1989

LMAM89

THE CAP AFTER 1992 : A FAIRLY COMMON AGRICULTURAL POLICY

Y. LEON and L.P. MAHE

INRA - ESR
RENNES - (FR)

Paper for the organized symposium "Europe 1992, CAP reform and world agricultural trade".

AAEA, summer meeting, July 30-Aug 2 - Baton Rouge

June 1989

European Community -- Agriculture

Outline

INTRODUCTION

The recent events occurring since the early eighties, both on the world scene and in Europe itself, have largely altered the economic and political landscape around the CAP.

On the world scene, prices of agricultural products have been depressed as a result of the sluggish demand due to the slow economic growth and the burden of the foreign debt in traditionally importing countries. Meanwhile agricultural capacity in rich countries has not been adjusted down fast enough to cope with productivity trends. Because of inflation in costs and weak prices farm incomes have suffered. A strong international activity to reassess agricultural trade policies in rich countries has developed, which culminates now in the GATT round of negotiation. The farm policy of Europe is still the target of criticisms from the main exporters and is put under pressure to adjust downward the level of support provided to farmers.

Within Europe also, new circumstances have appeared which call for a significant reform of the CAP. Surpluses in most community markets and the related expenditures of FEOGA have made the need for change more obvious to many.

But agricultural problems are not the only source of pressure for the CAP to adjust to new times. The prospect of the single market and the "relance Europeenne" which revitalize the faith in the European integration, have also brought new blood in European affairs. The common agricultural policy, long viewed for its community unifying role, has become somewhat outdated under these circumstances. It is bound to change in both its means and principles, which have ceased to be considered as an untouchable dogma.

In this paper we argue that the CAP has already made some significant changes over the past few years as a response to the new circumstances. But we also point out that some basic problems which european agriculture faces are still unresolved, and that the supranational nature of the CAP and History constrain the margin of manoeuvre into narrow bounds.

We turn next to the expectations of France from the CAP and its role in the European construction. This view is largely critical in that it can be argued that our country has not really played the cards of comparative advantage in the earlier period of the green Europe. However, there are some tentative explanations for that to have occurred. Some changes have now become unavoidable, and trade-offs are still making political choices hard to make.

In the last section, we broadly review the prospects of 1992 and other circumstances, including environmental problems, for the future developments of the CAP. We conclude in saying, however hard it might be to justify on some economic grounds, that the CAP is not so different in many respects from most developed country farm policies faced with similar circumstances.

1. The new CAP has arrived

Every year by early winter, the wine growers of the Beaujolais area in France launch an advertizing campaign which spreads like a rumor over Europe the slogan "The new Beaujolais has arrived". Every year as well by early spring the ritual of price negotiations takes place in Brussels and is the occasion to discuss policy changes often coined "reform" of the CAP. The CAP has been continuously under reform since its inception, but one may question how deep and serious can be a reform which comes every year or so like Beaujolais.

1.1 The new 1988 vintage [1]

Starting from the early eighties however, the need for and the will to reform has caught momentum, and it is fair to say that the vintages from 1984 to 1988 are a bit special.

The dairy quota first turned out to be a major decision, even if as economists we do not like this type of policy instruments. This system was obviously the only way to stop the explosion of milk surpluses without bearing the political cost of cutting prices. Income has been preserved particularly for those now in production who are benefitting from sizeable quota rights. It will not be the case for newcomers and the next generation, but they - like consumers - had little to say in the decision process. In terms of market balance and of stock disposal, the quota system has been quite efficient. Deliveries have declined from 99 million tons in 1984 to 91 in 1988. Meanwhile public stocks of butter and powder have been drastically reduced. These new measures have brought with them significant budget savings particularly on intervention measures in spite of the cost of disposing of "old stocks". The will to cut dairy surpluses has been confirmed by further reductions of the dairy quota from 99,4 millions tons in 1984-85 to 93,4 millions in 1988-89. Penalties for bypassing allowed references are now more strictly applied than in the early years of the program. Altogether the dairy quota has brought deep changes in the European farm sector, and casual estimates of the equivalent producer price cuts run around 20 % in real terms (Guyomard et al. , 1988).

The significant impact of the EC dairy quota can now be observed in both the domestic and world markets for dairy products. Butter production in 1988 was down by 20 percent relative to 1983, the last year of the pre-quota era. The stocks have also decreased drastically, partly due to special

1 figures quoted in this section come from CCE (1989).

programs of old stocks disposal and also, to a large extent, to the fall in purchases which has declined by 8 percent in the first half of 1988 as compared to the same period of 1987 for butter. Similar changes have occurred with skim milk powder. Butter prices have moved up on the domestic market reaching the intervention price (rather than being 8 percent below in 1987). Skim milk powder prices were even 25 percent above intervention prices (CCE, 1989). The tension in the domestic market is partly due to the expanding demand for manufactured fresh dairy products, and it also reflects the world price situation with price increases of 20 to 50 percent for butter, and 50 to 100 percent for skim milk powder.

Table 1. The Effects of dairy quota on the domestic and international markets.

	1980	1983	1984-85	1985-86	1986-87	1987-88	1988-89
Milk[1] deliveries (1000 t)	95 451	103 635	99 113	99 900	100 100	94 240	
Quotas[1] (1000 t)			99 440	98 970	99 260	93 450	
Dairy Cows[1] (1000 heads)	25 520	25 363	25 765	25 043	24 303	23 868	22 491
Public Stocks (1000 t)							
-Butter	147	686	973	1 018	1 297	888	
-Skim milk powder	231	957	773	514	847	594	
International[2] prices ($/t)							
-butter	-	1 800	1 300	950	1 050	750	1 150
-sk M.P.	-	780	640	600	680	760	1 150

[1] EUR 10, source Agricultural situation (various issues).
[2] Source, World Dairy Situation. FDS, nov. 88 (quotation is the lower end of bracket, spring or years, FOB North European and selected world parts).

The "Budget discipline" now imposes a ceiling on the FEOGA expenditures for market support at 74 percent of the GDP growth rate. This is far less than the average from 1980-87 (about 2 p.c. in real term under current GDP growth rate, versus 6 p.c.). The actual way to make it work, however, is to have price decisions and accompanying measures to help reduce market imbalances. The budget stabilizers have given more power to the commission to do that, as objective ceilings on production in excess supply are now specified. The Maximum Guaranteed Quantities (MGQ) have already been effective in several sectors, although as they were decided after plantings, the full effect remains to be seen.

For grains the MGQ (160 millions tons) was surpassed by the 1988 crop (162.5), and a levy of 1.6 p.c. was retained from the producers. In the price decisions for the crop year 1988-89, the producer price was cut by 3 p.c. as a result of the application of stabilizers. This is done through a co-responsibility provision and can be revised after the actual crop level is known. For grains the productivity trends are expected to make production hit the ceiling in any normal year. If prices in ECU are kept frozen, it is a price cut of about 6 p.c. per year in real terms at producers level that can be implemented by the Commission. These changes are potentially able to keep grain surplus under control.

Another more clear cut example of the capability of the stabilizers system to reduce production incentives is the oilseed sector. For rapeseed as an example, prices have reduced by 10 per cent for the 1987 crop and 7.6 cent for 1988. The limit of 10 percent which existed on the price cut was also removed, making the system potentially more severe for the coming year. For sun-flower the price cut in 1988 was 19.8 per cent. On the basis of the last couple of years, it is hard to maintain that budget stabilizers have not brought in any real change.

The adjustment carried on through support prices and budget stabilizers has also been complemented in the 1989-90 price decisions by lowering the safety net of "intervention". More exactly, the EC commission has clearly expressed the will to restore the role of public storage as a safety net rather than a normal outlet. Commodities are purchased by the public storage agencies at a price lower than intervention price, and permanent intervention was abandoned in favor of shorter periods in the crop year (the intervention period was cut by two months at the last price decisions).

Even if some colleagues from Europe and in several quarters of the world express the doubts about stabilizers, we think that it is fair to say that over the last few years EC has done quite a bit to impose a clear limitation on the usual system of open-ended price support policies.

1.2. Which forces make the CAP move now ?

The CAP has a long tradition of high support prices. Before the significant changes mentionned above, some relatively minor adjustments have been made in the past in response to domestic (farm incomes, budget) as well as international (world prices) changes.

There is now in the EC a completely new situation generated by the reversal of the trade balance for most temperate zone product commodities. After milk, grains are now in permanent excess supply, and marginal production has to be exported. The gap between domestic and world prices must be filled by restitutions, and all the additional cost of farm price support is now borne by the budget.

The self-sufficiency tends to spread over the whole sector as resources freed by the surplus commodities (dairy, grains), as a result of explicit or implicit price cuts, are moved to the remaining relatively uncontrolled products (oilseeds, proteins, beef). A permanent exporting situation for beef is to be expected in the long run after the negative effects of the dairy quota are exhausted. This is already the case for oilseeds and other proteins crops which substitute easily for grains. The budget consequences in the latter case are huge because, as in the US case for grains, the support is provided through deficiency payments and expenditures become highly sensitive to quantities supplied and to world prices. FEOGA spending on oilseeds has soared dramatically over the last few years.

The immediate effect of product expansion on budget costs has changed the economic and political environment of policy making within the council of ministers. The additional costs of the CAP are no longer hidden in the consumer losses of real income as they are visible on the records of the public budget. This new situation introduces a feedback mechanism leading to a continuous reassessment of the economic and political basis for continued price support policies. These countervailing forces are also amplified by the implications of the financial solidarity principle which puts a burden on the less "agricultural" and net importing (or now rather, less exporting) countries. It is commonplace to see UK and, increasingly, Germany, advocating for budget savings.

Budget costs are not the only force acting in favor of revision, however. The lack of markets for subsidized exports (particularly dairy products), the transfer of the benefits to foreign consumers (eastern block purchases of cheap butter) and, more generally, the perceived waste of goods which are downgraded by excessively long public storage[2], have also contributed to undermine the strength of traditional advocates of continued and unlimited support.

In these times of active international activity in the GATT and other circles, foreign pressure on the CAP should also be mentioned. But it is our belief that these foreign forces, however strong and emanating from big boys, have limited impact compared to domestic forces. In some occasions they may even backfire as they give some ad hoc arguments of nationalism to the group who fights to defend "our national trade interest", whoever actually benefits from current policies eventually. Conversely, the argument that foreign

[2] The commission decision to include the corresponding cost to the budget of the current year means a clear change in attitude w.r.t. intervention.

producers are also adjusting to new times is a useful way to help convincing domestic farm organizations that changes are to be made every-where.

Table 2. Change in farm prices in real terms (per cent, per year)

	85-75 (3)	82-81	83-82	84-83	85-84	86-85 (2)	87-86 (4)	88-87 (4)
Total	-2.4	-0.2	-2.7	-3.1	-4.2	-3.6	-4.5	-1.7
Vegetal products	-2.1	-0.4	-0.8	-3.9	-5.4	-1.7	-4.6	-3.3
Cereals	-3.2	-1.6	-0.7	-6.9	-9.0	-2.8	-5.9	-7.3
Animals products	-2.7	-0.1	-4.3	-2.5	-3.3	-5.1	-4.5	-0.4
Beef	-3.1	1.2	-4.8	-5.7	-4.5	-6.7	-2.5	-3.2
Dairy	-1.9	1.1	-0.7	-4.1	-1.0	-0.7	-2.5	+2.4

Source (1) Eurostat, semester statictics, 1, 1987.
(2) Agricultural situation (2), 1988 ; (3), 1987.
(4) Eurostat, statistiques rapides 1989 - 12 p.15

2. The everlasting CAP is still with us

The changes mentioned above are not to be regarded as negligible as we argued. However, they should not lead us to forget about the basic problems of European agriculture which makes bold policy adjustments difficult to achieve, and particularly so in the context of a supranational organization where national second thoughts are the rule rather than the exception.

2.1. The historical roots of the CAP and its specific features

The issues here are well known, but they should be briefly recalled in order to put the current changes and problems into a long term perspective.

. The CAP was designed for rich countries, which were far from being self-sufficient in food products. The shortages of farm products in the post war period were still alive in the memories and contributed to feed the consensus over the need for protectionism in agriculture. Clearly, when the EC was a net importer, the budget cost of protectionist measures was not a problem in the early stages of the CAP.

. Because the other domain of European integration was making little progress, the CAP has always been presented - at least in France - as the symbol of the construction of Europe. As an example, this symbolic value has been used for a while by French farmers union or even farm Ministers to contradict before the domestic opinion, Mrs Thatcher complaints about the British contribution, on the ground that Britain had just to "buy European to cut down her financial contribution"...

. The well known and extensively analyzed supranational nature of the CAP, has clearly favored an upward bias in the decision process of the farm ministers. The decision on prices have always by-passed the commission proposals (table 4).

Table 3. Annual changes in support prices; decisions versus proposals

	proposals		Decisions			
	(in Ecu) (a)	in national currency (b)	(in Ecu) (c)	in National currency* (d)	Inflation rate** (e)	support prices in real terms (e)-(d)
1980/81	2.4	-	4.8	10.5	12.1	-1.6
1981/82	8.9	-	9.2	10.9	10.6	+0.3
1982/83	9.0	-	10.4	12.2	10.5	+1.7
1983/84	+4.4	+4.4	+4.2	6.9	8.6	-2.3
1984/85	+0.8	-0.5	-0.5	3.3	7.0	-3.7
1985/86	-0.4	0.0	+0.1	1.8	6.0	-4.2
1986/87	-0.1	+0.9	-0.3	2.2	5.5	-3.3
1987/88	-0.5	+0.2	-0.2	3.3	4.0	-0.7
1988/89	0.0	+0.3	-0.1	1.6	3.9	-2.3
1989/90	-0.2	+0.6	-0.3	1.3	3.7+	-2.4

Sources : Notes Rapides de l'Europe Verte, 14, 21, 23, 27, 30, 35, 41, 44 ; Brumter (1985) ; com (89) 40/1.
* including monetary adjustment
** year t-1 of crop year t-1/t Some Eurostat Nat. Accounts
+ estimate

Former commissionnaire Turgendhat[1] is quoted as saying in 1983 that "over the last 4 years the council of ministers has doubled the cost of the proposals presented by the commission".

The reasons for the upward bias has now been extensively analyzed. The financial solidarity principle generates a fundamental mechanism of balance of payments transfers as in any custom union coupled with the common financing of trade policies. As it is possible to externalize partly the budget and economic cost of price support policies, net exporters are in favor of price increases. The typical losers in that game, as they cannot stop the process, take any opportunity to bargain some specific programs as a compensation for accepting continued price support. The beef premium in UK and the olive oil program in Italy are cases in point. A similar complex set of exception to the basic market regimes has also accumulated on the external side (beef, butter quota) as concessions to foreign suppliers or competitors for their acceptance of the basic principles of the CAP. On the other hand, Germany also favors higher prices for different reasons, related mainly to the strong political strength of the farmers who have a hard time competing given the strength of the mark, their small structure, and the prosperous non farm sector. Hence, the desire of Germans to see prices increase in Germany rather than in EC as a whole, so as to keep the budget cost under control. All these forces, and some others, are still there and keep feeding the pressure for high price support.

The overall impression prevailing in the late 1970's and the eighties is a creeping renationalization of the policies in European agriculture. The MCA's have long been the best illustration of the refusal of countries to play the game of a frontier-free Europe for agricultural products and also of the reluctance to fully integrate agriculture in the rest of the economic policies. The dairy quota is a recent illustration of the same problem in the CAP. At

[1] Quoted in Bergman and Baudin, p. 89.

the time of their implementation, they were supposed to be allocated to factories or producers, and the unused rights were supposed to be lost and therefore to contribute to lower the surpluses. Because of the value attached to the right to produce, the system has now evolved toward national quotas as in sugar from that point of view. The proliferation of national aids and of EC programs geared toward special countries document more than necessary the creeping renationalization of farm policies in Europe.

2.2. The European agricultural problem

The CAP has long been criticized on economic grounds, and we think there is more ground for that; but the challenge of carrying European integration in a declining industry was not a small one. The example of the steel industry in Europe and in the world shows that hard policy choices are costly to make. The Fiber and textile industries in rich countries provide another example of national attitudes to try to escape the implication of changing comparative advantage in the world. European agriculture is no exception to that, and the situation is made even more complex by the heterogeneity of European agriculture, which the recent enlargement has markedly increased.

The original EC-6 was not too heterogeneous in the sense that protectionist policies had been the rule since the late 19th century in the larger countries (Germany, France and to some extent Italy). The famous Franco-German compromise, also called the wedding contract i.e. French farm exports in exchange of German industrial product, was not so hard to reach. Prices were set at a high level particularly upon insistence of German producers. Countries like Belgium and Netherlands who had opened their agriculture to world influence were able to adjust as their agriculture was efficient, open to trade, and oriented toward animal products which also benefited from the common market organizations. As a consequence they were not so penalized by the high grain policy, and the more so as their compound feed industry has developed rapidly on imported feed ingredients thanks to the bound tariffs on non grain feedstuffs.

The first enlargement created a new situation with the membership of the United Kingdom - a large country, traditionally low-cost importer of food, but with a modern agricultural sector, whose capacity had been clearly underestimated[2] (the selfsufficiency rate in UK has moved from 65 p.c. in 1970-74 to 140 p.c. in 1985 for grains and from 18 to 73 p.c. in butter).

At least two conflicting views on agricultural policy were constantly opposing each other in Europe : the British complaining about the cost of the CAP for Britain and arguing for lower support and the French, and the German pushing for price increases qualified as "sufficient" to maintain farm incomes. The conflict has now become less tense after the solution of the so-called British contribution problem in 1984 (an issue which should fade somewhat anyway with the rapidly increasing rate of self- sufficiency in UK). Meanwhile the MCA's have also provided some flexibility in the CAP and allowed Germany to run higher domestic prices than its partners.

The second enlargement toward the south has further increased the heterogeneity in European agriculture in the opposite direction of smaller, less efficient and low income farmers.

Because of the predominance of small farms in Europe, it is both politically and economically difficult to speed up resource adjustment by pressing prices and therefore income downward. Because of the heterogeneity of the European agricultural sector across countries, a common view of policy reforms is hard to reach. Because of the supranational nature of the decision making process, and the need for quasi unanimous agreement, compromise and bargaining will continue to take place, as vested interests of some social

---

[2] Denmark and Ireland were in a different situation, welcoming high prices, as they were 'exporting' countries with a large farm sector.

groups are treated as national interest in the council of ministers. Compromise, bargaining and a large traditional farm sector will continue to bear on the CAP, probably in the following ways.

- price support will be reduced at minimum speed as a response mainly to budget pressure.
- production will be kept under control (quota, MGQ),
- national measures to compensate income losses will go on particularly in richer countries (RFA, FR)
- direct aids financed from common resources will be kept under check
- resource adjustment policies will continue to develop (set aside, early retirement...), but with a limited impact on surpluses.
- The burden of price support will continue to bear largely on the consumer and the user to prevent budget cost to expand.
- The decision making process and MCA's mechanism will continue to pull up prices in ECU, so that producer prices in Germany do not fall in an unacceptable way.

A fully market oriented policy or an elimination of the CAP are unlikely. Rather, the trend leans toward budget saving and income preserving policy reforms which may end up being more inward looking than internationally open and relying on supply management policies rather than on decoupling and income transfer.

3. France's strategies and role within the CAP : after the sweets, the sour grapes ?

The traditional approach of farm policy in France has been biased in favor of protectionism and an extensive intervention of the State in the sector. Again, the roots have to be traced back to the 19th century at least (as in the case of Germany) with the Meline tariffs providing a shelter from international competition. In the post war period, farm policy was designed to restore the production capacity of the sector, and soon the need for structural adjustment was felt and an active structural modernization policy was carried in the golden sixties, where economic growth was fast enough to absorb labor freed by the farm sector. This is also the period when the CAP was implemented and the fairly protectionist habits were taken. From France's point of view, the two important questions today are (i) whether the choices made over the last 30 years in the CAP were really the right ones from the viewpoint of long-run national interest and (ii) if not, whether, it is still possible today to shift the strategy to more sound economic foundations. Related questions are also whether it was possible to envisage a different historical scenario, and whether the CAP has really contributed to build an agricultural sector ready to face future challenges.

3.1. A short-run interest strategy

It was long considered as an evidence that higher prices obtained in Brussels were a good thing for the Country. As the agricultural common market was built around the grain sector, the high price policy for grains was considered as a good for France, in view of the production capacity and the large farms of the Paris basin. High price policy was the option retained for most sectors where european production was significant, in particular for sugar and animal products (save may be for pork and poultry).

France's trade balance has always been fragile, and the contribution of the farm and food industries to the external balance was seen as an asset in meeting macroeconomic targets. This is why France has never fought very actively for lower common prices which Germany has always wanted high anyway, in regard to their relatively small farm structures.

It is clear that agricultural trade in France has benefited from the CAP and that the value of exports of the crop sector would not have been the same without the CAP. France has been able to externalize part of the cost of the price support policies.

One may question, however, if the long-run effects of that high grain price policy are not negative enough to offset the short-run benefits on the balance of payments. First, by keeping feed grain high, France has somewhat choked the growth of the animal sector not only on pork (for which the country is a permanent large net importer) and poultry, but also for dairy and beef which had to compete for land with profitable crops. The record of France in the animal sector is far from being in line with the country resources, even without taking Netherlands as a normal reference. Second, high grain prices have led to concessions on the external tariff for other feed stuffs which has created the cereal substitute issue in Europe and to some extent stimulated the import demand for protein feed. This has closed a significant part of the internal european market to French exports of grains, notwithstanding the increased self-sufficiency of partners (UK is now a net exporter of barley), and made the exports of grain depend on restitutions.

To rewrite History is impossible, but it is questionable whether that was really the best way to ensure a sound positive balance in our agricultural trade in the long run. The sugar quota system is even probably a better example of the drawbacks of a shortsighted strategy. Clearly with that system, France has not played the cards of comparative advantages, and all countries have requested their market share, including the ones after the first enlargement who are prone to make pleas for free market policies.

In the monetary area, France has also made choices which are highly debatable. In order to fight inflation more efficiently in the mid seventies, France proposed to create MCA's to phase in the increases in support prices resulting from devaluations of the French Franc. The contribution of farm prices, lower than European average, to controlling inflation is still to be assessed, but the effects on farm incomes and production capacity were quite severe, and more importantly this has opened the door for a permanent gap in price support between strong and weak currency countries, thus enhancing the farm sector capability in Germany which was supposed to have an industrial vocation and little comparative advantage in agriculture.

These two examples have in common that the trade-offs were in both cases made in favor of short-run policy objectives in response to heavy political pressure, while the long run negative effects have no voice to argue for them.

Most of the ingredients usually included in the political economy of agricultural protection seem to apply to the French example as well. Up to recently the share of farmers in employment and in the votes was still important, and their representation in the unions was controlled by the larger farmers who favor high prices paid by passive consumers rather than social subsidization programs. It is probable that without the CAP the issue of the political game would have been different and prices would have been lower in France.

The heterogeneity of French agriculture also contributed to make price cuts more difficult. As the common view was that farmers should earn their income from the market i.e. the consumer, prices are never high enough when small and fairly poor farmers are brought in the Front scene.

One would be tempted to argue also that little contradiction was given by the agricultural economics profession, which was fairly biased toward agrarianism and putting forward the small farm problems. This may relate to the long tradition of protectionism which was not even questioned in the 1960's and certainly less in the 1970's where economists were, to say the least, not biased in favor of market oriented policies but worried about the influence of capitalist forces on the farm sector.

The role of the critics of the academic world on farm policies has always been weak (particularly with regard to the German case), but it is clear that the induced effects of price support policies on the consumers or the food industry have always been neglected.

3.2. The time for Hang over and good resolutions ?

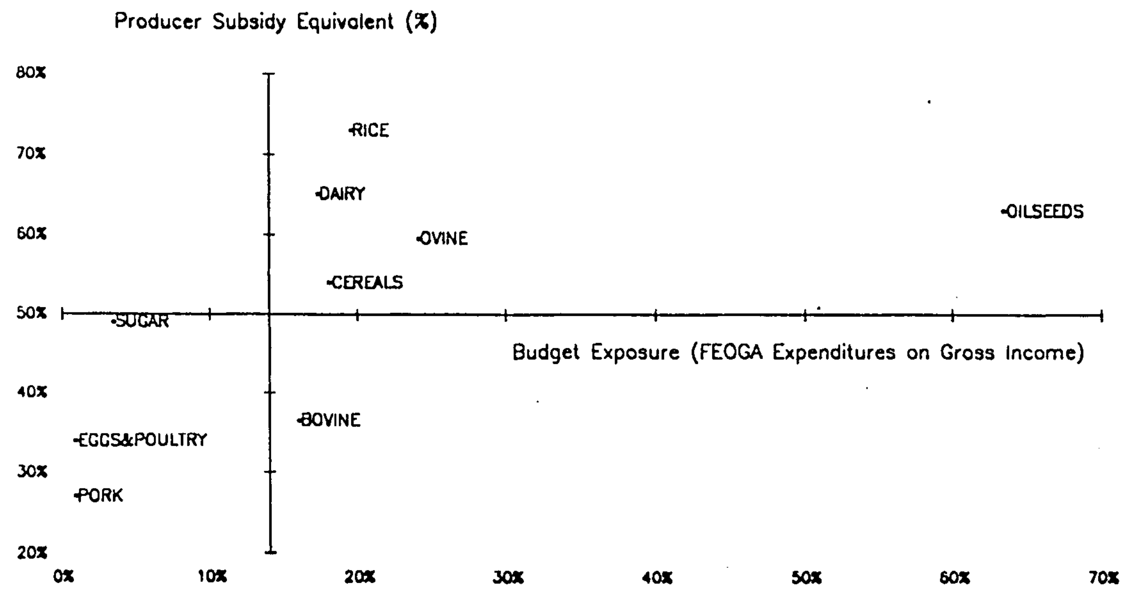
The favorable trade balance in food and agriculture should not generate any illusion. The exports are mainly composed of raw products and little of high valued added items. Animal products have some weak points (pork, sheep). Given the overall self sufficiency of the EC, the dependency of our exports to third countries on FEOGA subsidies threatens our exports in the long run, the more so as budget costs are kept under control and as partner countries become more and more reluctant to contribute to enhance our export capability.

This situation has already materialized in the slow deterioration of balance of payment transfers from the CAP within agriculture, and the net financial balance for France has now become limited and sensitive to future price cuts in surplus commodities. It can be argued that the type of specialization of French agriculture induced by the CAP has to be phased out as in all other member states, and comparative advantage can no longer be played as easily as it was in the period of growth of total agricultural output (figure 1.).

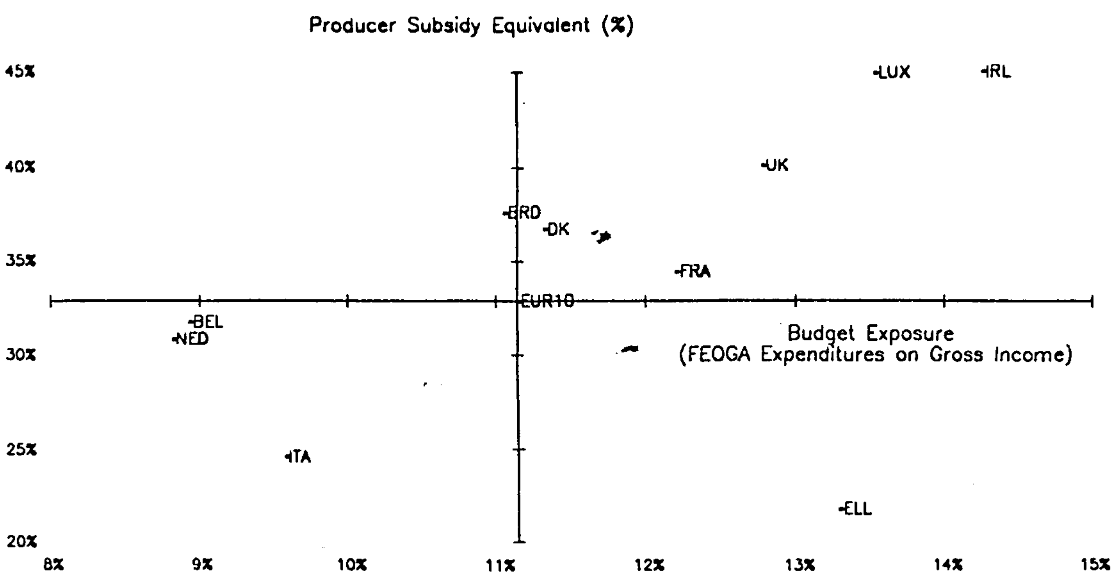
This viewpoint is no longer so rare now in France, where a significant change in the mood, a "fremissement" as we say, can be felt in the public agencies and even in the farmers organizations. The consensus over the unquestioned virtues of price support is now broken and a debate is going on.

Figure 1. Quality of specialization and budget exposure

1a. Classification of commodities



1b. Classification of countries



4. 1992, The single market will affect the CAP in the long-run

It is not easy to predict how much progress will be made by 1992 on European integration as a result of the Single Act, but there will be more progress. It is widely recognized that the direct effects on agriculture and the CAP should be limited since all the necessary legal basis for market unity for agricultural products has been available since the Treaty of Rome. It is not unlikely, however, that the indirect effects of 1992 on the CAP could be significant in the long run if the integration of the rest of the European economy goes far enough to include the common currency and the removal of borders.

In regards to agriculture and the food industry, the single market is likely to impact first through the necessary harmonization of non trade barriers on food products; second, by the harmonization of macro-economic policies and of the regulations in sectors supplying inputs and services to agriculture; third, by the general political climate generated by 1992 and the reordering of priorities it may lead to in European affairs.

4.1 The single market and the food industry

The removal of non trade barriers related to health regulation and consumer protection will open a very large market to the European and foreign firms of the food industry which meet the required standards. This increase in competition is supposed to enhance efficiency and allow firms to take advantage of economies of scale. The cost of "non Europe" in the food industry has been evaluated to be from 600 to 1200 million ECU annually in the Cecchini Report. This estimate is at best tentative, but the increasingreturn nature of the food industry does not leave much doubt on the sign of the efficiency gains. The larger firms have already taken this for granted as shown by the intense activity of consolidation and reorganization of shares portfolios of shares to gain control over the European market (163 alliances in 1988 according to Viaene, 1989).

How does the French food industry stand in front of this increased competition? The size of the industry is similar to the one of Britain and Germany, but it does not quite match the relatively large capacity of the French farm sector in Europe. This is reflected in the composition of the trade of agricultural and food products which include a limited amount of elaborated goods of the so called second transformation which has a high value added. The net trade balance is negative in this category (4.1 billion Francs in 1987 while the global surplus is 23.5 billion in the agricultural and food balance). By comparison, Germany and the Netherlands do much better (with surpluses of respectively 3.7 billion and 7.3 billion Francs).

This relatively poor performance may be due to the economic structure of the industry where firms are smaller than in our European partners. Few corporations are big enough (with the exception of BSN, 7th European) to serve as a leader in equity restructuring and firm acquisition to reach for a size sufficient for the new European market.

The geographic zone of influence is also a matter of concern for the French food industry, as the domestic market is by and large the essential outlet for most firms. For example, the group BSN makes 70 percent of its sales in France, while Nestle sells 70 percent of its production out of Europe.

The relatively modest scale of the French food firms may also contribute to the explanation of the weakness of Research and Development in that sector (spending R & D is reported to be 0.12 percent of turnover in France as compared to 0.7 or 0.8 percent in the USA). The balance of payments for licenses has consistently been negative in that sector since

1978, and the purchase to sales ratio of licenses has been 0.11 in the food industry as compared to 0.44 in the rest of the economy, Gupta and Vincent (1986).

To summarize, the structure and performance of the French food industry is barely adequate, even if it should be able to benefit from the traditional image of quality in some products. The firms have nevertheless to adapt to the new trends in food habits to specialize in areas where markets expand, and to enlarge their size and geographical coverage if they are to take advantage of the single market. The cooperative firms in the food industry which are extensive in France will find adjustment to a rapidly changing environment particularly demanding.

At the core of the issue of the removal of intra community trade barriers for food products is the process of food law harmonization among member states. Up to now, the general approach to this question is the principle of mutual recognition which was stated by the Court of Justice of Luxembourg in the famous case, "Cassis de Dijon", and in several other cases generating a Jurisprudence along these lines. According to this principle, a product legally manufactured and sold in a member state must be sold without legal obstacle in the whole Community.

In the annex to the White paper (Com [85] 603), the Commission lays the guidelines for the implementation of the single markets in the food industry. The Commission took the position of limited regulations, drafting directives aiming at labeling legislation on additives, material and equipment rather than an official control of foodstuffs content, i.e., the "Recipe approach".

France has issued a memorandum on the completion of the internal market for food law which is based on four concerns:

- the close link between food and health of the importance of name brands and qualitative specification as regards consumer protection and fair trading

- the existence of varied national rules which reflect the richness of food tradition in Europe
- the interaction of the single market for food law and the "acquis communautaire", i.e., the working of the CAP.

Essentially, the memorandum expresses the concern with regard to the risk for quality of foodstuffs to adjust down to the level of minimum standards whichever country they are specified in, as a result of the mutual recognition principle. It reflects some doubts on the efficiency of the market system to work efficiently in the context of consumer safety. There is some economic substance in this position which should not be viewed as a sole desire to preserve some genuine food traditions or a petty gastronomic parochialism. Accordingly, the memorandum favors a horizontal harmonization of general standards, rules of inspection and labeling. It also favors a vertical harmonization for a limited number of foodstuffs as regards the sales name and the composition of products. The introduction of a Standardization policy at the community level is also suggested to approve standards and professional practices. We take it that in the US the harmonization of standards is viewed as a positive feature allowing the foreign firms to meet ahead of time a unique set of conditions for the whole European market.[3]

[3] see D. Kelch paper in this symposium

4.2 1992 and the CAP

The single market will modify the environment of the CAP, rather than impact directly upon it. First, harmonization of policies in the area of indirect taxes may make inputs a bit cheaper as France has VAT rates fairly high in the European scale. However, it is unclear whether the implementation of VAT on final farm products will just offset this effect or not. There may be differential effects of this harmonization among member states as a large number of farmers in EC countries (except UK, Denmark and Netherlands still use the special VAT regulations as they do not carry a complete book keeping records. Second, the single market should make the transportation industry more competitive in Europe and decrease the cost of food and feedstuff transportation. These goods are bulky and this in itself is likely to reduce the still existing price differentials in farm and food products prices among member states. Comparative advantage should work more efficiently and specialization of regions might increase. A similar effect may result from the single market in the banking system and more generally in the farm input industry. Third, market unification in foodstuffs, even if the process is not completed by 1992, will probably increase the pressure on the CAP in the areas of highly protected raw materials which hamper the competitiveness of the food industry. The acceleration of biotechnology techniques is likely to enhance the competition emanating from substitutes for traditional food or feed products, and distorting price policies will be harder to maintain in the long run. Fourth, the frontier-free Europe and the single market principle will make nationally managed production and import quotas, national aids and targeted variable premium (beef and veal), as well as the MCA's look at odds with the general trend of fostering economic integration and market competition. In that respect, however, we do not see as likely in the near future, the phasing out of production quotas in dairy, and even in sugar. There are so many built-in interests now in these sectors that an income problem has been transmuted into an asset problem which makes it even more irreversible. The issue of MCA's is probably different in that the borders will eventually fall and a common currency will be implemented if the political will keeps the current momentum it has now [1]. Then, one can hardly see the custom officials being kept at work just for the sake of monitoring MCA's. Because the forces at work behind the CAP are still there, national aids will develop, particularly in Germany, sometimes using environmental objectives as a pretext rather than as a fundamental rationale.

This slow tendency will cut some of the biases toward price increases in Europe as some of the transfers will become more visible on the budget and will therefore trigger some political debate as regards the merits of their long run distributional impacts. In any case, this general trend will also foster the competition on markets as the user price will be less closely hooked with the producer price. Fifth, the general political climate will have impact on the future of the CAP, as it will no longer be the unique symbol of Europe, and this has already been felt by the farmer themselves who reveal in public polls that they have lost some faith in Europe as the solution to their problems. Sixth, the expected gain in GNP growth rate as a result of the single market and the decreased inflation, should relieve some pressure on the farm sector which could benefit from some stimulation on the demand side and from better trends in input/output price ratios. This more buoyant economic outlook, if it does materialize, should also help the adjustment of the CAP a lot by creating jobs and attracting resources from the farm sector, a better environment than the sluggish economy of the last decade. Last, the increasing concern in many member states, particularly the Northern, about pollution and damages created to the environment by agriculture, may add a significant pressure toward less intensive farming. Recent policies as the set

---

1 The borders may however still last a while if only for controlling live animal flows, as many areas in Europe are not free from swine and bovine deseases.

aside or nitrogen regulations, do not suggest however that environmental goals are likely to be reached through lower price support.

Conclusion and Summary

The CAP has already made significant adjustments to control surpluses and budget expenditures. 1992 and the single market will bring some new pressure for a gradual adaption of the CAP to the concept of border-free Europe.

These changes will be limited, however, in the near future since the CAP, as any other policy, is trapped in a network of contradictory forces which limit the margins of maneuver. The Budget will continue to be the leading force behind the changes and any budget saving policy instrument which does not hurt farmers' incomes will remain popular among policy makers. As farmers do not like direct payments, decoupling will not develop to a large scale, unless well-accepted and economically sound instruments of transfers are invented as a reward to farmers for their role as keepers of nature.

This situation is not so unusual in developed countries, and the plea for free trade is always made by countries in areas where lies their comparative advantage. This is why the US and others have only grain and not dairy or sugar programs in mind when they advocate for free trade or even for market oriented policy. There is a high correlation between the economic rationale and national interest in that context. It may be that, as in induced innovation theory, many economic research programs and policy prescriptions are also induced by national interests and the economic and political environment.

In that context, however protectionist in most sectors, the CAP is not so unusual as often presented and it can be qualified as a fairly common agricultural policy. This has implications for the GATT in that the dominant forces at work being domestic, limited commitments are most probably to be expected.

The single market and "relance Europeenne" will nevertheless change some of the cards in the farm policy game. Some policies may just turn out to be hard to implement in a border-free Europe, and others may be caught under increased critical review as being in contradiction with the Spirit of 1992 and with the increasingly felt need to preserve the quality of the environment.

BIBLIOGRAPHY

APCA, (1987), Le marché unique et l'agriculture, un enjeu à réussir, *Chambre d'Agriculture*, supplt. 750 déc. 1987-88p.

APCA, (1988), La spécialisation des agricultures dans la CEE, *Chambre d'Agriculture*, supplément n°754, avril.

BERGMANN D. BAUDIN P., (1989), *Politiques d'avenir pour l'Europe Agricole*, Paris, Economica- INRA, 170 p.

CCE, (1985), (Commission des Communautés Européennes), *L'achèvement du marché intérieur*, Libre Blanc ..., juin 1985, 54 p.

CCE, (1985), Achèvement du marché intérieur : législation communautaire des denrées alimentaires COM (85)603.

CCE, (1989), Propositions de la Commission (prix et mesures connexes 1989-90), COM (89)40.

CCE, (1989),.*La situation de l'agriculture dans la Communauté*, Bruxelles, Luxembourg, CEE., Rapport 1988 (Commission des Communautés Européennes).

CCE, (1988), 1992 : la nouvelle économie européenne, *Economie européenne* (35) mars , 235 p.

CETTE G., SZPIRO D., (1989), Les entreprises françaises sont-elles bien dimensionnées ? Une comparaison avec l'Allemagne et le Royaume-Uni *Economie et Statistique* (217-218) janv.-fév., pp. 83-94.

COINTAT M., (1988), Rapport du groupe d'études parlementaire de développement agro-industriel de l'Assemblée Nationale - *Agra-alimentation* (1141) décembre.

Commissariat Général du Plan, (1988), *Rapport du groupe de stratégie industrielle agro-alimentaire*, La Documentation Française, 2 tonnes 131 + 227 p.

Commissariat Général du Plan, (1989), *Rapport du groupe de prospective agricole*, Paris, CGP , 105 p.

CCE, (1988), Commission of the European Communities - *The "Cost of non - Europe" in the foodstuffs industry* in Resarch on the "cost of non-Europe", Basic Findings, volume 12, Parts A et B , 752 p.

DELORS J., (1987), Réussir l'Acte Unique, *Bulletin des Communautés Européennes*, Supplément 1/87.

DEMARTY J. L., (1988), La politique agricole commune à la croisée des chemins, *Economie Prospective Internationale* T3, 35, pp. 27-37.

GAGEY D., (1989), *Analyse comparée des IAA dans le CEE. Etude de l'évolution du commerce extérieur (1975-1987).* Session SFER, 25-26 avril, Paris, 30 p.

GATT, (1988), *Le marché mondial des produits laitiers 1988*, Genève, GATT, 1988, 80 p.

GUPTA J. et VINCENT M. (1986), L'industrie agro-alimentaire, *La revue du financier*, mars-avril.

GUYOMARD H., MAHE L.P., TAVERA C., TROCHET T. (1988), Modelling interactions between EC and US agricultural Policies. Comparative statics versus comparative projection. IATRC San Antonio, Texas.

LE GUENNEC J., (1987), L'agriculture dans la CEE, tome 1 : 25 ans de production, Coll. INSEE, E. 104, février 1987.

MAHE L. P., (1986), The Common Agricultural Policy, a French point of view, in C. Saunders ed. Industrial Policies and Structural Changes, Mc Millan.

MAHE L. P., (1989), Trade Negotiation and Agriculture : New Approaches and Possible Consequences : Discussion, AJAE 70 (5) déc. 1156-1158.

PETIT M., DE BENEDICTIS M., BRITTON D., DE GROOT M., HENRICHS-MEYER W. and LECHI F., (1987), Agricultural Policy Formation in the European Community : the Birth of Milk Quotas and CAP Reform, Amsterdam, Elsevier, 165 p.

RICKARD (1989), Key issues for the UK farming industry
89' AES Conference
- Agricultural Economics Society one day Conference.

STOCKER (1989), 1992 and the agriculture and food industries
Agricultural Economics Society one day conference.

USDA-FAS, (1988), -*World Dairy Situation*, Circular series, FD 1-88, November, 33 p.

VIAENE (J.) (1989), Economic Effects of 1992 on the agricultural sector. CEPS - CAPREC Conference Brussels, Feb.