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# **THE IMPLICATIONS OF GERMAN REUNIFICATION FOR EC DECISION MAKING AND THE CAP**

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**Paper presented to the 35th Annual Conference of the  
Australian Agricultural Economics Society, University of New  
England, Armidale, February 11-14, 1991.**

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<sup>1</sup> This paper is based on the sub-thesis submitted by the author in fulfilment of the requirements for the degree of Master of Arts in International Relations at the Australian National University in 1989, with updating information.

## SUMMARY

*On October 3 1990 the Federal Republic of Germany and the German Democratic Republic were reunited into one country. Reunification has increased the population of and land area of Germany and the European Community, and the actual and potential agricultural output of the Community. East Germany is a major producer of livestock products, cereals and root crops.*

*Agricultural price levels and yields have been significantly lower in East Germany compared with West Germany for wheat and other cereals. The move to CAP support levels will lead to increases in output of cereals and other major commodities not subject to quota restrictions. Fruit and vegetables, including potatoes, are an exception to this, as producer prices have fallen.*

*Reunification will reduce average German income levels, encouraging German resistance to any increase in CAP support levels over the next few years. However, in the longer term a larger and wealthier Germany will be able to provide a greater level of net support than in the past.*

*At the Community level, Germany will for the time being have only the same number of votes in the Council and seats in the Parliament as the other three major member states, France, Italy and the United Kingdom.*

*In the December 1990 all-Germany elections which followed reunification the ruling Christian Democratic Union (CDU) increased its proportion of the vote, and that of the major opposition party, the Social Democratic Party (SDP), fell. With regard to the two parties in coalition with the CDU, the share of the vote of the Christian Social Union (CSU) fell and was overtaken by the FDP. The West German Greens party lost its representation.*

*The support for agriculture which the CSU and FDP seek is provided through the CAP, circumventing limitations on such transfers between individual German states. Reunification will not decrease German support for the CAP, but it may shift pressure for support from cereals to livestock products and root crops.*

## **THE IMPLICATIONS OF GERMAN REUNIFICATION FOR EC DECISION MAKING AND THE CAP**

On October 3 1990 the Federal Republic of Germany and the German Democratic Republic were reunited into one country. The consequences of this include an extension of the area covered by the Common Agricultural Policy (CAP), and in the longer term an increase in the influence of Germany on EC and CAP decision making.

Reunification increased the population of Germany and the European Community by 16.4 million and their land area by 108 000 square kilometres. It has enlarged the actual and potential agricultural output of the Community. East Germany presently produces some 8 million tonnes of milk, 4 million tonnes of barley, 2 million tonnes of rye, 3 million tonnes of wheat, over 7 million tonnes of sugarbeet, and over 400 000 tonnes of beef and veal (USDA 1989, 1990).

Whereas CAP support arrangements have been applied progressively over a transition period of several years to new EC member states, free trade with the rest of the Community and hence CAP support prices have operated in East Germany from the date of reunification. Agricultural price levels and yields were significantly lower in East Germany compared with West Germany for some major crops. However, fruit and vegetables constituted an exception to this.

In the case of potatoes the present EC market price for both producers and consumers is only some forty per cent of the price earlier paid to producers in East Germany. However, it is 25 per cent higher than the earlier East German state-subsidised price (Harold 1990).

The potential for increases in yields for cereals can be estimated by comparing trends in yields in East Germany with those in West Germany. Wheat yields were similar in East Germany and West Germany in 1960, being around 3.5 tons per hectare (USDA 1990). Between 1960 and 1990 they rose 89 per cent in West Germany but only 61 per cent in East Germany. Hence wheat yields in East Germany may be

expected to increase some 20 per cent over the next few years due to higher support levels. The situation is similar for barley, where from an identical base level yield of 3.3 tons per hectare in both East and West Germany in 1960, by 1988 they had risen 30 per cent in East Germany and 58 per cent in West Germany. The 'catch-up' percentage was 24 per cent. The situation is similar for other cereals and major crops.

The rate at which the catching up in yields proceeds will depend upon a number of factors. A major one is the extent to which collectives and state farms are able to adapt to a competitive market system, or become privatised. All of East Germany's farms were collectivised (Harold 1990). It remains to be seen how easily they are able to mobilise capital and adopt new technologies.

Due to differences in yields, the greater availability of inputs, and the incentive provided by a market system, the move to CAP support levels will lead to increases in output of major commodities not subject to quota restrictions. Dairy products and sugar will be subject to production quotas, hence the increase in output will be more limited.

Reunification is proving a costly economic exercise for the Federal Republic of Germany, and will reduce average German income levels. Gross Domestic Product in 1989 was US\$19 300 per head in West Germany compared with US\$4 500 in East Germany, with the average combined figure being US\$16 200 (The Economist 1990). This reduction in wealth will encourage Germany to resist any increase in CAP support levels over the next few years, as Germany is the main net contributor to the EC budget. Germany contributes over 3 billion ECUs to the EC budget and CAP support each year. However, in the longer term a larger and wealthier Germany will be able to provide a greater level of net support than in the past.

At the Community level, German influence on the CAP and other EC policies derives from representation in the Council of Ministers, the European Parliament, and the

Commission. The impact of reunification and a larger Germany will be reflected only gradually over several years in terms of the EC decision-making system.

Prior to reunification West Germany accounted for 19 per cent of the population of the EC, with each of the other three major member states accounting for between 17 and 18 per cent. As a result of reunification the population of Germany is 78.5 million, 23 per cent of the EC total of 342 million, and roughly a third more than each of the other three major member states, France, Italy and the United Kingdom. However, the EC's institutions and decision making process do not allow for any immediate increase in German representation to reflect this growth.

The Council of Ministers is the Community's most important decision-making institution, being comprised of the EC Ministers for Foreign Affairs, Finance, Agriculture, etc., according to the subject matter under consideration. The summit meetings of the European Council refer to the regular meetings of the EC heads of state.

In the Council Germany has 10 votes, the same as the other major member states, equivalent to 13 per cent of the total: the four large member states have a somewhat smaller than proportionate share of votes, with the smaller member states having a higher than proportionate number. For example, although Portugal, Denmark, Ireland and Luxembourg have only 3.2, 1.6, 1.1 and 0.4 per cent of EC population respectively, their equivalent proportion of Council votes is 6.6, 4.0, 4.0, and 3.0 per cent respectively. The total number of votes needed to approve a Commission proposal is 76 (71 per cent of the total), with 23 needed to block it (Field 1989).

In the European Parliament (EP) Germany currently has 81 seats, 15.6 per cent of the total like the other major member states. In the longer term the distribution of seats in the EP may be made more closely representative of the distribution of population in the Community, and the powers of the EP may be expected to increase relative to those of the Council and the Commission. Germany would then be able to exert on political grounds the influence at present exerted on economic grounds as the main financial net contributor to the Community's finances.

There are party groupings within the EP, the largest ones being the Socialists and the European People's Party. Following the 1989 EP elections these held 180 and 123 seats respectively, out of a total of 516 (The Economist 1989). However, in practice there is little in the way of clearly defined party ideology or party discipline at the EP level, and allegiances to EP party groupings tend to be subordinate to member state national interests.

In 1990 some 477 or 14.5 per cent of the EC Commission's 3 300 administrators were German, while 16.4 per cent were French, 13.2 per cent Italian and 11.6 per cent British (The Economist 1990c). While Commission employees supposedly have primary loyalties to the EC and not their home countries, in practice they are able to exert significant influence in steering policies such as the CAP towards national goals.

It will probably be several years before reunification results in an increase in the proportion of German administrators. An education in East Germany, with its differing economic and legal systems, will handicap applicants in the Commission's selection competition. A lack of established contacts at higher levels within the Commission will also be a handicap for applicants from East Germany, given the need for candidates who have been successful in the selection competition to lobby in order to be selected for appointment to specific positions. In the longer run, however, it is difficult not to envisage an increase and a possible preponderance in the number and proportion of administrators of German nationality, and hence German influence within the Commission.

The extent to which the German position on the CAP in the EC Council of Ministers changes as a result of reunification will depend upon changes in the balance between the different parties in power in the new reunified Germany.

The centre right Christian Democratic Union (CDU) obtained only 34.5 per cent of the vote in the January 1987 West German elections, compared with the 37 per cent obtained by the more left of centre Social Democratic Party (SDP). However, the CDU was able to form a government in coalition with the Bavarian-based Christian Social Union (CSU) which had obtained 9.8 per cent of the vote, and the Free Democratic Party (FDP) which obtained 9.1 per cent (The Economist 1990a).

In recent years the West German Minister of Agriculture was a representative of the CSU. The CSU favours a high level of support for agriculture, especially wheat and other cereals. This support is provided through the CAP, circumventing constitutional limitations on such transfers between individual German states.

In the December 1990 all-Germany elections the CDU increased its proportion of the vote to 36.7 per cent. The opposing SDP obtained only 33.5 per cent. The minority CSU obtained only 7.1 per cent of the vote, less than the FDP with 11 per cent. The FDP is a conservative party of business with support from a northern and Protestant agricultural base. Hence the new coalition government of the CDU, FDP and CSU may be expected to remain in favour of agricultural protection, but be more biased in favour of dairy and sugar beet relative to cereals than has been the case in recent years. Both dairy and to a lesser extent sugar beet production are both undertaken under quotas in the EC, whereas cereals have been effectively unrestricted. Hence the change in the German political scene should mean, at the EC level, sustained support but not necessarily increased production for dairy and sugar, and less resistance to lower real prices or production controls for cereals.



The influence of the FDP will be especially strong because it could form a government in coalition with the SPD if it chose to do so, as it did from 1969 to 1982, when the Minister of Agriculture was appointed from the FDP. The combined FDP/SPD vote was 44.5 per cent compared with the 43.8 per cent of the CSU/CDU on their own.

The share of the vote obtained by the Green party fell from 8.3 per cent in West Germany in 1987 to 3.9 per cent for the Greens (West) and 1.2 per cent for the combined Alliance 90/Greens (East). As a result of the share of the vote of the western Greens being below the minimum 5 per cent level, they lost all representation in the *Bundestag*. The Alliance 90/Eastern Greens coalition was only able to obtain seats because, for this election alone, there was a separate minimum limit of 5 per cent for the east alone. Hence less pressure may be expected for agricultural policy to follow an environmental bent, since it was the German Greens who were perhaps the most vocal influence in the EC in this respect. In recent years a number of CAP initiatives had been adopted which provided assistance for more organic or extensive farming methods, compensating to some extent for the lower yields achieved.

In conclusion, there are several pointers as to the effects of German reunification for Australia in terms of EC decision making, the CAP and international trade. The level of EC protection for cereals may be less stoutly maintained than support levels for sugar and dairy products. Given both the greater influence of the reunified Germany and the position of Germany as main contributor to EC budgetary funds, there will be pressure for restraint in support levels for Mediterranean crops. Overall, however, EC agricultural protection will be continued.

The possible entry of Austria, Sweden, Norway and Finland into the Community will tend to reinforce the influence of German reunification as far as continued support for 'northern' products such as livestock, dairy and coarse grains, relative to 'Mediterranean' products, is concerned. These countries would also

have an interest in restraining the further development of EC regional and social policies, because of their relative affluence.

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