1992: IMPLICATIONS FOR AGRICULTURE [1]

by

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Abstract: The EC has embarked on an ambitious program to fully integrate its diverse national economies by removing all barriers to the movement of goods, services, capital, and people by the end of 1992. If the program is successful, the short-term practical implications for agriculture are most pronounced for the EC's food and agribusiness sector with indirect effects on farming. The long-term implications of Europe 1992 for EC agriculture are profound as true common prices in a borderless EC-12 would lead to specialization in agriculture at the expense of the current degree of nationalization.

Keywords: European Community, 1992, EC, agriculture, Common Agricultural Policy, CAP, agrimonetary, food industry, trade barriers.

The foremost objective of the European Community (EC) over the next 4 years is to more fully integrate its internal market by the end of 1992. The ultimate thrust of Europe 1992 is to render the EC more competitive in world markets and more powerful in world affairs. This result is to be achieved by removing internal barriers to the movement of goods, services, capital, and people. The realization of this goal would create a single market of 320 million people with a gross domestic product of $4 trillion which would allow greater economic efficiency and welfare through economies of scale.

The principal economic benefits of a more competitive EC economy in the medium term are estimated by the EC as (Cecchini):

- o an additional average GDP growth of 4.5% percent, or $250 billion;
- o a decline in consumer prices 6.1 percent; and
- o creation of 1.8 million jobs.

These estimates are generally considered optimistic and would result only under optimal conditions. Nevertheless, the direction of the results are clear and all agree that economic benefits will occur (tables A-1 and A-2).

The ideal of 1992 is to deregulate commerce by eliminating trade barriers, thus creating an EC version of supply-side economics. The EC Commission (see Box) states in its 1988 White Paper on the progress of the 1992 program that:

[1] Article in Western Europe Agriculture and Trade Report, RS-89-2, U.S. Dept. of Agr., Econ. Res. Serv., July 1989.

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"the phased progress towards EC market integration is in the process of administering a prolonged and positive shock to the Community economy and of providing a much broader and more dynamic market for business to develop in it."

It is important to remember that the 1992 program is an iterative process and has been operative since 1985 in terms of implementation. The Commission intends to have the entire program phased in by the end of 1992. It should also be pointed out that very few believe that the entire program will be completed by the end of 1992 and others doubt that borders will come down in the foreseeable future. No one is sure either of the ultimate breadth and depth of the program because Europe 1992 is, in the final analysis, a complex political process.

The Roots of 1992

The lack of economic integration within the EC was accompanied in the late 1970's and early 1980's by a growing unemployment rate (from 2.9 percent in 1975 to 10.6 percent in 1985), historically low birth rates which bode ill for the EC's demographic/economic future, and economic stagnation. The combination of these three trends came to be referred to as Eurosclerosis.

It was also clear that economic integration among the member states was stalled. There were increasing barriers to trade in the form of non-tariff barriers, particularly in agriculture, which was the only functioning example of a common market in the EC (tables A-3 and A-4). This drift toward renationalization of agricultural policies in order to control farm income had resulted in the implementation or continuation of over 200 non-tariff barriers in the food and drink industry which were identified by the EC (EC Commission).

Also, the rise of Japan as a world economic power, relatively rapid economic and employment growth in the United States (the United States created 21 million jobs during 1975-1985 while the EC lost nearly 1 million), and the Free Trade Agreement between the United States and Canada, prompted the EC to reassess its future as a world economic and political power (<u>Europe</u>). In the mid-1980s, the EC began to respond to Eurosclerosis and preparatory work culminated in the February 1988 agreements at the Brussels summit. The results that flow from the agreements may represent a watershed for EC agricultural policy in the long run.

<u>The 1988 Brussels Summit</u>

Jacques Delors, appointed President of the EC Commission (see Appendix) in 1984, presented a blueprint for a barrier-free internal EC market at the beginning of his tenure. The details of the blueprint were given shape and put into words by Lord Cockfield (the EC Commissioner for the Internal Market) in the 1985 EC White Paper on completing the internal market. The Cockfield White Paper consisted of 279 directives (100 are related to agriculture) which, if implemented, would create an internal EC market without borders. To date nearly 90 percent of these directives have already been proposed by the Commission and nearly half of these have been adopted by the Council. The Single European Act, which amended the Treaty of Rome to make the EC program legally and practically possible, was ratified by all member states in 1987.

Final agreement committing EC member states to pursue and finance the completion of the internal market by the end of 1992 was reached in February 1988 at the Brussels summit of EC heads of state. This historic meeting was presided over by Delors and the West German presidency of the EC Council of Ministers (see Appendix).There were also important developments that affected the Common Agricultural Policy (CAP), including the introduction of budget stabilizers for grains and oilseeds. Among many other things, the agreement included:

- o Acceptance of January 1, 1993, as the date for completion of the internal market;

- o A 5-year package of financial reforms which increased substantially EC financial resources while limiting the growth of spending for the CAP;

- o A doubling of structural funds to $15 billion by 1993 to assist disadvantaged agricultural areas in preparation for 1992;

- o Introduction of various CAP reform measures which could lower price support and weaken the intervention system.

Many other measures that could prove significant to EC agriculture, and to the GATT, were also approved including a package of direct income aid to farmers and establishment of a land set-aside program. The 1992 program was a driving force behind the 1988 Brussels agreements and could thus be instrumental in shaping the future of the CAP (Tracy). If the 1992 program is successful, the removal of all barriers to internal EC trade may give more flesh to the structure of the agreements on agriculture in 1988.

The 1985 White Paper and Agriculture

The EC Commission's 1985 White Paper on Completing the Internal Market is divided into three sections, all of which will affect agriculture. The three sections are:

- o removal of physical barriers,

- o removal of technical barriers; and

- o removal of fiscal barriers.

Of the three, it is the removal of physical barriers which will affect agriculture most directly, while removal of fiscal and technical barriers will affect the food industry directly and agriculture indirectly.

Implications of the Removal of Physical, Technical, and Fiscal Barriers

An EC without borders has four fundamental implications for EC food and agriculture:

- a harmonization of plant and animal health standards, and food labeling, ingredients, and packaging laws;
- harmonization of the taxes on food and agricultural products and inputs;
- elimination of agricultural border taxes and subsidies; and
- incompatibility of quotas, variable premiums, and national aids with the 1992 program.

Harmonization of EC standards should improve market access both within the EC and for exporters to the EC. However, the harmonization process is worrisome to U.S. officials because of recent trade disputes in the meat trade which could surface again if U.S. standards conflict with new standards established on an EC-wide basis. Elimination of EC agricultural border taxes and subsidies could result in less national control of farm prices and more common EC farm prices. National food taxes could no longer be applied and EC convergence of food taxes means raising food prices in some countries while lowering prices in others. It would also represent an important loss of revenue for some countries. Other problems revolve around the sugar and dairy quotas, which are nationally based, variable premia for livestock, which are regionally based, and national aids.

Harmonization of Standards

Agreement to abolish internal borders by the end of 1992 means that standards and regulations must be harmonized and non-tariff barriers eliminated. Non-tariff barriers in the EC food industry have been estimated by the EC Commission to cost the industry an estimated $600-$1,200 million annually (table A-5). Most of the costs result from labeling, packaging, and ingredient requirements that prevent internal EC trade and these barriers have been increasing over the years. Rulings by the EC Court of Justice (see Appendix) have consistently been in favor of supranational EC legislation over that of member states where local legislation inhibits imports.

The EC has agreed on the harmonization of essential minimum health and safety standards and on the principle of mutual recognition by the national governments of one another's regulations after agreed- upon essential standards are met. Theoretically, exporters should only have to satisfy the importing country's standards and then, under the principle of mutual recognition, they should have access to the other 11 countries' markets.

There is still widespread EC debate between minimalists who wish to establish essential minimum standards at the strictest level possible and maximalists who prefer to agree on an average EC level standard. The general tendency has been to standardize at much higher than average levels with intentions of reaching the highest possible standards acceptable (Eurofood).

There are 100 EC directives that are related to agriculture and 70 of them concern plant and animal health (phytosanitary regulations). The method of legislatively passing directives is the following:

> A directive is first drafted by the staff of the appropriate Directorate General of the EC Commission then it is proposed, debated, and approved at the Commission. It is then sent to the EC Council (and to the EC Parliament) where it is debated and approved. It is then sent to national legislatures for implementation which brings national law into conformity.

Public and third country input is allowed at the point of debate in the EC parliament and the EC Council before adoption.

The current status of the 100 agriculture directives/proposals is the following:

o 42 adopted (28 are phytosanitary);

o 40 approved (24 phytosanitary); and

o 18 not yet proposed (all phytosanitary).

With the glaring exceptions of the directive banning production and imports of meat derived from animals treated with growth hormones and the third country red meat directive, it is still unclear whether there will be major problems with the directives that affect agriculture. However, the more difficult animal and health proposals have not been proposed. Problem areas in a few proposals have been identified but more analysis and clarification is required. Further developments will be closely monitored--including the possible development of an EC equivalent of the U.S. Food and Drug Administration (FDA).

The EC's ban on hormones and its third country red meat directive leave serious doubts as to the positive outcome of the harmonization effects on exporting countries (Kelch). The United States is particularly concerned that the EC continue its acceptance of the principle of equivalent standards. The question of who sets world standards could also lead to conflicts because 1992 requires creation of new EC laws and standards that could come in conflict with present world standards. All GATT members have agreed to move toward the use of international standards for food safety and plant and animal health. Recent visits by EC Commission officials to Washington and by U.S. Secretary of Commerce to Brussels have helped to alleviate to a significant degree U.S. qualms about the harmonization of EC standards, particularly in testing and certification procedures.

The general opinion of exporters to the EC is that the harmonization of standards and regulations will be a positive development if the same rules apply to imports (Export Now). All agree that it would be very advantageous for foreign suppliers if a product imported into the EC only had to adhere to one standard and cross one border assuming that the standard is reasonable and based on scientific evidence. The United States is well-positioned in the EC food processing and distribution sector as it owns or partially owns 12 of the top 20 EC food companies (Cecchini).

VAT Harmonization

Taxes on various food items in the EC vary from zero in the UK to 38 percent in Italy (table A-6). There have been intense negotiations about the convergence of VAT rates so that food purchases will not be distorted after borders are eliminated. One of the main problems is that the VAT is a major source of revenue for some EC members. Harmonizing the VAT will mean higher food prices for some member states and lower government revenues for others. The current discussions center around creation of a two-tier VAT system which would allow some VAT differences to exist between food items. Proposals have been made to set VAT rates into two bands--from 4 to 9 percent for basic goods such as food, books, and newspapers, and a standard 14-20 percent for other goods with some possible exceptions for zero-based food in the UK.

There are also excise taxes on beverages, cigarettes, and gasoline that differ substantially among the EC member states that will have to converge (table A-7). Proposals to converge these taxes are under discussion. Negotiations will be very difficult as these taxes represent a significant source of revenue for some countries and because the current divergence of these taxes to some degree reflects health concerns in some member states and agreement must therefore be unanimous.

Quotas, Variable Premiums, and National Aids

The dairy and sugar quotas clearly violate the philosophy of 1992 because they are nationally based and are not transferable across borders. While abolition of these quotas is not a specific part of the 1992 program, economic and political forces are likely to develop when borders are dropped to make the quotas transferable to least-cost producers. Other quotas such as the import quotas granted to New Zealand and the high quality beef quota present problems for the 1992 program as the quotas are nationally based. Abolition of the variable premiums in the beef sector is one example of the effects already felt in agriculture due to 1992. These premiums were nationally based as are the current lamb and mutton premiums which may also have to be abolished before the borders are gone.

There are numerous national aids to agriculture in the form of rebates, tax incentives, and other subsidies allowed by the CAP which are incompatible with a borderless economic market (Agra Europe, No. 48). At present, national aids form a significant percentage of overall aid to agriculture. From 1981 to 1986 national aids represented from 31 to 42 percent of total aid to agriculture including both CAP guarantee and guidance expenditure for the 4 largest member states (W. Germany 31, Italy 37, France 42, and the UK 38 percent, respectively) (Agra Europe, June 2).

The Agrimonetary Dilemma

The development of separate exchange rates for agricultural commodities in the EC has created the most economic distortion in the CAP (Franklin). A major long-established goal of the EC Commission has been to eliminate these distortions, and 1992 could provide the rationale to achieve that goal.

The Origin of the Problem

The fundamental pricing problem facing the CAP for 20 years is the establishment of common prices for market intervention purposes in a monetary system that does not have a common currency. The European Currency Unit (ECU), in which common prices for agriculture in the EC are denominated, is not a currency but a basket unit of EC currencies. The ECU resulted from the European Monetary System (EMS) established in 1979 to moderate exchange rate fluctuations between EC currencies. Because the ECU represents a weighted basket of EC member state currencies, the 12 member states' currencies can fluctuate in value against it.

EC farmers are paid in local currency converted by the ECU/local currency exchange rate. What this means is the common agricultural prices set by the CAP in ECUs for intervention purposes in the member states and converted into local currencies change on a daily basis because of currency fluctuations. This result has proven unacceptable to EC farmers and politicians.

The solution to the problem was to maintain each member state's exchange rate at a fixed ECU level for agricultural intervention purposes when an official realignment of currencies occurred within the EMS system. The fixed exchange rate was then used for conversion into agricultural prices in each member state. Movement of this fixed exchange rate for agriculture (called the green rate) to the official exchange rate was to be phased in at some time in the future.

While this system provided farmers with stable prices, it created possibilities for trade across EC borders because agricultural prices differed among member states. Worse still, the open-ended intervention system of the CAP guaranteed acceptance of any quantity offered at the intervention price. This meant that the intervention system of the member state with the highest price would be overwhelmed by imports from member states with lower prices. To prevent this from occurring, a series of border taxes and subsidies called monetary compensatory amounts (MCAs) were created, exactly offsetting the price differences.

The political importance of the MCA system is that member states retained some control over national farm prices and hence farm incomes and food prices through manipulation of the green rates. This control undermines the functioning of a common market for agriculture. Abolishing MCAs because of elimination of frontier controls allows the EC Commission a unique opportunity to change the CAP pricing system and remove some of the price distortion. In fact, the EC Commission initiated a program in 1987 to dismantle all MCAs by the end of 1992 in anticipation of a borderless EC.

Perhaps of equal importance is that farm price declines for Germany, which resulted from the agrimonetary system, had to be countered by high EC common prices because of the powerful German position within the EC. The German dilemma led to the establishment of the green ECU in 1984, which meant that all member countries' green rates moved with the appreciating EMS currency (normally the German mark), thus creating an upward bias in EC farm prices in nominal terms (Swinbank).

Agricultural prices in national currencies have been allowed to drift higher than CAP common prices denominated in ECUs. This upward bias continues to be guaranteed by the present agrimonetary system (table A-8). Complicating the situation is the political influence of special interest groups, which has resulted in the creation of different green rates for different commodities in the same country. There are currently 40 green rates in the EC.

The 1992 Implications for MCAs

The implications of 1992 for the MCA system are significant because MCAs are collected at national borders which are scheduled to disappear by the end of 1992. It would be absurd to maintain internal borders after 1992 solely for the collection of agricultural MCAs. It thus appears that MCAs must be eliminated, which could undermine the agrimonetary system.

The Single Currency Issue Affects MCAs

At this point the EC cannot rid itself of green rates and their related MCAs and maintain common prices because that would result in daily changes in farm prices. The fundamental problem is that the EC does not have a single currency. There is a move towards a single currency. A special committee of experts, presided over by Jaques Delors, who is also EC Commissioner of Monetary Affairs, is exploring the steps required to create a European

Monetary Union (EMU).

The initial recommendations of the special committee pointed the way to a three-stage approach to creation of a single currency. The final report was signed by all twelve presidents of the EC member states' central banks in April. However, the report addresses only the technical aspects of the single currency issue and not the most difficult aspect, which is political.

Realignments between currencies in the EMS system create MCAs. More intense coordination of fiscal and monetary matters among member states in an EMU would result in fewer and smaller currency realignments in the EMS. Hence, both the conditions which create MCAs and their magnitude would be reduced. If a single currency is ultimately established, and accepted, the effects on agriculture would be profound as true common prices would then be possible. However, serious obstacles remain, not the least of which is the lack of full British and Greek participation in the EMS system.

The most serious obstacle to an EMU is the question of national sovereignty over monetary policy. Current disputes over the harmonization of the VAT, indirect taxes, and excise tax levels have illustrated the depth of the differences between the member countries' methods of generating revenues (The Economist). Much more politically serious is the loss of national control over monetary policy. However, France and Germany seem agreed to move towards a single currency and the UK currently appears to be isolated on this issue. In this respect, it is not insignificant that France will occupy the EC presidency for six months beginning on July 1, 1989 and France is a vigorous proponent of deeper EC economic and political integration.

Another complicating factor from the 1992 program perspective and MCAs is that capital flows are to be liberalized by mid-1990. A free flow of capital across borders in a system with relatively fixed exchange rates could well give rise to exchange rate pressures that would require a EMS realignment and create new MCAs. This would then give scope for farm price increases through the agrimonetary system.

CAP Intervention System Is An Obstacle

The main force driving the MCA system is the strong intervention mechanism of the CAP, which guarantees a high floor price for EC farmers. However, the intervention mechanisms of the CAP are being weakened by the February 1988 agreements in Brussels. Weakening of the system is accomplished by reducing the time period in which intervention is allowed, introducing more restrictive quality standards, and lowering storage payments.

If this process continues and there is more reliance on markets to take up supply, then the intervention price would no longer attract trade across borders, thus eliminating the need to introduce MCAs. This would represent a fundamental reform of the CAP and lower farm prices.

Overall Consequences for Agriculture

EC officials claim that Europe 1992 is not directed at agriculture and is not meant to affect EC agricultural trade. In fact, most EC officials feel that a common market already exists in agriculture and therefore will not be affected. Under closer scrutiny, however, it becomes obvious that the input and output prices facing farmers are going to be affected by the 1992 program which in turn affect farm income and that one of the principal reasons for the existence of the CAP.

In addition, the CAP has accumulated a series of policy instruments to accommodate perceived political needs of member states. The most obvious are uncommon prices between member states, nationally based quotas, and national aids to agriculture. However, because of political problems arising from a borderless market (i.e. more common prices in a community with uncommon agricultures giving rise to farm income problems) there may be a move to increase national aids. If these aids were to take the form of direct income transfers instead of producer subsidies, then the economic distortion of national aids would be minimal and thus compatible with the ideal of 1992 as well as with the goals of the current GATT negotiations.

To the extent that Europe 1992 is successful there will be indirect effects for agriculture in the short term that warrant serious attention, as well as long-term implications that could have profound effects. This becomes more clear when the documents and intentions of the 1992 program are examined with the current policies of the CAP in mind.

Short-Term Impacts on Agriculture Are Indirect

Mergers in the EC food retail, wholesale, and processing industries have already in anticipation of 1992. The reason for this flurry of activity is the apparent need to prepare for a larger market. Nationally based food companies and food processors need to become EC companies, increase their size of operations, and locate in the most geographically profitable region. Relocation would be dictated by the nature of the processing and the consumer market. This in turn could stimulate production in the relocation area.

Restructuring of the transportation and financial sectors will also significantly affect the food industry. Transportation costs will be substantially reduced when border controls are removed, because of lower administrative costs and less travel time. More savings on cost per unit transported (estimated at an overall 5 percent) will be realized when the practice of cabotage (which requires non-national trucks in some countries to return empty) is eliminated and when frontiers are eliminated (Calingaert).

Liberalization of financial services will allow credit institutions to move to wider markets in the EC and should result in more competitive loan and mortgage rates. The direction of the change in these rates could be affected by the extent to which loan and mortgage rates are currently subsidized and how these differentials are reconciled with the 1992 program.

Also affected will be industries that supply inputs to agriculture such as fertilizer, farm machinery, pesticide, and herbicide producers. These industries could lower costs to farmers both because of the harmonization of standards, scale economies, and a more competitive environment.

The free movement of people could also have an impact on farm costs. Farm labor is a significant cost item for many EC farms. Farm data from 1985 show that around 16 percent of farm labor was performed by non-family members in 1985 (EC Commission). Farm wages could be affected if farm laborers are allowed to circulate freely in the EC because of the 1992 initiative.

From a theoretical perspective, the short-term effects of a more competitive environment in the agribusiness sector should result in lower farm costs. However, the integration process is not sufficiently established and the technical details are not yet available to ascertain quantitative effects at this time.

Long-term Effects Are Theoretical

Theoretically, abolition of MCAs and introduction of transferable quotas would lead to concentration of production in areas with lowest costs. Abolition of MCAs should lead to more common prices in the EC which would favor more efficient producers. Transferability of quotas should also have the same effect because least-cost producers could bid higher prices for quota than high-cost producers.

France has traditionally been the agricultural power in the Community and would appear the most likely to gain from an agricultural policy that operated more on the principle of comparative advantage. The CAP has allowed comparative advantage to dictate farm production in the EC but only to the extent that it was politically acceptable. Further extension of the principle of comparative advantage would be particularly significant for grain production in France. Milk production would also be affected and France and the Netherlands would likely benefit from transferable dairy quotas (Gardner).

The 1992 program also has a strong environmental component in the single European act which is directed at agriculture. Strong pressure from environmental groups helps to provide the political rationale to provide some farmers with decoupled payments.

The Demand and Employment Side Is Also Promising

Most of the attention in agriculture has been directed at the possible effects on production when it is clear that a successful 1992 program could boost food consumption. If disposable income rises to the extent predicted, both because of growth in GDP and a decline in prices due to 1992, then increased food consumption would alleviate some of the surplus production of grain and meat that are exported.

The growth in employment brought about by 1992 should attract some of the marginal farmers into the non-agricultural labor force. This should result in fewer farmers and higher farm incomes. More part-time farming should also result as more jobs are created, further relieving the farm income problem.

Consequences for World Trade Should Be Positive, Theoretically

The theoretical effects of the single market, and the proposed modifications and restrictions on future CAP support mechanisms reinforced by 1992 initiatives, should result in lower exports of surplus EC agricultural products in the long term. The principal reasons for this conclusion derive from the following considerations:

- o Lower intervention prices and a weaker intervention system due to elimination or modification of MCAs.
- o Fewer EC surpluses because of increased food demand;
- o Less CAP budget pressure to increase farm incomes because of lower farm input costs; and
- o Fewer EC farmers, particularly marginal ones that need high prices to survive, because of increased employment.

A successful 1992 program would also take the pressure off the CAP as the only example of a common market in the EC. Many economic sectors stand to gain from the program and to that extent a countervailing force could emerge to oppose agricultural lobbying efforts to stymie implementation of the full 1992 program.

The EC Political and Institutional Framework

The key players in the 1992 program as it relates to agriculture are West Germany, France, the U.K., and the governing bodies of the EC. Of the three countries, West Germany has the pivotal position for the following reasons:

- o economic, as it stands the most to gain economically from the 1992 program and its economy is the strongest;
- o agricultural, as it requires high prices in the CAP to provide its poorly structured farm sector with sufficient income;
- o financial, as it is by far the largest net contributor to the CAP; and
- o political, as its coalition government is vulnerable to a consolidated farm vote.

These four factors will continue to focus close attention on developments in West Germany.

France is the agricultural power in the EC and stands to gain from a liberalization of agricultural policy in the CAP. A return to comparative advantage would favor French agriculture and the French are strong supporters of greater political as well as economic integration. The combination of France and West Germany in favor of the creation of a single currency makes that possibility much more plausible.

The U.K. is a key player by virtue of the fact that Margaret Thatcher, the prime minister, is opposed to relinquishing any sovereign powers to the bureaucrats in Brussels. While Mrs. Thatcher favors the economic liberalization aspects of Europe 1992, she adamantly opposes creation of a single currency or any other development that would affect national sovereignty. Her opposition has served to coalesce other EC factions also opposed to aspects of the 1992 program that are perceived to increase bureaucratic power in Brussels. More recently, the UK looks to be increasingly isolated as the Paris-Bonn axis flexes its political and economic muscle in the monetary and social dimensions of the 1992 program.

The Single European Act Affects EC Politics

The political landscape in the EC has changed because of the 1988 agreements at the Brussels summit. The EC Commission has gained greater power at the expense of the Council of Ministers and it is the Commission which has the greatest political and institutional ability to introduce change. The European Council, composed of the 12 heads of state of the EC member states, has also been given a more formal role to outline broad policy directions. This elected political body represents much more than just agriculture and can dictate the directions that EC policy must take.

In addition, there are environmental provisions in the Single European Act which provide the rationale to furnish farmers with direct income transfers. The EC body politic is very sensitive to environmental issues and there is opposition to intensive farming methods in this respect. An extensification scheme is in the planning stages, a set-aside program has already been legislated, and a program of direct aid to farmers has also been implemented. These programs point to future political ground for decoupled payments. The key will be to convince farmers to accept these payments, particularly in West Germany, without producing an excessive surplus of agricultural products.

Conclusions

The EC's program to complete its internal market has generated considerable debate and has already prompted numerous internal mergers, as well as third country mergers with EC companies, in preparation for 1992. EC officials and most member state leaders agree that 1992 represents a necessary step to revitalize the EC economy and ensure its place in world markets and international political affairs.

To many EC officials, the impacts on agriculture appear to be of a secondary nature in the overall scheme of 1992 because agriculture is assumed to already have a common market. However, there appear to be a number of consequences for the CAP that flow from a successful 1992 program. The outcome for agriculture after 1992, as well as for other economic sectors, is far from certain at this point, but short-term effects for the EC's food and agribusiness sector will have indirect effects on agriculture. Long-term effects would result from a movement to an EC agriculture more based on comparative advantage. The need to abolish MCAs should tend to reinforce the moves towards changes in the EC's agricultural policy.

The overall impact of 1992 for world agricultural trade should be positive. Harmonization of EC standards and regulations should facilitate import access to the 320 million-strong EC consumer market. CAP policy changes, either dictated or reinforced by 1992 incentives, should result in lower CAP-subsidized exports.

The political problems facing the 1992 project are formidable, particularly sovereignty over national monetary affairs. Nevertheless, the impact of 1992 has already been felt in many sectors, including agriculture, and commitment to the goals of 1992 have been matched by EC legislative action. Attainment of these goals may determine to a great extent the speed and depth of changes in the CAP. Very few believe that an internal EC market without borders can be accomplished by the end of 1992, but few doubt that it will be done in this century. And that is an accomplishment by itself.

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Appendix

The EC Commission, the EC Agriculture Council, the European Parliament, and the EC Court of Justice.

The EC Commission proposes legislation, implements EC policy, and enforces EC treaties. It has investigative powers, and can take legal action against companies or member states that violate EC rules. The commission manages the EC budget and represents the EC in trade negotiations. There are 17 EC commissioners-two each from France, W. Germany, Italy, Spain, and the UK, and one each from the other member states. They are appointed by unanimous agreement among the EC member states, serve for 4 years, and can have consecutive terms. The commissioners act in the EC's interest independently of national interest. The Commission's staff numbers about 11,000. The current EC Commission President is Jacques DeLors, a former French finance minister.

The EC Commission is not to be confused with the EC Agriculture Council or other EC councils composed of other ministers. The EC Agriculture Council is composed of the 12 ministers of agriculture from the member states, acts on Commission proposals, and is the final EC decision making body in agriculture. The presidency of the council rotates among member states every 6 months. A very important reform which was enacted to make 1992 legislation possible in the council provides for majority voting in certain areas that previously required unanimity. A useful phrase to distinguish between the two bodies is " The commission proposes and the council disposes".

Voting in the EC Council

EC member states have the following votes--France, West Germany, Italy, and the U.K. have 10 votes, Spain has 8, Belgium, Greece, the Netherlands, and Portugal have 5, Denmark and Ireland have 3, and Luxembourg has 2 for a total of 76 votes. A qualified majority requires 54 votes and a blocking minority requires 23 votes.

The European Parliament is the EC's only directly elected body and has 518 members who are elected every 5 years. Its members debate issues, question the commission and council, review the budget and propose amendments, and have final budget approval. It does not legislate but has been given greater power by the 1992 Program to influence certain council decisions.

The EC Court of Justice is the EC's "Supreme Court." It interprets EC law for national courts and rules on matters pertaining to EC treaties raised by EC institutions, member states, or individuals. Its rulings are binding. The court is comprised of 13 judges appointed for 6 years by mutual consent of the member states. The court is helping create a body of EC law affecting the daily lives of EC citizens and has been particularly important in making judgments where EC law and national laws conflict. It has consistently ruled in favor of EC law, thus paving the way for 1992 harmonization.

Table A-1. Macroeconomic consequences of completion of the internal market 1/

	Frontier controls	Public procurement	Financial services	Supply effects
Relative change (%)				
GDP	0.4	0.5	1.5	2.1
Consumer prices	-1.0	-1.4	-1.4	-2.3
Absolute changes				
Employment (million)	200.0	350.0	400.0	850.0
Budget balance (percent of GDP)	0.2	0.3	1.1	0.6
External balance as (percent of GDP)	0.2	0.1	0.3	0.4

1/ Community as a whole in the medium term

Source: Cecchini, Paolo. 1992: The Benefits of a Single Market. Commission of the European Communities. Luxembourg, 1988.

Table A-2. Estimates of the economic gains from completing the internal market

	Billion ECU Variants 1/		% GDP Variants	
	A	B	A	B
Stage 1 Cost of barriers affecting trade only	8	9	0.2	0.3
Stage 2 Cost of barriers affecting all production	57	71	2.0	2.4
(a) Total direct costs of barriers	65	80	2.2	2.7
Stage 3 Economies of scale from restructing and increased production	60	61	2.0	2.1
Stage 4 Completion effects on X-inefficiency and monopoly rents	46	46	1.6	1.6
Total market integration effects 2/				
(b) Variant I (sum of stages 3 & 4 above)	106	107	3.6	3.7
(c) Variant II (alternative measure for stages 3 & 4)	62	62	2.1	2.1
Total of costs of barriers and market integration effects 2/				
Variant I = (a) + (b)	171	187	5.8	6.4
Variant II = (a) + (c)	127	142	4.3	4.8

1/ Variants A & B relate to the use of alternative primary sources of information introduced in the calculations in stage 1 and 2.
2/ Variants I and II relate to different approaches to evaluating competitivity effects.

Source: MAC. "The Economics of 1992", European Economy, No. 35, Mar. 1988.

Table A-3. Non-tariff barriers in food processing

	Number of barriers recorded	% of total
Specific import restrictions	64	29.4
Labeling/packaging laws	68	31.2
Ban on specific ingredients	33	15.1
Rules governing product description and their contents	39	17.9
Tax discrimination	14	6.4
Total	218	100.0

Source: MAC. "The Economics of 1992", European Economy, No. 35, Mar. 1988.

Table A-4. Examples of non-tariff barriers in food processing

Barriers	Countries
Purity law on beer	Germany, Greece
Purity law on pasta	Italy, France, Greece
Aspartame	France, Belgium, Spain
Vegetable fat-chocolate	all except UK, Denmark, Ireland
Vegetable fat-ice cream	Germany, France, Greece Luxembourg
Recycling of containers	Denmark
"Wort" tax on beer	U.K., Belgium, Ireland, Netherlands, Luxembourg
Health regulations	Spain
Bulk transport	all except UK, Netherlands
Saccharine	Italy, Spain, Greece
Chlorine	UK, Ireland
Labeling	Spain
"German" water	Germany
Plastic containers	Italy
Double inspection	Spain

Source: MAC. "The Economics of 1992", European Economy, No. 35, Mar. 1988.

Table A-5. Economic effects of the removal of non-tariff barriers in food processing

Barriers	Countries concerned	Direct benefit	Increase competition	Indirect restructuring	Increased trade	Total benefit
		Million ECU per year		Million ECU per year		Million ECU per year
Purity law on beer	D,GR	15 to 20	M	L (90 to 215)	+5%	105-235
Purity law on pasta	I,F,GR	35-100	M	M	M	35-100
Aspartame	F,B,E	0-10	S	S	S	0-10
Vegetable fat-chocolate	all except UK,DK,IRL	190-235	M	S	S	190-235
Vegetable fat-ice cream	D,F,GR,LX	75-100	M	M	S	75-100
Recycling of container	D	<1	L	M	5%	<1
'Wort' tax on beer	UK,B,IRL,NL,LX					
Health regulations	E	<1	S	S	S	<1
Bulk transport	all except UK,NL	<1	S	S	M	<1
Saccharine	I,E,GR	20-45	M	S	M	20-45
Chlorine	UK,IRL	<1	M	S	M	<1
Labeling	E	<5	S	S	S	<5
"German" water	D	<1	M	M	L (+2 to 3%)	<1
Plastic containers	I	15-50	M	M	+5%	15-50
Double inspection	E	<1	M	L	S	<1
Other (200 barriers)	all countries	0 to 200	S	S	S/M	0 to 200
Total		350-775	M	S/M	M	440 TO 975

L = large; M = moderate; S = slight.
B= Belgium; DK = Denmark; D= Germany; GR= Greece; E= Spain; F= France; IRL= Ireland; I= Italy; LX= Luxembourg; NL= Netherlands; UK= United Kingdon.

Source: MAC. "The Economics of 1992", <u>European Economy</u>, No. 35, Mar. 1988.

Table A-6. Rates of VAT in the EC applicable on April 1, 1987

	Lower	Standard Percentage	High
Belgium	1, 6	17, 19	25, 23
Denmark	-	22	-
Germany	7	14	-
Greece	6	18	36
Spain	6	12	33
France	2.1, 4.5, 5, 7	18.6	33.3
Ireland	2.4, 10	25	-
Italy	2, 9	18	38
Luxembourg	3, 6	12	-
Netherlands	6	20	-
Portugal	8	16	30
United Kingdom	0	15	-

Source: Agra Europe, Ltd. 1992: The Implications for the Agrifood Industry. Special Report No. 48, London. Jan. 1989.

Table A-7. Excise duty rates as of April 1, 1987 and proposals for harmonization

	Pure alcohol	Wine	Beer	Cigarettes	Fuel
	ECU -----per hectaliter----			ECU per 1000	Ecu per 1000 liters
Belgium	1252	33	10	2.5	261
Denmark	3499	157	56	77.5	473
Germany	1174	20	7	27.3	256
Greece	48	0	10	0.6	349
Spain	309	0	3	0.7	254
France	1149	3	3	1.3	369
Ireland	2722	279	82	48.9	362
Italy	230	0	17	1.8	557
Luxembourg	842	13	5	1.7	209
Netherlands	1298	33	20	26.0	340
Portugal	248	0	9	2.2	352
UK	2483	154	49	42.8	271
Rates proposed	1271	17	17	19.5	340

Source: MAC. "The Economics of 1992", European Economy, No. 35, Mar. 1988.

Table A-8. EC agricultural support prices: change from previous years

Year	ECUs	National Currencies
1980/81	4.8	5.7
1981/82	9.2	10.9
1982/83	10.4	12.2
1983/84	4.2	6.9
1984/85	-0.5	3.3
1985/86	0.1	1.8
1986/87	-0.3	2.2
1987/88	-0.2	3.3
1988/89	-0.1	1.6
1989/90	-0.1	1.3

Source: Commission of the European Communities, The Agricultural Situation in the Community, various issues.