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# EVOLUTION AND TRENDS OF THE EUROPEAN COMMON AGRICULTURAL POLICY

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There are two important political forces influencing the direction of the European Community's Common Agricultural Policy in the late 1980s. These forces are a balanced and well-phased reduction in government support for agriculture which has to be foreseen as a result of the current GATT/Uruguay-Round of trade negotiations and the creation of a single European market planned for 1992. Thus, a proper understanding of the irreversible process of European integration calls for an assessment of the road that has been traveled since the Treaty of Rome was drawn up in 1957 when the first steps towards integration were taken.

Since the beginning of this century, the nations of Europe have faced one another in several bloody conflicts, accelerating the decline of the Old Continent. In the 1980s, scarcely more than 40 years after the end of World War II, none could conceive of the same conflicts happening again. The full significance of this peaceful integration of the economies of Western Europe - however incomplete it may be - is a phenomenon of extreme importance for the world economy. This event is far more valuable than all the costs of the Community's policies, which are very often cited as being counterproductive.

Progress along the road to European economic integration - now a historically irreversible fact - has been slow and gradual, beset by institutional crises, caused by immense conflicts of interests. These conflicts have resulted in successive adjustments necessitated by world economic trends, by technological progress and by the very success of the Community itself, which has grown, through three successive enlargements, from six members to twelve.

## SUPPORT FOR THE AGRICULTURAL SECTOR

Agriculture is a cornerstone of European economic integration. A large component of the population directly or indirectly earn their living from agriculture and the agri-food industry. Moreover, agriculture is important to the commercial, financial and political sectors, and is the foundation for trade in commodities and processed products at both the European and world level. The creation of a European Community (EC) would have been inconceivable had it not included such an essential sector as agriculture. It was clear from the beginning of economic

integration, that for some states, the opening of their frontiers to industrial products from the other countries was conditioned upon their access to markets for their agricultural products in those same countries.

In the late 1980s, criticism of the Common Agricultural Policy (CAP) far outweighs the positive views on the results that have been achieved. It would be pointless - and, above all, counter to the Community's interest - to underestimate the difficulties that have been overcome. Overall, the CAP represents an essential part of the Community venture, and in many cases it has determined its legal and institutional development.

The CAP was not a radical departure from what existed prior to 1957. A policy of protection and support for agricultural production was in force in most European countries well before the Treaty of Rome was signed. When the idea of creating a European economic community arose, the preparation of suitable and effective legal instruments immediately ran into considerable difficulties. The elimination of obstacles to trade across frontiers was of lesser concern than the replacement of national support arrangements for agriculture by Community policies, administered by Community institutions. The production structures of the original six Member States, together with their traditional economic policies, led to the existence of independent systems of agriculture support. These conflicted with one another with considerable differences in price levels for many commodities.

Since its inception, the Community has assumed responsibility for developing agriculture. The two main concerns of the Member States were ensuring adequate supplies of important products, and improving the economic conditions for agriculture by narrowing the discrepancy in development and incomes compared with other sectors of the economy. These are the key elements of CAP policy and they must be considered in any negotiations involving Community agriculture.

The CAP is the main, if not the only, common policy which the European Economic Community has actually activated. A single market for agricultural products was already a reality by the early 1960s. It is important to emphasize that the CAP, with all the necessary legal structures, has played a key

role in crystallizing progress towards integration by creating an irreversible momentum. The whole of the Community's development is due largely to the unstoppable momentum provided by the CAP. This was the core of the integration process. Moreover, the CAP has grown steadily stronger despite economic crises and monetary adjustments caused by the collapse of the fixed currency exchange systems.

The achievement of a customs union and common agricultural policy represented the fulfillment of the European Community's basic agreement. The opening of frontiers to their industrial products was essential for some countries, while for others it was essential for their agricultural products.

A series of decisions in 1962 heralded the three essential principles on which the Common Agricultural Policy was founded: a single market, based on a system of "common prices," Community preference, guaranteed by "entry prices and import levies" and "financial solidarity," based on a fund managed by the European Commission. These three principles became the rules of the CAP for the purpose of achieving the objectives laid down in the Treaty of Rome (1). In the late 1980s, these principles have been supplemented by the policies of "production threshold" and "producer co-responsibility" which were designed to curb agricultural surpluses. This goal has become the Community's top priority.

The bases of the CAP are the mechanisms guaranteeing prices by means of intervention policies and various forms of import protection. These mechanisms have ensured the attainment of the objectives of Article 39 of the Treaty and contributed to income support for European farmers. The basic model of the CAP is self-contained and above all geared to the original objectives and functions of that policy. However, its practical application has encountered problems.

The "original sin" of the CAP was that commodity prices were set too high compared with those on the world market. This mistake resulted from Germany's historical persistence in seeking to support its own farmers' incomes by commodity price policy to keep agricultural incomes on par with those of industrial workers. After successive reevaluations of the German Mark and the Dutch Guilder, it was decided that German farmers should be guaranteed a steady level of income as expressed in their national currency. This gradually led to the accumulation of huge surpluses with a consequent uncontrollable rise in agricultural expenditure. Thus, it was necessary to introduce a complex system of Monetary Compensatory Amounts (MCAs). As these policies have continued for a long period of time, they have created distortions in competition, and aggravate the tensions in the development of the CAP. The elimination of Monetary Compensatory Amounts has led to substantial additional increases of

agricultural prices expressed in national currencies in the other Member Countries with the exception of the Netherlands.

The result of fixing prices that are out of step with the market has been over-production. The cost of over production is borne not by the farmers, who enjoyed the benefit of guaranteed withdrawal of their surplus products from the market, but by the general budget of the European Community (EC). Over-production, notoriously referred to as mountains of butter, fruits and vegetables and lakes of wine also entails high storage and disposal costs. Surpluses can be marketed only by means of exceptional sales. In the case of perishables, withdrawal from the market is the only recourse. The cost of these withdrawal operations is the main reason why the CAP has become a subject to internal criticism and public debate. However, it would be unfair to dismiss the policy wholesale on account of its shortcomings, or to challenge the meaning and goals of European unification as a whole. The problems of the CAP stem less from the system itself than from the ways in which it has been implemented.

#### REFORMS IN THE COMMON AGRICULTURAL POLICY

Reforms in the CAP are needed and efforts to achieve them have indeed been under way for several years. The objective of these reforms is to allow the market to play a bigger role in production decisions. However a market approach to production and income support decisions is complicated by the different agricultural structures that exist in the Community. These range from the highly productive agriculture of Denmark and the Netherlands to the extremely poor farmers of Greece and Portugal.

Since 1976, the Community has endeavored to curb growth in agricultural output. However, the measures taken so far have proved insufficient to solve the problem of the imbalance between the supply of and demand for agricultural products. The combination of spectacular growth in productivity, in consort with stable consumption of agricultural products, has made many European Countries self-sufficient, which had previously suffered from chronic shortages.

In 1983, the Community introduced the principle of "guarantee thresholds," i.e. production levels, beyond which the Community is required to adopt effective measures to correct the trend in over production. The most effective measure would naturally be to reduce prices, however the unpopularity of such a move with farmers in all countries alike can easily be understood. Instead "co-responsibility" mechanisms were introduced whereby farmers can be made to contribute to the costs of disposing of the surpluses they produce. However, this instrument has so far been used somewhat cautiously, since in practice, the farming world has regarded it as identical to price cuts.

The need for remedying budgetary costs of the CAP's surplus disposal led the Community to take actions to restore market equilibrium. The introduction of production quotas, lower guaranteed prices and limits on intervention purchases required some adjustments. Due to the wide range in size of farms, the CAP provided compensatory subsidies for small producers, thereby continuing the policy of production quotas, which had been followed in the milk sector since 1984.

#### NEW DEVELOPMENT IN COMMUNITY AGRICULTURAL POLICY

The Uruguay Round of the GATT stimulated reforms in agricultural support policies. An extraordinary meeting of the European Council in Brussels in February 1988 resulted in the introduction of "agricultural stabilizers" for cereals, oilseeds and protein products, sugar, milk, fruit and vegetables, tobacco, sheepmeat and goatmeat, and wine. Stabilizers are designed to control the growth of agricultural production in an environment of rising output and to contain budgetary expenditure. They represent a coherent set of innovations and adjustments to policies that have been in force for some time.

Agricultural stabilizer mechanisms include annual guarantee thresholds, i.e. maximum quantities for each product with guaranteed intervention fixed in advance. Overshooting the threshold triggers application of penalties in the form of co-responsibility levies, price reductions and suspension of the intervention mechanisms. The price cuts are automatically applied to the entire production, not just on the excess.

The USA's "set aside program," inspired the introduction of agricultural stabilizers for the various market organizations in the EC. The objective of these stabilizer mechanisms is the reduction in the supply of agricultural products by providing incentives for the withdrawal of land from production. Land withdrawn can be left fallow, forested or used for non-agricultural purposes.

Measures were also adopted to foster "extensification," the switch to less intensive farming methods which are in line with the needs of environmental protection. Other measures were taken to encourage elderly farmers to leave farming (early retirement). Thus, the aim of modernizing Community agriculture was reaffirmed. The CAP has also decided to promote, as far as possible, the conversion of land to non-surplus crop production. At the same time, the budgetary discipline specified that the growth of agricultural expenditure must not exceed 74% of the annual growth rate of the Community's Gross National Product.

These decisions are encouraging and have led to positive results. The surplus of butter and milk powder has disappeared. With the American drought in 1988, the beef surplus

declined leading to a budget savings of 1.5 billion European Community Units (ECU). For the first time since the 1960's, farm spending has been reduced in absolute terms and has dropped below 60% of the total EC budget. This conforms to terms of the 1989 European budget adopted by the European parliament on December 15, 1988.

The support price for wheat was reduced 25% between 1984 and 1987 and an additional reduction of 3% has to be applied to the 1988-89 harvest. This was necessary as the ceiling of 160 million tons was exceeded by 2.5 million tons in 1988. Under similar circumstances, reductions in support prices are already established for sunflowers (19.8%), soya (10.35%), rapeseed (7.65%), and protein plants (9%) in the 1988-89 crop year. These trends represent only the beginning of a long process of agricultural price support reform. The reform of the EC beef regime is now under discussion. Many years will pass before European agriculture becomes profitable at world market prices. It is, however, impossible for the European Community to foresee a total dismantling of the price support system. That would mean the abolition of the CAP which has with much difficulty, been the foundation on which the EEC has built economic integration.

The CAP, despite its faults and weaknesses, is the driving force behind the process of integration. It is the only policy with direct economic effects for the people of Europe which has been devised and administered jointly. As to its costs, had not these costs been assumed by the Community, each Member State would have had to support its own agriculture, probably with far higher costs. To date every crisis has been overcome and, it can be asserted that the Community has emerged strengthened from these trials.

With the target of the 1992 single market, it might be asserted that the CAP no longer carries the chief weight of the European venture. Rather, some may view the CAP as an obstacle to progress in view of its costs and the conflicts of interest which it generates. But it is precisely through the resolution of the practical problems raised by this policy - and in particular through the defeat of any attempt at renationalization - that 1992's objectives can be achieved.

#### IMPLICATIONS OF POLICY CHANGES IN EUROPE

In the best interests of the European Community it is absolutely necessary to take into account the social consequences of any CAP reforms. Abolishing farm income support would have a far harsher impact and a more profound political implication on the Community, with 11 million farmers, than the United States with only 2.5 million farmers. If a final end to subsidies were to be imposed under international pressure, agriculture in the European Community would be vulnerable to the fluctuations in the world market. This

exposure to world market instability would consequently raise political, social and financial problems which Europe would have difficulties overcoming. All European integration would be in danger.

In view of the global interdependency of all economic systems, there is a risk that any endeavors to further rationalize the CAP will be thwarted by unforeseeable developments in the economic structures of the rest of the world. In particular, unbridled ambitions of other rich nations to win and maintain world market shares would threaten European agriculture. Nearly all of the industrialized countries and many developing countries are potential producers of surpluses. Moreover, underdeveloped countries with food deficits are unable to pay for needed imports at commercial rates. Thus, exporters depend upon subsidies to sell in the world market. Prices for the major internationally traded agricultural commodities reflect the prices at which the surplus-producing countries are prepared to dispose of those products.

#### CONCLUSIONS AND IMPLICATIONS

The European Community must employ its large market and use its trading power to defuse East/West and North/South tensions. This will help to ensure that, in a context of harmonious and peaceful economic development of all the peoples of the world, hunger and underdevelopment may finally be eradicated. The series of measures adopted since 1984 under the Common Agricultural Policy to curb and rationalize production can be fully effective only if other major world producers of agricultural products apply matching discipline. This will require a closer international cooperation.

In the immediate future, it is extremely important for the Community to ensure that there is international recognition, particularly in the Uruguay Round of GATT, of the efforts and sacrifices that are being made in the EC in controlling surplus production. Reforms in CAP policies must not be viewed as opportunities for other industrialized countries to increase their exports to the EC, or to increase their share of the world market by subsidizing the export of their surpluses.

Leaders in the European Community are disturbed about the USA position. Although the USA has proposed, somewhat unrealistically, total elimination of subsidies; in practice, it moves in precisely the opposite direction and expands both subsidization and production.

In the interests of the Community and its citizens, it will therefore be suitable to pursue consistently and cautiously the policy of moderate agricultural growth. Emphasis will be placed on product quality rather than quantity. In the longer run, it is preferable to face the difficulties arising from agricultural surpluses than to have to deal

with the problem of food shortages as was the case during World War II.

It is clear today, as it was when the Treaty of Rome was drafted, that it is necessary to seek convergence between agricultural and industrial interests in international negotiations. Achieving the EC's objective of a Large Single Market in 1992 will depend on the ability to produce balanced economic and political packages. In practical application this can be accomplished during the permanent negotiations which have become a regular feature of Community and international life.

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#### NOTES

(1) The objectives set out specifically in Article 39 are:

- (a) To increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilization of the factors of production, in particular labour;
- (b) Thus, to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture;
- (c) To stabilize markets;
- (d) To assure the availability of supplies; and
- (e) To ensure that supplies reach consumers at reasonable prices.