultural sector.[25] In Britain, the agricultural sector share in GDP is 1.5 per cent, compared to 16.5 per cent in Germany (unified Germany) and 10.5 per cent in France. Britain's share in agricultural and food imports is 10.8 per cent and its share in exports is 6.9 per cent.[26]

Shortly after the accession of Britain, Ireland and Denmark to EC in 1973, it was realized that the objectives and machinery of Community finance, will have to be patterned according to the new environment of expanded Community. Denmark's original agricultural position was such that in

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24 The Times, 24 March 1980.

25 EC, Commission of the European Communities, Agricultural Situation, n. 12, p. 109. Refer to Table 2.

26 Ibid.

the early years of membership, it was on top of the league of net beneficiaries. Ireland, on the other hand, emerged as a net beneficiary only after decisions to provide special measures. As early as 1974, Britain found that it had reason to complain. It regarded the own resources system as unfair and demanded for closer relationship between payments and receipts. This was the basis for the call for 'renegotiation' in Dublin in 1975, where the European Council agreed to initiate corrective mechanism (financial mechanism) to be applied for an experimental period of seven years beginning from 1976. The mechanism is activated in specified circumstances putting a member State in a special economic situation. But, this mechanism never helped in reducing the British net debit balance. Another element to be noted is Article 131 of accession treaty, which stipulates that in 1978 the increase in Britain's share should not exceed 2/5 of the difference between what it actually paid in 1977 and what it would have paid if the full own resources system had been applicable to it in that year.[27] The same calculation was done again in 1979 with reference to 1978. But in 1977 Britain's

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27 An exception was made for Britain, Ireland and Denmark who joined the Community in 1973. Since they have been paying an increasing proportion of their custom duties and farm levies to Brussels, they were exempted from accepting the full implications of the own resources system until 1980 so as to give them time to adopt as the original six. European Documentation, n. 3, p. 19.

actual share was 19.2 per cent and it was calculated that under full own resources this would have been 24.7 per cent. Applying the 2/5 rule to the difference between the two figures thus gives an upper limit on Britain's contribution for 1978 to 21.4 per cent. But, the switch to more rationally based units of account for calculating the budget changed the position. Britain's contribution, at the new exchange rate amounts not to 19.2 per cent but only 12.2 per cent of the total expenditure. Britain, therefore, argued that this lower percentage should be the basis for applying Article 131, which would put a ceiling of 13.8 per cent on Britain's budget share for 1978.[28] In total, Britain's payments were more than its receipts and with the inclusion of new States such as Spain and Portugal, Britain's receipts in the form of structural, social and regional development funds seem to dwindle. But, however, the imbalance in the agricultural sector is also responsible for the policies pursued by the individual member countries, which in most cases have been uneconomic. The scope of this aspect is analysed in the following chapter.

Thus the CAP is not quite as common or as integrated as it is often thought to be. On the one hand at the Community level, the supposed Common pricing system is distorted by the mechanism of green currencies and MCAs.

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28 Ibid.

on the other hand, at the national level, governments still have the option of making various forms of special assistance available to their farmers.

Nonetheless, the CAP is, in many respects, still the most important sectoral policy of the EC. But clearly as the continuing existence of surpluses demonstrates, the policy does not work completely satisfactorily. A key reason for this is that agriculture is not excluded from the central problem associated with policy and decision-making throughout the Community : competing interests make it very difficult for the matters to be decided on a rational basis. Progress and change thus tends to be circumspect and piecemeal rather than comprehensive and sweeping.

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Table 1

Percentage of Revenues of EC Budget, 1990[29]

1	Value Added Tax (VAT)	-	58.6 per cent
2	Customs Duties	-	22.2 per cent
3	GNP resources	-	9.8 per cent
4	Agricultural Levies	-	5.6 per cent

(The remaining 3.7 per cent was accounted for by balances and miscellaneous income).

29 Neill Nugent, The Government and Politics of the European Community (London: Macmillan, 1991), p. 318.

Table 2

Budgetary Expenditure on the CAP[30]
(million ecu)

	1988	1989	1990	1991	1992
EAGGF	27,687.3	25,872.9	26,453.5	32,353.0	35,878.0
Sub section	26,447.3	24,427.0	25,071.6	31,443.0	34,888.0
Set aside	-	3.0	21.2	100.0	180.0
Stock disposal of butter	1,240.3	1,442.9	1,360.7	810.0	810.0
EAGGF Guidance	1,142.5	1,352.3	1,846.5	2,111.0	2,823.6
Total Expenditure	28,887.5	27,296.6	28,402.1	34,804.7	39,006.4
Total EC Budget	41,120.9	40,917.8	44,378.9	55,556.1	62,613.8

30 Commission of the European Communities, The Agricultural Situation in the Community : 1991 Report (Luxembourg, 1992), p. 114.

Table 3

The Community Share in World Cereal Trade[31]
(Per cent)

1	2	3	4	5
		1987	1988	1989
Wheat flour	World	- 108.0	- 117.5	- 107.7
	EC 12	- 2.3	- 2.2	- 1.9
All cereals	World	+ 15.7	+ 17.0	+ 20.2
	EC	+ 24.7	+ 26.2	+ 31.1

\- Imports

\+ Exports

31 Eurostat, Basic Statistics of the Community (Luxembourg, 1990), p. 226.

Table 4

Intervention Stocks in the EC[32]
(1000 tonnes)

Products	1985/86	1987/88	1988/89	1989/90	1990/91
Wheat (common)	10,312	4,567	2,906	5,521	8,520
Rye	1,161	911	1,095	1,555	3,163
Barley	5,296	3,916	3,242	3,320	5,538
Duram Wheat	887	2,325	1,122	616	1,528
Maize	392	19	778	759	-
Total	18,502	11,748	9,146	11,795	18,749

32 EC, Commission of the European Communities, XXVth General Report of the Activities of the European Communities, 1991 (Brussels, 1992), p. 176.

Table 5

Quantity and Value of Milk and Milk Products and Beef in Public Storage[33]

Products	1988	1989	1990
Skimmed Milk Powder			
Quantity (1000 t)	9.6	21.9	333.2
Value (ml ecu)	17.0	23.0	262.8
Butter Quantity	101.2	4.8	251.8
" Value	233.3	4.7	257.2
Total Quantity	110.8	26.7	585.0
" Value	250.3	27.7	520.0
Beef Quantity	445.9	107.2	299.4
" Value	752.9	110.3	280.8

33 Ibid.

Table 6

EAGGF Guarantee and Guidance Expenditure by Member States[34]

Eur 12	EAGFF Guarantee expenditure					EAGGF Guidance expenditure				
	1986	1987	1988	1989	1990	1986	1987	1988	1989	1990
1	2	2	4	5	6	7	8	9	10	11
Belgium	978.9	821.5	721.5	585.8	873.7	15.9	21.0	18.3	31.6	23.1
Denmark	1,065.7	1058.8	1212.4	1,015.1	1,113.7	23.4	11.6	12.8	17.2	16.9
Greece	1,387.3	1341.2	1318.8	1,650.9	1,949.7	139.5	105.1	148.6	235.3	270.2
Spain	271.4	604.1	1887.2	1,903.2	2,120.8	86.5	79.4	133.6	203.9	301.8
France	5,447.1	5662.1	6209.7	4810.5	5,142.5	209.1	243.4	271.0	179.8	383.8
Ireland	1,214.4	956.3	1081.3	1,241.2	1,668.4	79.0	96.4	81.2	121.9	125.0
Italy	3,068.8	3903.5	4349	4,621.8	4,150.8	154.2	95.5	178.4	263.6	282.7
Luxembourg	2.0	1.5	3.0	1.8	5.2	1.8	3.9	2.1	3.6	4.6
Netherlands	2,277.4	2727.8	3831.5	3,749.9	2,868.7	22.1	13.8	5.3	20.7	11.4
Portugal	30.8	147.2	157.2	174.4	214.2	32.8	62.2	121.9	179.4	241.6
U.K.	1986.7	1748.7	1992.8	1,917.0	1,975.9	103.8	83.9	82.2	78.0	102.8
Germany	4400.8	3993.0	4904.4	4,188.7	4,355.2	103.6	121.8	124.6	133.0	204.1
Total EUR 12	22137.4	22967.3	27687.7	25872.9	26453.5	971.7	938.0	1180.0	1468.0	1968.0

34. EC Commission, *Agricultural Report, 1991* (Brussels, 1992), p. 85.

CHAPTER III

POLITICS OF COMMON AGRICULTURAL POLICY

Agricultural decisions in the European Community tend to reflect exogenous influences on agricultural markets, on the grounds that political factors assume a dominant role in the decision making process of CAP. In fact, some of the objectionable elements such as the enormous surplus, high costs and slow implementation of the structural improvement goals, discussed in the earlier chapters, are the direct and indirect result of opportunities of different governmental and non-governmental actors who impose national interest through the astute exploitation of the complex EC decision making process. On paper, the distribution of function among the Commission and the Council of Ministers for decision initiation and approval appears to be clear cut. In practice, however, this process involves multi-level interaction and interpenetration among various community institutions, national governments and administration and interest groups.

Price Review

The main occasion for determining policy is the 'annual price review' at which prices are set for the next marketing year. This review like other major policy proposals, is preceded by an extensive process of consultation. Commission officials are regularly in contact with member governments and their officials and receive the views of various pressure groups. The draft proposal is submitted to the Commissioner responsible for Agriculture, who, in turn, submits it for the collective approval of the Commission. It is then transmitted formally to the Council of Ministers and becomes in effect a public document. An 'opinion' is given by Euro-parliament, whose Agricultural Committee presents its views, together with those of other Committees to a full session of the Parliament for approval. The Commission has the right to revise the draft. Before finally being presented to the Council, the proposal is examined by the Special Committee on Agriculture (SCA).[1]

The annual price review provides the ground not only for bargaining over prices but other measures are also traded against price increases. The emphasis of the CAP on maintaining farm income through price support has effectively turned the annual price review into annual wage negotiations for the farm sector.[2] The goals pursued by the national economic groups in the member States, the domestic politics of each member State and the inter-State

1 William F. Averyt, Agropolitics in the European Communities (New York, 1977), p. 86.

2 Brian Gardner, "The CAP : The Political Obstacle to Reform", The Political Quarterly (London), vol. 58, no. 6, 1987, p. 169.

politics within the Community play a significant role in the making of specific policy decisions. Due to this, deliberations have, in some years, prolonged for months.

The Interest Groups

The power which the agricultural pressure groups are able to weild within the Community is a major factor which has subverted and diverted both the policy formulation and decision making process. Brian Gardner complains that certain groups are grossly misleading by giving inaccurate information on which the Commission and Council act.[3]

Comité des Organisations professionelles agricole de la C.E.E. (COPA) is the most powerful Community level umbrella group which generally supports the CAP. After a slow start, this organisation has become the main European pressure group in the agricultural sector. Lindberg notes: "COPA's success depends on establishing itself as the spokesman for the inter-regional organisations which represent specific products, such as beets, wine...."[4] COPA started out as a loosely organized, informal meeting place for the agricultural groups which were trying to arrive at common positions concerning Commission proposals.

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3 Ibid., p. 180.

4 Alan Suinbank, "The CAP and the Politics of Euro decision making", Journal of Common Market Studies (Oxford), vol. 27, no. 4, June 1989, p. 308.

It was reorganized in 1960 and has had an official status since then. COPA has a permanent secretariat at Brussels, a Presidium consisting of members one from each member State, among whom the presidency rotates annually. COPA's Assembly is made up of representatives of all member organizations. It is the Committee's highest organ and gives directives to both the Presidium and the Secretariat.[5] Committee of Permanent Representatives (COMEPRA) represents a number of small farm group such as the National Alliance of Italian Farmers, the Action Committee of Wallon Peasants, the Democratic Farmers' Action of Germany and the National League of Family Farmers of Ireland. A more specialized community level umbrella organization is the Confederation of European Sugar Beet Producers (CIBE), which represents a specific farm sector. National Farm Organisations also seek to influence the policy implementation process within the Community. Some are comprehensive, such as the German Farmers Union - the Deutscher Bauern Verband (DBV) - and the British National Farmers Union which are concerned with all agricultural sectors. National Federation of Milk Producers in France confine to a particular sector.[6]

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5 Ibid., p. 309.

6 Werner J. Feld, "Implementation of the European Communities Common Agricultural Policy : Expectations, Fears and Failures", International Organisation (Wisconsin), vol. 33, no. 3, summer 1979, p. 349.

Although the Commission generally prefers to work with COPA and has the national farm groups to channel its demands through this organization, not all farm groups belong to COPA; and even if they do, it is sometimes difficult to come to an agreement on particular issues, to be presented to the Community.

National Political Interest

The most striking feature of the EC is the plurality of interests, which bears on the decision making process. This is the main reason why the possibility of economically rational or radical options being considered, let alone favoured, by the Council of Ministers is remote (though their decisions are politically rational).[7] The CAP has become a minimal compromise based on separate national policies. For instance, the national preferences takes priority in West German policy, given that its political leaders believe that support for agricultural population has become one of the pillars of the country's stability. Since 1949, agricultural voters were the basis of the Christian Democratic hegemony, the end of which coincided with the drop in German cereal prices, provoked by the common market in 1967. Since then it has been perceived, by the political parties, as an electoral

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7 Gisela Hendriks, "Germany and the CAP : National Interest and the EC", International Affairs (London), vol. 65, no. 1, winter 1989, p. 80.

element to be won at almost any cost. While two-thirds of the country's agriculture is composed of part-time holdings, it nevertheless contributes modernization to Germany's economic equilibrium, providing it with labour forces and growing quantities of merchandise.[8]

During the 1960s the French Government was under great pressure to find new markets for France's growing agricultural surpluses. Rural unrest grew, reaching a climax in widespread riots in 1961, which continues to be a feature of the French farm community even to the present day. This domestic situation forced the French, at Brussels, to threaten deadlock in other Community matters, if progress is not made towards a Common Organization for agricultural market.[9] It is interesting to note that Germany, the other founding member of the Common Market, made headway in industrial goods and was anxious to delay a quick adaptation of its agricultural sector to Community requirements, because it meant opening German markets to EC products in preference to that of old trading partners. A large number of countries which bought German industrial goods (in South America, Eastern Europe for instance) were agricultural

8 Ibid., p. 82.

9 On 9 December 1961, President de Gaulle threatened that he would not agree to the proposed tariff cuts in the industrial sector and the transition to second stage unless basic regulations for a Common Market in agricultural produce were first laid down. F.R. Willis, France, Germany and the New Europe (London, 1968), p. 340.

surplus producers. Particularly, the post-War Germany practised a selective bilateral trade system, whereby the need to trade its industrial exports determined the source and volume of agricultural purchases.[10] Thus, CAP presented a threat to traditional trading partners. The French, irritated by the German reluctance, continued intense negotiations and finally reached an agreement on 14 January 1962, the basis of a policy and a price system for agriculture.[11] It sharply reflected the overriding political objectives of the member States and their sectoral interests, as early as 1960, which gradually grew in size and proportion as the Community expanded.

In November 1963 the Commission presented a plan for the harmonization of cereal prices in a single step for the marketing year 1964-65. The proposal included suggestions for compensatory payments for those countries -- Germany, Italy, and Luxrembourg — which would suffer a reduction in prices and the Council decided that this issue should be resolved by 15 April 1964.[12] In Germany, grain production represented some 10 per cent of total farm output, but the political influence of grain farmers was great. Cereal producers predominated among the farm

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10 Hendriks, n. 7, p. 84.

11 Willis, n. 9, p. 342.

12 Ibid.

deputies who represented Germany in various professional groups and consultative bodies at the Community level. At the same time, the French farm deputies stood headstrong for aligning the cereal prices in the Community. The German government was under tremendous pressure from the Community at one end and the DBV at the other. The problem seemed complicated because the German price level was the highest in the Community. German prices for cereal, for instance, were over 30 per cent higher than those of France (The Commission's proposal of November 1963 implied a cut of 11-13 per cent).[13] However, on 14 April 1964, the German Minister of Agriculture, Schwarz succeeded in freezing cereal prices for the marketing year 1964-65. Thus, the Commission's first attempts (of 30 June 1960) to harmonize prices failed to face the German resistance.[14]

France, by then was growing impatient with German attempts to postpone price harmonization. Therefore, on 25 October 1964, in a statement issued in Paris, the French Government threatened that France would withdraw from the Community if agreement on cereal prices were not reached by mid-December 1964.[15] The French ultimatum was skilfully targeted at Germany. Because in the imminent

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13 Ibid.

14 Donald J. Puchala and Carle ELankowski, "The Politics of Fiscal Harmonization in the EC", Journal of Common Market Studies, vol. 15, no. 2, 1976, p. 92.

15 EC, Bulletin of the European Commission (Brussels), nol. 12, 1964, p. 12.

Kennedy Round talks on General Agreement on Trade and Tariffs (GATT) success depended heavily on the concerted EC front, for Germany, the biggest exporter of industrial goods in the Community, a successful outcome of the Kennedy Round negotiations was of vital economic importance. Therefore, Chancellor Ludwig Erhard was forced to make concessions. But, before reaching an agreement at Brussels, he met the President of the farm lobby, who agreed to the lowering of prices only in return for fiscal concessions, improved social measures, investment subventions and full compensation for the reduction of incomes as a result of the price alignment, of the value of DM 1.1 billion. Finally, on 1 June 1967, unification of grain market was agreed.[16]

The cereal price issue of 1964 has historical importance in the context of the member States and, in particular, Germany's attitude to the CAP. The psychological impact of price reductions reinforced member States' attempts to counteract any real or imagined economic disadvantage which might result from lowering the agricultural prices. This element has been the root cause of the growing price index which, in turn, protected even the most inefficient farmer in the Community.

In addition, many potential policy changes are precluded by the inertia and momentum of the administrative

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16 Ibid., p. 16.

machine,[17] until the political and economic pressures for such change become sufficiently great. For example, the idea of farm level quotas on dairy production was widely regarded as being administratively infeasible and, therefore, not a viable policy option. Only when it became clear that no other policy option was politically acceptable, was the administrative inertia overcome. The 'minimalist'[18] view perceives the CAP as a political market in which various interests are defended and traded to national benefit and at other member States' expense. Particular decisions on, for instance, raising support prices are often agreed to by recalcitrant member States in return for some quid-pro-quo, such as continued protection for the monopoly position of Milk Boards.[19]

Throughout the annual price fixing negotiations, and even more so in the national presentations of the

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17 Most of the executive functioning of the CAP takes place not in Brussels. Whether in the Commission, the Council, the Management Committees or elsewhere, but through national and regional agencies authorised by the Commission to collect taxes, keep returns, issue subsidies and so on. Gardner, n. 2, p. 173.

18 Those who favour budgetary restriction and the minimum level of intervention consistent with maintaining co-operation, from a nationally self interested point of view.

19 Ibid.

negotiations, and eventual agreement there is an element of political 'blame-shift' by which a responsibility shared among all Member States for a policy change becomes a responsibility avoided by the minister of any single member State. The usual countervailing forces which check and balance the development of agricultural policy, and especially agricultural expenditure at the national level such as competition between spending ministries and the exchequer, have been lacking in the Council of Agricultural Ministers which, thus, achieves a degree of monopoly power over the setting of agricultural policy.

The national governments' response to implement, circumvent or ignore EEC directive depends to a considerable measure, upon the direction and intensity of the domestic pressures they face. Direction reflects the forces which are pushing for or against the implementation of regional programmes and factional self-interest. The intensity of pressure on the other hand tends to be a function of the number and weight of interests that are simultaneously pushing in one direction or the other. As a rule, national governments choose policy path ways, of politicallyleast resistance and act so as to reward important domestic interests. The case of Anglo-French 'Lamb war', cements this view.

Ever since Britain joined the EEC, the French have used a system of variable import texes to control imports of lower priced British lamb, which the French feared would flood their market. Half of British sheepmeat exports to EEC countries went to France (19,300 tonnes in 1977). The French continued to impose import restriction on British lamb in spite of the ending of Britain's transitional period in 1978. At the same time, it is interesting to note that France lifted restrictions on Irish lamb imports into France (1,300 tonnes in 1977).[20] The British complained to the Commission. France was given time to remove restrictions on imports of lamb and mutton, mainly from Britain, or face prosecution before the European Court of Justice for violation of the EEC free trade rules. But, the French remained unheeded, and, in fact, put a ban of sheepmeat imports from Britain. The ban pushed prices down in Britain and raised the state payments needed to maintain the price guarantee.[21] The authorities in Brussels faced tough bargaining with France for incorporating lamb for the first time in the CAP. France defended its ban by pointing to subsidies paid to British farmers whose business it considers larger and more secure than those of its own farmers.[22] In spite of the fact that the ban was declared illegal

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20 The Times (London), 6 June 1978.

21 Ibid., 2 December 1979.

22 Ibid.

by the European Court of Justice, France continued to remain frigid and exposed the Commission/Council's incapacity to impose Community rules over the Member States. For their part, the French maintained that so long as there is no common organization of the EEC market on lamb, offering some degree of price support, they cannot risk exposing their high cost producers to unfettered competition from cheap imports.[23] The lamb dispute continued to stretch for more than three years. In 1980, Britain made a written application to the Commission for recovery, through the European Court, of damages, resulting from British traders paying £ 11 million in levies on lamb exports to France between mid 1978 and mid 1979. It also wanted a further £ 8.7 million, the amount of deficiency payment to British farmers because market prices went below the guaranteed price.[24] Finally, the 'lamb war' ended with the EEC member States agreement, to introduce a new lamb and mutton policy from 20 October 1980,[25] thus opened the lucrative French market hitherto illegally protected, to exports from Britain's 80,000 sheep farmers. Many such similar disputes have become part of the EEC history now. At the same time, the EEC has witnessed the

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23 Ibid.

24 Ibid., 8 March 1980.

25 Ibid., 3 October 1980.

shrewd manner in which domestic actors could use regional political resources to effect desirable domestic outcome. The German experience with the VAT is best viewed, not in terms of a national governments being persuaded into complying with Community policy, but rather in terms of a set of national actors using the institutions of the EC to attain distinctly national policy goals.[26] That is, national governments hook their domestic programmes to regional ones and use regional directives to topple domestic opposition.

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26 Before VAT (Mehwertsteuer) was introduced in January 1968, there was cumulative turnover tax (umsatzsteuer). The umsatzsteuer, like the VAT, was designed as a levy on the consumption and it was expected to be shifted forward in its entirety to the consumers. The major beneficiaries of the umstazsteuer were the large industries, for the cumulative nature of the tax led to pressures towards vertical integration. That is, large integrated firms found significant tax savings by cutting down the number of production stages. In effect, the tax had negative impact on smaller firms, who were forced to absorb the tax in order to compete successfully with the integrated giants. Thus, within the industrial groups, the support for umsatzsteuer was divided. Moreover, after the 1961 revaluation of the Deutsch mark, there was the problem of applying equalization taxes at the national border. In such a climate, the German government was pressurized by both pro and anti-umsatzsteuers. So, different committees were set up to study the policy and make alternative arrangements. The solution was found in mehrwertsteuer which was eventually adopted in the common market. Thus, Germany's movement towards integration did have domestic political overtones. For details, see, Malcom Maclennan, Economic Planning and Policies in Britain, France and Germany (New York, 1968), pp. 190-1.

In Germany, the pattern of political pressures congealed in such a way as to conduce rapid compliance with EEC directors. But, the VAT experience in Italy was completely different, the pattern congealed so as to make compliance virtually impossible for an extended period of time. VAT had a delayed beginning, in 1973, in Italy. Italy was foot dragging on the VAT, the main reason being the interest of political survival. Specific opposition came from myraid quarters. First, within the Italian administration, elements in the ministry of finance lined up against the VAT largely because it threatened the 'Imposta Generale sull Eutrata' (IGE), [the cascade variety turnover tax then in force in Italy], a prime source of fiscal revenue. The fear was that the VAT would not yield the returns that the IGE was then yielding and that revenues would fall accordingly.[27] VAT was unwelcomed, especially with small businessmen and shopkeepers in Italy. Their manifest concern was, first, that the VAT imposed unreasonable book-keeping burdens, which hampered productivity and cut into already narrow profit margins. Second, the small businessmen argued that VAT discriminated against them because it favoured larger integrated firms which could use internal transfer pricing to disguise the

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27 S. Tarditi, "The Common Agricultural Policy : The Implications for Italian Agriculture", Journal of Agricultural Economics (Kent), vol. 38, no. 3, September 1987, pp. 407-8.

real value-added. Third, there was the party, political opposition, mainly from the left. Generally, the left wanted low rates on commodities consumed by working people and no VAT at all on food. At the consumer level, there was a general fear that the imposition of a new tax would inflate the prices and thereby burden consumers. A sweeping range of particularistic objections to the VAT in Italy in 1970, 1971 and 1972 (which had political implications) kept the Italian government from entertaining the issue of VAT in various Council meetings between 1967 and 1973. Thus, once again political wisdom clouded the EC directives.[28]

The French position is a vital factor in most Community level discussions of agricultural problems. The French made efforts, not in the hope that the EEC will turn out well for French agriculture, but in the firm determination that it must.[29] The situation was favourable, almost from the outset, for the French groups, the government had made it known during the treaty negotiations that it wanted agriculture included and that it expected the French peasants to benefit from any arrangements that would be made. The peasant organizations and the government thus shared, from the beginning, a similar expectations as to

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28 Puchala and Lankowski, n. 14, p. 94.

29 Hans Peter Muth, French Agriculture and the Political Integration of Western Europe (Leyden, 1970), p. 207.

how French agriculture was to benefit in the new environment.[30] The French played, from the beginning, a very important role in most specifically agricultural interest groupings on Community level. The behaviour of the organization leaders in Community-related matters was marked by very little 'starry-eyed' idealism and by much realistic intelligence. They realized that in the future a growing number of important decisions would be taken at Brussels. These decisions could be influenced only - if at all - by the full utilization of the organization's real power bases which they possess in those places where the final decisions would be made. Indirect interest promotion through COPA usually pursues French objectives which have been compromised and watered down by trying to reconcile them with the objectives of other national groups.[31] Price and market policy constitutes the basic foundation of agricultural policy -- both gains and losses in this sector would be felt directly by the peasants in each member country. Thus, at such times countries resort to unilateral national remedies, violating the Community regulations.

Similar was the refusal of three member States--Belgium, France and West Germany--to make their

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30 Ibid., p. 209.

31 Ibid., p. 215.

contributions to the 1980 EEC supplementary budget.[32] The self-interest amongst the Member States' was particularly revealing in June 1985 when the Germans, for the first time in the history of German Community membership, vetoed a decision by the Council of Ministers to lower institutional prices in cereal sector. In an attempt to uphold continuity in the implementation of the reforms approved in 1984, the Commission, on 20 January 1985, proposed an average drop, in institutional prices, of 0.3 per cent. The proposal, when communicated to member States, the European Parliament and the press, drew immediate criticism from the German Minister of Agriculture, since it involved a reduction of the intervention price for cereals by 3.6 per cent.[33] In addition, the Commission recommended further reduction in positive MCAs for Germany and the Netherlands, in association with the elimination of the Greek and French negative MCAs.

During the official negotiations in the Agricultural Council, on 11 March 1985, the extent of the difficulties was clearly defined when a division emerged between German (supported by Italy and Greece) and the

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32 B. Vivekanandan, "Problems of the European Community", in K.B. Lall, et al., eds, The EEC in the Global System (New Delhi, 1984), p. 217.

33 The abundance of the 1984 harvest, meant a cut in the 1985 price level by 5 per cent, in an attempt to bring the level closer to world market prices. In order to meet German wishes, however, the Commission fudged this obligation by initially proposing a price cut of only 3.6 per cent. Hendriks, n. 7, p. 88.

remainder of the member States, which either felt that the proposed package constituted an acceptable basis for the work of the Council, or at least did not reject the Commission's approach outright. However, Kiechle, the German Minister of Agriculture, emphasized that the gradual loss of income suffered by the German farmers over the previous decade -- mainly as a result of agriculture-monetary measures -- had resulted in a loss of confidence. Thus justified the German protest against the cut in positive MCAs and the reduction in cereal price.[34]

In subsequent meetings of the Agricultural Council in late March and early April 1985 Germany became increasingly isolated in its categorical resistance to the Commission's proposal. Since agreement was not reached by the beginning of the marketing year on 1 April, it was decided to continue negotiations later that month and the marketing year was extended. The crisis worsened at the fourth meeting, with Germany remaining adamant in its rejection, both the dismantling of MCAs and of a drop in cereal prices. The President of the Council, Pandolfi, proposed an 'outline of a compromise[35] in an attempt to draw together the divergent positions noted at previous meetings. Nine countries were

34 The Times (London), 11-12 March 1985.

35 The compromise involved an elaborate working of the system of the guarantee threshold for cereals providing for the initial setting of a provisional price, with the definite price to be set in three months into the farming year in case the threshold was exceeded. This meant that cereal producers would not be penalized for the 1984 record harvest.

prepared to negotiate on that basis, but even the idea of negotiation was rejected by Germany, both within the Council and during subsequent bilateral meetings between Pandolfi and the German delegation Ignaz Kiechle (German Minister of Agriculture) declared that the most he could accept was a price freeze, since any reduction would conflict with Germany's vital national interests. This was 'the first hint that Germany will not accept a majority decision'. The mid-May 1985 session, after another unsuccessful meeting earlier in the month, was the scene of a real confrontation between Germany and the Commission, although the latter's final draft proposal had included an average drop of 2 per cent (rather than 3.6 per cent of originally proposed) in intervention prices for cereals. The Commission also withdrew its measures for the dismantling of positive MCAs. In a highly unusual intervention, Chancellor Helmut Kohl, sent a telex to the Commission's President, Jacques Delore, appealing him 'to do everything possible to help Germany over the cereal issue. He also warned that one of the most important member States of the Community should not be put under such pressure'.[36]

Encouraged by the support of his government, Kiechle declared that Germany would, on no account, agree to the compromise. Launching an impassioned attack on the Commission for ignoring German needs, he warned that such

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36 Financial Times (London), 15 May 1985.

a strategy directed against a large member-State would not pay, thus repeating his government's sentiments.

On 14 May 1985 the Commission presented a final compromise outline providing for a slightly lower drop in cereal prices than what it suggested in the previous meeting. Kiechle remained adamant and appeared hardened as a result of the defeat of the ruling coalition government in regional elections in Nordrhein-Westfalen on 12 May 1985.[37]

The impasse persisted, although the general feeling was that, after the latest and important step to meet the German demands, it was up to Kiechle to show more flexibility. On 17 May 1985, the Council had to approve an unprecedented price deal which excluded the crucial question of cereal prices, as Kiechle insisted on postponing decision on this matter.

The next session opened in mid-June 1985 in Luxembourg. But, with the Commission confirming that it had no intention of amending its final proposal, Pandolfi decided to hold a majority vote, as provided for by Article 43 of the Treaty of Rome despite German plea to continue negotiations. Kiechle then formally invoked the

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37 Helmut Kohl's Christian Democratic Union party is heavily dependent on farm votes. Farmers are a crucial and traditionally loyal section of electorate and their desertion at the polls was believed to have been a significant factor in the CDU/CSU's drop to 36.5 per cent of their votes. Financial Times (London), 14 May 1985.

'Luxembourg compromise'[38] saying that discussions must continue until a unanimous decision was reached. Five ministers of France, Greece, Denmark, Britain and Ireland declared that as they could not assess the vital national interests of another member, their delegation would not take part in the vote. Thus, only four countries took part in the procedure, but this was not enough to reach the number of qualifying votes required -- 45 -- to adopt a decision. As a result, the regulation on cereal prices and related measures were not adopted. In the event, despite German resistance, the Commission pressed ahead with new restrictions on cereals farming, which brought about the price cuts vetoed by Germany. On 19 June 1985 it ruled that cereals cuts of 1.8 per cent as proposed during the last compromise, would be enforced until another Council decision ruled otherwise.[39] The Commission's decision was taken under its executive powers to ensure that the markets functioned smoothly, thus openly defying the German veto. The German veto cast doubts on the credibility of member States' commitment to Community policy and this incident reflected the restrictions imposed by domestic interests on European policies and exposes the political undercurrents of representatives who, by rules,

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38 The right to national veto, though often criticized, goes back to France's empty chair strategy in 1965, which resulted in the Luxembourg compromise in 1966.

39 Agence Europe (Brussels), 14 June 1985.

stand to delink completely from national influences.

There is, thus, a constant conflict between what is necessary in terms of national policy and what is feasible in a supranational framework. In which case, domestic concerns frustrate the official European line.

The inclusion of Spain and Portugal into the Community necessitated certain changes. Nonetheless, serious adjustment problems for European farmers were feared for three principal reasons:

(1) For fruits and vegetables, the Spanish competition is strong. The nature of CAP support system would probably not prevent some erosion of prices in the enlarged market. For these products the system relies heavily on protection at the border through a combination of customs duties and references prices. This is reinforced by national trade restrictions in some cases. It is important to note that less emphasis is given to support buying to maintain floor prices, mainly because of the perishable nature of the products and intervention prices are set at low levels. Horticulturists in France, Italy, Greece as well as producers under glass in the Netherlands and elsewhere face a major adjustment problem as Spain joined the EC. There is strong price incentive in the EC for Spain to expand its production level. European Commission has estimated that in Valencia-Maurcia on the east coast, the

immediate application of the CAP would raise the value of final production by 31.3 per cent.

(2) Concerns of dairy products and producers in Spain: Prices in Spain are high for dairy products when compared to the European Community. Application of the EC price would reduce value of final production by 7.4 per cent. The Spanish dairy farmers have an average 4.9 cows compared with 15.7 in the EC. Thus price reduction, which is inevitable, would depress them in a region where few alternative job opportunities are available.

(3) A third problem concerns with olive oil and wine. The support in these sections are likely to increase, but simultaneously opens Spanish market to substitute oil and fats which might lower consumption of olive oil. Rising prices lead to demands for further production controls and the Spanish problem of adjustment is greater because there are no alternatives available for olive and wine cultivators. The problem is grave, for in Spain there is extreme regional diversity and that changing to alternative farm occupation is difficult.[40]

During the negotiation of entry arrangements for agricultural products, there were intense and politically

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40 Robert C. Hine, "Customs Union and Enlargement : Spain's Accession to the European Community", Journal of Common Market Studies, vol. 28, no. 1, September 1989, pp. 16-18.

influential lobbying from farmers, particularly in the EC-ten, who feared that enlargement will have negative effect on their farms. Thus they sought to gain additional support for producer group, and some further products were added to the list of fruits and vegetables receiving support. Negotiations provided a long transitional period of seven years by then the Spanish agriculture would be gradually integrated into the CAP. For fruits and vegetables the transition period was ten years. Moreover, the other EC members succeeded in fixing a minimum sale price for Spanish exports into the EC before 1996. Same was applicable to oil. The monitoring of trade policy between Spain and EC was implemented. The indicative import ceiling will be established allowing a certain steady progress in relation to traditional trade flows. Imports could be suspended if the ceiling was exceeded by the Spaniards.[41] Thus, some of the terms of entry arrangements for agricultural products between the EC and Spain highlight the narrow self-interest of member States.

The case of British difficulties over the EC budget have inevitably created a major uneasy situation in successive meeting since 1974. The UK has experienced a problem on both sides of the budget. Its gross

41 Ibid., pp. 19-21.

contributions have been relatively high because its imports, both of industrial goods subject to the common customs tariff and of agricultural goods subject to the variable import levies of the CAP, have been higher than those of other member States.[42]

In the course of negotiations leading to the signing of the Treaty of Accession, a statement was made in a Commission paper to the effect that "should unacceptable situations arise within the present Community, or in enlarged Community, the very survival of the Community would demand that the institutions find equitable solutions". But, since the Community policies failed to diversify the Community revenues and curb expenditures, the UK government fell back on the unacceptable situations' compromise as the political basis for demanding adjustment of what they regarded as excessive net contribution to the budget.

The first demands for refunds were made in February 1974. The renegotiation of the terms of membership was treated in other member States as a political matter requiring a cosmetic solution and it was not seen as a substantive issue in the beginning. A financial mechanism was agreed in March 1975 for the refunds of excess gross contributions. However, it was never effective. The

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42 Geoffrey Denton, "Re-structuring the EC Budget : Implications of the Fontainbleau Agreement", Journal of Common Market Studies, vol. 23, no. 2, December 1984, p. 120.

second re-negotiation undertaken by Britain, was started by the Government of James Callaghan, in 1978, and carried forward by the Conservative Government under Mrs Margaret Thatcher from May 1979. On this occasion, the UK government did not restrict itself to the problem of the gross contributions, but faced up to the main issue of the shortfall in the receipts and the excessive net contribution.[43] After arduous negotiations, the Brussels agreement of 30 May 1980 provided for refunds in respect of the budgetary years 1980 and 1981, with a possible extension for 1982.[44] The refund arrangements did not completely solve the problem and the expenditure kept on the rise.

The firm stand of the British in the subsequent meeting has more to do with the mounting pressures from the Opposition and the Farmers Union. On 13 February 1980 the National Farmers Union in London attacked the working of EEC farm policy and said that Britain should withdraw from it and unanimously called for the adoption of national support measures. The farmers declared that the CAP has degenerated into a mass of more or less shoddy expedients just to keep the show on the road. And, the British

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43 Paul Taylor, "The EC Crisis over budget and the Agricultural Policy : Britain and its Partners in the Late 1970's and 1980's", Government and Opposition (London), vol. 17, no. 8, August 1982, p. 398.

44 EC, Official Journal (Brussels), vol. 28, 1982.

union was criticized for being less aggressive in the Brussels office![45] The national executive of the Labour Party passed a resolution which said:

> In view of the lack of progress to meet Britain's demands at Dublin Summit (1979), Britain should immediately cease paying all EEC taxes, stop ministers attending EEC meetings, and decide to undertake a study of options open to us, including amending section 2 of the European Communities Act and withdrawal from the EEC - and to prepare alternatives for Britain. 46

Subsequently, on 18 March 1980, Margaret Thatcher said that Britain would have to consider withholding its value added tax (VAT) contributions, to the EEC budget if there was no equitable solution to the problems of Britain's contributions.[47] Here again, the sanctity of Community's laws faced a serious threat from the member States. The issue of British Budgetary problem reappeared in the Fontainbleau Agreement (1984), which took a positive step forward to solve the Community impasse over the expenditure. The Agreement limits the size of the British contribution in and after 1985 to a percentage of the uncorrected net contribution. In fixing the refunds, the 1980 Brussels Agreement tried to avoid accepting the principle that a limit could be set on the net contribution of any member

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45 The Times, 18 February 1980.

46 Vivekanandan, n. 32, p. 219.

47 The Times, 19 March 1980.

State. The refunds were granted on a temporary basis and was not, in fact, trying to control the net contributions but only took special steps (supplementary measures) to help a member State with particular problems. The refunds were, therefore, tied to specific programmes to help regions, inner cities and the development of energy resources. The 1980 agreement was intended to provide refunds of approximately two-thirds of the UK net contributions. However, principally as a result of an increase in world food prices in 1981-82, which reduced the level of EAGGF expenditure, the *ad hoc* refunds were about 78 per cent in relation to the 1980 budget and as high as 99 per cent in relation to the 1981 budget. This created difficulties in further negotiations about the refunds for 1982 and 1983, since Britain naturally preferred to ignore the unexpected outcome for 1980 and 1981 and demanded a continuation of a two-thirds refunds in the subsequent years.[48] This showed the tendency among member States to overlook rationality, if it favours them. Naturally, the other member States demanded that the excessive refunds that had been made in 1980 and 1981 should be recouped by giving smaller refunds in 1982 and 1983. Finally, the refunds were reduced to 57 per cent for 1982, and 40 per cent for 1988. The Fontainbleau Agreement fixed 1000

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48 Denton, n. 42, p. 125.

million Ecu for 1984 refund, which was 51 per cent of the total net contribution. The refund agreed for 1985 and later was at a rate of 66 per cent. Finally, the UK Government agreed to an alteration on the basis for estimating the net contribution gap, qualifying for the 66 per cent refund. The gap is to be measured as the total of all expenditures which can be allocated to member States, multiplied by the difference between the UK's share of VAT contributions and the UK's share of allocated expenditures.[49]

Thus, negotiations have proved arduous not only because each government has felt obliged to defend its own national interest in retaining net benefits or avoiding net contributions, but also because there have been genuine differences of perception that have aroused considerable emotion and have made the task of the officials and politicians so much more difficult.

In the light of this environment, Italy also expressed its dissatisfaction. Italy has been a substantial net recipient from the budget in the 1980s, although in the mid-1970s it was a net contributor. But, it faced a more substantial food cost problem than Britain in respect of importing 'nothern' agricultural products at high prices

49 Ibid.

from elsewhere in the Community. In contrast the Mediterranean type agriculture (wine, olive oil, fruits and vegetables) which is predominant in Italy, is supported at much lower levels than northern produce. Thus, Italy, which is a poorer country than the UK in terms of GDP per capita, claims that its net receipt from the budget is by no means excessive and that there must be a limit to the extent to which it should be reduced in order to finance UK refunds.[50] Thus the EC has witnessed, over the years, a cynical real-politik approach of defending the national interest even if a particular member State is already being favoured by the budgetary structure.

The policies of member States and the wave of protectionism in the EC as a whole has generated trade problems. Agriculture has become an international issue. The frictions which arise in international agricultural trade are often due less to trade policy as such, than to the spill over effects of domestic agricultural support policies of the richer countries of the world, here in particular the EEC. The destruction of CAP seems inevitable, a matter of economic logic that the European farm lobby, however powerful, can do no more than delay.

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50 Stepan A. Musto, "Common Agricultural Policy and the Mediterranean", Jerusalem Journal of International Relations (Baltimore), vol. 10, no. 3, September 1988, pp. 55-56.

Euro-American Trade Dispute

The Euro-American trade conflict exerted great pressure on the EC to reform the CAP. Ever since the inception of the CAP, Euro-Atlantic relations have repeatedly been shattered by serious disputes over trade with agricultural products. Some of these clashes occurred due to the gradual expansion of the European Economic Area, which meant shrinking of America's unlimited access to those markets. The recent case has been the accession of the Iberian countries to the Community on 1 January 1986.

The American farmers feared the inclusion of Spain and Portugal into the EC on three grounds. First, the treaty regulates the Portugese soyabean market by setting import quotas according to the domestic consumption. Second, the treaty reserves 15.5 per cent share of the Portuguese cereal market for Community suppliers. Third, the variable levy scheme of the CAP was extended to Spanish agricultural imports. Hence, American imports into EC would become more expensive due to higher tariffs.[51]

The 'corn war' triggered off between EC and US, when President Reagan found the above measures to be illegal under General Agreements on Tariffs and Trade (GATT). Accordingly, he took action under section 301

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51 Reinhardt Rummel, The Evolution of an International Actor : Western Europe's New Assertiveness (Boulder, 1990), p. 241.

of the Trade and Tariffs Act setting quotas for European imports and suspending tariff concessions under GATT.

American Market Interest in Spain and Portugal

Both Spain and Portuguese markets for agricultural products are of considerable interest to US suppliers. In fiscal year 1985, the year before the 'corn war' America exported products worth $ 502 million to Portugal and $ 826 million to Spain. In 1986 after the expansion of EC, US agricultural exports to the Iberian countries declined to $ 428 million.[52]

Principal among the Portuguese imports from the US are grain (mainly corn) and oil seeds. Together they represent approximately 92 per cent of all US exports to Portugal.[53]

The Spanish market is also of importance especially to American corn and sorghum exporters. Feed grains worth $ 282 million were exported to Spain in 1985. American agricultural exports to the EC dropped from $ 8.640 billion in 1984 to $ 6.442 billion in 1986, while EC exports to the US rose in the same period. This resulted in a diminishing US surplus in agricultural trade with EC from $ 5.128 billion in 1984 down to $ 2.327 billion in 1986.[54]

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52 US, United States Department of Agriculture (USDA), Economic Research Service, Foreign Agricultural Trade of the United States, November/December 1985, p. 24.

53 Ibid.

54 Ibid.

Accession Treaty

The treaty for the accession of Spain and Portugal to the EC was signed on 12 June 1985 and became effective from 1 January 1986. Article 292 of the Treaty calls for a control mechanism for -

> the quantities of oil seeds and oil... vegetable oils on the Portuguese domestic market, in order to avoid worsening of the conditions for competition between various vegetable oils. (55)

The EC also decided to monitor imports for a transitional period of five years and to set quotas for these products. Until 1986 the Portuguese cereal market was dominated by imports from US (96 per cent, of which 74 per cent was corn). Articles 319 and 320 of the Treaty provided for a gradual dismantling of the monopoly over a four-year period.[56]

In the case of Spain, until 1984, it had tariffs for corn and sorghum bound under the GATT at a 20 per cent rate. After the accession, the variable levy system extended to Spain, which considerably increased the price of agricultural imports into Spain.

'The Corn War'

In the beginning of 1986 the US trade representatives and various other interest groups and Members of

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55 EC, Official Journal (Luxembourg), 1 March 1986.

56 Ibid.

Congress, protested strongly against the accession measures of Spain and Portugal into the European Community. The Americans accused the Community of completing the enlargement and enacting measures before negotiating over compensation according to Article 24(6) of the GATT. This Article regulates compensatory adjustment for trading partner in the event of customs union is formed or changed.

President Reagan responded to the Portuguese oilseeds and vegetable oil problem by introducing quotas with an equivalent restrictive effect on EC imports into the United States. With regard to Spain, the United States notified GATT that it would cease to recognize GATT limits on tariffs of certain US imports (that is, it withdrew tariff bindings) of comparable value to those exports affected by the levies imposed on Spain. Further, it threatened to impose tariff increases on those products, if the EC would not provide compensation under the GATT by 1 July 1986.[57]

The US countermeasures were finally made public in the Presidential proclamation of May 1986, which imposed quotas on chocolate, candy, apple or peer price, bear and white wine valued over $ 4 per gallon coming from the European Community. For a second group of products, American concessions granted under the GATT were suspended in

57 Rummel, n. 51, p. 254.

the response to Spanish corn and sorghum problem. The list of products included were pork, blue-mould cheese, edam and crouda cheeses, eudine, carrots, olives, white wine, etc.[58]

The American measures elicited an immediate response from the EC Commission. Like the United States, the EC Commission issued a list of products considered for counter measures. The Europeans shaped their reactions into three categories of measures. The first included sunflower seeds, honey, wine and bourbon. The second category were fruit juices, beer and dried fruits. The third group (directed at the Spanish problem), included corn glutten feed, soyacake and meal, wheat and rice. However, these were mere announcements.

The bilateral meeting along with negotiations under GATT started in Geneva in May 1986 for the settlement of trade dispute. In July 1986, the Europeans proposed quotas based on the average importation level of the previous years (1983-86) for oil seeds and non-grain animal feeds. The quotas were designed to provide non-sectoral compensation for losses in the corn and sorghum sector. The Americans refused this solution. They demanded compensation in the same sector, i.e. corn and sorghum.[59]

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58 Ibid., p. 256.

59 <u>New York Times</u>, 31 July 1986.

The 'corn war' intensified when on 30 December 1986 US trade representative Clayton Yeutter announced that tariff increases of up to 200 per cent ad valorem on products like gin, white wine, cheese, brandy would be enacted. In an immediate response, the EC Commission proposed a 30 to 50 ecu levy on imports of corn glutten feed and rice worth equally about $ 400 million.[60]

The American measures announced on 30 December 1986, became official with the Presidential proclamation of 21 January 1987. The enormous tariff increase was intended to stop the European exports. But these changes, hit French exports to the US (one quarter of French brandy and wine being a major share of exports). But the scheduled tariff was never applied. A temporary agreement was concluded on 30 January 1987. The European Council conceded to postpone the application of Article 320 of the Accession Treaty until 31 December 1990. This Article would have introduced the variable levy system for cereals and reserved a 15.5 per cent share for the suppliers from other EC States. The main part of the agreement, however, provided for a minimum annual purchase of 2 million tons of corn and 300,000 tons of sorghum by Spain through reduced levy quotas or through direct purchases by the EC on world

60 The White House Office of the Press Secretary, Press Briefing by Clayton Yeutter, USTR, 30 December 1986.

markets. In exchange, the Americans withdrew the pending tariff increases proclaimed on 21 January 1987.[61]

But this continued to strain the trade relations between the United States and the European Community mainly because protectionism has become a common practise which in turn is shrinking the marketability of the agricultural products across the Atlantic.

The above analysis showed the important role American farm lobby groups played in the transatlantic trade conflict. The trade conflicts are mainly due to the common problem of surplus production in both US and the EC and divergent views on agricultural policies. The CAP will remain the main target of American attack as farmers continue to fight for their market share. Future agricultural trade conflicts are to be expected and are unavoidable as long as the principal conditions remain unchanged. The politicization of Agricultural policies eliminates the economic rationality and hampers the healthy trade relations between nations.

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61 New York Times, 31 January 1987.

Where the European Lobbyists Can Act

The legislative procedure	The Action of the lobbyists
Commission	
Departments	
Competent Directorates-General	Phase of preliminary information of the Brussels officials
Draft proposals	Institutional lobbying discussion with the consultative committees and managing committees in Brussels
Meeting of the Cabinet Heads (and representatives of the commissioners)	lobbying of the Cabinets
Study of the draft	
Commissioners	Lobbying of the Commissioners
Adoption of drafts	
COUNCIL	
Consultation E.S.C. / Consultation Parliament Study, amendments (two readings)	Lobbying of the Department of Parliament draft reporters, members of the relevant commissions political groups in Brussels. Occasional presence of lobbyists in Strasbourg before plenary session voting
Study by the relevant working groups (Committees, SCA, COREPER)	lobbying of the national officials who represent the member states in working groups and the Permanent representatives of the member states at Brussels.
Commission	
proposal possibly modified to take account of amendments of parliament	Continued lobbying of the various commission authorities
COUNCIL	
Rejection Adoption	National lobbying of the relevant ministers representing their member states in Brussels

62 Bruno Julien, "Euro-lobbying Invades Berlaymont", European Affairs (Amsterdam), no. 3, Autumn 1990, p. 31.

CHAPTER IV

PROPOSALS FOR REFORM

Agricultural protectionism is the hallmark of the Common Agricultural Policy of the European Community. A clear understanding of the issues which were analysed in the earlier chapters prompts the question, whether the CAP will undergo change or whether it will continue to operate as it has been in the past, on the basis of minimal adjustment in the face of major pressures. Though, over the years, there is substantive evidence of a metamorphosis in the policy, it has often been 'too late and too little'.

The rise in self-sufficiency is the inevitable outcome of the CAP. At the same time, it is clear that the increases in income through increased production are no longer possible, nor are unrestrictive price guarantees. It entails that the agricultural policy must be more sensitive to the needs of the market, at home and abroad, and that the EC must take greater account of the developments in international agricultural trade.

CAP has been accorded top priority among the policies of the Community, not only because its effects are immediately visible in the form of farm incomes and prices of commodities, but that it alone, among EC policies, has made prolonged contact with Europeans at the gross-roots level. It touches the fundamental concerns of all citizens of the member States, be they farmers or consumers. Besides, it has generated a lot of tension in international trade. The CAP, unlike previous years, faces a lot of constraints, like the importance placed on the social and environmental effects of CAP, and on the role of agricultural employment as a necessary element in the maintenance of the social fabric of rural areas. This is in sharp contrast to the 1950s and 1960s when policy makers welcomed out-migration and relied on it explicitly or implicitly, to assist in the improvement of the incomes of those who remained in farming.

The criticism of ecologists includes the overuse of pesticides and herbicides as it endangers the natural conditions. They objected to modern farming as such because it was perceived to cause the impoverishment and dislocation of the landscape. They call for the avoidance of environmental pollution from farming, in particular from intensive livestock production (animal welfare considerations tend in the same direction) and from chemicals in crop production. The need for preservation of the landscape of flora and fauna in particular through maintenance of hedges and trees, and of areas still unreclaimed for farming or in extensive use. The environmentalist press, the need for less-reliance on non-renewable resources, including fossil fuels and all other inputs derived therefrom.[1] The current debate on CAP reforms gives rise to the concern that insufficient account might continue to be taken of the effects on the labour market and in particular the interest of farm workers and workers in the first stage of food processing. Employment of farm workers in the EEC has undergone changes over the last three decades which is reflected by the increasing integration of agriculture into the rest of the economy, increasing specialization and intensification of agricultural production encouraged by farming policies. Over this period, the regular hired worker fell by 70 per cent. There is the danger of depressing labour market situation in the Community, and the deterioration in farm profitability could lead to an increase in part time, seasonal and causal workers, hence decline in social security for those workers.[2] The report submitted by Lojewski of the economic and social council (ESC) indicates that in such a situation hired workers will be hit first by the curb on production. There is no social measure for this group

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1 Rosemary Fennell, "Reform of the CAP : Shadow or Substance?" Journal of Common Market Studies, vol. 24, no. 1, September 1987, p. 68.

2 EC, Economic and Social Consultative Assembly, Effects of the CAP on the Social Situation of Farm Workers in the EC (Brussels, 1987), pp. 16-18.

of workers compared to the farmers.[3] Since, domestic demand and export opportunities are stagnating, the general economic trend is unlikely to provide adequate alternative employment and, in addition to this, the technical advances in agriculture will continue to destroy jobs.

The EC policies on agricultural prices and the volume of production have affected the social situation of employees in both the food industry and agriculture. The policy on the volume of agricultural production has a far more serious impact on the social situation of agricultural workers, for instance, the freeze and curb methods of production, have adverse affects on hired labourers.[4]

The agricultural price policy and market policy, both in the initial fixing of common prices and in subsequent price decisions has had to bear all the weight of trying to reconcile the conflicting objectives of Article 39 of the Treaty of Rome and to ensure a fair income for farmers by increasing productivity and to ensure reasonable prices in supplies to consumers. The result was the creation of surpluses which even then did not allow for a sufficient growth in incomes. It is this excessive reliance on price to secure other objectives, which has been one of the major sources of criticism. The unequal developments in other community policies has

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3 Ibid.

4 EC, Economic and Social Committee of the European Communities, Annual Report, 1981 (Brussels), p. 6.

been even more serious. In the absence of an effective regional policy, agricultural policy is forced to play a major part in preventing, worsening of the regional imbalances, within the Community.

Another new constraint arises from the internal market 1992, dismantling of technical barriers in trade for agricultural products and also the elimination of MCA. The failure over the years to make progress in common monetary policy has thrown an enormous weight on agricultural adjustment among and within the different member States. The many exchange rate variations since 1969 have produced a steady retreat from the unity of the market. Franklin says that the CAP suffers from all the attention and all the difficulties of a precocious child. "A precocious child merits special nurturing but is seldom loved."[5]

The protectionist policies of the CAP have played havoc in international trade. The restrictive import policies make harmonization and adjustment in international agricultural trade negotiations difficult. A leading factor in the 'illusionary effect' of increased exports has been the subsidization of agricultural exports.[6]

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5 M.D.M. Franklin, "The CAP - 1974", Journal of Agricultural Economics, vol. 26, no. 1, January 1975, p. 142.

6 Hartwig De Haen, et al., eds, Agriculture and International Relations : Analysis and Policy (Macmillan, London, 1985), p. 118.

The global trade order depends on a balance of interests between trading nations to minimize extreme state actions that disrupt trade flows. In this sense, the CAP of EC shrinks in its responsibility to the global order. The EC needs a major initiative to halt the spiral of competitive subsidisation in agricultural export markets chasing escalation levels of protection by importers.

Agricultural protectionism has been at the centre of international political discussions during the ongoing Uruguay round of GATT. The objective of these negotiations is to reduce the massive distortions prevailing on the world's agricultural markets. Especially the USA and the Cairns group and the developing countries have been pressing for a far-reaching liberalization of markets. On the other hand, EC is only prepared to accept a relatively moderate reduction in the high level of protection afforded to the core commodities of the CAP. Moreover, it has linked this concession with the demand that external protection should be increased for a number of products where the EC has a trade deficit. The high and in some cases increasing level of protection for the so-called core commodities in the CAP on the one hand and the low or, indeed, zero tariff rates applying to grain substitutes and oilseeds on the other, inevitably imply that the price ratio between the two types of produce are seriously distorted. In a sector with such a wide variety of horizontal and vertical interdependence as agriculture, such distorted price differentials initially lead to major distortion in both demand and supply.[7]

In addition, the pressure on the EC farm policy intensified with two notable developments. First, the US lowered loan rates and reintroduced export subsidies on grains under the Food Security Act of 1985 and allowed the dollar to devalue. These measures had the effect of lowering world market prices and, thereby, increasing the support cost to the Community of exporting surplus stocks. Secondly, the formation of Cairns group of fair traders in agriculture meant that the EC had to deal not only with USA but also with a coalition of smaller exporters.[8]

Reforms Initiatives

Mansholt Plan

The series of reform initiatives began in 1968 with memorandum on the reform of agriculture in the EC, popularly known as the 'Mansholt Plan'. It suggested radical steps to ease the problems facing the CAP. Among

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7 Michael Atkin, Agriculture Community Market : A Guide to Future Trading (London: Routledge, 1989), p. 52.

8 Kym Anderson and Yujiro Hayanani, The Political Economy of Agricultural Protection (Sydney: Allen and Unwin, 1988), p. 61.

its recommendations were a major restructuring of farming towards large scale specialized units with an attendant sharp decline in the work force and the withdrawal of land from farming for recreational or forestary purposes.[9]

The report noted that among the problems facing agriculture were the small size and fragmentation of farming units. In particular milk production was concentrated on such small units, making it politically unacceptable to correct over supply by cutting prices. Small farmers maintained by the price support policy continued to produce commodities for which the market demand was saturated. Low incomes gave them no alternative but to try and increase their own output even if the market was over supplied.[10]

The memorandum outlined a comprehensive set of proposals for the reform of agriculture. It proposed reform of the structure of production, a reduction of the total agricultural areas and marketing improvements. The new structure was to be based on farming enterprises of adequate size by reducing the size of the agricultural production and by increasing the size of farms. Two

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9 John S. March and Pamela J. Swanney, Agriculture and the EC (London: George Allen & Unwin, 1980), p. 40.

10 EC, Commission of the European Communities, Memorandum on the reform of Agriculture on the EEC (Brussels, 1968), p. 73.

kinds of measures were proposed: (1) To help people to take up alternative occupations or to retire; and (2) to help people who remained to modernize their farms.

The memorandum also sought marketing improvements, particularly in information, the organization of producers' associations and greater responsibility for farmers in the marketing of their produce. It argued that larger modernized farms could play a more responsible role in marketing their output.[11]

These comprehensive and, in many ways, drastic proposals were designed to shock the Community into realizing the inadequacy of short-term price measures in the context of a long standing and self-perpetrating social structural problems. The overwhelmingly negative response to these ideas seems to have had a lasting effect on the Commission which quickly dropped 'shock tactics' for the more modest approach.

Improvement Memorandum

No positive action was taken until 1972 when the three directives were introduced, known as the improvement memorandum of 1972. These represented a noticeable retreat from the initial plan. They were concerned with:

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11 Ibid., p. 76.

(1) Farm modernization; (2) encouragement to specific farmers to leave farming and to allocate their land for the improvement of remaining holdings; and (3) measures for training and advice to farmers. The first directive aimed to improve the living standards of the agricultural population throughout the Community by a comprehensive modernization programme for some farm holdings.[12]

Aid was available for investment in the unit for the implementation of an approved development plan, covering a period of not more than six years to be submitted to the national government. By the end of the period the holding should be able to employ one man full-time, providing him with an income comparable with average non-agricultural earnings in that region. The selectiveness of the scheme meant the availability of aid only to those farmers who successfully comply with the conditions of the directive. Several forms of aid programmes were initiated:

> ...aids for investment necessary to implement the development plan either as an interest rebate or as a capital grant.
>
> Priority to acquire land released under the second directive. 13

For eligible claims the European Agricultural Guidance Guarantee Fund (EAGGF) normally grants up to

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12 EC, Commission of the European Communities, Improvement of the CAP (Brussels, 1973), pp. 37-40.

13 Ibid.

25 per cent of the aid, the balance to be paid by the member State. In some situations, where the structural problem was especially severe, a larger proportion of expenditure was met from EC resources. The directive did not prohibit the granting of national aid to holdings not falling in the categories defined. It does, however, severely restrict such aids except on a regional or temporary basis.[14]

The second directive, aimed to encouraging farmers whose holdings were incapable of providing an adequate income to give up farming and release their land for reallocation. In such cases financial assistance was provided.[15]

To qualify for a retirement payment, the farmer/ farm worker must have worked in agriculture for the five years prior to submitting his application, and, during that time, he must have devoted at least 50 per cent of his working life to agriculture and derived at least 50 per cent of his income from it.[16]

The third directive aimed to develop information services and professional advice to farmers, farm workers and their families. Information and guidance was intended

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14 Ibid.

15 Ibid.

16 Ibid.

to deal with matters relating to agriculture and with more general aspects concerning the economic and social conditions of the farming community. It was intended that this guidance will give the farming community a better understanding of its situation and opportunities, help to improve farming skills if they choose to remain in agriculture and help individuals to adapt to new situations, if they decide to leave farming. This group of directives attempted to tackle three principal factors which limit the ability of the farming sector to earn an income comparable with other parts of the economy.[17] The directives were 'blanket' measures and, as such, did not serve the needs of all regions equally. Within the Community there existed substantial regional variation in farm incomes. Many of the areas where income is lowest suffer permanent handicaps. Natural features such as slope, poor soil type, climate and altitude of all area, mean generally higher production cost and a lower return due to poor yields. The agriculture of such regions is competitive in a community context. Regional differentiation is against the principles of a common market. The Community, however, in Article 39 of the Treaty of Rome recognized that special problems existed as a result of regional disparities. The gap between

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17 Ibid.

the less favoured and the more prosperous agricultural regions and anxieties about rural depopulation have forced the Commission to consider specific policy measures to assist the weaker areas. Aid to the less favoured areas have been proposed with two principal objectives: (a) to enable mountain and hill farmers and farmers from other poorer areas to restructure their farms in line with other more favoured regions of the Community; and (b) to preserve the ecological balance of the natural environment for the benefit of society as a whole.[18]

The Mediterranean Package

The Mediterranean package, 1978, was adopted because it was felt that the operation of price policy favoured 'northern' products and the prospective enlargement of the Community to include Greece (1981), Spain and Portugal (1986) caused concern about certain areas around the Mediterranean. The proposals included financing for promoting better marketing structures in the Mediterranean regions.[19] By 1978, the lack of success of the 1972 comprehensive directives gave rise to a

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18 EC, Commission of the European Communities, Community Regional Policy (Luxembourg, 1979), p. 12.

19 EC, Commission of the European Communities, Mediterranean Agricultural Problems (COM 77), 140, Brussels, pp. 8-11.

movement towards a reacceptance of the much more comprehensive thinking behind the Mansholt Plan of 1968. At the end of 1977, the Commission submitted a report on the effectiveness of the 1972 structural directives, together with proposals for their reform. The report argued that from 1972 to 1978 the directives on the modernization of farms has had moderate success but the retirement directive has been an almost complete failure. The directives have been thwarted by lack of funds and by national laws which inhibit their effective operation.

While the measures attempted to tighten up structures and reduce farm population, the price policy's focus of attention encouraged the small and often economically nonviable farms to stay in business by giving an acceptable return through high farm prices. Thus, the focus of the CAP became more overtly on the welfare of the farmer in relation to his counterparts in other sectors of economy.

The Reflection of the CAP

The 1980s opened with the 'reflections of the CAP'. In it, the Commission discussed many of the criticisms raised against the policy, some of which it clearly regarded as valid. The concept of co-responsibility was considered at length and an attempt was made to nudge the policy towards tackling the social problems of income disparities between rich and poor farmers. But these recommendations fell on the wayside.[20]

A separate memorandum on Agriculture, referred to as the guidelines (1981), provided a comprehensive review of trade and market conditions and introduced, for the first time, the concept of production objectives which were set for 1988. What is significant is that these objectives were based, not on a reduction of the existing surpluses, but, rather, on containing future production increases to no more than the expected rise in consumption.[21]

Green Paper - 1985

Later, in 1985, the Commission suggested further reform measures. The prespective for CAP or the Green Paper was not intended to be a comprehensive review of the problems facing the CAP, but, rather, was selective since it tried to identify the principal fields in which political choices were required without implying that other aspects of the CAP can be neglected. The area of choice fell into two broad groups - one concerned with prices and markets and the other with the position of agriculture in society. The Commission suggested five options:

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20 EC, Commission of the European Communities, Reflections on the CAP (Brussels, 1980), pp. 27-28.

21 EC, Commission of the European Communities, Guidelines for the European Agriculture (Brussels, 1981), p. 68.

(i) Control of the growth of production, either through price adjustments of sufficient magnitude that they would outweigh technological advances or through institutional curbs on output levels;

(ii) Promotion of alternative lines of production, such as: (a) extensive crops to replace existing arable surplus crops (e.g. oilseed and protein crops), wood crops (also suitable for pasture land); (b) fruit crops such as nuts and jojoba; (c) specialized crops on irrigated land (e.g., medicinal plants and cotton); (d) miscellaneous small scale replacements such as small fruits, bee keeping and fish farming; and (e) new more commercial varieties of existing crops;

(iii) Alternative outlets for existing surplus crops. Two major markets were highlighted--bio-ethanol for incorporation in petrol and the non-food industrial uses of starch and sugar;

(iv) Curbs on the budgetary costs of exports achieved by: (a) increasing the share of export risk borne by producers; (b) in the longer term reducing support prices to levels closer to those of other exporting countries; (c) changing the internal method of support of certain commodities to a production aid, which would also have the effect of lowering the cost of export aid; (d) adjusting the institutional mechanisms for awarding export refunds; and (e) introducing the use of export credits and multi-annual supply contracts,

(v) Changes in import regimes. To negotiate in GATT a trade-off between highly protected commodities and those with low protection, without changing the average level of protection for Community agriculture overall.[22]

The range of options on prices and markets seemed impressive, but quickly sunk without making mark. For instance, the Commission stated that it preferred option to control price but it did not provide any estimate of the size of the curbs which would be required.

The prospects for the success of these proposals was damaged by Germany's uncompromising stand on minor reduction in institutional grain prices (1985). The other stumbling block to the proposals, like the expansion of the non-food uses of agricultural raw materials, is the high cost. For instance, in bio-ethanol, if there is to be any significant drop in money support prices for its raw materials, production might then become more viable economically but the purpose of the price fall would

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22 EC, Commission of the European Communities, Perspectives for the CAP (Brussels, 1985), pp. 62 ff.

presumably have been to reduce surplus production. If this goal was achieved, there would be no raw material available for bio-ethanol production. Therefore, it is quite clear that bio-ethanol could only be considered a possibility in the event of continuing surpluses and with the aid of large subsidies. The alternative outlet option casts serious doubt on the Commission's resolve to get production of surpluses under control.[23]

The imbalances of supply and demand, the accusations of protectionism at home and dumping abroad, the high unit cost of subsidies, the persistently low incomes of many farmers, combined with over-compensation of others, which could lead to income redistribution, were all economically embarrassing and all this suggested the need to lower the level of investment in the sector.

Ecological and Regional Development

In the light of these considerations the second broad area covered by the perspectives is the position of agriculture in society under which the Commission discusses three topics, agriculture and the environment, regional development and direct income aid.

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23 W.R. Sheate and R.B. Macrosy, "Agriculture and the EC Environmental Assessment Directive : Lesson for Community Policy Making", Journal of Common Market Studies, vol. 28, no. 1, September 1989, p. 69.

As the introduction of environmentally friendly practices, the major set back is that of finance. Structural aids under CAP are subject to a 5-year budgetary allocation. An additional factor in competition with environmental aid is the need to expand the structural funds to cover the increasing regional development needs of the newly admitted member States, especially Spain and Portugal.

Direct Income Aid

The Commission outlines four types of aids for direct income aid arising out of the imposition of a restrictive price policy. They are: (i) a pre-pension scheme for early retirement; (ii) transitional degressive aid to help farmers adjust to the new price and market policy either by reorganizing their farming pattern or by leaving the farm; (iii) supplementary social welfare benefits for the poorest farmers of all; and (iv) a set-aside programme which would buy out the farmers' right to produce. But these options were not favoured much because what could be saved by price control would be spent on these measures. Thus, it serves no particular logical purpose.[24]

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24 Christopher Brawin and Richard Mcallistor, "Annual Review of the Activities of the EC, 1988", Journal of Common Market Studies, vol. 27, no. 4, June 1989, pp. 323-9.

The direct income aid involves either the abandonment of the right to produce a particular crop and a switch to an alternative for which a market exists or the abandonment of the right to produce all agricultural products. In the former case the farmer would be entitled to a degressive income aid, in the latter the land could be bought or rented on a long-term basis for a non-agricultural purpose. And the set-aside programmes were stalled due to financial constraints.

The issue of CAP reforms thus seems to be complex. Rosemary Fennell says that the problem of CAP reforms is that of the Commission itself. First, she points out that the Commission does not address itself to the growing income differentials between farms and regions which were exacerbated by the price and market policy itself. Secondly, it ignores the social inequity of overcompensating a small minority of rich farmers, which is totally contrary to the aims of the policy and indeed to the wider aims of the Community as laid down in the Treaty of Rome. Thirdly, it omits every consideration of the way in which the instruments of the price and market policy are used to promote quantity and not quality.[25] But, however,

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25 Rosemary Fennell, "Reconsideration of the CAP", Journal of Common Market Studies, vol. 23, no. 3, March 1985, p. 247-9.

radical reforms of the CAP may appear to make economic sense though it is not without political dangers, and, therefore, to shift the blame to Commission solely for all the malaise which has struck the EC farm policy is unjustifiable.

Fiscal Reforms

The Commission (1985) proposed to phase out MCAs in two stages, and that any future MCAs created by the changes in exchange rate was intended to be phased out according to an automatic time-table.[26]

The Council was not prepared to accept such vigour and concentrated its efforts on the positive MCAs, the dismantling of which (resulting in a decrease in agricultural prices in national currency) is more difficult to obtain than dismantling of negative MCAs. The solution chosen was largely the idea of the German government, which was under pressure from its partners, particularly France, to remove its positive MCA of 9.8 per cent. On the one hand, Germany accepted that it should make a large cut of five points by revaluing the green DM at the beginning of 1985 provided that the loss of income to German farmers could be compensated for through the VAT system. On the other, in the beginning of the 1984-85,

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26 Commission, n. 22.

Germany refused to make a revaluation of its green money, proposing instead a complex manoeuvre with MCAs which in economic and budgetary terms had the same effect as an increase of 3.6 per cent in common prices accompanied by the dismantling of three points of positive MCAs. This was finally accepted by the other partners and a phased programme was agreed for abolition of the positive MCAs to a large extent by the beginning of 1985 and completely by the 1987-88 market year.[27]

Another important decision was to alter green money system so that future parity adjustment in the EMS does not lead to the creation of positive MCAs but also of negative MCAs. This move again reflected Germany's reluctance to accept any commitment to reduce agricultural support price in DM for it meant that the strongest money (so far, for many years it has been the DM) would in future determine the value of common agricultural prices -- indeed, much to the displeasure of other members.

In the subsequent years, the Commission (1987) presented additional proposals for the potentially most costly agricultural markets, involving a comprehensive system of 'budget stabilizers', which would automatically become effective when production and the cost of market support reached certain maximum levels. A scheme for

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27 The Times, 10 July 1987.

the set-aside[28] of arable land was reinforced to effect the stabilizers, while providing support to farmers. The pre-pension scheme made easier for elderly farmers to retire early and speed up the process of structural change in agriculture.

The prospect of an effective curb on farm spending was the key to success of the summit meeting (1988) which introduced budgetary reforms to guarantee the ability of the Community to act, doubling the structural funds for the benefit of the economically weakest regime and making a clear commitment to a more market oriented agricultural policy. For instance, the market in milk and milk products has always been an awkward sector to manage. The Community reached self-sufficiency in this area as long ago as 1974, but over the next ten years milk deliveries dimmed gradually by 2.6 per cent a year on an average, while demand rose by only about 0.6 per cent annually. All attempts to halt these trends and restore market price policy reacted for too late to the altered market situation. Finally, in 1984, the Community put on the brakes and introduced strict quota arrangements

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28 The Council approved the set aside scheme in 1988. Farmers wishing to take part must undertake to take at least 1/5 of their arable land out of production for five years. Depending on the quality of the soil and the average crop yields, the farmers receive a premium to make up for the loss of income.

EC, European Documentation, A CAP for 1990s (Luxembourg, 1989), pp. 33-38.

for milk production. The guaranteed quantity was first set at around 99 million tonnes for the Community as a whole. This quantity was then apportioned among the member States, which assigned production quotas to their farmers or dairies. Producers who overshoot their reference quantity is to pay a heavy special levy (super levy) on the excess quantities of milk delivered. At first the quota system was intended to remain in place for five years, i.e., until 1988-89, but the Council extended it for three years (uptil 1992).[29]

However, the milk production has not declined by as much as necessary to maintain market balance. On the demand side, butter consumption is decreasing continually. Despite this decrease, consumption of milk and milk products is expected to stabilize globally at just under 99 million tonnes, leaving an excess over internal requirements of over 15 million tonnes. In the absence of the special internal disposal measures (costing over ecu 2 billion in 1991) the potential milk surplus would amount to 25 million tonnes. Thus the Community stocks of butter and milk powder have been building up again and currently stand at over 900,000 tonnes. Under these circumstances, the quota reduction of 20 per cent, decided in 1991-92

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29 Ibid.

price package, will not be sufficient to avoid a further increase in intervention stocks. A further reduction of at least 3 per cent is considered necessary to avoid increases. Thus, the reflections papers (1991) of the Commission proposed to extend the quota regime further. The reforms proposals included, compensation schemes for farmers whose quotas, if reduced, will receive an annual compensation of ecu 5 per cent 100 kg over a period of ten years; and institutional prices for dairy products to be reduced by 10 per cent (15 per cent for butter, 15 per cent for skimmed milk powder).

Since the price decrease for inputs will mainly benefit intensive milk production, an annual dairy-cow premium will have to be introduced to avoid penalizing the producers concerned and encourage extensification[30] of dairy farming. The proposal set premium for the first 40 cows in every herd on condition that the following stocking rates are fully respected:

(i) Less favoured area, 1.4 livestock units (LU) per hectare of fonage;

(ii) Other areas 2 LU per hectare of fonage.

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30 Under an extensification scheme, the Community provides support for farmers who undertake to cut their output of products which are in surplus. Farmers can either reduce their production capacity, for example, keeping fewer fattening cattles or else in crop production switch to less intensive farming practice. Ibid.

One of the main items in the reform measures, is the introduction of maximum guaranteed quantities (MGQs) which may also be regarded as production objectives for European agriculture.

For almost allcrop products (cereals, oilseeds, protein crops, olive oil, tobacco, cotton, certain fruits and vegetables and wines) and for sheapmeat and goat meat when production exceeds the MGQ's set by the Council, price or aids are automatically reduced.[31]

But in spite of all these measures there is still the problem of surpluses in the EEC. Graham Avery was critical about the application of guaranteed threshold. For, in the EC most products are, in fact, fixed at a level higher than the Community domestic consumption. This was plain in milk - the basic guaranteed quantity is 98 million tonnes, compared to the domestic consumption of around 84 million tonnes.

The proposed reform would effect around 75 per cent of the value of Community Agricultural Production. However, the ESC in its opinion says that the Commission's proposals do not take sufficient account of the structural, geographical, regional and local peculiarities of the Community agriculture in the medium to long-term, the

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31 EC, Commission of the European Communities, The Development and Future of CAP (Brussels, June 1991), p. 27.

weakest sector will be forced out of production. If the aim is to ensure that agricultural activities are limited to farms with efficient structures and technologies, then alternative development opportunities would be treated for those forced to relinquish their market share.[32]

The distinction between small and professional producers which underpins the reform package is economically, socially and politically unacceptable. The ESC proposes instead that the reform measures be based on a classification of Community farms that takes account of their current total average cost structure. This would group farms into three broad categories: (a) A limited category of farms whose total average costs (both variable and fixed costs) are more than covered by the current market price and, therefore, make an extra profit; (b) Farms which lower their variable costs but not their fixed costs at present market prices; and (c) Marginal farms, which cover their variable costs, but not their fixed costs, at present market prices.

The Committee suggested that the new policy for controlling supply must clearly be assessed in the light of these three categories. Better targeted measures must then be devised both to compensate for lost income and to make agriculture competitive.[33]

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32 EC, Bulletin of Economic and Social Council of Europe (Brussels), February 1992, p. 29.

33 Ibid.

The Committee further noted the link between the proposals to reform the CAP and the GATT negotiations and stressed the marginal nature of the world agriculture markets. It was of the view that the CAP must be seen in a world context of generalized support for agriculture.

The above element brings to light another institutional deficiency in the EC - the lack of coordination when it comes to taking final decision on major issues.

But, in retrospect, the reforms measures have speeded up. The member States realize that to keep the EEC intact, the CAP needs meaningful reforms. Unlike the previous years, the quality considerations are gaining an ever increasing role in the marketing of agricultural produce. This is reflected in the agricultural surpluses which, in many cases, involve only certain quality classes or varieties. For instance, in the case of wine, the balanced market for high quality wine contrasts with big surpluses of ordinary table wine, for which there is often no other outlet than the various distillation measures provided for in the marked organization. For several years the Community has been stepping up its efforts to ensure that agricultural production is better geared to quality and market requirements. Since high quality is very often correlated with lower yields, this policy also contributes to curbing supply.[34]

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34 EC, European Documentation, n. 28.

At the heart of the quality policy, as at present applied, is the differentiation of prices and the guarantees given. Especially in the case of products with an intervention price, such differentiation is an effective way of encouraging producers to adopt a market-oriented approach. Thus, for example there are three different prices for common wheat, depending on its quality grade. Lower quality receives the price for feed gains, the price for bread making wheat of normal quality is somewhat higher, while for wheat with especially good characteristics, the intervention agencies pay an additional premium. There are special premiums to support the growing of varieties which are particularly sought after, such as certain qualities of rape-seed and rice. On the other hand, the Community has considerably tightened up the minimum requirements for goods offered for intervention by lowering the maximum moisture content for cereals.[35]

The shifting emphasis from quantity to quality is advantageous and also indicates the growing competitiveness in markets and this strategy will help to project the EC products in world market. The other positive signals have been the appropriation of funds in 1990, which indicate a break up of 15.20 per cent in EAGGF guidance

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35 Ibid.

section, 48.36 per cent in ERDF and 36.44 per cent of social fund.[36]

The CAP has become a major influence on the patterns of world trade in agriculture. The Community's high level of self-sufficiency over a wide range of commodities, has made it increasingly vulnerable, to the levels of production in other temperate agricultural exporting countries, to the unpredictability of the markets available and to the fluctuations in the price levels of the commodities.

Internally, the continuation of the CAP without changes would lead to greater tension between the member States, balking developments in other aspects of the European union process. In order to create a more conducive environment, the present reform measures should be continuous and flexible. Thus, the emerging European agreements in budget contributions and resources, and reform measures give a new lease of life to the CAP.

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36 EC, Commission of the European Communities, The Agricultural Situation in the Community, 1991 Report (Brussels, 1992), p. 88.

CHAPTER V

CONCLUSION

The perspectives offered in the foregoing chapters help in evaluating the European Community's (EC) Common Agricultural Policy (CAP). Over the last three decades the agricultural situation in the Community has transformed considerably. The memories of wartime food shortages and political vulnerability of dependence on imports have played a crucial role in encouraging a drive for greater self-sufficiency in the agricultural sector. The CAP is also a part of a political pact to reconcile the agricultural interest of France with the existence of Common Market in industrial goods which considerably benefits Germany.

Judged in terms of its own objectives, the CAP has several successes. It has increased productivity, improved the standard of living of the farming community and has attained security in food supplies. The EC is more than self-sufficient in most of the agricultural commodities. However, the objectives of market stability and reasonable prices to consumers has had only partial success.

The methods through which the Community has been operating over the years have yielded contradictory results. Eversince its establishment the Community has made use of variable levies and other protective measures to impede third countries access to the EC market, while simultaneously encouraging Community farmers by means of excessively high domestic prices. As a result, the Community progressed from being a net importer to a significant net exporter.

Nonetheless, the EC failed to harmonize the prices amongst the member States and the eventual implementation of green rates and Monetary Compensatory Accounts (MCAs) has reconstituted national control over prices and opened up opportunities for the national governments to give special advantages to its farmers. The dismantling of MCA's success depends on the stabilization of the national currencies of the member States. This demonstrates that the prospective aim of introducing common currency is highly beneficial for internal and external activities of the Community and will help in the market and price unity, which is one of the major aims of the CAP.

The substantial increases in agricultural production has assured security of food supplies, and the credit goes to the high price support policy of the Community. It protected farm producers against extraordinary temporary price drops, and induced them to produce more. However, the negative impact of such a policy, has been the excess supplies which in turn has proved costly. The high price support policy has been the cause of embarrassing surpluses: the butter and beef mountains, the wine lakes, grain surpluses and milk lakes. The adverse effects of 'price mechanism' extends beyond the budget. The resources that are used to produce goods for which there is no market, could be more efficiently applied to other sectors in the Community.

The increasing politicisation of economic relations have made reforms in CAP difficult. The electoral salience of farm issues in national system is preventing any rational reform measures from being implemented. However, the reform measures adopted in recent years have been far more promising than those adopted prior to 1985.

The record of the last thirty years shows that agricultural policy-makers have failed or have deliberately avoided to anticipate the negative effects of CAP and have thus found themselves unable to find a way out of this complex policy.

The latest reform measures to reduce output by direct income payment scheme is rationally far more superior than the earlier schemes. Because it discourages production by urging the farmers to retire early, it helps to shift farmers to new production areas, gives social welfare benefits for the poorer farmers and promotes land set-aside programmes.

The set-aside scheme intends to shrink 30 million tonne mountains of surplus grain in the EC. In Britain, about 49,000 or 54 per cent of 80,000 cereal farmers are expected to apply for the set-aside grants. This will account for 1.58 million, nearly one out of every five - of the 8.27 million acres in the Community go fallow. These measures will curb the rate of growth of agricultural output in the Community. However, this will continue to burden the Community budget.

The Community has failed to control the growing surpluses because the reform measures have always been concentrated on commodities which have surpluses. It has in a sense 'reacted to events' rather than taking anticipatory measures to control production of commodities at all times.

To make the reforms effective the EC must follow a multi-dimensional scheme. For instance, the price of a commodity in question should be freezed, the co-responsibility and set-aside programmes should also be enforced and quantity and quality checks should be carried out. In the case of small farmers the price freeze and quality checks alone will ease the surplus situation in the Community. The resources thus saved, could be utilized in social welfare schemes for small farmers who would be forced out of production. Or the small farmers can be brought under the direct income payment schemes. Such a scheme, though costly, would avoid the problem of supporting farm incomes through high price supports that continue to contribute to the unwanted and even costlier surpluses. Politically, the above option would be unwelcome. But if the Community is to sustain, it should be prepared to adjust. Gerard Viatte, aptly says, "Policies which give the fallacious impression of mitigating some short term problems, are certainly self-defeating in the medium-term, as they reduce the capacity of the economy to adjust and to establish the basis for a sustained and non-inflationary recovery."[1]

The EC is also facing problems of mismanagement at ground levels. For instance, while making spot checks on payments to sheep farmers, the Court of Auditor Report, 1991, discovered flocks of British sheep being merged to qualify for special payments. Six shepherds with flocks of less than eight sheep, which did not qualify for the payment, were clubbed together with a large firm to apply for premium on 6,000 sheep. The first official consulted agreed to pay out grants for 1,000 sheep, but was overruled by a more generous supervisor. The sheeps were redistributed among the shepherds, increasing the size of their flocks a hundred times. With this fraudulant accounting all 6,000 sheeps

1 Nikos Alexandratos, ed., World Agriculture : Towards 2000 A.D., An FAO Study (London, 1988), p. 89.

qualified for the premium payment. In another case, the EC had promised 80,000 tonnes of food to Russia, of which only just over half had left the Community borders. The EC pays for the storage of food waiting to move and the auditors report indicates that storage alone will cost the EC $ 106 million, in this case. Thus the EC has to fight these forces and also has to satisfy the expectations of the International Community. There is a growing concern amongst the developing countries, about the underlying tendency towards surpluses in the developed countries. The CAP, by generating cheap supplies for the world market and by reducing prices has displaced the producers of certain 'export crops', elsewhere. Exporters in the other countries are discouraged by the combination of subsidies and the significant market strength of the EC. The broad result of policy interventions, is the growing disparities in the agricultural output levels of developed and developing countries. Such policies have frustrated the orderly growth of international trade. In this situation a particular responsibility rests on the shoulders of policy-makers in the EC, to unwind the major distortions in agricultural trade.

However, in the field of food and agriculture, the reduction of protection of food cannot be considered in isolation, there should be an 'international co-ordinated action' to ensure a certain degree of balance between the adjustment efforts carried out by various countries. The fundamental underlying difficulty encountered in the General Agreements on Tariffs and Trade (GATT) talks is the dominance of selfish attitudes of the participants. On balance, the study reveals that the reform measures will cause severe adjustment difficulties in the medium-term within the EC. For instance, there would be displacement of farm workers. However, the EC can offset such effects by strengthening its social security policies and broadening of other regional developmental programmes which would absorb the displaced workers.

The apparent incapability of Western countries to reach a compromise on the agricultural issues will have a far reaching impact on the developing countries and on the sanctity of international institutions. It will presumably lead to a 'less-understanding world'.

Finally, what has always been lacking in the past, is the 'political will' to come to grips with the distortions that permeate agricultural production and trade, and to accept the legal binding of multilateral trade negotiations and their decisions.

Thus it is important that EC should not lose its original inspiration for a world free from conflicts and it should take the responsibility of assisting the developing and poorer countries through increased food aid and transfer of resources.

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2287

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