Reviews

EC Agricultural Policy in 1990/91:Growing Need for a Real Policy Reform

Dirk Manegold *

The paper is on three subjects. Topical information is given on the development and management of major EC agricultural markets and on recent changes in the Common Agricultural Policy. The EC's inflexible position in the GATT negotiations which caused the Uruguay Round to fail is dealt with and the present situation of the agriculture and food economy in East Germany is considered.

1. Introductory Comments

1990-91, from a Common Agricultural Policy (CAP) point of view, was a period largely determined by the scheduled end of the Uruguay Round of multilateral trade negotiations under the General Agreement on Tariffs and Trade (GATT). The European Community(EC) and the United States(US) appeared as the chief antagonists. Their rivalry and the heavy process of internal co-ordination of interests within the EC consumed considerable shares of available time and intellectual resources.

Over the same period there was a continued increase in production relative to internal consumption in the Community's key agricultural markets. At decreasing world prices, CAP-based price support resulted in rising intervention stocks and budget outlays.

The Germans, in particular, were very much concerned with the situation in the former German Democratic Republic (East Germany). The integration of the agriculture and food sectors of the five new Federal States into the Common Market is not an easy task since both the capital assets and the economic knowledge and motivation have been ruined by 40 years of communist party rule. It will be only after severe dislocation that skilled people, new investment and a modern infrastructure will make East Germany a prosperous bridge to Eastern Europe.

2. Agricultural Markets and Related Policy Measures

2.1 Cereals

Supply and Demand

EC cereals production in 1990 just fell short of the 160m tonnes maximum guarantee quantity (MGQ), at least according to the Commission's official crop estimate, and therefore did not trigger another 3 per cent cut in intervention prices for the 1991/92 marketing year. Nevertheless, EC farmers had their third biggest grain crop ever harvested. The area planted had been reduced by 3 per cent and until July excellent plant growth promised to offset that reduction. But extended dry periods subsequently affected parts of the French and Mediterranean grain crops with maize yields being particularly hit. With regard to the area planted, the set-aside programme had certainly made an impact, but this effect must not be overstated. In some parts of the EC weather had been unfavourable for planting

*Institute for Agricultural Market Research of the Federal Research Center for Agriculture, Braunschweig-Völkenrode, Federal Republic of Germany. The first draft of the paper was finished by the middle of March, 1991. The author wishes to acknowledge the invaluable assistance of Dr David Godden, University of Sydney, in the revision of this paper.

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The following average exchange rates may be used for conversion of ECU prices and monetary amounts mentioned in this article (units of national currency per ECU). It has, however, to be taken into account, that the value of the ECU used in the CAP ("green" ECU) is higher than is indicated by the real exchange rates. The "central rate conversion factor" is the appropriate multiplier for making such corrections.

	$Aus	$US	DM	factor
1988	1.62	1.18	2.07	1.1373
1989	1.39	1.10	2.07	1.1373
1990	1.63	1.27	2.05	1.1449
January, 1991	1.75	1.35	2.05	1.1451

winter grains while in others oilseeds and peas were more economic alternatives. Farmers in Southern France, for example, favoured sunflowers over maize. Danish farmers, on the other hand, expanded grain production or switched from lower yielding summer grains to winter crops after being committed by national environmental legislation to keep at least 65 per cent of the arable land under green cover during the winter months in order to reduce nitrate leaching.

Domestic use of cereals continued to weaken for several reasons (cf. Table 1). On the one hand, the limitations of milk quotas and the flaw in red meat production reduced demand for feeding stuffs. On the other hand, forage was in short supply due to climatic factors and the French government even asked for release of feed grains from intervention stocks to help farmers maintain their livestock numbers. Moreover, there was a marked reduction in non-grain feed imports which may have been off-set by increased grain feeding. Nevertheless, self-sufficiency in cereals remained around 120 per cent and, despite lower imports and increased stocks, export availabilities were 30 to 35m tonnes in each of the last three years.

Increased exports, however objected to by the other exporting countries, were at least no financial problem for the EC as long as world grain prices remained as high as in 1988/89 and 1989/90. With the budgetary situation apparently regulated early in 1988 by the heads of state or government, the EC could afford the export subsidies required for around 33m tonnes of cereals per year. Declining world prices and a continued weakening of the US dollar against the European Currency Unit(ECU), however, totally reversed the situation. Early in 1991, EC wheat exports required a subsidy of about 100 ECU/t and at that rate grain exports alone were expected to strain the EC budget by around 3,500 to 4,000m ECU.

Subsidized exports alleviated EC markets but did not prevent increased intervention activity nor rising overall stocks. Intervention stocks are expected to be about 18m tonnes by the end of June 1991 as compared to 9m tonnes in 1989 and 12m tonnes in 1990. Thus, growing budgetary means are required again for purchase and storage, and for covering both the financial cost (interest payments) and the economic loss (price reduction) of intervention.

Price Reductions without Immediate Response

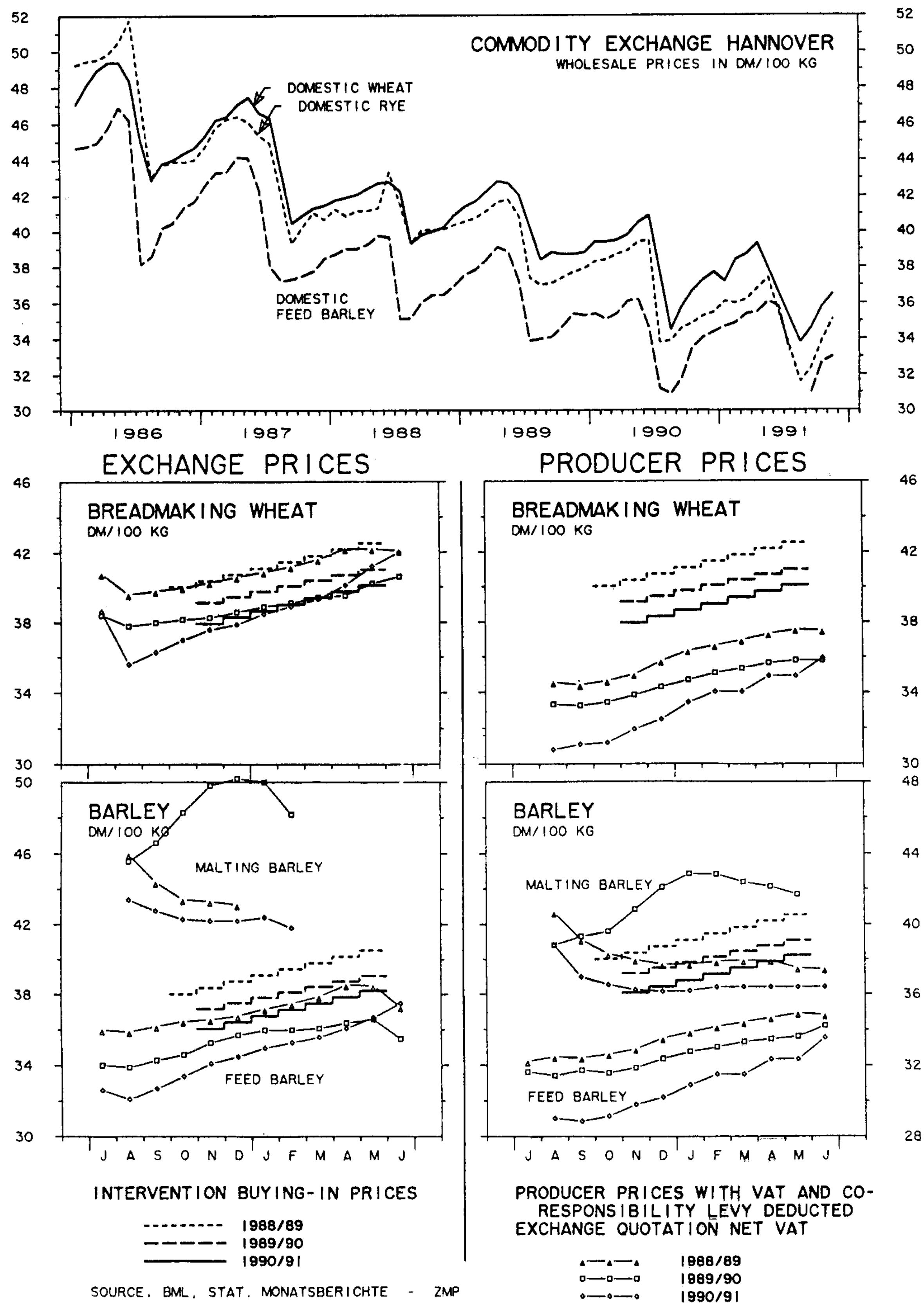
Reductions in the price of wheat - which in Germany over the last five years have accumulated to no less than 25 per cent in nominal terms (cf. Figure 1) - have not yet resulted any marked output response. This situation has frequently been exploited by representatives of the farmers' unions as a destructive price policy which makes farmers poorer without solving the problems of surplus. However, while the public and the politicians seem

Table 1: Supply and demand of cereals in the European Community (EC-12, 1000 tonnes)

Item	1986/87	1987/88	1988/89	1989/90 p	1990/91 (A) e
Area harvested 1000 ha	35,564	35,053	34,910	35,128	33,450
Production	154,501	154,728	163,959	161,461	158,525
Beginning stocks	36,766	31,433	30,769	31,221	30,951
Imports	7,050	7,554	6,249	5,776	6,300
Exports	27,302	26,696	34,994	33,875	29,200
Domestic consumption	139,582	136,250	134,762	133,632	130,600
of which feed	84,873	81,315	81,190	79,375	75,300

(A) EC-12 excluding East Germany; p = preliminary; e = estimated.
Source: Agrarbericht (1991, p. 91). *Agrarwirtschaft* 39(12), 406.

Figure 1: Cereal Prices in Germany (FRG)



inclined to believe such arguments, they do not recognize some decisive facts. First, the price reductions have in the first place reduced the rents which the CAP provided for fairly efficient farmers. Second, since all crops are in one way or the other impaired by reduced returns or direct restrictions, there are no clear alternatives for producing grains. Third, there are at least three opportunities for adjustment which to certain degrees and different extents are open to all cereal farmers: cost reductions, structural adjustment (farm growth, part-time farming) and improved marketing. Fourth, even the inefficient and inflexible farmers may for a while go on planting grains: if they have decided to give up farming in the near future, they may reasonably waive fixed cost recovery and thereby be competitive against the most efficient producers needing total cost coverage.

Thus, grain production will not respond to decreasing prices prior to lower yields being competitive at reduced inputs, special crops being subsidized for non-food uses or marginal land falling out of production. In no case are quick results to be expected. Subsidies for renewable resources eventually will be introduced but they will hardly release large areas from grain production. Idling of land will be dependent on the conditions of set-aside programmes but slippage is weakening their efficiency. Outside and beyond these programmes, marginal land will be idled by existing farms only if variable costs are no longer covered or more productive land becomes available by structural change (assuming at least one capacity restriction to be effective). But where marginal land threatens to be a regional problem, politicians tend to interfere in order to keep the land cultivated with the likely result of increased cereal production.

There have been reductions in the level of EC intervention prices of a magnitude which would not have been thought realistic 10 years ago. During the last seven years (1983/84 through 1990/91) the intervention price for wheat of breadmaking quality has been reduced from 203.67 ECU/tonne to 168.55 ECU/tonne or by 17 per cent. Translating these ECU prices into national currencies reveals that the farmers were indeed differently affected. While the German wheat growers faced reductions of up to 27 per cent in the nominal intervention prices, the corresponding figure was -6 and -2 per cent, respectively, for the French and British(UK) farmers. Comparing these changes with the national inflation rates, however, reveals that German farmers were in fact not worse off than their French counterparts, but that the British faced the largest reduction in real grain prices (-51 per cent as against -38 per cent in the case of both Germany and France). Moreover, the representatives of the German farmers' union - who always point to the substantial reduction of nominal prices - should not forget about the financial compensation for revalued "green" exchange rates which is still paid out partly by means of a surcharge on the VAT-rate the farmers are able to invoice and partly through an acreage payment (90 DM/ha within the limits of 1,000 to 8,000 DM per farm; cf. Manegold 1989, p. 43). Thus, taking these subsidies into account, German cereal farmers (as compared to others) are by no means as badly paid as they often claim.

Nevertheless, the German farm minister is always pressing for higher or less reduced grain prices. After total production had surpassed the MGQ in 1989, another 3 per cent cut in the intervention price was triggered for the 1990/91 marketing year. This price reduction was however widely compensated by increased monthly price increments (1.5 instead of 1.35 ECU/tonne) and by the commitment of the Commission to reduce the delay in making intervention payments to 30 days (from 110 days). In high-interest countries, in particular, the 80-day reduction in the delay alone was sufficient to cancel the 3 per cent cut in the nominal intervention level.

2.2 Oilseeds and Protein Plants

Until 1988, when the stabilizer mechanisms had been introduced into almost every EC market organization, oilseeds and protein plants were considered welcome alternatives to alleviate the Community's cereals market although on a per hectare basis the budgetary costs of supporting cereals tended to be lower than those related to oilseeds or pulses. The artificial incentive of high target prices granted for oilseeds and protein plants together with improved varieties resulted in a steep increase in production (cf. Table 2). Under the stabilizer mechanism, however, production has become more "market" oriented. Since the level of price support

Table 2: Production of oilseeds and pulses in the European Community (EC-12)

Item	1986/87	1987/88	1988/89	1989/90 p	1990/91 (A) e
			Area harvested (1000 ha)		
Total oilseeds	4,000	5,111	4,975	4,857	5,600
of which: Rapeseed	1,264	1,857	1,806	1,658	1,986
Sunflower seeds	2,063	2,298	2,143	2,107	2,560
Soybeans	281	565	534	631	658
Dried pulses	1,645	1,980	1,928	1,919	1,911
of which: Feedpeas	534	844	812	862	913
			Production (1000 tonnes)		
Total oilseeds	8,328	12,359	11,493	11,084	12,300
of which: Rapeseed	3,685	5,970	5,214	4,987	5,908
Sunflower seeds	3,193	4,044	3,908	3,524	4,030
Soybeans	906	1,805	1,659	1,984	1,815
Dried Pulses	3,575	4,469	5,460	5,175	5,320
of which: Feedpeas	2,062	2,947	3,635	3,676	4,568

(A) EC-12 excluding East Germany; p = preliminary; e = estimated.
Source: Agrarbericht (1991, p. 93). EUROSTAT, *Crop production 1990/94*.

was made dependent on the relative excess of production over established MGQ limits, farmers have to take into account the overall effects of EC-wide producers' reactions and in this respect two factors tend to destabilize the market.

First, from a technical point of view cereals, oilseeds and protein plants compete for the same inputs and the gross margins (per hectare) are similar. Therefore, even minor changes in the (expected) relative profitability are likely to effect substantial reactions in production at rather short notice. Second, under the incentive given by high target prices, production of oilseeds and protein plants has expanded into areas climatically less suited for these crops. Total output has thereby become more volatile. Thus, the basic level of price support and its annual modification by the stabilizer system are fundamental to the fluctuations of production (the phenomenon of an outright oilseed cycle has already been reported from the UK; cf. AEL, 18.5.1990). Moreover, in cases of biased crop estimates (e.g. sunflower seed and soybeans in 1989, cf. below), part of the price reaction intended to be triggered off immediately is shifted by the stabilizer mechanism (via a later correction of the crop figure) into the following year.

Trends

Contrary to initial expectations, the 1989 rapeseed harvest turned out to be lower than in the preceding year because plantings had been impeded in France by regional drought. Thus, the stabilizer mechanism triggered off lower price reductions than in 1988. The relative price increase was obviously looked at as an incentive for a massive expansion of rapeseed planting which in 1990 resulted in a big surplus over MGQ. Based upon an official crop estimate of 5,842 thousand tonnes for ten member countries (EC with the exception of Spain and Portugal), the 29.8 per cent surplus triggered a 14.5 per cent price cut to which was added an additional 1 per cent cut due to an upwardly revised 1989 crop figure.

Taking into account a target price of 44.94 ECU/100 kg of rapeseed the deficiency payments had to be cut by 6.97 ECU/100 kg in ten countries. Spanish colza growers had produced 28,000 tonnes of rapeseed which was 117 per cent above the national MGQ limit and therefore triggered off a price reduction by 58.5 per cent or - together with the effect of the later upwards correction of the 1989 crop estimate by at least 8 per cent - required an overall price reduction from 42.03 ECU/100 kg down to 15.78 ECU/100 kg. Producers in Portugal kept within their MGQ and therefore faced no price reduction at all.

With regard to sunflower seed, EC-10 production was officially estimated as 2,595 thousand tonnes in 1990 or 29.75 per cent above the relevant MGQ amount. Together with the rather big correction of the 1989 crop estimate (the first estimate was 2.31m tonnes against a final determination of 2.56m tonnes) it triggered a price cut of 12.24 ECU/100 kg (21 per cent as compared to 6 per cent in 1989). Here again three different price levels applied within the Community: 46.01 ECU/100 kg in ten countries, 49.71 ECU/100 kg in Spain (no price cut) and 58.25 ECU/100 kg in Portugal (no price cut).

Contrary to rapeseed and sunflower seed which in 1990 attracted more land for production, there was almost no further increase in the area devoted to soybeans and pulses. EC soybean production being concentrated in Northern Italy has perhaps been discouraged by the heavy price cuts triggered off in 1989. However, the situation may have been even worse in 1990: since the Commission had to admit a very significantly underestimated 1989 soybean crop, the later correction increased the price cut to be made on the basis of the 1990 crop estimate. Thus, despite an apparent decrease in production (1.86m tonnes in 1990 compared to 1.98m tonnes in 1989) there was a much bigger price cut in 1990 than in 1989 (-30 against -19 per cent, or -16.73 against -10.78 ECU/100 kg).

While the area planted with pulses was almost stagnant, production rose through increased yields. The main source of growth has however been in feed peas of which both the area sown and the yield increased. Through high yields and attractive prices, feed peas have become a very competitive crop in the Paris basin - although the different stabilizer mechanisms of peas and cereals complicate any calculation for farmers' crop planning.

2.3 Sugar

Excellent sales conditions during the 1989/90 marketing year had allowed the EC Commission to exempt the producers from paying established production levies. The basic levy, designed to recoup for the Community Budget the cost of export refunds on quota sugar exports[1], was cut and the additional levy intended to clear any deficit arising from the current producer levy account was totally dropped. Moreover, continued high world prices and favourable market prospects caused French and German sugar companies to urge affiliated beet growers to plant sugar beet in 1990 beyond allotted "A" and "B" quotas. Some companies underlined their invitation for massive surplus production by offering contracts providing guaranteed "B" quota prices for all deliveries in excess of an "A" quota. Obviously, world prices of around 14 c/lb are at present highly profitable for efficient EC sugar companies.

With minimum producer prices being guaranteed at "B" quota levels, sugar beet became the most profitable large-area crop without political restriction. The producers were, however, not totally free to suddenly devote all their arable land to beets. In practice, they had to observe the internal restrictions of a reasonable crop pattern generally allowing for a three-year crop rotation or a maximum one-third of the arable land planted with sugar beet. Further restrictions followed from labour or machinery capacity especially during the first months of beet vegetation or during the harvest time as well as from the mere availability of land (since the sugar companies had announced their marketing strategy at a time when winter crops had already

[1] The cost of exporting a quantity of sugar equivalent to Lomé Convention imports (ca. 1.3m tonnes) is held to be aid and therefore charged not to sugar producers but to taxpayers.

been planted). Thus, beet growers expanded the beet area by "only" 7 and 11 per cent, respectively, in Germany and France. But while in France sugar yields finally suffered from regional drought, record high yields were reported from Germany, Belgium and the Netherlands. Total EC sugar production was expected to reach almost 15m tonnes (white sugar equivalent, wse), the second highest production figure ever realized (cf. Table 3).

Table 3: Supply and demand of sugar in the European Community (EC-12, 1000 tonnes white sugar equivalent)

Item	1986/87	1987/88	1988/89	1989/90 p	1990/91 (A) e
Area harvested 1000 ha	1,893	1,852	1,828	1,855	2,095
Production	14,096	13,206	13,915	14,335	15,448
Beginning stocks	2,727	2,776	2,295	1,965	1,711
Imports	1,707	1,776	1,904	1,958	2,000
Exports	4,848	4,588	5,264	5,497	5,023
Domestic consumption	10,906	10,875	10,885	11,050	11,800

(A) EC-12 excluding East Germany; p = preliminary; e = estimated.
Source: Agrarbericht (1991, p. 94).

While major parts of 1990 "C" sugar production were reported to have been sold on the futures market at still reasonably high prices, exports of quota sugar met much lower prices on the spot market. The regular production levy will therefore be applied again at its maximum rate (2 per cent of the intervention price on "A" and "B" sugar plus 37.5 per cent on "B" sugar) and the additional levy is also likely to be reinstated (cf. Sommer 1990, p. 418).

Extension of the Existing EC Sugar Regime

The EC sugar policy, being subject to scrutiny every five years, had to be reviewed in 1990 before being settled for another quinquennium. Since many politicians consider the sugar regime to be a exemplary success which had rightly resisted major changes previously, nobody could expect existing regulations to be altered. The EC Commission itself appeared to have difficulties working out a final proposal. Those Commissioners believing that quotas should generally be regarded as transitional measures because they impede competition and are incompatible with the principles of a single market did not enforce retention of a note calling for their abolition after 1992. Neither a reduction of quotas nor any cut in the level of price support was officially proposed, although both elements were prerequiste to a free internal sugar market and would have brought the mechanisms of this market better in line with the MGQ-provisions of other crop products. More realistic issues of debate had been the phasing-out of national aids, the scrapping of deficit area pricing and the abolition of the storage refund/levy scheme.

National aids for the sugar industry are notoriously deemed necessary by all Italian governments and a recent industry-sponsored study warned that, unless beet sugar production were further "encouraged", production would be reduced by one-third to only 1.02m tonnes in 1995. Dire consequences were forecast in agriculture (100,000-150,000 hectares released from beet growing) and on the labour market (farm and industrial workers).

Similarly, the British and Irish governments are adhering to higher levels of support prices agreed to as part of the accession treaty declaring the islands to be a region of deficit sugar supplies. The British adaptation aid for the refining of preferential raw cane sugar is still applied at a (maximum) rate of 0.50 ECU/100 kg wse. It is 75 per cent financed by the British government and 25 per cent by the EC budget.

Another adjustment aid - totally financed by the Community - is payable to refineries, defined as "a production unit whose sole activity consists in refining either raw sugar or syrups produced prior to the crystallising stage". It thus benefits refiners of preferential raw cane sugar, EC produced beet raws and world market raws imported at reduced levy so long as these are processed in refineries as defined above. The initial level of adjustment aid was 0.08 ECU/100 kg wse in 1987/88 but with the annual reduction of the storage cost levy by 0.50 ECU/100 kg wse it increased by the same annual amounts and made up 1.58 ECU/100 kg in 1990/91. The adjustment aid is not restricted to UK refineries, most eligible ones are however British and only for them the refining aid comprises two parts, a national and a Community amount.

The refining aid has been criticized further. While the subsidy is deemed to be an adjustment for the refining of preferential raw cane sugar and to compensate for the reduction in the storage cost refund, sugar is the only major CAP commodity where deficit area pricing is continuously impeding competition.

Existing aids and legally established price differentials are certainly not the only impediments to competition since it is basically the quota system which allows the European sugar companies to avoid any price competition. On this basis and as sufficiently demonstrated by rapid structural changes, the bigger companies are increasingly able to compete in efficiency, and through takeover bids and mergers. They also diversify into high-tech agro-food industries and into improved systems of producing and marketing high quality food (e.g. Terra Nova by the German based Südzucker[2]).

Finally, with regard to the storage refund/levy scheme, the necessity of its existence as a supplement to intervention prices could reasonably be questioned. While the system is said to be a prerequisite to steady market supplies and at the same time to avoid intervention being misused for seasonal stock-keeping, similar effects could be brought about by more restrictive conditions of intervention. But even conceding the principle of the present scheme: if the refund were not applied to "C" sugar carry over, it would be possible at least to reduce the amount of the storage levy with likely effects on the level of consumer prices and/or on the volume of sugar production. This view was also shared by the Commission who proposed at least to confine the refunds for "C" sugar carry over to 6 instead of 12 months.

On 22 January, 1991, the Council of farm ministers agreed to the expected low-profile compromise: the existing regulation of the sugar market was simply extended by two years without any changes in the system of quotas and levies. The storage refund/levy scheme was also maintained without any restriction. Deficit area pricing will be continued and national aids will be reduced by 10 per cent. Thus, the only real concession the sugar lobby had to accept is that, in view of the single internal market and the still unsettled GATT negotiations, the opportunity for making more decisive changes was kept open by confining the duration period of the present regulations to only two years.

2.4 Dairy

The EC milk policy aims at profitable returns for fairly efficient producers. Under the quota system (cf. Table 4), however, this is true only for milk produced within a quota. Deliveries of excess milk are accepted by the dairy factories but the common regulations provide a clear disincentive for over-production. While quota milk of 3.7 per cent fat is *supported* at a level of about 90 per cent of the target

[2] The brand name "Terra Nova" stands for a new marketing concept created by Südzucker, the biggest European sugar company, for food products of premium quality. The concept is based upon complete supervision of both agricultural production and food processing and marketing. While production is carried out under contract and on the advice of plant and soil specialists (partly provided by Südzucker) with the aim of minimizing fertilizer and pesticide application, the quality of products is controlled by independent laboratories. Scipio, the biggest German company specialized in fruit and vegetable trade, is responsible for a wide and prompt distribution of fresh products uniformly prepacked in brown paper bags.

price[3], excess milk shall be *levied* at a rate of 115 per cent of the same target price.

compensatory pricing - patterns of behaviour reported from certain countries and applied to cushion the consequences of excess production - the

Table 4: EC milk quotas in 1991/92 (1000 tonnes)

	Guaranteed quantity	Temporary suspension	Actual reference quantity	Reserve quota	Mulder case quota	Nallet per cent	Total dairy quota	Direct sales quota	Total quota
	A	B	C=A-B	D	E	F	G=C..F	H	I=G+H
Belgium	3 090	144	2 945	-	6	32	2 983	381	3 364
Denmark	4 687	220	4 467	-	8	49	4 524	1	4 525
Germany a)	29 119	1 054	28 065	-	135	234	28 434	153	28 587
Greece	556	24	531	-	-	5	537	45	581
Spain	4 664	209	4 455	50	-	47	4 553	528	5 079
France	24 709	1 159	23 555	-	54	256	23 865	748	24 613
Ireland	5 069	238	4 831	303	99	53	5 286	16	5 301
Italy	8 796	235	8 561	-	-	88	8 649	733	9 382
Luxembourg	254	12	242	25	1	3	271	1	272
Netherlands	11 500	539	10 961	-	40	120	11 121	92	11 213
Portugal	1 779	-	1 779	-	-	-	1 779	121	1 900
UK	14 716	690	14 027	65	160	153	14 405	384	14 789
Total	108 939	4 519	104 419	443	502	1 040	106 405	3 203	109 606

Notes: As at January 7, 1991; totals may not add because of rounding.

A: Originally set at 98.4m tonnes. B: Equal to 4.5 per cent of guaranteed quantity for 1986/87 except for Italy which is 2.67 per cent. D: Originally fixed at 393,000 tonnes and distributed between Ireland, Luxembourg and the UK (Northern Ireland); for 1987/88 the reserve was increased by 50,000 tonnes to include Spain. H: Originally determined at 4.1m tonnes.

a) Includes guaranteed quantity of 6 600 thousand tonnes and direct sales quota of 60 thousand tonnes for the territory of the former GDR.

Source: *CAP Monitor* (30.1.1991, p. 7-23).

If this system were strictly applied on the basis of single farm quotas, it would probably keep milk deliveries within the limits of the quotas issued. Even the possibilities of balancing over- and underproduction at the dairy or national level do not necessarily endanger the effectiveness of the quotas. However, by keeping the individual producer more or less uninformed about the dairy factory's use-of-quota status and about the probability of being levied, and by diluting the disincentive through dairy factories finally risk ending up in overproduction. On the other hand, where farmers are able and required to act for their own, there tends to be

[3] This percentage results from the theoretical intervention milk price equivalent being 94.3 per cent of the intervention prices for butter and skimmed milk powder and the buying-up price of butter falling within a range of 90-94 per cent of its intervention level. However, there is growing concern that the margins and yield factors used by the Commission are unrealistic and that in practice even the most efficient dairy factory is not able to maintain such price levels.

"panic milk quota buying by above-quota producers" by the end of a milk marketing year as reported, for example, from England and Wales by the end of 1990/91 (AEL 1.2.1991).

Overall EC milk deliveries in the 1989/90 marketing year exceeded the quotas by 0.9 per cent (98.76m tonnes compared to 98.03m tonnes, with appropriate corrections for increased fat contents[4]). Germany and Belgium were the main offenders, while Luxembourg, Italy, Greece, Ireland and Spain left small amounts of their quotas unused. For 1990/91, preliminary information based upon only 10 months (April 1990 to January 1991) seems to indicate a marginal cut in overall milk production, but with a slight increase in the UK (+0.5 per cent) and a more significant reduction in Germany (-1.6 per cent).

Prices

The intervention prices of butter and skimmed milk powder (SMP) had already been reduced prior to the 1990 ministerial price fixing round. From 1 March, 1990, EC prices for SMP and butter fell, respectively, to 172.73 and 293.28 ECU/tonne (Spain: 218.81 and 314.74 ECU/tonne). Therefore, the target price of milk had only to be adjusted correspondingly (from 27.84 to 26.86 ECU/100 kg) by the Council. Also effective from the beginning of the new marketing year, the period allowed for payment at intervention was reduced from 110 to 45 days whereby part of the effect of price decrease was offset. Contrary to many demands, the rate of the coresponsibility levy was however maintained at 1.5 per cent of the target price, with small-scale producers remaining free.

The German farm minister also agreed to abolish the remainder of the monetary gap between the respective "green" rate and the so-called agricultural central rate for all animal products. This concession, effective from 14 May, 1990, meant an additional decrease of German intervention prices by 0.4 per cent.

Intervention Measures

The limitations of intervention as applied since 1987 will in principle be maintained up to the end of the quota regime (assumed to be March 1992):

> For butter, intervention may be suspended either throughout, or in part of, the Community as soon as the quantities offered for intervention from March 1 exceed 180,000 tonnes. For SMP intervention is abolished between September 1 and February 28; for the remainder of the year suspension may occur if the quantities offered into intervention exceed 106,000 tonnes (CAP Monitor 1991, p. 7-06).

If intervention is suspended, buying in of butter and SMP can still occur but under a tendering system or on certain conditions only. For butter, if the market prices in at least one member state fall to 92 per cent of the intervention price, then the normal intervention arrangements can be resumed in the member states concerned until the total level of stocks exceeds 275,000 tonnes. Beyond that level, intervention will only be resumed if market prices fall to 90 per cent of the intervention price. For SMP, private storage payments will be granted when intervention is suspended. Within these provisions the above-mentioned quantities of 106,000 tonnes of SMP and 275,000 tonnes of butter have been increased from, respectively, 100,000 and 250,000 tonnes due to the inclusion of East Germany into the CAP.

When SMP intervention reached a level of 100,000 tonnes in 1990/91, however, the Commission did not suspend regular intervention for the tendering system. It was argued that the aim of supporting producer prices required intervention to continue. Similarly, when six weeks before the end of the marketing year butter intervention passed the critical level of 275,000 tonnes, buying-in was continued at 92 per cent of the intervention price. Waiting for the prices falling to 90 per cent would have provided no advantage for the Budget or for the following marketing year.

Subsidized Butter and SMP Disposal

With the progressive reduction in intervention stocks following reduced buying-in and enforced sellout

[4] As effective from 1 October, 1986, the quota system was tightened up by penalizing any increase in the fat content of milk above the 1985/86 level. For every 0.1 gram of additional fat per kilogram of milk the quantity of milk used as a basis for calculating the superlevy is increased by 0.18 per cent. This means in effect that quotas are fixed in terms of butterfat rather than milk (CAP Monitor 1991, p. 7/12).

programmes, all schemes of subsidized butter and SMP disposal had been discontinued by the middle or end of 1988. In 1990, however, new stocks began to accumulate because of falling demand (cf. Table 5) and increased production (from additional quota and excess production). In Germany butter consumption fell from 8.2 kg per head in 1988 to about 6.7 kg in 1990. Thus, the former subsidy on skimmed milk and SMP for use as feed was reintroduced in October 1990. An amount of 70 ECU/100 kg is paid for SMP used in calf milk replacers with a 50 per cent minimum incorporation rate. Downward deviations of this limit trigger a 15 per cent cut in the subsidy for every 5 per cent reduction in the incorporation rate.

Table 5: Supply and demand of milk in the European Community (EC-12, 1000 tonnes)

Item		1986	1987	1988	1989 p	1990 e (A)
Dairy cows (1000 head)	a)	25,447	24,120	23,564	23,312	22,919
Yield per cow (kg)		4,528	4,394	4,538	4,627	4,720
Total milk production	b)	129,350	124,051	112,280	111,687	111,644
Dairy cows only		116,905	112,114	109,733	109,140	109,097
Cow milk deliveries		107,139	101,805	99,163	98,649	98,845
in % of production		91.6	90.8	90.4	90.4	90.5
Imports	c)	2,856	2,371	2,223	1,957	2,200
of which from NZ	c)d)	1,740	1,660	1,624	1,355	1,300
Exports	c)	15,414	21,531	19,177	15,125	10,900
Change in stocks	c)e)	5,866	-10,853	-15,039	-1,574	4,100
Domestic demand	c)f)	88,715	89,392	88,695	87,055	86,045
Butter						
Production		2,237	1,903	1,689	1,715	1,763
Domestic consumption		1,674	1,850	1,900	1,530	1,466
of which						
at market prices	g)	1,286	1,301	1,226	1,171	1,066
Ending stocks	e)	1,367	958	212	124	310
Skimmed milk powder						
Production		2,202	1,666	1,353	1,488	1,615
Domestic consumption		1,461	1,370	1,243	1,000	960
of which						
at market prices	g)	272	240	260	280	80
Ending stocks	e)	772	473	7	5	325

(A) EC-12 excluding East Germany; p = preliminary; e = estimated.
a) December census; b) Total cow, sheep, goat milk; c) Whole milk equivalent; d) Butter only; e) Intervention stocks only; f) Cow milk products processed in dairy plants; g) Non-subsidized human consumption.
Source: Agrarbericht (1991, p. 84).

The permanent subsidy paid on skim milk manufactured into casein and caseinates was reviewed in 1990 with the main objective of enforcing the rules on surveillance. The aid is aimed at putting production of casein/caseinates and SMP from EC skim milk on equal footing. An increase in the amount of subsidy to 7.94 ECU/100 kg is under discussion (cf. Salamon 1990, p. 434).

Quota Management

Quota management continued to require considerable time and administrative effort. The "Mulder" case problems (cf. Manegold 1989, p. 19) had been solved in 1989/90 by adding 502,233 tonnes to the overall EC quota[5]. But the Commission carried its point with regard to the Budget as the additional quota was counteracted by a 2 per cent reduction in the butter intervention price.

In December 1989 another quota increase was agreed to and put into the EC quota reserve. Originally suggested by Mr. Nallet, the French farm minister, this increase was intended to give the national authorities some flexibility with regard to solving special problems of national importance (e.g. new entrants, small-scale producers, less favoured regions, legalization of erroneously distributed quotas). The EC Commission was not totally opposed to the "Nallet" per cent, but insisted on two conditions being met. First, the one per cent was regarded as an activated part of the 5.5 per cent national quota share which is kept idle for a degressive compensation payment. Second, the Council's generosity of not adjusting the overall compensation payment (thereby granting a set-aside payment calculated for 5.5 per cent of the quota for idling only 4.5 per cent) was to be balanced by increasing the superlevy for excess milk deliveries to 115 per cent of the target price (up from 100 per cent) and by further reducing the intervention prices (butter -2.5 per cent, SMP -0.75 per cent as effective from 1 March, 1990).

Moreover, since the situation of small producers continued to be of concern, the Community financed a quota-purchase programme for giving small producers new additional quotas to bring some of them up to a more economically viable unit. EC budgetary means were limited to 36 ECU/100 kg for up to 500,000 tonnes. The member states were free to take part in the programme and could add to the quota purchase price. To obtain payment under this scheme, producers had to cease all or part of their milk production by 1 April, 1991. The aspect of improving the regional distribution of production was emphasized by the provision that less favoured regions were excluded from quota purchase but were considered to be preferred recipients.

Wherever this milk outgoers' programme was implemented on the national level (only Ireland, France, Italy and Spain appear to have put it into force), the farmers showed keen interest to participate. Two weeks before the closing date (31 October, 1990) some 9,000 applications covering around 620,000 tonnes of milk had been received in France (including 473,000 tonnes from non-mountainous areas). Thus, the French dairy farmers alone offered to sell a quantity equal to that fixed by Brussels for the Community as a whole (AEL 7.12.1990).

In Italy where individual farmers had so far not been bothered by any quota regulations nor by the levy for excess production, a Court of Justice ruling finally compelled the government to fully enforce the Common quota regulations. Many farmers, therefore, faced being levied for the first time. Such prospects may have increased their willingness to sell immediately their newly allotted quota under the national milk outgoers' programme. Participation was anticipated to be high at a level of payment corresponding to the Community rate (36 ECU/100 kg), but the very short term of application caused by administrative delay may have prevented a positive result (AEL 2.11.1990).

In West Germany the sum of individual farm refer-

[5] The "Mulder" case is sometimes referred to as "SLOM" quota (SLOM being the Dutch acronym for milk non-marketing schemes) since under the milk non-marketing scheme applied from 1977 through 1980, a producer, who guaranteed not to deliver milk for five years, received payments based on his deliveries in a previous base period. However, when the milk quotas were introduced in 1985 by making reference to the level of deliveries in 1981, "SLOM"-farmers were omitted. A Court ruling finally forced the Council to provide quotas for them in 1989 but the Council reacted in a very restrictive way. So, the solution mentioned above may be revised since the EC Court of Justice has raised new objections (AEL 14.12.1990).

ence quantities still exceeded the national quota by 400,000 tonnes in the most recent year because of by an erroneous initial distribution of too many quota shares. The government had repeatedly been urged by the Commission to revise this situation. To finally ensure a rapid absorption of this surplus, a special buy-up programme was introduced on the basis of the common regulation. With a payment of 160 DM/100 kg milk, almost double the rate available under the original Community scheme, it offered very favourable terms indeed. German farmers responded very positively. Applications made during the first two days far exceeded the 400,000 tonnes fixed as the overall national limit. Initial attempts to clarify the situation by a "first past the post" procedure or by proportional allocation aroused fierce protests since some state administrations had given their farmers a head start by providing extra office hours on Saturday just before the week the application term was supposed to begin. Finally, supplementary Länder schemes were set up at equal terms in order to accommodate the losers in the Federal programme. These schemes also suited the Länder (Federal States) much better since they allowed them to set their own regional and structural priorities. Roughly another 400,000 tonnes have finally been offered under the schemes for which the Länder hoped to be involved in some kind of interim financing only because the quotas bought up subsequently were to be sold to producers wanting to increase their reference quantity (AEL 12.4.1990).

By completely absorbing the excess quantities at the farm level the Federal government gained new flexibility for a quota management of its own (Agrarbericht 1991, p. 85):

- the automatic seizure of part of the quota which was imposed on any quota transfer could be dropped although, upon request of the Länder, transfers of more than 350,000 tonnes remained subject to a 30 per cent rate of confiscation;
- the compulsory binding of any quota transfer to a simultaneous transfer of land could be loosened by increasing the factor from 5,000 to 12,000 kg milk per hectare;
- the opportunity to conclude short-term leasing contracts for quotas without any acreage obligation could be offered;
- annual balancing of over-deliveries against under-deliveries by individual farmers at the dairy level could be introduced.

All these provisions meant considerable progress for those concerned but all administrative and professional bodies jealously protected their regional quota stock. Generally speaking, German authorities and farm organizations remain strictly opposed to any uncontrolled movement of milk quotas while in other countries self-confidence is much greater. In the Netherlands, for instance, the farmers reportedly threaten to go to the European Court of Justice and seek freedom for EC-wide quota trade (AEL 26.1.1990).

The new rise in butter and SMP intervention stocks during the 1990/91 marketing year urged the Commission to think about another general cut in the quota level. Reductions by 3 to 5 per cent have been reported as being discussed but, as part of the 1990/91 price package, a proposed 2 per cent downward adjustment was all that finally emerged.

2.5 Beef

In 1990, production and consumption/exports followed divergent tendencies (cf. Table 6) and drastically increased unsaleable surpluses in the EC beef market. Administrative efforts to support producer prices only resulted in record high intervention stocks.

Large Surplus

Since 1984, when EC milk production was subject to the quota system, the beef market has repeatedly suffered from measures taken to curb milk deliveries. The 1990 quota buy-up caused additional cow slaughterings on top of regular culling and adjustments to the dairy herd for growing milk (fat) yields. Although total beef production was eventually lower than in any single year between 1984 and 1988, the modest increase (+3.4 per cent) compared to 1989 weighed heavily upon the market because it coincided with an unexpected decrease in consumption.

Table 6: Supply and demand of beef and veal in the European Community (EC-12, 1000 tonnes slaughter weight)

Item	1986	1987	1988	1989 p	1990 e (A)
Gross indig. production	8,019	8,056	7,618	7,336	7,585
Livestock imports	38	26	21	20	60
Livestock exports	90	117	92	144	160
Net indig. production	8,070	8,147	7,689	7,460	7,685
Meat imports	433	336	429	427	440
Meat exports	1,184	924	834	942	600
Change in stocks	-54	90	-42	-300	520
Domestic consumption	7,473	7,579	7,326	7,245	7,005

(A) EC-12 excluding East Germany p = preliminary; e = estimated.
Source: Agrarbericht (1991, p. 86).

This set-back was particularly marked in the UK and France where reports on the detection of Bovine Spongiform Encephalopathy (BSE) among British cows and public suspicion on the risk of human infection caused widespread consumers' resistance. The high media profile of these reports also led to cancellation of important beef export contracts both inside and outside the EC (AEL 30.11.1990). In 1989 beef imports from the UK had been banned by German authorities, and several other member states followed in 1990 before the Commission, based on certain guarantees from the beef shipping enterprises, could declare the trade impediments to be abolished. Non-member countries like Iran and Egypt, however, maintained their restrictions. Moreover, EC beef exports to the Gulf region suffered from the Iraq embargo and the aftermath of the Gulf war. The Irish beef industry was especially severely hit. After revealing debts of £454m, the Goodman International trading group was rescued by a backing syndicate (AEL 14.12.1990).

Depressed Prices

Intervention purchases released by the safety-net provisions of the revised regulation in the beef market (cf. Manegold 1989, p. 24) temporarily affected about 15 to 20 per cent of current supplies. Purchases were made at flat-rate buying-in prices of 80 per cent of the intervention level. In France, drought induced feed shortages contributed to increased slaughterings and depressed prices, while in Germany supplies from the eastern part of the country had similar effects. In East Germany, oversupplies were due to at least three reasons: suspension of former exports to COMECON countries, breakdown of the whole call-off system in the state-regulated food sector[6] and, to a rapidly increasing extent, crowding-out of local food products by more appealing western rivals. EAGGF[7] expenditure in the beef sector far exceeded its initial limits in the 1990 budget year and there are no immediate signs of improvement in the market situation for the near future (cf. section 4.2 below).

[6] In the state-planned economy there were at the wholesale level no open markets where livestock or meat was offered and asked for. Processors and retailers were supplied on the basis of state-controlled allotment and annual contracts regulated the terms of delivery and acceptance. This system broke down when despite plentiful supplies the commitments to take the deliveries were no longer met, partly because consumers switched to western products, and partly because processors did not realize the need for their own marketing efforts and therefore failed to contact the big retail companies which increasingly replaced the former trade organizations (*cf.* section 5.3).

[7] European Agricultural Guarantee and Guidance Funds. This is the part of the EC Budget related to agriculture with its two divisions on market support (Guarantee section) and on structural measures (Guidance section).

2.6 Sheepmeat

To enable the single market to become effective, the common organization of the market in sheepmeat had to be revised to abolish several provisions impeding competition (cf. Manegold 1989, p. 27).

Elements of the New Market Regulation

The new basic regulation for the sheepmeat sector which the relevant EC bodies had discussed in 1988 was finally approved by the Council in September 1989. It came into force on 1 January, 1990 (Council Regulation 3013/89). The most fundamental changes to the regulation applied during the 1980s comprise the phasing-out of the UK variable premium payment, the limitation of the annual ewe premium payment and the introduction of private storage aid (CAP Monitor 9.1.1991, chapter 8-C).

The key price in the sheepmeat regime continued to be the basic price to be fixed annually within the EC farm price negotiations. The basic price is adjusted weekly to take account of "normal" seasonal variations in the Community sheepmeat market. A stabilizer mechanism based upon a "threshold flock" size of 18.1m ewes in Great Britain and of 45.3m ewes for the rest of the Community is designed to trigger price cuts by one per cent for each one per cent by which the threshold flock size is exceeded.

Price reporting in all member countries is now based on a newly defined standard quality of fresh or chilled carcase. The corresponding standard quality price is used to determine the income loss element in the calculation of annual ewe premium as well as the action to be taken in the private storage aid scheme.

Payment of a variable premium in Great Britain, which used to correspond to the difference between the weekly average market price and the seasonal guide price (equal to 85 per cent of the seasonal basic price), must end by the 1993 marketing year (AEL 13.7.1990). Until then, the calculation will remain the same but the resulting amounts are reduced in three steps. In 1990, the calculated premium has been paid at a rate of 75 per cent only. The rate is reduced to 55 per cent in 1991 and 40 per cent in 1992 but the UK government is free to decide on further lowering it or on completely removing the variable premium before reaching the deadline in 1993.

The annual premium is a headage payment for eligible ewes and is calculated on the basis of any shortfall in income, or income loss, when the average market price is compared with the basic price. As long as the variable premium payments continue to be paid in Great Britain the income loss element will be adjusted correspondingly. Between 1990 and 1993, various transitional measures will operate and ensure that by 1993 the ewe premium will be equivalent to the single income loss defined as the difference between the basic price (adjusted by the stabilizer percentage) and the weighted average of standard quality prices for the whole of the EC.

Payments from 1993 will be differentiated in two ways. First, instead of being operated on a regional basis, payments will be made on the basis of the type of production system. There will be two production systems respectively producing light and heavy carcases. In this respect, any producer selling sheep milk or products made of sheep milk is supposed to produce light carcases while all others are considered to be producers of heavy ones. Second, from 1990 headage limits apply to the payment of ewe premium. Full payment is made on the first 500 ewes in a lowland flock and 1000 ewes in a designated less favoured area. Above these limits only 50 per cent of the premium shall be paid to remaining ewes on the holding (the likely consequence of this provision will be seen on the records of the next sheep census when the farmers have split their flocks to sizes matching those limits). From 1990 all producers will receive either two advance payments over the year each of which comprises 30 per cent of the total estimated ewe premium, or only one instalment of up to 60 per cent in the second half of the year. The balance must be paid by 31 March of the following year.

A private storage aid scheme is provided as a safety-net to support the market should prices fall below certain minimum levels. Private storage aid is limited to whole or half carcases of lambs of less than 12 months of age. There are three different circumstances which may trigger the measure:

— If the standard quality price in both the EC and the region concerned falls below 90 per cent of the basic price and there is no increase expected in the near future, private storage aid can be offered by the Commission.

— If both standard quality prices fall below 85 per cent of the basic price, the private storage aid scheme will operate on a tendering basis.

— If a single region's standard quality price falls below 70 per cent of the basic price the private storage aid scheme will operate by tender regardless of the Community price.

With regard to foreign trade, imports remain subject to voluntary restraint agreements (VRA) with the overall quantity reduced (by 45,000 tonnes carcase weight equivalent) to 255,595 tonnes of fresh, chilled or frozen sheepmeat and 21,425 tonnes of live sheep. The reductions have affected mostly unused quota shares of New Zealand, Argentina and Uruguay. The older provision that in relation to "sensitive areas" (France and Ireland), VRA suppliers had to limit their shipments to traditional levels and that the "sensitive areas" were authorized to restrict third country quantities imported via other EC member states, was removed on 1 January, 1991.

Market Developments

For the 1991 marketing year the basic price was fixed at 432.32 ECU/100 kg carcase weight. The price cuts applicable under the stabilizer mechanism are 8.1 per cent for Great Britain and 6.45 per cent for the remainder of the EC.

Sheepmeat production continued to expand in most countries but most markedly on the British Isles while in France the sheep industry struggled against adverse effects from repeated drought and heavy imports from Ireland and the UK. Declining production and growing consumption caused the French self-sufficiency ratio to slump from 80 to 55 per cent.

Although consumption trends seem to signal a receptive market (cf. Table 7) the large increase in production which the market regulation has provoked is not absorbed without price reductions. Weak producer prices were compensated by (variable and/or annual) premium payments. In 1989, the price gap of 84.409 ECU/100 kg carcase weight determined for the German sheep market translated into a premium payment of 18.992 ECU per ewe on the official assumption of an average 22.5 kg lambmeat production per ewe. The corresponding amounts for the UK and Ireland were 10.338 and 21.389 ECU per ewe, respectively (the British annual payment being net of the 75 per cent of the variable premium which is still paid at the point of slaughter; cf. Probst 1990, p. 453).

In spite of the stabilizer mechanism, increased production and great differences between the basic price and the regional average market prices resulted in growing budgetary outlays which in 1989

Table 7: Supply and demand of sheep and goatmeat in the European Community (EC-12, 1000 tonnes slaughter weight)

Item	1986	1987	1988	1989 p	1990 e (A)
Gross indig. production	938	990	1,019	1,072	1,149
Total imports	233	246	236	253	295
Total exports	3	6	6	9	8
Change in stocks	-15	-6	-5	-2	11
Domestic consumption	1,183	1,236	1,254	1,318	1,425

(A) EC-12 excluding East Germany p = preliminary; e = estimated.
Source: Agrarwirtschaft 39(12), 449.

and 1990 reached some 1,500m ECU annually. For 1990, these outlays were about half the sum spent on beef (the value of sheepmeat production is only about 14 per cent of beef production). While most EAGGF spending is on deficiency payments, private storage aid has also been paid. At rates between 135 and 150 ECU/100 kg for three months' storage, private storage aid has been little utilized.

The Common Market in live sheep and sheepmeat has exhibited far less regular price movements during the last few years than those experienced before 1987 and the unusual deviations from the seasonal pattern of the basic price complicated the administration of the market.

3. GATT Round Blocked by EC-US Controversy

The collapse of the Uruguay Round's intended final conference (December 1990 in Brussels) can be blamed on both the EC and the US. However, it was the EC's refusal to accept any modification to the substance of the CAP which was unacceptable not to the US alone but to a majority of participating parties. The deadlock in the GATT negotiations had already been announced when the EC farm ministers - in an effort not to injure the interests of their own constituents - had dismembered the Commission's conservative proposals. While a compromise solution still seemed achievable on the basis of those proposals, the Council appeared willing to accept an open failure by completely diluting this concept and by depriving the Commission of any negotiating range (cf. Manegold 1990a, p. 394). The farm ministers even went so far as to keep themselves ready on standby in Brussels to "advise" the Commission on its conduct in the final Uruguay Round meeting.

3.1 The Commission's Negotiating Proposal

The Commission's outline paper contained three basic recommendations (AEL 21.9.1990):

— a reduction of internal support by 30 per cent, expressed according to an aggregate measure of support (AMS) that allowed for considerable flexibility with regard to individual products;

— a conversion into tariffs ("tariffication") of certain frontier measures (including the variable levy) resulting in a fixed and a variable element combined with a reduction by 30 per cent of the former and a continuous adjustment of the latter according to monetary and/or certain world price variations; and

— a concomitant adjustment in export subsidies.

In addition, the tariff conversion proposal was subject to getting through the EC's rebalancing request, i.e. the application of import tariffs on products currently carrying no variable levy or no or little import duty.

Internal Support

According to this outline, the AMS was to be expressed in total monetary value for different groups of products as well as for certain groups of policy measures. There were three groups of products to be distinguished: those subject to full price support (cereals, rice, sugar beet, oilseeds and protein plants, olive oil and animal products), those supported by production subsidies (seeds, textile plants, hops, tobacco as well as fruit and vegetable for processing), and those benefiting from price support and frontier measures other than variable levies (fruit and vegetables, wine). With regard to policy measures, the AMS was to include price support, direct payments and input subsidies. It consequently excluded disaster relief measures, internal food aid, marketing subsidies, general services, programmes for withdrawal of resources, subsidies for investment or programmes for building up food reserves.

The total AMS value of 93,973m ECU estimated for 1986 was considered to be the maximum annual amount ever to be reached. Within that amount, some restructuring would be allowed but only to such an extent as the targets of support reduction were met. For practical purposes (and in order to provide opportunities for re-apportioning the support) the overall AMS value was divided into four parts. The AMS concerning the first group of products (estimated at a basic value of 64,156m ECU) was intended to be reduced by 30 per cent as against 1986. Reductions additional to those that had been made during 1986-90 were to be spread equally over five years (1990/91 to 1995/96). With regard to the other two groups of products the Commission offered to reduce the AMS by 10 per cent only (starting from an estimated value of 1,939 and 18,960m ECU, respectively). However, due to the intermediate increase of the support level (during the period 1986-90), this 10 per cent reduction implied an annual change by about 6 per cent (0 per cent for wine) over five years to achieve the target. Finally, the Commission proposed that the level of support provided for by "permissible" measures (comprising a remainder of 8,918m ECU in 1986) should be allowed to be continued as long as the overall AMS value was not exceeded.

Import Protection

With regard to frontier protection, the Commission's outline was based upon a general conversion of all such measures other than normal customs duties to tariff equivalents. Representing the difference between a to-be-defined world market or the EC import price (drawn up by the three-year average of 1986-1988) and the corresponding average EC support price (in most cases, the intervention price) the so-called fixed elements were much lower than the variable levies. In order to partially make up for the loss in Community preference implied by that way of calculation, a surcharge of 10 per cent of the average EC support price was to be added to the fixed element.

All fixed elements which would replace variable levies (first group of products) were bound to be reduced by 30 per cent by the 1995/96 marketing year[8]. In the case of other products the fixed elements were to be cut by 10 per cent. As suggested for the AMS, any reduction in the frontier protection was to be implemented in equal tranches.

To further protect EC agriculture from certain fluctuations in both exchange rates and world prices in relation to their respective reference level (1986-88 average), a variable element would be created to complement the fixed element. By this mechanism, fluctuations within a margin of 30 per cent would be transmitted onto the internal market but at a rate of three-tenths only, while all changes exceeding that margin would be made up in full by simply adding the matching amounts to the tariff (AEL 5.10.1990).

Rebalancing Request

However, according to the Commission's proposal, tariff conversion and reduction of import protection was acceptable to the Community only to the extent that it was possible to completely reorganize import protection for oilseeds, protein pulses and a range of non-grain feed products (NGF) on the basis of both import quotas and different rates of tariff. Outside the quotas a tariff equivalent based on maize was proposed for oilseeds, protein pulses, maize gluten and other residues from the manufacture of starch, and a tariff equivalent based on barley was proposed for NGF products. While the import quotas should equal the average imports between 1986 and 1988 plus 8 per cent, the rates of tariff to be applied within the quotas were proposed to be 6 per cent for NGF products and oilseeds and 12 per cent for all other products with the tariffs to be phased-in over a period of five years (1991-96).

Export Assistance

The proposed reduction in internal support and import protection was considered to automatically lead to a considerable fall in export subsidies both in relation to their overall amounts as well as to their per unit rates (world prices assumed to remain stable). However, while the Commission did not suggest completely abolishing any export subsidies, it proposed certain rules of behaviour:

— Export subsidies must exceed neither the differences between the internal prices in the exporting country and the corresponding world price nor the import duty applied to the same product when it is imported into the exporting country.

— Export subsidies granted for processed products must be limited to amounts equivalent to the export subsidies applicable on the agricultural products incorporated in the processed products.

[8] Compared to the extent of the variable levies which cover the difference between world prices and the EC threshold prices, the reduction of frontier protection was however much larger than 30 per cent, at least in the case of cereals.

— No export subsidies shall be granted to products which have not benefited from them in the past.

— The concept of a "fair share" of the world market as expressed in Article XVI of the GATT agreement must be applied.

— The "consensus" of the OECD on export credits shall be extended on agricultural products and become part of the GATT agreement.

— The rules and disciplines concerning sales at preferential conditions and food aid shall be improved.

3.2 Wide Flexibility in Applying the Commission's GATT Proposal

The Commission's negotiating proposal was not only less far reaching but also more flexible than the summary might suggest. For the most important group of agricultural products a 30 per cent reduction in internal support from the level of 1986 was in fact not more than a 15 per cent (or so) reduction to be applied from 1991 through 1995/96. Since all the reductions in support carried out during the preceding five years were to be credited, practically no further increase in the width of annual steps was required over the next quinquennium and most of the reductions in support could be achieved by simply extending the stabilizer regulations in place.

At the same time, the aggregate approach contained in the AMS concept allowed the reduction in the level of support to be spread over whole groups of products so that an "unduly onerous" concentration on any single product could easily be avoided. Moreover, the Commission's proposal left the question open as to how the reductions in support were to be achieved. Obviously, price cuts were not required to the extent that the value of support was reduced by quantitative restrictions. Moreover, up to the limit of the overall value of support, excessive use could be made of direct subsidies to replace price support.

Thus a 3 per cent reduction in the milk delivery quota - which was already being discussed to prevent an uncontrolled resurgence of intervention stocks - would have brought about an estimated 750-900m ECU reduction in the AMS value. This amount represented some 15 per cent of the dairy AMS, or about three times the rate which was required after the 25 per cent reduction in support during the 1986-90 period. The necessary adjustment in the milk quota would therefore have provided wide scope for alleviating the beef and sheep sectors from the price cuts which otherwise might have been required.

3.3 The Farm Ministers' Dilutory Activity

The proposed measures to dilute the effect of a future GATT agreement were however considered insufficient by the farm ministers. When they deliberated over the Commission's paper they removed all individual elements that might have caused an automatic link between a reduction in internal support and a reduction in import protection as well as in export assistance. As regards to the latter, the limiting of export subsidies was also made dependent on the effective implementation of the principle of equitable market shares. Moreover, the import quotas forming part of the rebalancing proposal were reduced by the Council to the level of average imports during 1986-88 (thereby scrapping the proposed 8 per cent increase).

While only few member countries (including the UK, the Netherlands and Denmark) were reported to have backed the Commission, there was clear opposition by Germany, France and Ireland. These three countries did not acquiesce in a simple promise of accompanying measures to help the farmers worst hit by the cuts in market support, but they insisted upon a distinct package outlining precisely how farmers were to be compensated as a precondition to the acceptance of the basic GATT proposal.

The German farm minister finally seemed satisfied with the Commission's "undertaking to submit, rapidly, concrete proposals, supported by appropriate financial solidarity, which will offer a viable future to Community farmers and be in conformity with the undertakings to be given in the GATT" (AEL 2.11.1990). It was understood that this approach could be based upon:

— ensuring the competitiveness of European agriculture;

— reorientating the support given to farmers in a suitable way, taking as a basis the diversity of the structures of farms and production, thereby controlling production and ensuring appropriate levels of income support;

— reinforcing structural assistance, including income subsidy which has no effect on production, concentrating on those categories of producers or regions which will have the most difficulties in adapting to the new situation and give increased importance to measures protecting the environment and improving product quality.

However, even when the German resistance had been overcome, the Council could not agree to a common GATT position. The French farm minister then declared himself unable to adopt the package unless the principle of Community preference was adequately secured. Since his case was immediately endorsed by the German and the Spanish ministers who simply stated their unwillingness to vote against their French colleague, a blocking minority remained in place. Thus, it was only after weeks of bargaining that the EC farm and trade ministers jointly found a compromise to suit all twelve member countries (AEL 9.11.1990). This final compromise centred upon the Commission's commitment:

— to conduct the negotiations in such a way that in the future sufficient Community preference be granted for those products having reduced supports (especially including products such as milk and sugar);

— to present proposals necessary to ensure a more effective set-aside programme in the Community including the renewable resources programme;

— to ensure that the total level of assistance to the less favoured regions not be reduced as a result of the Uruguay Round.

While the first part of this declaration was to overcome the preoccupations of France, Belgium and Ireland, the other two were, respectively, to fit German interests and to calm the Mediterranean countries. At the same time, however, the Council left no doubt about the importance of this agreement with regard to any possible - or impossible - concessions to the partners in the Uruguay Round negotiations. The ministers maintained that "the global and non-discriminatory approach" on which the Community's negotiating proposal was built "is the only one which is compatible with the fundamental principles of the CAP. It alone, in fact, ensures that the mechanisms on support, access and exports, can function in a coherent manner. Any separate undertaking on export subsidies would be incompatible with the above" (AEL 16.11.1990).

According to that statement the final conference was bound to fail unless the Americans and the Cairns Group as the two most important EC antagonists were prepared to fully accept the EC's position.

3.4 Failure of the Brussels GATT Conference

The (supposedly) final Uruguay Round conference began although the EC had decided not to offer any significant change in its policy of using the international market as a dumping ground for its domestic policy problems. It was only during the conference that the Council made some concessions on its own pre-conference position. The ministers saw themselves compelled to reinstate the automatic links between internal support, import barriers and export subsidization which they had expunged from the Commission's negotiating outline. In addition, they reluctantly offered:

— to remove oilseed products from the scope of the rebalancing proposal;

— to grant import access at the level of 3 per cent of Community consumption for all commodities;

— to place specific tonnage limits on the quantity of any commodity to be exported with subsidies, yet without stating those limits.

No compliance was, however, signalled with regard to EC preference and the automatic adjustment for world market fluctuations, both being in close context with the concessions made. The EC had obviously gone to the limits of what was deemed necessary to maintain the functioning of the CAP.

A Swedish compromise proposal (AEL 7.12.1990) made as a "last-minute" attempt to reconcile the different positions of the EC and the US called for a 30 per cent reduction in domestic support, border protection and volume of subsidized exports over a five year period but taking 1990 as the base year. It also expressly ruled out the possibility of any rebalancing by calling for a freeze on all current levels of market access. The so-called Hellstrom "non-paper" was considered by EC officials not to provide a basis for the continuation of the negotiation. Adoption would have forced the Community to reduce farm prices and production far further than it was felt politically possible to go. Thus, the failure of the GATT negotiations was publicly regretted but at the same time was accepted as reflecting both the political situation and the inability to change.

4. CAP Reform, Budgetary Problems and Price Proposals

With the Uruguay Round deadlocked in Brussels it was clear that the negotiations would not be resumed without realistic new initiatives to the agricultural stumbling block. It was understood that the EC would have to make further concessions although, during the negotiations, any such concessions were always opposed on the ground that any additional step, however small, would damage the functioning of the CAP. Thus, the impasse threatened to destroy the positive results of four years of trade negotiations in which the EC, too, had an immense overall economic interest. This threat to overall EC interests turned out to considerably improve the prospects for a new approach towards CAP reform, especially as at the same time important EC agricultural markets showed the signs of another imminent budgetary crisis.

The problem which the Council of farm ministers and the Commission faced early in 1991 was therefore threefold: They had to put forward the 1991/92 price package, provide measures for agricultural expenditure within budgetary restrictions, and deliberate on a thorough CAP reform. All this was to be done knowing that - as the Commission frankly admitted - all the measures taken since 1984 under the (totally misleading) heading of CAP reform may have succeeded in halting expansion of production in some sectors but have not solved the basic problems of the CAP (AEL 18.1.1991).

4.1 Prospects for a Real CAP Reform?

Immediately after the Brussels GATT meeting, the EC Commission's Agricultural Directorate unveiled recommendations which if they were to be adopted would have marked the beginnings of a real CAP reform. In its original form the recommendations involved drastic cuts in support prices combined with a voluntary set-aside programme, a significant reduction in milk delivery quotas for large dairy farmers and the abolition of intervention for quality beef. The stabilizer mechanisms and less important market regulations (such as the dried fodder regime) were to be scrapped. The effects of such (by EC standards) radical policy change on farm incomes were to be cushioned by direct compensatory payments designed to decline with increasing farm sizes (AEL 18.1.1991).

The proposals which were defined by concrete figures were, however, strongly disputed even within the Commission and finally a meagre "orientation study" was all that was officially distributed (EC Commission 1991). The British, Dutch and Danes immediately objected to the unbalanced burden-sharing between large and small farmers although the UK in particular welcomed the new effort towards CAP reform. The French and the German governments were more reserved since for them, large- and small-scale agriculture occurs in different regions. However, while Germany continued officially to prefer some kind of supply management solution to tackle the problem of EC surplus production, France seemed determined not to allow its export interests be undermined. The Mediterranean countries apparently showed little interest in the first round of discussion; so far their attitude was described as "fence sitting".

4.2 Resurgence of a Budget Crisis

According to the last in a series of "early warning" budget reports on 1990 EAGGF expenditure, total EC market support could be expected to reach 25,041m ECU, some 1,411m ECU less than the budgeted amount (AEL 14.12.1990). Favourable market conditions especially during the first part of the year had allowed for significant savings on arable products with sugar, wine, cereals and oilseeds being the main contributors. Livestock products, however, claimed bigger funds than envisaged. The weakness of EC and world dairy markets led to heavy intervention for both butter and SMP so that a transfer of 740m ECU from under-spending sectors was necessary to finance market support operations. For beef, the problems were even bigger as an expansion in production, a drop in consumer demand following the BSE scare, and the loss of key export markets all combined to force domestic prices down. Spending on beef market support totalled 2,833m ECU or 29.5 per cent above the original budget. Other problem sectors included protein crops, tobacco and sheepmeat where spending was, respectively, 18.7, 17.0 and 6.7 per cent over budget.

On the whole, the 25,041m ECU spent in 1990 EAGGF Guarantee section still implied a comfortable margin of 6,680m ECU remaining unused under the agricultural budget guideline (AEL 14.9.1990). In spite of that margin and an additional increase in the guideline by 2,350m ECU a very tight financial situation was expected in 1991, since domestic and foreign markets had further deteriorated. Support of cereals and oilseeds was expected to require 5,111 and 5,581m ECU, respectively, some 31.6 and 20.1 per cent more than has been spent in 1990. Dairy products were envisaged to require 5,940m ECU or 990m ECU more than in 1990. Expenditure on the beef sector was estimated to increase by 50 per cent from provisional 2,834m ECU to 4,251m ECU in 1991 and expenditure on support of the sheep market was expected to increase by one-third from 1,452m ECU in 1990 to 2,237m ECU in 1991.

The overall result of these excesses is, according to Commission estimates, that expenditure on EC agricultural markets will - if no cuts are made in time - increase to 33,000m ECU in 1991 and 37,000m ECU in 1992. As compared to the yet provisional figure of effective spending in 1990, this year's increase may well reach almost 8,000m ECU which is the highest annual increase ever recorded. Without any cuts, the Commission reckoned the total overrun of the guideline to be 880m ECU. Savings of at least the same amount are therefore suggested by abolishing the intervention safety-net in the beef sector, by cutting export subsidies on sugar, pigmeat, poultry meat and olive oil, by lowering subsidies for sheep producers and fruit growers, and by reducing intervention payments for skimmed milk powder. Almost one-third of the deficit shall however be covered by delay of payments to member states, a practice well known from former years of financial stress. Thus, although the Commission's own proposals demonstrate the easiest way of handling the crisis, the farm ministers may well agree to delay any deficit payments and thereby avoid any painful cuts at all.

4.3 1991/92 Price Package

The principal objective of the measures proposed in the 1991/92 price package was to save money and to counteract the threatening overrun of the agricultural budget guideline. A secondary aim was to gain a breathing space for better preparing a reform of the CAP.

With regard to the levels of support prices the Commission proposed significant cuts particularly in the tobacco sector (-10 per cent) and for sugar and sugar beet (-5 per cent). Oilseeds, protein plants and textile crops were earmarked for price reductions by 3 per cent. In the cereals sector both the target price and the intervention price for durum wheat were to be reduced by about 7 per cent and the special bonus for breadmaking rye was to be abolished. The basic coresponsibility levy (CRL) should be increased from 3 to 6 per cent of the intervention price, but the producers should be offered the option of CRL reimbursement in return for participation in a special one-year set-aside scheme requiring withdrawal of 15 per cent of a farm's arable land devoted to CAP-supported products.

For the beef and dairy sectors the Commission called for a more restrictive operation of the intervention systems. All beef intervention should be carried out under the tendering system with both the ceiling of 235,000 tonnes of beef purchases and the safety-net mechanism being abolished. Thus, beef intervention should be triggered not before the average Community market price fell below 80 per cent of the intervention price or apply in regions unless prices were below 76 per cent of the same level.

The obligatory intervention purchase of butter (at 100 per cent of the intervention price) in case of the market price being below 90 or 92 per cent of the intervention price was to be abolished. It should be replaced by a tendering system at prices below 92 per cent of the intervention price. Perhaps even more important was the intended 2 per cent cut in global (EC and member country) guaranteed milk quantities although this measure was widely expected before the price discussion began and an even higher rate of reduction was held necessary to match the quota expansions which had taken place during the last few years.

In the Council the Commission's price package met almost unanimous rejection. Although the farm ministers realized that CAP reform measures had to be taken, and that the budgetary situation had dramatically deteriorated, they apparently refused to be put under "undue" pressure. With regard to the expected overrun of the agricultural budget guideline it was claimed that because of the integration of East German agriculture the guideline had to be revised upwards in order not to charge farmers with the costs of EC enlargement. While this argument certainly deserved some reward (at least according to EC logic) it had to be evident even to the farm ministers that the financial problems had emerged from their own domestic markets whose regulation they persistently pledge to improve.

The most severe critic of the Commission's price proposals was the French farm minister who finally announced he would table a price package of his own. By the middle of March 1991 there was no sign that the price decisions would be taken in time, but on the whole the ministers do not have the best cards for playing their game. The guideline cannot be moved upwards unless by unanimous decision of the Council of finance ministers and the Commission has the power not only to apply the new prices on the basis of preliminary enactment but also to take many steps deemed necessary for keeping expenditure within the budget.

5. German Unification and Its Implications for Agricultural Policy

In the fortieth year of its communist regime, the Government of the German Democratic Republic (GDR) finally proved unable to keep a peaceful revolution of its citizens under control. On 12 November, 1989, it was forced to open up its borders and to grant its citizens free travelling for the first time since the Berlin Wall was constructed in 1961. With the following rapid erosion of the repressive authority, trade between the two Germanies increasingly evaded any controls and the economic decline accelerated the pace towards unification. On 1 July, 1990, the D-Mark became the official currency in the German Democratic Republic and on 3 October the re-established five East German Länder together with East Berlin joined the Federal Republic of Germany. The unification implicitly enlarged the European Community.

Since the East German territory had never ceased to be considered German territory by West Germany and every East German was considered to hold German citizenship, West German governments had always observed the inclusion of Inner-German relations in international affairs (Madell 1990, p. 45). Thus, East Germany also enjoyed a special status under the Treaty of Rome, the EC's charter of foundation. EC member governments had agreed to respect the fact that trade between the two Germanies was considered part of internal German trade while all other member countries' trade with East Germany fell under the Common Foreign Trade Regulations.

Consequently, East German goods had always entered West Germany duty-free (on a non-reciprocal basis), had been accorded preferential quotas and had been favoured by a special one-for-one exchange rate as well as by an interest-free credit arrangement of about 1,000m DM per year. Although re-exports to other EC countries of East

German goods, if considered "sensitive" or covered by quotas, had officially been restricted, East Germany was often said to be a silent participant in the EC.

The special links between the two Germanies (however frosty and fragile they have sometimes been), and the political benevolence shown by all governments concerned, finally facilitated both German unification and the integration of the East German territory into the EC. Economically this new enlargement should not pose bigger problems to the Community as a whole since the number of EC citizens is increased by not more than 5.1 per cent. Moreover, East Germany's economic power was around the EC average and the professional skill of its people justifies expectations of a significant increase in average incomes in East Germany.

Economic wealth, however, will be gained only after passage of a deep trough. Difficulties arise in the five East German Länder mainly in three respects: with regard to economy, public life, and individual well-being.

Tremendous capital investment and personal commitment is needed for improvements in private enterprises and housing as well as in public infrastructure (traffic, communication, local services), and also in the environment which was badly neglected by the communist authorities. New market-oriented thinking must be learned at all levels of economic activities. Public administration needs a total renewal. Private and public law has not only to be exchanged completely but also to be applied in countless cases revising former practice and clarifying the basis for new activities. Many people face severe problems because professional qualifications are suddenly devalued, social links and private securities are broken off and individual hopes related to the new freedom are not easily fulfilled. Bankruptcies and unemployment are spreading more quickly than new firms and public administration can make up for or absorb. Although most people are highly motivated to try a new start, many need some vocational retraining while others, handicapped by age, health or immobility, will be unlikely to find new jobs.

5.1 Agriculture

Agriculture and agribusiness mirror the overall situation. The agricultural policy of the former government aimed at autonomy, industry-like production methods, and socialized property in productive means. The results of this policy have been the following:

— A totally socialized agricultural sector based on the initial expropriation of all farms of 100 hectares or more and of the property of politically "unreliable" farmers and on a stepwise collectivization of the remaining private holdings (except for those in very remote areas or in church ownership). Socialized agriculture finally comprised 391 state farms (so-called people's own estates) and 3,878 agricultural production cooperatives apart from a few hundred minor production units specialized in, for example, horticulture, plant or animal breeding or large-scale poultry production. Private farming under these circumstances was reduced to cultivating half a hectare of land per farm family and to keeping some livestock for home needs. Nevertheless, private husbandry added considerable amounts to national supplies (24 per cent of poultry, 15 per cent of mutton and lamb, 8 per cent of pork).

— Agricultural land and livestock, respectively, was concentrated in specialized plant and livestock production units. Thus, 1,238 plant production units operated virtually all agricultural land (5.67m hectares or 92 per cent of the total) while 3,007 almost landless animal production units were responsible for the "market" supplies in animal products (besides those produced privately). Normally, one crop farm and two or three neighbouring livestock farms were bound to cooperate on the basis of feed and forage supplies and of manure disposal. But being economically independent, detailed accounting systems were established for the registration of weights and nutritional contents (proven by laboratory analysis) of exchanged goods. The internal prices, however, were normally fixed by annual consent and they usually implied certain subsidies from the crop to the livestock farms.

— The agricultural labour force was numerous (825,000 or about 10 per cent of the total workforce) but farm workers were occupied not only with agricultural production. Procurement of inputs and machinery as well as the struggle with state planning was time consuming. Any farm unit needed special "brigades" of trained mechanics and construction workers not only for occasional repair but also for constructing equipment and buildings. Persons engaged in farm-related social services (common feeding, common nursing of children etc.) were also counted as being employed in agriculture. Production workers were specialized in certain production lines or in handling certain machines and those taking care of livestock were even shift-workers. While the technical qualification of persons in responsible positions is rather high there is a widespread lack of market-oriented managerial skills. With regard to the "social achievements" which the communist party always claimed to have realized, agricultural and industrial workers had in fact equal rights (number of working hours, holidays, social security) but on a level far below West German industry standards.

— The generally big and heavy farm machinery and transports and widespread inability (on technical or organizational grounds) to cultivate the land on time are thought to have caused severe problems with regard to soil structure and fertility. Fundamental environmental needs were widely neglected. Erosion and the destruction of the countryside, regional water pollution by heavy manure disposal and airborne fertilizer and pesticide application are only the most serious agricultural sources of environmental damage. Labour facilitating equipment was scarce and often left to on-farm improvisation. Farm buildings are needing repair and many villages are suffering from the lack of resources for the maintenance of the cultural heritage.

— Despite the ambitious aims of the former state planning, productivity (crop yields, milk and meat output per animal, feeding efficiency) was rather low compared to West German agriculture (cf. Table 8). Total output of bread grains, potatoes, sugar, "crude" vegetables (e.g. cabbage, carrot, red beet), meat and milk at least matched domestic consumption. Home grown or imported delicacy products (e.g. high quality fruits and vegetables like salads, spinach, asparagus etc.) were particularly scarce and the range of milk and meat products was extremely dull.

— Combining high farm prices with low food prices the pricing system normally required some 32,000m Marks per year for subsidies. It provided high rents for better situated farm units. While part of the rents was skimmed off by taxes and special duties[9] some money could usually be saved for improving facilities of community interest (housing, assembly halls, village roads etc.). But there was almost no margin for paying (politically undesirable) incentive wages or efficiency bonuses, nor have there been opportunities for systematic capital accumulation. State farms were forced to operate on an annual credit basis since all profits had to be delivered to the Budget. Products like fruit, vegetables, flowers, rabbits and eggs could be sold throughout East Germany at the backdoor of local stores at prices far above those paid at the shop's front-door.

In spite of all these circumstances, the economic situation of agriculture as compared to other branches of GDR industry was considered satisfactory until 1990 when western food products flooded in and local food processing plants completely lost their outlets. There was a real crisis with a deep slump of farm prices and suspension of all sales contracts. East German livestock, milk and grain produced within the reach of West German processing plants was bought up by western enterprises, thereby causing oversupply and falling prices in parts of West Germany. Intervention purchases similar to those applicable under EC regulations were carried out from August through October 1990 in national (non-EC) responsibility and with subsequent deliveries of wheat, meat and butter at low prices to the Soviet Union. Moreover, strug-

[9] Differential profits due to natural factors were skimmed off by an acreage levy depending on soil fertility and by a profit tax. Farm units operating under very unfavourable conditions got a special subsidy.

Table 8: Key figures relating to agriculture in East and West Germany (1989)

Item	Unit	East	West
Area			
Agricultural used area	1000 ha	6,171	11,886
of which:			
Arable land	1000 ha	4,676	7,273
Cereals	1000 ha	2,459	4,431
Potatoes	1000 ha	431	200
Sugar beet	1000 ha	217	383
Permanent grassland	1000 ha	1,159	4,407
Livestock			
Cattle	1000 head	5,736	14,563
of which dairy cows	1000 head	2,000	4,929
Sheep	1000 head	2,603	1,533
Pigs	1000 head	12,039	22,165
Poultry	1000 head	49,269	76,883
of which laying hens	1000 head	24,865	37,957
Production			
Cereals	1000 t	10,813	24,540
of which wheat	1000 t	3,476	11,032
Potatoes	1000 t	9,166	7,451
Sugar beet	1000 t	6,220	20,767
White sugar	1000 t	624	3,070
Meat (slaughter weight)	1000 t	2,118	5,494
Milk	1000 t	8,316	24,243
Eggs	million	5,905	11,889
Demand			
Total population	million	16.4	62.5
Per caput monthly disposable income	Mark,DM	850	1,872

Source: Agrarbericht (1991, Table 165). ECE, *Economic Survey of Europe in 1989-90*, p. 28.

gling farm enterprises have been subsidized in 1990 by almost 3,000m DM. Similar amounts seem to be required in 1991 but now the money shall be used not so much for securing the mere existence of communist farm structures but to commence reorienting them towards private enterprises (family farms, partnerships, farm corporations) or restructured cooperatives.

5.2 Food Processing

The East German food processing industry was in a particularly desolate situation (cf. Manegold 1990b). Obsolete processing facilities were unable to meet primitive safety regulations and could comply with basic hygiene requirements only under unreasonable working conditions. High capacity usage reduced the opportunities for product variation. Deficient transportation, extreme scarcity of cold storage (chambers and trucks) were detrimental to food quality. Unsatisfactory quality of agricultural raw produce and lack of modern packing material and equipment made production and presentation of high quality food a difficult task. Such problems were aggravated even more by irregular supplies (primary products, components, additives, packing materials), by the hazards of frequent machinery failures, and simply by the lack of fully-automated production lines whose gaps had to be bridged by human labour.

In addition to the material defects there were the flaws of state planning: private initiative, competition, and willingness to achieve were systematically eliminated by state and party interference, by the immobility of economic structures, by the bureaucratic, non-practical decision making processes and not least by depriving the enterprises of all profits. Any realistic appreciation of the scarcity and value of goods got lost because the enterprises were perfectly isolated from world markets and the allocative function of prices had been suspended. Innovations were systematically hampered by bureaucratic directives of how to calculate selling prices and by the discouraging procedures for getting state approval of those prices. Barter, personal relations and production for internal requirements had become indispensable means of procurement.

Despite all such difficulties the basic food requirements of the population had always been secured: quantitatively on a high level by international standards, qualitatively in a more modest way. Thus, the clear preference of consumers for western products only accelerated the crisis which the East German food industry ran into in 1990 but which was inevitable anyway.

The physical state of most food factories is critical. Buildings and part of the equipment date from the early decades of this century. Even newer plants are out of repair and apply outmoded processing techniques. Modernization and expansion require investment of capital, know-how and managerial commitment which cannot be provided by the respective enterprises alone. Western companies are in principle prepared to go east but rapid change is retarded by unclear legal issues (property, building regulations), administrative sluggishness and insufficient public infrastructure. While in the grain processing sector, modernization of existing mills and storage facilities seems to be profitable there is wide consent that in the sectors of milk, meat and sugar completely new processing plants have to be built.

The East German sugar industry consisted of 44 factories with the biggest one (the only reconstruction after World War II) having a capacity of 3,500 tonnes per day as against an average of 1,400 tonnes per day. Efficiency of beet production as well as of sugar extraction were low and the use of East German brown coal (lignite) as the only energy source contributed to environmental stress. Since the existing enterprises were unable to recover and the complete takeover bid of the biggest West German sugar company was rejected by the Federal Cartel Office, the whole area of sugar production was finally divided up into five separate units and offered to West German/European sugar companies as the leading investors. Each purchaser is required to secure sugar production in its territory, to take care of a broad distribution of shares (especially among farmers), and to reconstruct the necessary processing facilities (total investment being estimated at 2,500 to 3,000m DM including a 20 per cent investment subsidy from the national budget). One company has already started to build a new mill (15,000 tonnes per day).

With regard to the meat and dairy sectors comprehensive plans for reconstruction are being set up by the federal government in order to qualify for subsidies from the EC structural funds. According to one expert's opinion, the number of slaughterhouses might be reduced from around 80 to only 20. Future facilities should have an output capacity of some 60,000 t slaughterweight per year (pigs and cattle combined, in a few cases sheep, too) and preferably be situated in the regions of production. Therefore, most of the proposed slaughterhouses will be completely reconstructed. While in the dairy sector western cooperatives will play a dominant role as partners of the dairies in place (most dairy factories will shut down), the commercial interest in the meat processing sector is less homogeneous. Bigger cities seem to have a traditional interest in running their own slaughterhouses, while in the areas of livestock production cooperatives compete with private meat shipping and processing firms.

5.3 Food Retail Trade

Merchanise distribution was centralized in East Germany no less than agriculture and industry. At the retail level two big organizations (HO and Konsum) shared almost 40 per cent each in total food expenditures. The few private shops (including some bakeries and butcher shops) maintained about 4 per cent only. They had over the years persistently withstood unfair practices (deficient and late deliveries, heavy tax restrictions) by state and party authorities. Virtually none of them had been able to invest, so that their shops were kept at pre-war standards with selling spaces of, on average, 31 square metres. Now, after unification, these tiny shops experience new difficulties from growing competition which they will possibly find more burdensome than the oppressive system to which they finally adapted.

In contrast to these private shopkeepers the communist food retailers, represented by a state trading organization (HO) and a consumer cooperative (Konsum), had been without initiative. Modern marketing was completely unknown. A balanced distribution of shortages and the intentional avoidance of any attractive merchandise presentation have been further characteristics. Konsum and HO did not compete with each other, and were differently represented in rural and urban regions. HO always ran the largest retail shops and maintained the best locations. After unification, HO was immediately destined to be liquidated and broken up, while the privately owned Konsum has got the chance to reorganize itself on a regional basis. Thus, the West German/European food marketing chains had an easy route to expansion by absorbing the former HO intermediate and retail stores, although, in some cases, the Federal Cartel Office felt obliged to intervene, in order to prevent new regional concentrations.

5.4 Problems of Agricultural Adjustment

The integration of East Germany into both the Federal Republic and the EC is not simply a matter of adding production and consumption figures. There are at least three main problems to be solved: (1) the restoration of private property, (2) the modernization of economic structures (private enterprises and public infrastructure, modern management and administration), and (3) the application of Common and Federal law.

It was not until the beginning of 1991 that the West German government and most economic advisers realized the alarming proportions of these problems. Since most of the old state monopolies are not competitive and have not been able to maintain their East European sales markets at DM prices, a widespread collapse of economic activity is now inevitable. Moreover, new investment is badly hampered by unclear ownership or deficient land registers (the existing ones were totally neglected by the communist administration and are still rotting away in damp stores). Founding of new enterprises will therefore prove insufficient to make up for current bankruptcies. Open and hidden unemployment (including registered unemployment, short-time work, employment schemes, and vocational retraining) is expected to escalate to 40 or 50 per cent which is much more than experienced during the early 1930s. Thus, the blockage of economic initiative by legal and administrative impediments needs urgent elimination and it must be supplemented by a massive increase in West German involvement.

With regard to agriculture, nobody is expecting any real restoration of pre-war farm structures. This will not happen simply because:

- The expropriations executed under Soviet occupation apparently turn out to be legalized by international agreement (two-to-four negotiations[10]; treaty of unification). The former owners will be compensated not reinstated. State property in agricultural land and in forests is estimated at some 2m hectares each. All this land has been put under trusteeship and most of it shall be denationalized over the next decades.

- At least the present generation of farm workers

[10] Negotiations between the four allied forces (USA, United Kingdom, France and USSR) and the two Germanies.

lack both the managerial experience and the capital for starting a farm operation. Thus, many communist production cooperatives will try to survive in the legal form of a private cooperative. Cattle-breeding with milk and meat production will be reintegrated into arable farming and mega farms split up into fractional parts of their former dimension. Nevertheless, prospects are that in the long run many cooperatives are likely to fail.

Production cooperatives will likely be unable to adjust their excessively high labour force to reasonable numbers. Since all their members have equal rights, those who were to be dismissed were required to opt out themselves, and this self-denial had to happen not occasionally but for as many as two thirds of all cooperative farm workers. Moreover, excluded members are very likely to withdraw their capital and to rent out their land elsewhere. Any cooperative will also face severe difficulties in providing sufficient credit security, since the land owners among the members will hardly agree to take responsibility for a loan guaranteed by the land they have leased to the cooperative. Thus, the latter will likely suffer from chronic scarcity of investment capital. Both overmanning and undercapitalization will make the cooperative either dependent on subsidies or a candidate for bankruptcy. The higher the income which cooperative members claim and allow for themselves, the more rapidly will subsidy dependence or bankruptcy materialize.

New private farms have already been founded (individual family farms, corporations, shareholdings etc.) but so far at a disappointingly low rate. In most cases the new enterprises are much larger than an average West German farm (which means several hundred hectares as against 20 or 30 hectares, depending on definition). Also, the share of leasehold land is much higher, since land is available at rather low rates from those who voluntarily left the cooperative without at the same time wanting to operate their land. Although the old production cooperatives are in fact legally obliged to give their members any possible support for establishing their own farm enterprises (Federal Agriculture Adjustment Act 1990), those who set themselves up as independent farmers often complain of being treated unfairly.

There is still considerable anger and hatred among the people whose families had cruelly been forced to join the cooperative, and some cooperatives are said still to be governed by the old party favourites. Perhaps this explains why no case has yet been reported of a former production cooperative transforming itself into a free community of independent farmers using the old cooperative as a common pool providing farm machinery, managerial advice and marketing services. This role would not only comply with the general idea of a market economy but also perfectly meet the requirements which the new farmers will desperately need. Moreover, such a unit would reap considerable tax advantages because, contrary to a private production cooperative operating several thousand hectares of land, a 3-m community (machinery, management, marketing) would be exempt from corporation income tax as well as from the trade tax and the affiliated, yet independent farmers would individually profit from all agricultural subsidies.

Subsidies are available from the West German treasury for both private production cooperatives and individual farm enterprises. Although the cooperatives obviously do not meet the long established West German ideal of a family farm, they are supported in a pragmatic way in order to avoid immediate bankruptcies and social dislocation. This attitude may change after a few years. On the other hand, with the preponderance of very large farms in the eastern part of the country, the goals of national agricultural policy are likely to undergo a lasting change with regard to both the size and the organization of a "family" farm.

Meanwhile, the first signs of a change may be perceived. In its 1991 agricultural policy review, the Federal Government has already indicated a new understanding of what the essence of agriculture ought to be (Agrarbericht 1991, p. 80):

- agriculture must be in line with environmental needs, production must be sustained and efficient;

- agricultural land whether owned or rented shall be operated by farm families at their own risk;

— livestock shall not normally be kept on production units which, with respect to feed production and manure disposal, are deficient in land.

Contrary to the political benevolence which, prior to unification, small farmers persistently enjoyed under all governments in West Germany (cf. Manegold 1989, p. 41-45), the new policy pragmatically takes into account the existence of 10,000-hectare farms in the new Federal States. Since these mega farms cannot simply be dismantled into small farm units, it is acknowledged that the above requirements can be fulfilled by enterprises of varying legal and organizational forms regardless of how many people are employed. Owner operated farms no longer have preference over farm corporations or cooperatives if the latter (unlike under communist command) allow private property and capital to be at the disposition of the individual owner.

5.5 Federal Incentives for Farm Restructuring

Dismantling and reorganization of the old production cooperatives in East Germany are supported by subsidies for interim financing and adjustment with special account taken of reducing indebtedness and alleviating the tax burden. Such aid is always made dependent on a favourable analysis of the client's development plan.

Reestablishing and modernizing individual private farms is supported by investment aids equally dependent on proven feasibility. Supported farmers are required to keep books of account and to substantiate their own professional ability. In addition to an unconditional, non-repayable grant of 20,000 DM, any full time farmer may apply for the following investment aid (part-time farmers are supported at lower levels):

— a subsidized-interest loan of up to 300,000 DM (normally 10 years duration, 20 years for investment in farm buildings);

— a public loan for reestablishing or modernizing (up to 160,000 and 50,000 DM, respectively; at 1 per cent interest and 3.5 per cent amortization per annum);

— a lump-sum payment of up to 40,000 DM instead of any subsidized credit.

In all cases, at least 10 per cent of the sum eligible for aid is expected to be covered by the borrower's own funding. In principle, similar regulations hold for cooperatives returned to private ownership. Their margins of support are fixed at a maximum of 2.5m DM per cooperative and 143,000 DM per man-year, respectively.

General programme regulations provide for special criteria excluding federal support for investment in certain production lines of an enterprise. Thus, investment in milk production facilities is supported only within a given milk quota and for not more than 40 cows per farm worker or 60 cows per farm. Beef production is supported only if livestock density is kept below 3 livestock units (LU) per hectare of green fodder area. Investment in pork production is eligible for aid up to a maximum of 300 pig fattening places per farm subject to the existence on the holding of not more than 800 places. Moreover, the farm must be able to produce at least 35 per cent of total feed requirements. No support is available in cases of high livestock density (more than 2.5 LU per hectare), for poultry and egg production (except for investments in favour of environment and animal well-being) and for operations not disposing of storage capacity equivalent to at least 6 months' manure production.

In addition to the federal programme, support is provided through EC structural funds. However, since many of the statistical indicators required by the EC regulations are not yet available for the East German territory, a new interim programme will be set up. In order not to impair the support expected by all other disadvantaged regions, the structural funds will be increased by 3,000m ECU for the 1991-93 period.

5.6 Implications for the Common Agricultural Policy

Since 3 October, 1990, the CAP fully applies to East German agriculture. Apart from some basic provisions concerning, for example, the allocation of overall production quotas for sugar and milk or the places of intervention, there are some other provisions requiring adjustments in the functioning of price and market regulations (cf. EC regulation No. 3577/90).

With regard to cereals, oilseeds and pulses the stabilizer mechanisms will be applied as before (with the effects also being valid on the East German territory) yet without taking into consideration the crops harvested in those parts of Germany. Similarly, the number of East German ewes will not be included in the "threshold flock" size which, within the stabilizer mechanism, serves as the maximum guaranteed quantity. The threshold quantities triggering beef, butter and SMP intervention have, however, been adjusted for East German production (cf. the respective commodity section above).

After the EC Commission's proposal of an East German sugar quota of 870,000 tonnes of white sugar failed to get the member countries' approval, a quota of 847,000 tonnes (with 647,700 tonnes of "A" sugar) was granted to the East German sugar industry. With 51 kg/head the quota far exceeds prospective consumption (East German sugar consumption is about 44 kg/head while the West German level is about 35 kg/head) but at the same time the quota is also far less than can be harvested from the traditional sugar beet area. The overall quota has already been allocated to individual factories and will be allotted to farmers according to former plantings. Newly established farms will progressively be taken into account.

The East German milk quota has been fixed at 6.3m tonnes, applicable from the beginning of the 1991/92 milk-marketing year. Quotas allocated to each producer are about 30 per cent below 1989 production. While 12.5 per cent of the reference quantity has been seized without compensation, 3 per cent was withdrawn with compensation of about 100 DM/100 kg of annual milk delivery. An additional 4.5 per cent is suspended for a payment of 50 DM/100 kg and the last 10 per cent is collected to serve newly established dairy farms. Contrary to West German conditions, however, there is for the time being no provision binding the quota to the agricultural land. Moreover, there are no property rights in quotas nor any opportunities for private quota transfers. If a producer ceases milk production altogether or partially the quota will be seized without indemnity.

A set-aside programme compatible with that already applied in EC countries has also been enacted for the East German territory. Contrary to the EC programme where payments are restricted to setting aside land normally used for crops covered by one of the EC market regulations, in East Germany the area normally planted with potatoes has also been made eligible. However, East German farm units are required to set aside on an annual basis only a small area, either one-fifth of the base area or 150 hectares. The set-aside payment is composed of a flat rate of 500 DM/ha paid for any land of even low fertility (yield index number 18 to 35) and of additional increments for more fertile land paid at a rate of 10 DM/ha for each point in excess of a yield index number of 35. No further increments are available beyond the maximum rate of 750 DM/ha. Although the East German version of the set-aside programme provides payments amounting to only about half the rates paid to West German farmers there has been intense interest: some 600,000 ha have been signed up and, while in two states with rather poor soil almost 20 per cent of all arable land has been set aside, the overall average is about 12 per cent (compared to 312,000 ha or 4.3 per cent in West Germany, and 795,000 ha or 1.2 per cent in all twelve EC member countries except East Germany).

6. Conclusions

In 1990/91, EC agricultural politicians have suffered a double defeat. They have lost their case in the (supposedly) final conference of the Uruguay Round of the GATT negotiations and they had to recognize that the CAP can not be consolidated by means of the stabilizer mechanism which only three years ago had been hailed as the core of a policy reform. Obviously, it was the same mistake which thwarted the politicians: they were bound to fail because they did not dare abandon a policy that has become increasingly counterproductive. Therefore, a real reform of the CAP is the only way to regain the initiative and to avoid or at least reduce the wasting of resources. EC agriculture will have to adjust and it will be able to do so. The future of European agriculture is however not to compete with overseas producers in growing mass products but to comply with the particular nutritional and recreational wishes of their own densely populated countries. It cannot be true that (with liberalized trade) a near market were not to the advantage for those who ably serve it.

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