Changing the EU and Challenging the CAP

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Abstract

The Common Agricultural Policy (CAP) continues to be the single most important policy of the European Union (EU), and a source of generous support for agricultural producers. The reasons for this lie in the history of the EU and the political economy of the CAP, with agricultural interests being able to influence the positions of key member states at the national level.

This paper examines how the political basis of the CAP and the bargains on which it was constructed have changed over the years. The expansion of the EU has changed the CAP from a transfer system between France and Germany to a system of support for new members in southern Europe. German unification reduced Germany's ability to provide open-ended support for the CAP, while the Maastricht Treaty met the needs of the French Socialist government for EU policies and transfers outside the agricultural sector. The European public has been keen to see the development of a CAP which is less damaging to the environment. These and other pressures allowed CAP reforms to be be agreed upon in 1992, followed later by the 'Blair House' agreement at the close of the Uruguay Round. Changes to the green currency system have allowed greater renationalisation of support, as did the enlargement arrangements for Finland, Austria and Sweden.

However, the question for the future is whether the CAP, or any part of it, will be extended to the prospective new members in Central and Eastern Europe. This issue also needs to be seen against a background of the partial collapse of agriculture in parts of eastern Europe and the former USSR.

The Common Agricultural Policy (CAP) and its impact

The Common Agricultural Policy (CAP) is the single most important common policy of the European Union (EU). It has had a major influence on the economies and environment of the EU's member states, as well as on the economies of agricultural exporting countries such as Australia. The CAP has retained its pre-eminence in spite of an increase over the years in the membership of the EU, from the six original members of the European Economic Community (EEC) in 1958[1] to the present fifteen members of the EU[2], and the substantial widening of the EU's common policy spectrum by the Maastricht Treaty on European Union.

The CAP continues to absorb over 45 per cent of expenditure from the common EU budget. This is a considerably smaller proportion than the three-quarters which it absorbed in the late 1970s, but not a reduction in real terms. However, as is demonstrated here, the CAP is not 'path dependent', in spite of the stranglehold it has had on the EU's finances and policy development over several decades.

As the EU changes in terms of its membership and the treaties on which it is founded, the CAP is necessarily affected. Changes in the political situation at the national level in key member states such as France and Germany can also have an impact on the CAP. This paper examines the nature and impact of a number of major recent and prospective changes to the EU and its member states and to the CAP. These include the progressive expansion of the EU, the

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1 France, Germany, Italy, Netherlands, Belgium and Luxembourg.

2 The founding six, plus Denmark, Ireland and the UK (admitted 1973), Greece (1981), Spain and Portugal (1986), and Austria, Finland and Sweden (1995). In 1990 the former German Democratic Republic was absorbed into the Federal Republic of Germany and hence the EU.

unification of Germany, pressures for a more environmental CAP and for reductions in fraud, the 1992 CAP reforms and the Uruguay Round agreement, the prospective 'widening' of the EU into central Europe, and the pressures for further 'deepening' of the treaty structure on which it is based.

The political bargains behind the CAP and the EU

Agricultural interests were successful in imposing the Common Agricultural Policy (CAP) as part of the Treaty of Rome in 1957 and in sustaining it as the major common EEC, European Community (EC) and now EU policy, for over three decades. The CAP was a major part of the Franco-German 'initial compromise' (Ahrens 1986). This allowed the EEC to be founded, on the basis that German industry was to benefit from access to French and other EC markets, while French agriculture was to benefit from being a supplier of food to Germany (Michelmann and Storey 1990). Germany's support for the EEC derived from what Plaschke (1994, p. 132) describes as 'the mental and cultural need to give Germany a kind of European identity'. Fest (1954, p. 54) describes Gaullist France as having 'forced' the CAP out of the other EEC member countries.

Once it was in operation, the impact of the CAP increased with each enlargement of the EC and later EU, until the most recent enlargement in 1995. In 1973 two countries which were substantial agricultural producers and exporters, Ireland and Denmark, were added, along with the UK. The addition of Greece in 1981 and Spain and Portugal in 1986 greatly extended the area covered by price supports for Mediterranean products such as wine and olive oil, and also made the production of rice, tobacco, cotton and cane sugar a significant part of the CAP support system. While the 1995 enlargement to include Austria, Finland and Sweden extended the area covered by the CAP, the CAP is not expected to stimulate production there greatly. This is because of the high level of agricultural support already applying in Austria and Finland, and because the high level of Swedish wages and social benefits makes CAP prices and returns less attractive than they are in southern Europe.

The CAP began as a bargain between key member states, and has continued in much the same vein. The participants in this bargaining system are countries, and to a lesser extent the EU's supranational institutions. At the EU or supranational level there is no bargaining between producers, consumers and taxpayers as such, and the EU's 'preference function' reflects the weightings achieved by different countries. The most important decision making bodies have remained the European Council and the Council of the European Union or Council of Ministers. The first body consists of the EU's leaders when they take part in summit meetings, and it had no formal recognition EU or EC law prior to the Maastricht Treaty. The second consists of the relevant ministers of the member states, with the Council of Foreign Ministers having primacy, but with the Council of Agriculture Ministers being very active because of the importance of the CAP as the main common policy. Hence both bodies are 'intergovernmental', in that they represent the member states. The Commission is the closest thing the EU has to a common civil service, but it has powers which include the sole right to propose legislation. However its independence is circumscribed by the requirement imposed by the Single European Act (SEA), which came into force in 1987, that it cooperate in this with the European Parliament (EP), which would itself like to have a similar power to propose laws. The Commission can also be requested by the Council to put forward specific proposals, and is unlikely to put proposals to the Council which have no hope of being passed.

Hence, in addition to providing support for agricultural producers, the CAP has also had a less explicit but very important agenda of providing financial transfers between member states. The EU's second most important policy in budgetary terms, regional or structural policy, has resulted in a much lower level of activity in terms of bargaining between member states because the actual projects to be assisted are decided upon at the member state level, and the EU's institutions have only a checking function to ensure that guidelines are met. However, the level of bargaining involved has been increasing in recent years, with Spain refusing to agree to the

Table 1 **The proportion of the EC/EU budget taken up by the CAP**

Year	*EC budget milliard ECU*	*EAGGF expenditure milliard ECU*	*EAGGF as % total*
1975	6.47	3.98	61.5
1976	7.75	5.59	72.1
1977	8.84	6.83	77.3
1978	11.70	8.67	74.1
1979	14.36	10.39	72.3
1980	16.31	11.32	69.4
1981	17.88	11.14	62.3
1982	20.72	12.41	59.9
1983	24.82	16.00	64.5
1984	27.25	18.1	66.0
1985	28.08	19.73	70.3
1986	35.18	22.11	62.9
1987	35.79	22.95	64.0
1988	39.71	27.50	69.3
1989	44.80	26.80	62.4
1992	66.59	35.35	53.0
1993*	66.99	35.34	53.0
1994*	72.00	35.5	49.3
1995*	78.67	37.00**	47.0
1996*	82.99	41.00	46.0
1997*#	87.50	39.60	45.3

*Estimate

Almost certainly an under-estimate of CAP expenditure, given that the 1996 estimate is now ECU41 billion.

**The notional 'ceiling' on CAP expenditure in 1995 was ECU38.5 billion.

Notes: 1 milliard = 1 thousand million

EAGGF is the European Guarantee and Guidance Fund, responsible for CAP expenditure

Sources: The European (1995), Commission of the European Communities (1987), and The Economist (1995a).

EU's northern enlargement unless special 'cohesion funding' transfers for poorer member state were agreed to, and with Germany seeking to widen the criteria so that its depressed industria areas could be included. Structural fund arrangements were also used to allow compensation to be given to farmers in Austria and Finland to reduce the impact of lower CAP prices. A specia new 'objective 6' was introduced for the structural funds which permits various forms of direc support within designated areas.

The percentage of the EU budget which is taken up by the CAP is one indicator of th importance of agricultural support in the decision making system, and changes in this. A shown in Table 1, while it reached over three-quarters in the late 1970s, it remained at 60 to 70 per cent in the 1980s, but has declined to less than half so far in the 1990s. However, thi reduction in the share of the budget is due to an expansion in the EU budget and in the polic areas covered by it. The amount involved is very substantial, being currently around ECU40 billion (roughly US$50 billion). CAP expenditure has shown no sign of any trend towards a long-term decrease, but this may be achieved if there is a further 'renationalisation' of the CA or transfer of agricultural support back to the member states, such as has taken place wit respect to 'green currency' arrangements.

The EU and CAP 'preference function' and the weightings of different countries within it have varied over time. In the early years of the EEC and EC net financial transfers through the CAP and the EU budget were mainly from Germany to France and the Netherlands. With its accession to the EC in 1973 the UK joined Germany as a substantial net contributor, which it has remained, in spite of having a level of GDP per head around the EU average. Its contributions would have been even greater if it were not for the 'Fontainebleau Agreement' negotiated by Margaret Thatcher, which limits the UK's contributions by providing a rebate (Field 1992). Denmark and Ireland are net recipients through the EU budget and the CAP, even though Denmark was for many years the wealthiest EU member state, on a per head basis.

The expansion of the EC in the 1980s resulted in France becoming a net contributor, and the new member states of Greece, Spain and Portugal net recipients. In 1993 net EU budgetary transfers to Ireland, Portugal and Greece accounted for around 6, 4 and 7 per cent respectively of the GDP of those countries (Wennerlund 1995). They are expected to cost Germany US$17.7 billion in 1997 (Schuelenberg 1993).

The importance member states attach to their net budgetary situation is evidenced by the change of view in the Netherlands now that it has gone from being a net CAP and EU budget beneficiary, in spite of its relatively wealth, to a significant net EU budget 'loser' to the extent of over a billion ECUs, and one of the biggest net contributors on a per head basis. There has been a shift there from strong support of the EU's policies to a much more critical approach (The Economist 1996). In 1995 the Dutch parliament was unable to adopt the EU's Own Resources Decision, already two years overdue, because of opposition to the increase in the Dutch contribution (Kerremans 1996, p. 15).

Not all the bargaining which takes place between countries at the EU supranational level is concerned with net budgetary outcomes. It may involve arrangements with respect to the Common Foreign and Security Policy (CFSP) or the Common Interior Policy, the two decision making areas known as the second and third pillars of Maastricht because the Treaty created formal arrangements for them, but of an intergovernmental nature and mostly outside the control of the EU's common political institutions. It can also involve widely disparate and apparently unconnected issues.[3] While Germany has been the main source of finance for the EU and the CAP, the benefits of this have been obtained though a wider market for German industry, and through the attainment of unification, and with this a predominant role for Germany in the EU.

Budgetary transfers through the CAP have been an important means of winning the support of countries for further integration, and of politicians and political parties. The support of countries such as Ireland and Greece for further integration has to a large extent been purchased by the net financial transfers which they enjoy through the CAP.[4] As Scharpf (1988, p. 256) observed, it is national politicians and parties in government who reap the political benefits of the CAP. He saw the EC as bearing the full costs of the CAP without being able to

[3] For example, it has been suggested that French president Jacques Chirac's recent indication that he would not support the automatic 'promotion' of former Dutch central bank governor Wim Duisenberg from his present appointment of head of the EU's European Monetary Institute (EMI) to that of head of the European Central Bank, when the EMI is transformed into the European Central Bank in 1998, may have been intended as a critical response to Dutch failure to take make stronger changes to soft drugs policies (Smit and Tillier 1996). These policies have created difficulties for the operation of the 'Schengen Agreement' under which internal EU barriers and customs checks are intended to be removed. However, given the importance of the post, France may have been unhappy to see a Dutch, rather than French or German, candidate appointed.

[4] For example, Collins and Louloudis (1995, p. 107) describe the attitude of all political parties in Greece, with the exception of the Communist Party, as having 'changed dramatically in favour of the Community over the last decade'. This is partly if not mostly due to the major net financial transfers which Greece has received through the EU budget, mainly because of the CAP.

capture any of its political benefits. It is not MEPs who gain political benefits from thes transfers, but the national parties in government which have obtained the transfers. Th transfers and price support effected through the CAP have helped to keep the minority Fre Democratic Party (FDP) and Christian Social Union (CSU) parties in government in Germany as the junior partners in a coalition government dominated by the majority Christian Democrati Union (CDU). In France the expectation of strong support for the CAP was been a significan factor in the success of Jacques Chirac's 1995 presidential bid, and in the election success of th Rassemblement Pour La République (RPR) – Union Pour la Démocratie Française (UDF coalition in the 1993 general election.

Political change and the CAP

Political and other major changes at the EU or supranational level and that of th individual member states can change national and EU situations with respect to acceptance o the need for change in the CAP. Table 2 maps some of the key political changes at the EU an member state level.

The supranational or EU level

There are two major processes of political change at the EU or supranational level 'widening' and 'deepening'. 'Widening' implies enlargement, through the addition of new member states, or the extension of existing member states as in the case of German unification The successive enlargements of the EU have been a major source of change, involving th progressive expansion of the CAP in terms of geographical area covered, range of product assisted, and cost. The Commission and the EP have tended to support 'widening' 'deepening', and CAP expansion, because these have been the means by which their influenc could be increased. The EU is presently faced with the prospect of a major enlargement to include some of the present ten applicant countries in central and eastern Europe, the possibl impact of which is discussed briefly later in this paper.

The process of 'deepening' in EU law and politics refers to the process of growth in th policy areas covered by the EU's institutions, or for which there are common arrangements, an the transfer of powers from the member states to the EU's common institutions, and especiall the EP. It has included the Maastricht Treaty on European Union. This reduced the politica importance of the CAP in the EU, since it widened the policy areas over which bargaining take place and net budgetary transfers are achieved, and increased the powers of the EP.

The 'cohesion funds' agreed upon at Maastricht as part of the structural funds provid support for projects such as roads, bridges and sewage treatment plants in poorer membe states. They allow governments to nominate projects for aid and target it towards chosen area and groups, and are hence more attractive to the national governments and ruling parties of th poorer member states than CAP subsidies. Perhaps more importantly, the EU's common polic areas now include some areas of industry policy, an ambitious transport and energy links schem known as 'Trans-European Networks (TENs), and culture and education. Maastricht was victory for the French Socialist government and President Mitterrand, since it implied EU support for French industry, including state-owned firms and utilities, and an implicit lessenin in importance of the CAP.

Present policy and decision making arrangements cannot be viewed as static. Proposal under discussion at the present Intergovernmental Conference (IGC) would enhance the power of the EP, and increase the number of common policies over which the EU's supranationa institutions have 'competence' or legal and political powers. The EP has been seeking to hav the powers of co-decision given to it by the Maastricht Treaty, which allow it to amend or rejec legislation in specified policy areas which has been passed on a qualified majority but no unanimous basis, extended to cover agricultural price decisions (Frontier-free Europ Supplement 1995).

Table 2 **Trends and changes in EC/EU and CAP bargaining**

Year	*Change*	*Effect*
1966	'Luxembourg Compromise' ensures veto available on agricultural issues.	Increases political weight of the smaller member states in the EEC preference function.
1973	Enlargement of EC to include UK, Ireland and Denmark.	Substantial transfers to Ireland and Denmark. Increased importance of livestock products.
1980	In the 1980s France becomes a substantial net contributor to EC budget. Socialist President from 1981, Socialist government most of 1980s.	French interest in the development of policies outside agriculture, from which France and French government would benefit.
1981	Greece joins EC: establishment of IMPs[a]	An additional net CAP and EU budget beneficiary.
1982	In Germany FDP leaves SPD/FDP coalition, forms coalitionwith CDU/CSU	More government support for cereal producers due to CSU now being in governing coalition.
1984	Agreement on the introduction of dairy quotas.	Partly reflects increased influence of small, part-time farmers as opposed to larger ones.
1985	Agriculture increased its EC budget share to 1980s peak 70% level: henceforth decreases.	Increased importance of agriculture as the source of net budgetary transfers and political interest.
1986	Accession of Spain and Portugal: expansion of IMPs, and structural expenditure. UK gets budget rebate arrangement.	Growth in demands for industrial and structural expenditure. Reduces UK opposition to larger CAP budget.
1990	German unification. CDU gains outright majority in German elections, CSU becomes less influential, in absolute terms and relative to FDP.	Germany now the predominant state. Influence of cereal producers, and to some extent farm lobby in general, reduced in Germany and hence to some extent in EC as a whole.
1991	Maastricht agreement: expansion of policy mix to include industry, infrastructure, and 'cohesion' policies.	Reduces agriculture's share of budget and reduces extent to which EC/EU inter-country bargaining is about transfers based on CAP.
1992	CAP reform agreement on price cuts and income support, and environmental measures. Blair House Agreement.	Shift in CAP from price to partial income support and to assistance for environmental measures. Restricts future growth in CAP subsidised exports.
1993	UDF/RPR coalition wins general election and forms government in France. Maastricht Treaty ratified.	Blair House Agreement renegotiated, loosening its future restrictive effects. Expansion of the EU policy mix ensured.
1995	Jacques Chirac, leader of the RPR, becomes president of France. Sweden, Finland and Austria join EU.	Reluctance to accept further CAP reforms except where full income compensation provided. Reduced budgetary problems for a time.
1996-97	CAP falls to 46% or less of budget.	Expansion of other policies.

a) IMPs (Integrated Mediterranean Programmes) provide assistance on a broad front to southern member states.

Changes at the member state level

Political changes at the national level, and most importantly in the key member states of Germany and France, can also have a major impact on the CAP and other policies at the EU level. However, the nature and impact of these changes has received relatively little attention in studies of the EU and the CAP (Keeler 1996).

Field and Fulton (1994) demonstrated how changes in the parties in government, and their electoral positions, could influence the German government's attitude to the CAP. In 1982 the majority CDU was able to return to government when the FDP deserted its former Socialist coalition partner and formed a government with the CDU, partly because of expectations that it would support a continued high level of CAP assistance to German producers.

The unification of Germany in 1990 resulted in significant political changes. Even though the same parties remained in government, the CDU had a clear majority in parliament, so that it could have chosen to govern without the FDP and CSU, had it wished to do so. Germany was able to support the 1992 CAP reforms. The post-unification political situation also allowed the German government to support a Uruguay Round agreement (Muenster 1991, p. 84). The CDU was able to pay attention to pressures from German industry for a Uruguay Round agreement (Keeler). When Ignaz Kiechle, a CSU nominee from Bavaria, resigned as agriculture minister in 1993 due to discomfort at having to defend changes to the CAP, Chancellor Kohl replaced him with a CDU man and non-Bavarian, Jochen Borchert. In the 1994 general election the CDU lost its clear majority, making it once again reliant on the support of its minority coalition partners. However, the need to make transfers of around 180 billion DM a year to the east, and the relative poverty of out-of-work east Germans compared to the affluence of part- and full-time farmers, are strong checks on increases in support for the CAP and CAP expenditures, as is the need to cut back the CAP if eastwards enlargement of the EU is to be achieved.

In France a Socialist government and presidency negotiated the Maastricht Treaty, with its increased emphasis on support for industry and infrastructure, and agreed to the 1992 MacSharry reforms of the CAP and the terms of the Blair House agreement, which was intended to bring the Uruguay Round to a close. However, in the event political change in France, resulting from the victory of the *Union pour la Démocratie Française* (UDF) – *Rassemblement pour La République* (RPR) coalition over the Socialists in the March 1993 general election, led to demands for the Blair House Agreement to be renegotiated (Camroux 1993). In the face of a threatened French veto of the agreement, US and EC negotiators met in September 1993 to 'clarify' the agreement. The US gained some market access concessions (Burrell 1995). In return it agreed to several concessions, including an exemption from the reforms of the EU's grain stocks, and the use of 1991 and 1992 instead of 1986-89 as the base years for Uruguay Round cuts in farm subsidies (The Economist 1993b, p. 65). The EU based its tariffication levels on import levy rates which were often greater than those applied 1986-88 (MacLaren 1995).

The election Jacques Chirac as president in 1995 can only have tended to strengthen the influence of agriculture and support for the CAP in French politics, given that Chirac is an RPR man or 'Gaullist' and former agriculture minister and assembly representative for the mainly agricultural constitutency of Correze in the Massif Central. He has also been prime minister and mayor of Paris. The RPR is the party which has had the strongest links with agriculture, and heavist reliance on the agricultural vote. France is much less motivated towards eastwards enlargement of the EU than Germany is, having much smaller trade and investment links there, hence will not be keen to see the CAP sacrificed as the price of enlargement.

The agricultural vote in France and Germany has been much more influential than the size of the agricultural sector and workforce would suggest. This has been due to the support of the rural population in general, and of individuals with family ties to agriculture or rural backgrounds, as well as to the influence of the churches in Germany, and the swinging nature of the agricultural vote in France. Active farm organisations have also helped to mobilise voters, to win sympathy for agriculture, and to keep parties true to their electoral promises when in government.

However, over the longer term parties and governments in France and Germany and elsewhere which have had strong ties with agriculture must be affected by the reduction in the proportion of the EU population which is employed in agriculture. At the time of the Treaty of Rome in 1957 agriculture was a very important employer of labour, with one third of the EEC population working or being dependent on the land in the 1950s. At the beginning of the 1990s the proportion of the labour force engaged in agriculture was 6 per cent in France, 5 per cent in the FRG and 2 per cent in the UK, and this general decline is continuing. Another consideration is that the level of disadvantage of the agricultural population has decreased, and farmers in France and Germany are relatively well off in view of the unemployment levels of twelve and ten per cent respectively in those countries. This is particularly so in Germany where by 1990 roughly half of all farmers were part-time farmers, many of whom were able to benefit from a full industrial wage as well as their farm earnings. Support for the CAP on the basis that it reduced social inequalities have diminished due to the perception that most of its benefits have gone to wealthier farmers and others. Brown (1989) estimated that the benefits to large farms were 15 times as great as those to small farms. D'Aubert (1994) has shown how, in Italy and some other parts of southern Europe, many of the benefits of the CAP have been siphoned off by organised crime groups, politicians and political parties.

Steps towards CAP reform

The changed political situation

The growth in transfers through the CAP to smaller and relatively new member states such as Ireland and Greece, and reductions in the benefits which France had earlier been able to obtain, resulted in net budgetary transfers through the EC budget becoming less linked to agricultural policy and production, and more linked to other policies. This process led to a diminution of the barriers to CAP reform (Runge and von Witzke 1987). The political changes in Germany which were described above facilitated agreement on the 1992 reforms and the Blair House Agreement, although political change in France resulted in the effective renegotiation of the terms of the latter agreement.

However, in addition to political changes in member states, and the impact of German unification, there had been increased pressure for reform of the CAP so as to reduce its environmental costs, and also because of greater awareness of a high level of fraud and unintended outcomes associated with the CAP.

The environment has been described as the 'true loser' from the growth in output of agricultural products which resulted from the CAP's high price supports (von Weizsaecker 1994, p. 26). This growth led to increased application of fertilisers and pesticides, simplified crop rotation, intensification of production, and a switch from mixed farming to monocultures and intensive livestock production. In southern Europe it led to scarce water resources being used for production of crops reliant on CAP supports, and the drying up and eutrophication of lakes and marshes. Cork forests have been ripped out to allow CAP supported crops requiring irrigation to be grown.

A different cost of the CAP has involved corruption in the use of CAP funds. Fraud on a substantial scale has been a significant problem. One factor in this is that actual payments are made not by the Commission itself or any EU body, but by national government intervention authorities on behalf of the EU. In Italy and Greece especially there have been substantial problems with fraud, and in some cases a lack of willingness to co-operate with the Commission in investigating it. From a national point of view, CAP fraud may in some cases be seen as benefit, since if it is not discovered by the EU's institutions it is a gain to local inhabitants which has only a small negative effect on the country concerned. In Italy, the existence of organised crime groups such as the Mafia, and their links with government, have not encouraged strenuous efforts against CAP frauds. Klaus Tiedemann, a German criminologist, estimated the overall cost of fraud to the EU taxpayer as 7-10 per cent of the then total current EU budget of US$79.3 billion (The Economist 1994). D'Aubert (1994) estimated it to be ten per cent or more.

Slow progress towards CAP reform

Back in the 1970s the Mansholt Plan aimed at a reduction in the workforce in agriculture and the rationalisation of holdings (Swann 1972). However, as shown in Table 3, genuine reforms of the CAP were to take two decades more to achieve, and even then they have been limited in their impact.

Although the 1980s saw the introduction of attempts to limit the growth in output through the introduction of dairy quotas, maximum guaranteed quantity arrangements for oilseeds, and reductions in the buying-in price for beef, it was not until the 1988 'stabilisers' agreement was concluded that attempts were made to link over-production with effective limits on CAP support expenditure. In February 1988 the 'stabilisers' system of automatic adjustments to agricultural support prices which would apply if production exceeded set levels was introduced.[5] It set a guideline for the extent to which CAP budgetary expenditure could increase, of 74 per cent of the growth of GNP. However, this guideline was increased by ECU 1.5 billion in 1994 to allow for the cost of CAP reforms and the integration of the new German *Laender*.[6] The 'Stabilisers' did have some impact in allowing the huge stocks of surplus commodities which had been bought into intervention to be run down. The proportion of the EC budget expended on agriculture was reduced to less than 60 per cent (Colchester and Buchan 1990, p. 107).

The 1991 'Reflections' paper (Commission of the European Communities 1991) and the MacSharry proposals developed from it laid down objectives which included less reliance on price supports and greater use of direct aid or income support measures. CAP problems identified included escalating budgetary costs, increasing stocks of products purchased by intervention agencies, environmental problems from intensive farming, increased CAP budgetary expenditure not reflected in farm incomes, and the continued decline of the active agricultural population (Delegation of the Commission of the European Communities 1991). It was acknowledged that 80 per cent of the support provided by FEOGA goes to 20 per cent of farms, these being the largest farms. Schemes to set aside land and removing it from production, to make agriculture less extensive, and to facilitate the early retirement of producers, had been found to have had little effect.

The 1992 CAP reform agreement included reductions in the intervention or support prices for key products, the introduction of direct income support, the wider use of set-aside and extensification arrangements, and a range of environmental measures and subsidies. The Blair House agreement which concluded the Uruguay Round, even with the 'clarifications' or modifications made to it in late 1993, acts as a constraint on any loosening of CAP arrangements which might lead to the agreed limits on subsidised exports being breached.

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[5] The introduction of the 'stabilisers' was part of an agreement by which the budgetary funds available to the EC were increased to include a proportion of GDP. Previously the EC's budgetary resources had consisted of agricultural levies, customs duties, and 1.4 per cent of the assessment basis for VAT in each member state. The new agreement meant that these amounts would be added to by contributions from member states to a ceiling of 1.3 per cent of Gross National Product (GNP), but the VAT contribution was to be phased down to 1.0 per cent of individual national receipts of VAT by 1992 (Field, Hearn and Kirby 1989).

[6] Following the unification of Germany in 1990.

Details of the 1993 reforms and the Uruguay Round agreement are given in Chadee and Johnson (1994), Hillman (1994), Burrell (1995), and Tanner (1996).

Table 3: **Agricultural reform measures in the EC/ EU**

Year	*Measure*	*Effect*
1982-83	Introduction of maximum guaranteed quantity arrangements (MGQs) for rapeseed.	*Pro rata* reductions in the support price to 5% maximum each year.
1984	Introduction of dairy quotas.	Reduces total milk production and allows support levels to be maintained.
1984-85	MGQ arrangements introduced for sunflowerseed.	As for rapeseed.
1986	Reductions in beef buying-in price.	Reduces effective level of support.
1986-87	Introduction of cereals co-responsibility levy.	The 3 per cent levy has certain exemptions and reduces support to only a limited extent.
1987-88	Buying-in price for cereals cut to 94 per cent of intervention price.	Reduction in the effective level of protection; however, the export refund is the main determinant of the support level.
1988	Budgetary and production stabilisers agreed upon, including MGQ for cereals and tightening of arrangements for other products. Introduction of set-aside and income assistance schemes.	Provide some restraint for the growth in CAP expenditure and output. Some production reducing effect, greater national responsibility.
1992	Agreement on price reductions with compensatory income support, and some set-aside requirements for larger producers.	Reductions in production and exports.
1992/93	GATT agreement sets limits on subsidised exports of grains.	A return to large CAP surpluses of grains and beef is prevented.
1995	Green currency system terminated.	Prices unpegged from DM and national compensation schemes permitted to compensate for revaluations.

Source: Field and Hearn (1988), Field, Hearn and Kirby (1989), EC News (1992), and Field (1995).

Reform of the 'green currency' or 'agrimonetary' system

The 1992 reforms were supplemented in 1995 by the termination of the 'green currency' system of special exchange rates for agriculture. This had played an important role in raising the prices which EC and EU farmers receive in terms of national currencies, and until the late 1980s the system operated as a counterweight to attempts at reform of the CAP. It had come into existence after currency fluctuations led to the devaluation of the French franc and later revaluation of the German DM in 1969. When the French franc was devalued in August 1969 the devaluation was not made to agricultural support prices, and instead France was asked to apply import subsidies on agricultural products. When the DM was revalued the FRG began to apply import levies and export subsidies to agricultural products. The system was operated throughout the EC, with the levies and subsidies being known as Monetary Compensatory Amounts or MCAs. MCA levels reached 20-30 per cent at times for individual member-states, with these percentages being applied to support price levels to calculate the amount of levy or subsidy payable on individual products.

The impact of this agrimonetary system was to maintain and increase the level of agricultural production in Germany, the country with the strong currency undergoing revaluation, and to a lesser extent the Netherlands (Hu 1981). If a genuine common market in agricultural products had been allowed to exist, then currency revaluations in Germany would have resulted in agricultural prices, which were set in ECUs at the EC level, reducing in DM terms, which would have restrained agricultural production in Germany and encouraged exports of agricultural products from France to Germany encouraged.

From 1984 arrangements were made to phase out MCAs by effectively pegging EC agricultural prices to the DM instead of the ECU. No new positive MCAs were to be created due to currency appreciation, instead an equivalent amount was added to negative MCAs. These negative MCAs were removed by 'green currency' devaluations, in which countries reduced their negative MCAs and raised their agricultural support prices in terms of national currency. The gap between actual support prices in national currencies and support prices in nominal ECU terms became known as the 'switchover coefficient': in 1988 this stood at 13.7 per cent, and by 1993 it had reached 21 per cent. Attempts were made to phase out the system, but it still accounted for around 20 per cent of CAP budgetary expenditure in 1994.

The pegging of agricultural prices to the DM had the effect of increasing the costs of the CAP when the DM rises in terms of US$. This is because as the US$ falls in value, so do US agricultural export prices, and in turn the world prices of grains, soybeans, and other commodities of which the US is a major exporter. CAP export refunds therefore had to be increased to ensure that similar quantities of subsidised products can continue to be dumped on the world market. Within the EU, so long as the DM was a strong currency, agricultural prices appreciated in real terms rather than fell. The effect of this was to sustain production in Germany, and to increase it in EU countries with depreciating currencies, since in the latter agricultural prices and subsidies increased relative to those of non-traded goods and many traded goods. The green currency system also allowed claims to be made that agricultural prices were being held back, or frozen, because they were constant or little changed in ECU terms, when the actual amounts received by most EU farmers were increasing.

The main effects of the green currency system were supposed to have been eliminated with the introduction of the single market arrangements at the end of 1992. However, in August 1993 the agreement on restrictions on exchange rate fluctuations was breached, with currencies deviating by as much as 15 per cent from their agreed central rates, resulting in an appreciation of the DM which would have resulted in lower prices for farmers in Germany. German pressures resulted in green rates being frozen to prevent this, contrary to what had earlier been agreed, and the re-introduction of the earlier switchover system of compensation, with its built-in effect of price increases in most EU countries when the DM appreciated. Only in June 1995 were agricultural prices eventually unpegged from the Deutschmark, accompanied by the introduction of a scheme which provides income rather than price assistance for farmers in countries with revaluing currencies, which in practice means in Germany.

The impact of CAP reform

CAP reform has operated to reduce such inefficiencies as huge intervention stocks of products purchased just to support the market, and the high environmental costs of the CAP. The EU's commissioner for agriculture and rural development, Franz Fischler, described the results of the reforms in the following positive manner (European Union News 1995, p. 4):