EC Agricultural Policy in 1991-92: CAP Reform Constrained by GATT Negotiations

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The article reviews recent developments in European Community (EC) agricultural markets and in the Common Agricultural Policy (CAP). In particular, the process of shaping CAP reform is extensively documented and commented on. It is seen as a means not so much to comply with national economic and external political requirements, but rather to continue agricultural protection for internal political reasons and to attempt to impose the Community's new position on the ongoing General Agreement on Tariffs and Trade (GATT) negotiation of the Uruguay Round. With regard to the latter, attention is paid to the GATT questionnaire (Dunkel paper) and to the EC's response. Finally, new developments in the process of European integration (Single Market, EC enlargement, European Monetary Union) are summarized in view of some broad impacts on EC agriculture and food industries.

1. Introductory Comments

The agricultural situation in the Community in 1991 was, for the second consecutive year, marked by the deterioration of markets and a sharp build-up of agricultural stocks and budgetary expenditure. Particularly pressing remained the situation for cereals, milk and beef. While the Commission may have hoped that these large and increasing problems would be solved by a thorough reform of the CAP and a positive end of the GATT Round, the Council of Farm Ministers did not make sufficient and rapid enough progress in its arduous negotiations.

All through 1991, the Council kept arguing that CAP reform and GATT negotiations were completely unrelated matters and that there was, in particular, no real pressure upon the Council with regard to shaping the future CAP. Indeed, the farm ministers seemed determined to wait for a GATT agreement which approached their own intransigent position before they were willing to take up discussion of the reform package. When Portugal routinely took over EC Presidency for its six months term, the Council surprisingly changed tactics. Now the farm ministers seemed afraid to accomplish the CAP reform early in order to later impose their own soft decision as the Community's ultimate negotiating position on all the other participants in the Uruguay Round - and to get off lightly. Whether or not this tactic will work out, remains to be seen. Initial negative reactions suggest that the ministers may miss their goal by having diluted the reform too much and, consequently, having offered their GATT partners too little.

With further progress being made towards further European integration, EC agriculture and food industries will experience changing conditions during the next months and years. The Single Market will revive competition, new members joining the Community will make their impact on common policies and newly associated Central European countries will claim fair shares in EC markets. The most important move towards increased integration, however, will prove to be the European Monetary Union (EMU) which was agreed to be established by the end of the century. Even before the EMU comes into being it will progressively influence fundamental economic developments in the member states. Later on it will represent that state of economic and monetary integration which was so desperately needed for operating a CAP based on uniform prices but which seems to be less urgent

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[2] The following average exchange rates may be used for conversion of ECU prices and monetary amounts mentioned in this article (units of national currency per ECU). The value of the ECU used in the CAP ("green" ECU) is however higher than is indicated by the real exchange rates. The "central rate conversion factor" is the appropriate multiplier for making necessary corrections.

	$Aus	$-US	DM	factor
1988	1.62	1.18	2.07	1.1373
1989	1.39	1.10	2.07	1.1373
1990	1.63	1.27	2.05	1.1449
1991	1.63	1.24	2.05	1.1451
April, 1992	1.63	1.24	2.05	1.1451

for the sector once agricultural support is built on direct payments.

2. Agricultural Markets and Related Policy Measures

With the discussion of GATT and CAP reform absorbing so much energy of EC and national agricultural administrations, the 1992/93 farm price package was continually delayed. While in January 1992 the EC Farm Commissioner maintained that he would "have no choice but to propose a price package involving price cuts and volume controls, without compensation" unless the CAP reform was agreed upon, it seemed rather that he would not risk a political backlash at a delicate stage in the GATT and CAP reform discussion. Early reports on the likely content of the 1992/93 farm price package (AEL 28.2.1992) suggested that, in the light of a pending GATT agreement and in order not to preempt any possible CAP reform the Commission would probably propose a "rollover" of the 1991/92 prices to the next year. So it finally did (AEL 20.3.1992).

Nevertheless, even if this proposal was a relatively neutral one it implied at least a clear reduction of cereal prices which, by virtue of the stabilizer mechanism, would be 6 per cent lower than in 1991/92 (3 per cent price cut plus re-established 3 per cent *supplementary* co-responsibility levy (CRL)) - on the assumption that the *basic* co-responsibility levy was maintained at 5 per cent as applied in 1991/92. With the basic CRL being part of the annual price-fixing process there seemed, however, to be some flexibility on the Council's side to decide on any price reduction between 1 and 6 per cent by simply changing the rate of the basic CRL.

While Denmark and the Netherlands as well as the new British government were thought to support the Commission's proposal it was the German farm minister, in particular, who had repeatedly made clear, that he was opposed to any uncompensated price reduction. Although he would accept the stabilizer cut he was expected to get French support when he called for either withdrawing (part of) the basic CRL or (preferably) advancing the decision on CAP reform which in its first year would imply a similar but compensated price cut.

The European Parliament's opinion on the Commission's price proposal, which was needed before the Council could take the final decision (although the European Parliament has little influence on it), had been in favour of the original package, subject to converting the 5 per cent basic CRL to 3.5 per cent and the 3 per cent supplementary CRL to 1.5 per cent. The aggregate CRL would remain at 5 per cent and be reimbursed to participants in the set-aside programme. Moreover, the Parliament voted for applying the same CRLs to imported cereals and products. With regard to milk, the Parliament again wanted to scrap the remaining dairy co-responsibility levy and to maintain the suckler cow aid at the level of 50 ECU/head (instead of 40 ECU). Although the vote was strongly criticized by Agriculture Commissioner MacSharry, it cleared the way at an early stage of the price fixing procedure for its regular continuation. A formal price decision was taken only after the Council had agreed on the CAP reform (*cf.* section 3.3).

2.1 Cereals

EC cereals production which in 1990 had dipped just below the 160m tonnes maximum guarantee quantity (MGQ) resumed its former expansionary trend in 1991 and reached some 168m tonnes. Adding the almost 12m tonnes harvested in the five new Länder of Germany (the cereals crop from the former GDR-territory is not counted against the MGQ) EC producers harvested about 179m tonnes or more than 40m tonnes in excess of internal demand (*cf.* Table 1). Thus, even with a further reduction of grain imports and increased storage, some 36m tonnes were apparently available for export.

Renewed growth in EC cereals production frustrated all those who in 1990 had seen early effects of skilful supply management through cautious price reductions and newly offered set-aside programs. Although these measures certainly had some effect, their impact was outweighed by rising yields and shifts in the area devoted to higher yielding grains (wheat and maize at the expense of rye and oats). With regard to 1990-91, variability in the area planted had been especially marked

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

Item	1988/89 (A)	1989/90 (A)	1990/91 (A) p	1990/91 (B) p	1991/92 (B) e
Area harvested (1000 ha)	34,952	34,945	33,479	35,902	35,906
Production (1000 t)	163,959	161,461	158,389	168,789	178,900
Beginning stocks	30,769	31,221	30,951	32,000	35,862
Imports	6,249	5,776	5,600	5,899	5,000
Exports	34,994	33,875	29,200	30,624	34,000
Domestic consumption (1000 t)	134,762	133,632	130,600	140,202	139,500
of which feed	81,190	79,375	75,300	80,814	79,500

(A) EC-12 excluding East Germany; (B) EC-12 including the five new Länder of Germany;
p = preliminary; e = estimated.
Sources: Agrarbericht (1992, p. 103); Agrarwirtschaft (1991, p. 395).

since France, Spain and Portugal switched back to growing cereals after bad weather had impeded planting of winter grains (autumn 1989). These three countries alone increased their grain area by 460,000 hectares (after a 1m hectares decrease in 1990).

Although wheat production expanded mainly in the lower yielding Mediterranean countries, the problem of surplus was not less pressing. Since the bulk of the additional wheat output was in durum, both the financial and the export situation were particularly hit. The EC budget was stressed not only by the high level of the durum intervention price (227.70 ECU/t as against 168.55 ECU/t applied to common wheat) but also by the acreage payments (181.88 ECU/ha) which in the traditional durum growing (Mediterranean) regions of the Community are paid as a compensation for lower yield levels. Moreover, the 10.7m tonnes of durum wheat (against 7.4m tonnes in 1990) far exceeded the quantity salable within the Community and therefore posed an additional problem of export disposal.

Maize which after wheat and barley is the third most important cereal crop in the Community regained its "normal" production area of almost 4m hectares in 1991 and yielded some 26m tonnes. The increased crop (3.5m tonnes more than in the previous year) was, however, seen to "alleviate" the EC feed grain market where rising prices had already caused maize imports to rise and wheat to replace feed grains.

Apart from these and some other minor effects there are, however, no signs of a more balanced overall supply situation in the EC cereals market. The temporary shortfall of the 1990 crop did not reduce stocks nor require less budgetary support. EC grain prices are still too high to discourage production or to stimulate consumption. Feed grain consumption is instead further declining because of reduced livestock numbers (a consequence of dairy quotas and stagnating pig production), increased use of pulses (6m tonnes of EC-grown pulses are estimated to displace use of at least 3m tonnes feed grains) and almost unrestricted growth of imports of non grain feeds (18.8m tonnes in 1990, including 7.2m tonnes tapioca, 5.6m tonnes corn gluten feed and 1.9m tonnes citrus pellets).

Moreover, the precarious supply-demand situation is highlighted by the fact that even in 1990/91, when the grain crop was much lower than in the two preceding years, the official intervention bodies faced plentiful supplies. The Commission tried to counteract those intervention offers by favourable export conditions but finally 10m tonnes of cereals had to be bought in while only 3m tonnes could be released from the stocks (1m tonnes for export and 1.6m tonnes for livestock farmers in France and Spain who suffered from drought). Thus, by the end of the crop year (end of June 1991) 18.9m tonnes were in intervention stocks against 11.8m tonnes 12 months earlier. The main supplier of intervention grains continued to be Germany where (contrary to France and the UK) intervention generally provides higher producer prices than export[3]. Germany alone delivered half of EC grain stocks and the German intervention agency issued emergency calls for providing additional store capacity.

The first detailed estimates of the 1992 cereals crop presented by COCERAL, the EC cereals traders' association, run at 176.6m tonnes compared with 180.6m tonnes in 1991 (AEL 15.5.1991). The reduction was mainly due to a 400,000 ha decrease in the area sown to cereals. Yields were expected to be slightly lower (-1 per cent) than in the preceding year. In spite of the 4m tonnes crop shortfall no easing of the marketing situation was expected since the crop forecast would still mean a surplus of 40m tonnes at a time of uncertain export opportunities.

2.2 Oilseeds and Pulses

Favoured by profitable producer prices and a solid increase in productivity as well as in product quality, EC production of oilseeds and pulses experienced a tremendous expansion during the last 10-12 years. The crops of rapeseed (6.4m tonnes in 1991) and sunflowerseed (4.2m tonnes in 1990) now constitute six times the quantities harvested in the late 1970s, and soyabeans has developed from a local experimental crop to a 2m tonnes business (80 per cent in Northern Italy). This expansion, however, is the expression of the economic distortions brought about by the CAP which during the 1980s tried to avoid higher budgetary costs in the cereals sector by giving incentives to so-called deficit crops. Although this evasive action did not finally alleviate the EC Budget - on a per hectare basis the aids for oilseeds and pulses turned out to be more expensive than the subsidies normally required for exporting cereals - the increased protection was not revoked since the quantities produced could at least be used within the Community.

The unbalanced support given to cereals compared to oilseeds and pulses was hardly mitigated when, in 1988, different budget stabilizers were introduced into the market regulations for cereals and for oilseeds (rumours are that the different mechanisms resulted from lack of co-ordination rather than from administrative wisdom). Although in both cases the guarantee prices have to be reduced when the overall crop is declared to have exceeded a predetermined maximum guarantee quantity, there is a cumulative price reduction of at most 3 per cent annually in the cereals sector and a more erratic reduction by half the percentage of the annual production overhang in the oilseed sector. Moreover, the reduction of cereal prices applies to all species and all member countries in a uniform way while in the oilseed sector rapeseed and sunflowerseed are treated separately, as well as oilseed products in Spain, to the rest of the Community.

While the EC farmers always tried to exploit the biased policy for increased incomes, the politicians could not permanently disguise the growing import substitution and the hidden advantage the oil millers derived from processing non-imported oilseeds. The policy bias and its logical side-effects had already been criticized by agricultural economists when the US brought the EC oilseeds regime before the GATT and finally enforced a complete revision of the common organization of the EC market for oilseeds.

Fundamental change of the oilseed regime

The dispute-settlement panel had been established in response to a US complaint against EC payments and subsidies to processors and producers of oilseeds

[3] A number of factors are responsible for this situation. Farm structure and geography play a role. Intervention conditions are often more producer friendly in Germany than elsewhere (minimum off size, maximum moisture content, punctuality of payment). The extensive network of German intervention stores provides for low transportation costs but effectively prevents commodities being exported. Even the state propagated high quality production (high quality and breadmaking wheat instead of standard or feed quality) seems to count on intervention since beyond the small domestic market there is no regular outlet offering comparable prices.

and related animal-feed proteins which - in their view - constituted an unfair incentive to purchase domestic rather than imported oilseeds.

- The US-EC oilseed dispute

The US complaint challenged one of the oldest common market organizations (dating from 1966) which - ironically enough - had always been considered within the Community to be one of the more liberal regimes of the CAP. Because of a concession negotiated and bound by the Community in the 1960-61 Dillon Round of GATT, oilseeds and their meals enter the EC market duty free and unrestricted. EC market prices of these products compare to world prices.

Nevertheless, Community oilseed growers enjoy a protection similar to that granted to producers of cereals. But unlike the protection through market prices supported at high levels (as in the case of cereals) oilseed support is based on a so-called crushing subsidy defined to equal the difference between a calculated world price and the EC target price, the latter being a politically agreed price which should be "fair to producers, account being taken of the need to keep Community production at the required level".

If only for administrative simplicity the aid has always been given to the purchaser (processor or trader) of oilseeds, not to the individual producer. Thus, the subsidy ensured the marketing of all EC-grown oilseeds and enabled the crushers to purchase Community seed and to sell their products in competition with world market supplies while paying the EC oilseed growers a higher price.

The US claimed before the panel that the EC oilseed regime accorded imported oilseeds less favourable treatment than that given to like products of Community origin and that oilmills could derive a higher margin from crushing domestic seeds. The US further claimed that the benefits of the original EC tariff concessions had been impaired by the Community's subsidies, especially after the EC had increased its level of support relative to cereals. The EC denied any violation of GATT rules and refused to acknowledge having impaired bound tariff concessions. In its view, the expectation related to the original concession had been satisfied by the quadrupling of oilseed imports into the EC (from 6.4 to 23m tonnes soya meal equivalent) although EC production of oilseeds rose from 259,000 tonnes to 5.3m tonnes over the same period (1966-88). Moreover, it was argued that the concessions in force were not those agreed to in the Dillon Round but those of 1988 related to the negotiations on the most recent enlargement of the Community.

Following the adoption of a final report of 25 January 1990 the panel stated that

- the calculation of the level of subsidy payments allowed over-compensation of processors for purchasing the domestically produced oilseeds and was, therefore, capable of giving rise to discrimination against imported products contrary to Article III of the GATT - while even the mere risk of such discrimination was to be regarded as discrimination in itself;
- the subsidies provided for by the EC oilseed regime were inconsistent with Article III which does allow subsidies made to producers but rules out subsidies to processors;
- the US complaint of impaired tariff concessions was valid on the grounds that such concessions are negotiated primarily as an assurance of better market access through improved price competition and that they justify the expectation that the price effect of concessions will not be systematically offset - as happened in the case of EC oilseeds;
- the Community's argument that the balance of the Dillon Round concessions had been altered by subsequent GATT negotiations on the extension of the Community from six to twelve members was unfounded.

The panel's conclusion was that the Community should bring its regulations into conformity with the General Agreement and eliminate the impairment of the Community's concessions of zero tariff on oilseeds, but that the GATT contracting parties should take no further action until the Community has had reasonable time to adjust those regulations (*Focus* No. 68, p. 2).

- The Community's new oilseed regime

The Community interpreted the GATT ruling as a need to switch support from oil crushers to oilseed producers. This rather marginal change was, however, combined with aligning the new oilseed regime with some principles of the proposed CAP reform and therefore resulted in a more significant change in the Community's method of support for the sector. In spite of that and of the new regime being agreed upon only after most winter rape had already been planted it will apply to crops harvested in 1992.

Under the new regime (EC regulation 3766/91, *OJEC*, No. L 356, 24.12.91), producers of rapeseed, sunflowerseed and soyabeans will sell at the current market price, which is assumed to be the world price, and will receive (on application) a compensatory payment calculated on the basis of the difference between a guaranteed price level and an estimated world price. For initial calculation of the compensation, an "expected medium-term equilibrium price for oilseeds (soyabeans) on a stabilized world market" - the so-called "Projected Reference Price" - is taken to represent the world price. This Projected Reference Price is provisionally set at 163 ECU/tonne or at about half the former support level[4]. On the basis of that price difference a provisional compensatory payment or "Community Reference Amount" of 384 ECU/ha has been envisaged[5]. The Community Reference Amount will be adjusted (1) according to the development of world oilseed prices in case that they deviate by more than 8 per cent from the Projected Reference Price and (2) according to the regional yield level in relation to the EC average. The regional adjustment may, "at the request of the member state, be derived by a comparison between the regional and the Community average yields for either cereals or oilseeds, subject to the result for the member state being no higher than if they had used exclusively either cereals yields or oilseeds yields". While the yield base for subsidy calculation will be an average of three years - the average of the previous five years with the highest and the lowest excluded - a major exception was agreed to with regard to Spain and Portugal where the otherwise much lower Regional Reference Amount was raised to 292 and 272 ECU/ha, respectively.

Oilseed growers may receive their subsidy in two slices: an initial payment of up to 50 per cent of the expected Regional Reference Amount (multiplied by the verified oilseed area) at the beginning of the growing season and a final instalment making up the difference between the definite Regional Reference Amount as calculated on the basis of the actual or "Observed" Reference Price and the initial payment. Payments can be refused if the seeds used for planting fail to meet certain quality standards.

The former Maximum Guarantee Quantities (MGQ) have been replaced in the new market regulation with Maximum Guaranteed Areas (MGA) for each major oilseed. The MGAs are based on the July 1991 planted areas: 509,000 ha for soyabeans and 2,377,000 ha for rapeseed. For sunflower, the MGAs are 1,202,000 ha for the EC-10, 1,411,000 ha for Spain and 122,000 ha for Portugal. Contrary to the Commission's original intention, aids will also be paid to catch-crop soya subject, however, that application is made by 30 May in any given production year[6].

- Reactions

Although the ministers assured that acceptance of the new regime would not prejudice the CAP reform debate, the main principles of this regime were much in line with the Commission's reform proposals from July 1991. However, while the favourable Council decision (21.10.1991) just met its self-imposed end-October deadline for complying with the GATT panel ruling, it left the European Parliament to give its opinion later. Moreover, with the implementing ordinance delayed until March 1992, farmers had to make their sowing decisions on oilseed rape "in the dark". The uncertainty

[4] The formal target price for rapeseed was 449.43 ECU/tonne in 1990/91. In consideration of a 29.5 per cent production surplus in 1991 over the 4.5m tonne MGQ and a 1 per cent underestimate of the 1990 crop the applicable target price was 379.73 ECU/tonne. Maintaining the intervention price at 42.53 ECU/tonne below the target price, reduced the intervention price to 337.20 ECU/tonne and resulted in a buying-in price of 312.79 ECU/tonne (6 per cent discount)

[5] In its calculations the Commission assumed a price relation of 2.1:1 between oilseeds and cereals and an average buying-in intervention price of cereals of 155 ECU/tonne. This resulted in an average oilseed price of 325.5 ECU/tonne and after deduction of the Projected Reference Price (163 ECU/tonne) left an oilseed payment of 162.5 ECU/tonne. This amount was multiplied by the average yield (2.36 tonnes/ha) to give an acreage payment of 383.5 (rounded to 384) ECU/ha.

[6] Catch-crops are of great importance particularly in Italy where they represent up to 40 per cent of the soya crop.

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

Item	1988/89	1989/90	1990/91 p	1991/92 e
		Area harvested (1000 ha)		
Total oilseeds	5,035	4,844	5,724	5,466
of which: Rapeseed	1,843	1,660	1,986	2,100
Sunflower seeds	2,165	2,133	2,645	2,376
Soybeans	534	632	693	490
Dried pulses	1,928	1,876	1,911	1,760
of which: Fieldpeas	812	862	913	n.a.
		Production (1000 t)		
Total oilseeds	11,598	11,074	12,671	12,595
of which: Rapeseed	5,214	4,990	5,847	6,397
Sunflower seeds	4,018	3,524	4,289	4,037
Soybeans	1,654	1,980	2,135	1,561
Dried pulses	5,459	5,091	6,060	5,230
of which: Fieldpeas	3,635	3,676	4,568	n.a.

EC-12 excluding East Germany; p = preliminary; e = estimated, n.a. = not available.
Sources: Agrarbericht (1992, p. 104); EUROSTAT, *Crop production 1991/4.*

surrounding the conditions under which farmers were to be paid compensation for their rapeseed was said to have deterred many farmers, but many others took the gamble and planted even farm-saved seed which was included within the policy only after sowings were completed (AEL 13.3.1992).

With regard to the application of MGAs further details deserve to be mentioned. First, areas for which no aid is claimed will not be counted against the MGA. Second, fixing the maximum oilseeds areas leaves yield increases a free parameter (susceptible to profitability of inputs and biotechnical progress). Third, the MGAs being based on the July 1991 planted areas put a much bigger quantity under the regime's protection than the former MGQ which in the case of rapeseed was exceeded by as much as 42 per cent in 1991 (*cf.* Table 2).

Despite providing a generous protection of producer income, the new oilseeds regulations were immediately rejected by the German farmers association (DBV) who argued that the new system could eventually lead to a shortfall in supply to the European oil-crushing industry and undermine possibilities for crops to be used as a source of energy. European farmers were feared to experience "a drastic drop in income" by what the DBV regarded as a bow to US pressure.

On the whole, it is widely acknowledged that the change of recipient of the subsidy will at least improve the working of the market since it will allow crushers to choose between domestically produced and imported oilseeds on an equal price basis. Producer income is, at the same time, not generally impaired by the new regulation as interested parties claimed. Yet, the new acreage payments will have specific impacts on production. First, most producers are kept in production and will continue to find oilseeds a profitable complementary crop to cereals. Second, by adjusting to lower producer prices, optimal input intensity (fertilizers, pesticides) and use of more resistant, lower yielding crop varieties will result in lower yields (preliminary estimates range from 10 to 15 per cent reduction, *TOP AGRAR* 2/92, p. 49). Third, the regionalization of acreage payments will produce new distortions, since within every region the fields of below average fertility (as well as of less skilled farmers) are favoured to the better ones. Fourth, sunflowerseed production may be further encouraged in Spain and Portugal by the minimum subsidy level and Italian soyabeans may be stimulated by not excluding catch-crops.

With regard to the world markets the status quo will not be changed much. EC oilseeds growers remain insulated from the effects of world price fluctuations and foreign competitors are further disadvantaged by the subsidy scheme. This aspect provoked another GATT panel ruling against the EC in March, 1992. It stated that the new subsidies paid on the basis of the area of oilseed cultivated by each grower are product specific, and therefore market distorting by giving advantage to the domestic producer compared to the supplier of imports, and that the original tariff concession to the US continues to be impaired. The panel finally recommended that the Community should act expeditiously to eliminate the impairment of the tariff concessions - either by modifying its new support system for oilseeds or by renegotiating its tariff concessions for oilseeds with the US.

The Community reacted to the new verdict with some annoyance. It seemed likely that the ruling would not be accepted by the Community and that the EC would block the adoption of the panel report which however would leave the Community open to compensation claims from the US. There have also been suggestions that the panel ruling might throw the EC's entire CAP reform programme into jeopardy. But it was also made clear that the panel did not so much object to the direct area payments, but primarily condemned the fact that the level of payments impairs the effectiveness of the zero tariff binding which does not exist for any other major CAP product (AEL 27.3.1992).

Meanwhile, the new oilseeds regime has been implemented in all member countries. The German implementing ordinance differentiates between 17 regions with yield levels ranging from 2.5 to 3.38 tonnes/ha (equivalent, in 1992, to provisional payments of 958 and 1214 DM/ha, respectively). The minimum plot size required for application is set at 0.3 hectare. Summer rapeseed is generally excluded from the acreage payments unless use of testified seeds can be proven. When in 1992 a shortage of summer rape seeds occurred, an emergency regulation was passed which allowed import and planting of rapeseed varieties certified under the Danish law yet still lacking the EC approval.

2.3 Sugar

The basic trends characterizing the world sugar market changed completely in 1990. While from 1985 through 1989 stocks decreased relative to consumption and world prices rose from 2.80 USc/lb to more than 15.0 c/lb, there was a drastic fall in the daily price quoted by the International Sugar Agreement (ISA) when in 1990 supplies again outstripped demand. Neither the Gulf war nor the end of the communist regimes in Eastern Europe have since reversed the market situation. Thus, world prices are, for the time being, expected to remain at levels below 10 c/lb.

The assessment of world market trends by the European sugar industry was reflected in the quantities of sugar officially notified to the EC Commission as being "blocked" or carried forward into the next marketing year[7]. This quantity was 1.024m tonnes in 1990/91 compared to 0.621m tonnes in the preceding year. Additionally, many factories recommended the beet growers not to overplant their normal allotment so that the beet area was reduced in France, Germany and Belgium. In

[7] The beet factories are allowed to carry forward into the next year part of their sugar production (whether "B" quota or "C" sugar but not more than 20 per cent of their "A" quotas). Such sugar may not be sold for one year from the time when it was produced and it counts as the first tranche of the following season's "A" quota sugar production. The quantity of sugar to be carried forward has to be notified to the Commission by 1 February in each year; once notified the decision is irrevocable. Since the "blocked" sugar receives Community storage refunds this regulation allows the manufacturers considerable flexibility with regard to either export or stock surpluses *(cf. CAP Monitor* 1992, section 12, p. 9-10).

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

Item	1988/89 (A)	1989/90 (A)	1989/90 (B)	1990/91 (B) p	1991/92 (B) e
Area harvested (1000 ha)	1,828	1,855	2,073	2,085	1,990
Production (1000 t)	13,915	14,273	15,047	15,889	14,657
Beginning stocks	2,322	2,016	2,050	1,765	2,235
Imports	1,804	1,928	2,043	1,860	1,810
Exports	5,140	5,411	5,376	5,429	4,640
Domestic consumption (1000 t)	10,885	11,271	11,999	11,850	11,850

(A) EC-12 excluding East Germany; (B) EC-12 including the five new Länder of Germany; p = preliminary; e = estimated.
Sources: Agrarbericht (1992, p. 106); Agrarwirtschaft (1991, p. 406).

Germany where the reduction (from 620,000 hectares in 1990 to 572,000 hectares in 1991) was especially marked, the five new Länder made up a good part of the decrease since improved seeds, pesticides and fertilizer supplies justified expectations of higher yields and, therefore, necessitated substantially reduced plantings to adjust to sugar quotas.

Unfavourable weather conditions, however, depressed sugar yields below the average of the five preceding years and (together with reduced plantings) resulted in a production estimated at 14.66m tonnes (1.23m tonnes or about 8.5 per cent below the 1990 figure; *cf.* Table 3). Assuming a continued high level of consumption (estimated at 11.85m tonnes) sugar exports were likely to fall by 800,000 tonnes to around 4.64m tonnes in marketing year 1991/92 (1 October - 30 September).

Reform of EC sugar regime postponed

Early in 1991, the Community's sugar regime was extended almost unchanged by another two years, although Italy and the UK who saw their national aids cut by 10 per cent voted against. Later in the year, the Commission failed to get its proposed 5 per cent price cut agreed by the Council. The ministers argued that the general income situation of farmers (holders of a beet quota derive a disproportionately high income from growing sugar beet, sometimes even used to subsidize other crops) did not allow such measure. However, as Sommer (1991, p. 407) pointed out, the EC system of sugar prices provides opportunities for changes which may alleviate Community and consumer budgets without impairing the incomes of producers. The reason is that the processing margins laid down in the calculation of the intervention price allow for considerable profits (partly due to economies of scale and improved sugar mill structure, partly due to improved raw material and processing technology). These improvements have never been taken into consideration since the processing margins were originally fixed in 1968. The windfall profits accrue to the beet growers who are shareholders of sugar factories but, since most shares in European sugar enterprises are probably held by non-farmers, the CAP provides high incomes outside agriculture - which is far from agreed political goals.

EC Auditors criticize EC regulation of the sugar market

In a recent report on the regulation of the sugar market the Community's Court of Auditors denounced the regime as being "counter to the very concept of the common market" and costing the Community (*i.e.* the EC taxpayer and consumer) "much more than it should" (EC Court of Auditors 1991, p. 44). Coupled with high guaranteed prices and national quotas, two and a half decades of protection have resulted in systematic over-production. Not only that the Community's maximum quota (all "A" and "B" quotas combined) exceeds EC consumption by some 20 per cent, additional production of "C" sugar is identified to be systematically stimulated. Dealing with the preferential sugar from so-called ACP-countries[8], however, the Court deviates from common EC practice to consider these quantities as imports. By adding an equivalent quantity to the EC internal production[9] the Court denounces an average EC self- sufficiency rate of 150 per cent (normally it is given at around 135 per cent) as being "the greatest surplus of all the common agricultural markets" (p.45).

Besides emphasising the costs the Court's criticism focuses on the sub-division of Community production into national quotas, which - like several other CAP provisions - was originally introduced as a transitional measure but has since been perpetuated. "Production is tied to the territories of the member states by production quotas which are set per member state. More effective production cannot be developed because less efficient production is protected." (p.45). Even "B" quotas - originally considered to be "specialization" quotas and thought to be used only by the most efficient factories - are (due to excessive price support) exploited in areas which are "least suited to beet sugar production". Thus, the real scope for specialization is in the area of "C" sugar, which must be exported without any subsidy. The report clearly states that the extent of production and export of unsupported "C" sugar "can only be explained by the level of return obtained from quota sugar production, thanks to generous institutional price conditions." (p.45).

On the whole, the Court - though rightly and deservingly - only takes up criticisms which are long known and have been discussed by various authors (Smith 1980; Schmidt 1983; Sturgess 1984; Sommer 1987). But these previous suggestions for reform have always been rejected by the responsible politicians as they did in this case. In its reply to the Court, appended at the back of the report, the Commission maintains the sugar regime to be basically in line with the principles of the CAP. While admitting that "it would be theoretically preferable if a system of production quotas did not have to be applied" the Commission claimed that experience has shown the current system to be "effective in keeping EC sugar production under control". Possibly, this is even right in so far as questioning the present system would open up a Pandora's box of far reaching national demands for larger quotas and for maintaining stable prices as well as suppressed competition.

2.4 Dairy

The situation of the EC dairy market continues to be precarious. Despite the imposition of quotas in 1984, expenditure remains unchanged at over 5,000m ECU a year. Self-sufficiency is at over 125 per cent and more than a quarter of consumption is subsidized in one way or another. There are currently around 700,000 tonnes of surplus milk product in intervention (*cf.* Table 4).

Reduction of production, the only possible justification for introducing the quota system, has on the whole been imposed too timidly. The initial quota was too generous, later reductions were too small and circumvention of quota restrictions (partly assisted by national governments as in cases of thwarting penalty levies) was too easy. The farm ministers, who could have better served Community interests, always proved to be in the first place the accomplices of the most influential groups claiming to protect national farmers' interests. Within the Council's bargaining, economic arguments for a more efficient management of the Community milk market have obviously always been put last.

In the 1991/92 price fixing negotiations the ministers showed the usual haggling about a 2 per cent quota reduction which was finally agreed to after long discussions and repeated extension of the 1990/91 marketing year. The quota reduction although publicised to be 2 per cent (relative to 1986/87) in fact was only 0.5 per cent (relative to 1990/91) since various countries (Belgium, France, the Netherlands and Germany) were allowed to transform unused direct sales quota into delivery quota. Moreover, the overall delivery quota, which with-

[8] A number of African, Caribbean and Pacific countries or territories formerly under colonial administration of one of the EC member states which enjoy special relations with the Community under the treaty of Lomé.

[9] This procedure also seems to be in conflict with the Court's own view that the costs of the ACP sugar import regime are rightly kept outside the European Agricultural Guidance and Guarantee Fund (EAGGF) reserved for financing the CAP.

Table 4: Supply and demand of milk in the European Community (EC-12, 1000 tonnes)

Item		1988 (A)	1989 (A)	1989 (B)	1990 (B) p	1991 (B) e
Dairy cows (1000 head)	a)	23,564	23,312	25,347	24,268	23,481
Yield per cow (kg)		4,538	4,627	4,586	4,600	4,677
Total milk production	b)	112,280	111,687	122,198	120,209	117,129
Dairy cows only		109,733	109,140	117,291	116,589	113,506
Cow milk deliveries		99,163	98,649	106,647	105,994	102,529
in % of production		90.4	90.4	90.9	90.9	90.3
Imports	c)	2,223	1,957	1,957	2,200	2,200
of which from NZ	c)d)	1,624	1,355	1,355	1,300	1,250
Exports	c)	19,177	15,125	15,125	10,900	13,500
Change in stocks	c)e)	-15,039	-1,574	-1,784	4,226	-1,131
Domestic demand	c)f)	88,695	87,055	93,848	92,711	92,834
Butter						
Production		1,689	1,715	2,026	2,030	1,821
Domestic consumption		1,900	1,530	1,755	1,662	1,566
of which						
at market prices	g)	1,226	1,171	1,431	1,246	1,116
Ending stocks	e)	212	124	124	335	290
Skimmed milk powder						
Production		1,353	1,488	1,515	1,782	1,665
Domestic consumption		1,243	1,000	1,087	1,084	1,123
of which						
at market prices	g)	260	280	293	293	292
Ending stocks	e)	7	5	5	333	405

(A) EC-12 excluding East Germany; (B) EC-12 including the five new Länder of Germany; p = preliminary; e = estimated; a) December census; b) Total cow, sheep, goat milk; c) Whole milk equivalent; d) Butter only; e) Intervention stocks only; f) Cow milk products processed in dairy plants; g) Non-subsidized human consumption.

Source: Agrarbericht (1992, p. 95).

out inclusion of the five new German Länder was set at 97,626,000 tonnes (after 98,159,000 tonnes in 1990/91), made up 103,784,000 tonnes with united Germany included.

The quota reduction itself was effected by imposing global linear cuts on all producers and/or (if the countries so wished) through national buying-up schemes. Most countries aimed at removing 3 per cent (or even more) instead of the mandatory 2 in order to later redistribute the purchased surplus quota. Compensation was set at 10 ECU/100 kg payable over five years out of Community funds[10] but member countries were free further to increase the compensation by additional funds from national budgets. In Germany where the government planned to buy up 675,000 tonnes of quota shares only 620,000 tonnes were bought at a single rate of 1.50 DM/kg (63.72 ECU/100 kg). The French government apparently intended to buy up 1.1m tonnes (4.5 per cent of the national quota) mainly from small-scale producers and to use the surplus for structural improvements[11]. But the farmers were reluctant to subscribe, obviously, because compensation of up to 3.35 FF/kg (42.43 ECU/100 kg) was below expectations. Thus, only about 0.71 to 0.75m tonnes were contracted. Denmark offered profitable conditions for farmers willing to give up milk production. Reportedly, about 400,000 tonnes or some 8 per cent of the Danish national quota were signed in so that the government disposed of a broad margin to distribute new delivery rights and to further improve the structure of the dairy sector (Efken 1991, p. 419).

One consistent side effect of the quota system has been the steady increase of the cost of quota. While various countries provide for only a controlled quota transfer, commercial transfer is permitted in the UK and in the Netherlands. Hubbard (1992) investigated this market and reportedly found (AEL 3.4.1992) that lease and purchase prices have dramatically risen over the first seven quota years (1984/85-1990/91). In the beginning, 1.8 and 12.0 pence/litre were paid for lease and purchase, respectively, and the lease price made up 12.3 per cent, the purchase price 82.2 per cent of the milk

[10] The Commission was opposed to such high Community contribution and had not originally assigned the means in the budget.

[11] In France, 41 per cent of all dairy farms own a reference quantity of less than 60,000 kg milk while contributing only about 12 per cent to overall delivery.

Table 5: Use of milk quota in EC member countries (1000 tonnes, 1991/92)

Member country	Milk deliveries		Quota	Over-/Under-utilization	
	(1000 t)	(% change)	(1000 t)	(1000 t)	(in %)
Belgium	3,066	-2.5	2,920	296	10.2
Denmark	4,432	-1.5	4,428	20	0.5
Germany, West a)	20,834	-2.7	21,392	262	1.2
East a)	5,105	-25.6	6,158	-792	-12.9
Greece	560	2.5	526	34	6.5
Spain	4,318	-4.1	4,458	-127	-2.8
France	23,288	-2.0	23,363	391	1.7
Ireland	5,170	-2.3	5,199	-30	-0.6
Italy	8,418	2.2	8,312	220	2.7
Luxembourg	249	-7.9	266	-5	-1.8
Netherlands	10,518	-2.2	10,889	-34	-0.3
Portugal	1,533	6.1	1,743	-211	-12.1
United Kingdom	13,902	-3.0	14,129	19	0.1
EC-12	101,393	-3.5	103,784	45	0.0

Milk deliveries after correction for leap year (in 1000 tonnes and in per cent change as compared with previous year); Quota = maximum available quota; Over-/Underutilization after correction for increased milk fat content (in 1000 tonnes and in per cent of the quota);
a) Deliveries from East German to West German dairies (about 520,000 tonnes) have been attributed to East Germany.

Source: *ZMP-Marktbericht Milch*, 1.4.1992.

price respectively. In 1990/91, however, 7.0 pence/litre (39.3 per cent of the respective milk price) and 46.0 pence/litre (258 per cent of the milk price) had to be spent on lease and purchase, respectively. Input prices, technology and quota availability were identified to be the most influential factors behind this development which, according to Hubbard, is likely to prevail in the future.

In the 1991/92 quota year (April/March) about half of the member countries exceeded their national milk quota although only three countries (Ireland, Italy, Portugal) increased their deliveries as against the previous year (*cf.* Table 5). Total milk deliveries were effectively kept below the total quota amount (by 2,391,000 tonnes) but due to increased milk fat content a correction to 2,436,000 tonnes had to be made leaving a small production surplus of about 45,000 tonnes. The main offenders against the quota restrictions have been Belgium (10.2 per cent excess), Greece (6.5 per cent) and Italy (2.7 per cent) while, on the other hand the five new Länder of Germany and Portugal failed to use their quota by 12.9 and 12.1 per cent, respectively. In terms of the absolute excess of deliveries over the respective quota France, Belgium, West Germany and Italy made the biggest contributions. Each of these four countries was consequently liable to pay between 121 and 68m ECU fines to the Community (based upon a super-levy of 115 per cent of the target price of 26,81 ECU/100 kg).

While in 1991/92 the nominal support prices relevant to the milk market remained untouched, there were several changes in the management of intervention to affect the level of support. By the beginning of the year and under authority delegated to it, the Commission had extended the term of payment to 120 days for SMP intervention purchases. The obligatory butter intervention at 100 per cent of the intervention price, subject to market prices falling below 92 per cent of the intervention level, was scrapped as part of the Council's price decision. It was replaced by a tendering system to be triggered at the same price level but without any apriori price commitment. The effective minimum price for butter was thereby lowered by 2 percentage points to 90 per cent of the intervention price. Ireland and Northern Ireland also lost the opportunity to set their price limits for butter intervention tenders higher than otherwise allowed.

In spite of now uniform intervention prices and agricultural exchange rates almost equally distorted, there are still marked differences in the average milk producer prices throughout the Community. With high production and processing costs due to climatic and structural factors and with production falling short of demand, Italy has always had the highest milk prices in the Community. Following an expansion of production which also reduced deliveries from Southern Germany

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

Item	1988 (A)	1989 (A)	1990 (A) p	1990 (B) p	1991 (B) e
Gross EC production	7,619	7,339	7,730	8,242	8,615
Livestock imports	92	149	220	230	150
Livestock exports	21	19	70	78	100
Net EC production	7,689	7,468	7,880	8394	8,665
Meat imports	428	406	440	460	350
Meat exports	832	1,053	800	820	1,345
Change in stocks	-41	-424	336	340	160
Domestic consumption	7,326	7,245	7,185	7,694	7,510

(A) EC-12 excluding East Germany; (B) EC-12 including the five new Länder of Germany; p = preliminary; e = estimated.
Sources: Agrarbericht (1992, p. 97); Agrarwirtschaft (1991, p. 433).

and curbed prices there, Italian milk producers experienced a first slight price drop for many years. Yet, the 1991 average still comprised 33.9 ECU/ 100 kg (3.7 per cent fat, 3.4 per cent protein, ex farm, after payment of co-responsibility levies). The Irish producers, with 20.6 ECU/100 kg far away at the other end of the scale, presumably have the lowest production costs but at the same time high processing costs due to a marked seasonality in milk production. Similar low price levels are experienced only in France and Belgium (23.0 and 21.6 ECU/100 kg, respectively) where returns often depend on the extent of intervention which (unless systematically exploited as in Germany) certainly is the marginal form of milk utilization. Dutch and West German milk prices compare rather closely (at 25.5 ECU/100 kg in 1991) while the five new Länder of Germany were clearly disadvantaged by uncompetitive processing facilities. Committed, to a large degree, to the production of intervention products and UHT milk the dairies paid not more than, on average, 21.1 ECU/100 kg.

2.5 Beef

Record high supplies (some 8.6m tonnes), about 4 per cent more than in 1990, encountered stagnating consumer demand (about 7.5m tonnes) on the EC beef market in 1991 (*cf.* Table 6). Self-sufficiency in beef continued to rise from 101 per cent in 1989 to 110 per cent in 1990, and 115 per cent in 1991. Excess supplies depressed prices and stimulated both intervention and exports.

The latter reached some 1.4m tonnes (meat and live animals in carcase weight) in 1991 compared with 0.93m tonnes in the previous year. The spectacular expansion of exports was, however, mainly caused by deliveries of beef at preferential terms from intervention stores to countries of the former Soviet Union. In spite of record exports, there was almost no change in the overall level of imports. The usual 500,000 tonnes fall under various concessionary import arrangements specified according to categories and allocated to exporting countries. In 1991, however, the import quota of processing beef was, for the first time ever, totally suspended by the Commission (50,000 tonnes in 1990) and partially replaced by bigger shares of high-quality ("Hilton") beef and ACP-beef (deliveries from associated African, Caribbean and Pacific countries). These two allotments rose from 3,000 tonnes (1990) to 11,430 tonnes (1991) and from 38,000 to 49,600 tonnes, respectively.

Intervention agencies bought up more than 1m tonnes of beef during the year and in spite of massive export financing the closing stocks were estimated at around 850,000 tonnes, against 110,000 tonnes two years before. The high level of intervention activity was hardly mitigated when, in an effort to save money, new restrictions to intervention purchases were applied from the beginning of the 1991/92 marketing year (17.6.1991). Although the level of the intervention price was maintained the tendering system was not triggered until the EC and the respective national market prices fell to 84 and 80 per cent, respectively. The supplementary "safety net" even required the EC market rate to fall to 78 per cent of the intervention price and the national price to be less than 72 per cent. Moreover, and contrary to former provisions, the prices paid at intervention were no longer fixed in advance but were set by the intervention agency itself with regional price levels taken into consideration. Thus, the level of price support tended to be formally maintained at a single level throughout the Community. It became more market oriented and even allowed for differentiating regional beef qualities (Probst 1991, p. 432).

The increased flexibility with regard to current intervention practices originally recommended to better cope with the structural surplus in the beef market, however, proved unsuited to prevent the erosion of prices. Being afraid that forthcoming beef intervention tenders were likely to be met with continuing price reductions meat traders regularly overpitched their offers for intervention purchases.

Thereupon the EC beef management committee reacted either by cutting its price limits, as anticipated by the traders, or by applying reduction coefficients to control acceptance of excessive tonnages for storage. But even this strategy was likely to increase price pressure since at least those of the traders who had underestimated the expected overall excess quantity were left with a real surplus in their hands - and with the understandable resolution to overpitch their next offer more generously.

This system repeatedly escalated and produced reduction rates of more than 80 per cent, in several cases (as, most recently, in the first half of March, 1992) even 95 per cent, meaning that out of a 100,000 tonnes beef carcase offer formally acceptable (*i.e.* meeting intervention requirements and falling within the actual price limits set by the Commission) only 5,000 tonnes have effectively been accepted for intervention[12].

2.6 Sheepmeat

The EC market for sheepmeat (*cf.* Table 7) increasingly came under the new regulations of 1990 which provide for Community-wide (*i.e.* non-regionalized) headage payments for ewes differentiating two types of payment according to the production of either ("heavy") lambs or milk. The regionalization of the EC sheepmeat market and the so-called clawback arrangement which applied to the UK's variable payments when sheepmeat was exported to other EC member countries have been stopped from the beginning of 1992.

Sheepmeat market prices suffered from ample domestic supplies and allegedly "unauthorized" deliveries of live lambs and carcases from Hungary, Romania and Bulgaria which increasingly replaced those from Yugoslavia. But also the ewe premium, designed to make up for the difference between the pre-set basic price and the market price, was also reduced. First, the basic price had been cut by 2 per cent to 422.95 ECU/100 kg according to the Council's price decision taken in 1990. Second, by virtue of the stabilizer mechanism, preliminary price cuts of 8.1 per cent in the UK and 6.45 per cent elsewhere in the Community had to be applied (compared with a final rate of 7 per cent in 1990). The loss in income resulting from the stabilizer mechanism has, however, again been dampened by an additional payment granted to sheep farmers in the less favoured areas. The rate of the additional payment amounted to between 3.8 and 5.5 ECU per ewe (compared with 2.8 to 4.0 ECU in 1990 and a "normal" ewe premium of 23.84 ECU/head).

Market prices were especially depressed in the UK where, in the preceding years, not only the sheep flock had been expanded at a disproportionally high rate but also the export of lambs to continental customers met strong competition, especially from Ireland. One perceived reason for this strong competition was the clawback which was said to have put the British exporter at a 10 per cent price disadvantage on the French market. But although UK market rates continuously undercut 70 per cent of the seasonal basic price and thereby kept the EC private storage scheme in operation, few applications were made for the 1,000 to 1,358 ECU/tonne (carcase weight) storage subsidy.

Ironically enough, shortly before the clawback

[12] The figure quoted must not, however, lead to the erroneous conclusion that all of the remaining 95,000 tonnes of carcase meat were put in a sham bid.

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

Item	1988 (A)	1989 (A)	1990 (A)p	1990 (B)p	1991 (B)e
Gross EC production	1,044	1,097	1,149	1,180	1,210
Total imports	224	255	295	280	275
Total exports	6	7	8	17	25
Change in stocks	-5	0	11	10	0
Domestic consumption	1,267	1,345	1,425	1,433	1,460

(A) EC-12 excluding East Germany; (B) EC-12 including the five new Länder of Germany; p = preliminary; e = estimated.
Source: Agrarwirtschaft (1992,p.433).

arrangement was to cease on 5 January 1992 after ten years in operation, the obligation to pay back the variable payments required on all live British lamb exports was indicated by the European Court to be illegal (AEL 3.1.1992). The judges' preliminary opinion was upheld later on in the year but they also ruled that only those operators who had started proceedings against the clawback levy prior to the Court's final decision (10 March 1992) were entitled to submit restitution claims. This restriction saved the administration considerable work and the Treasury up to 33m ECU. According to the ruling, the clawback was not found totally illegal, but the government's interpretation of EC legislation was wrong because the amount of clawback should have been exactly equal to the amount of variable premium paid, and not charged on an approximate basis (AEL 13.3.1992).

2.7 Set-aside

Up to 1991/92, around 2.4m hectares of arable land have been taken out of production under the EC's set-aside programs (AEL 14.2.92). Of this total, 1.629m ha have been withdrawn under the five-year set-aside program which started in 1988/89. A further 803,000 ha have been set-aside under the special one-year program which became operational in 1991/92. The total of 2.432m ha still only represents some 3.6 per cent of the EC's total arable area but there is a wide variety among member countries and regions with regard to participation (*cf.* Table 8).

Relative to available arable land the ranking of set-asides is as follows: Germany (10.8 per cent or 788,000 ha), Italy (6.9 or 620,000), Netherlands (3.3 or 30,000), France (2.7 or 470,000), UK (2.5 or 172,000) and Spain (2.1 or 334,000). All other countries (Portugal being exempt from the set-aside scheme) participated with less than 0.5 per cent of their respective arable land.

Participation rates reflect the different incentives given through national implementing arrangements (*cf.* Manegold 1989, p. 27). Further, the figure

Table 8: Participation in EC set-aside programs (in ha and in per cent of arable land, 1991/92)

Member	Program		Total	
	Five-year	One-year	Area	Share
Belgium	873	977	1,850	0.26
Denmark	5,520	1,379	6,899	0.27
Germany	472,817	314,875	787,692	10.84
Greece	250	1,470	1,720	0.06
Spain	84,087	250,000	334,087	2.13
France	266,575	203,000	469,575	2.66
Ireland	1,766	2,500	4,266	0.42
Italy	608,705	11,603	620,308	6.89
Luxembourg	90	100	190	0.34
Netherlands	29,606	45	29,651	3.31
Portugal	n.a.	n.a.	n.a.	n.a.
United Kingdom	158,847	12,977	171,824	2.50
EC-12	1,629,136	803,341	2,432,477	3.66

Portugal is not required to apply the set-aside programs. With regard to the five-year program the figures quoted for Spain and Italy do not contain the area of new entrants of 1991/92 while for Greece no information is available for 1990/91 and 1991/92.

Source: *Agra Europe* 14.2.1992.

quoted for Italy covers only 3 years. It has to be augmented by the (unknown) area of new entrants in 1991/92 likely to bring it close to the German figure. On the other hand however, set-aside is concentrated in the southernmost regions of Italy where yields average less than half the EC average.

2.8 EC Agricultural Finance

Continuing problems of keeping CAP spending in line with the budget ceiling (an annually adjusted guideline imposed on EAGGF guarantee expenditure[13]) continue to be disguised by high world market prices and a rather strong US currency. While in 1989 and 1990 internal and external factors allowed for big savings the Commission had, on the basis of projected EC market balances and estimated world price and exchange rate developments, originally feared that the CAP was likely to run well over budget in 1991. In fact, the closing account showed a marked increase to almost 31,000m ECU, up from 25,000m ECU in 1990, and revealed a big overspending in the beef sector where 2,330m ECU had been budgeted but 4,296m ECU were spent. The difference of 1,976m ECU was, however, matched by similar savings in the arable sectors (predominantly oils and fats, wine, fruit and vegetables). Thus, the budget year closed with a surprisingly favourable balance. Total guarantee expenditure (including part of set-aside payments) remained 1.6 per cent below the agricultural guideline (AEL 24.1.1992).

By actual volume of expenditure, however, the beef sector was fourth highest. More expensive continued to be milk (5,637m ECU), oilseeds and olive oil (5,423m ECU) and cereals (5,161m ECU) and they alone required half of the budget. Relative to the value of agricultural production, on the other hand, the first places have to be awarded to tobacco (1,330m ECU), pulses (959m ECU), sheepmeat (1,790m ECU), besides oilseeds and olive oil.

3. CAP Reform

With the market balances getting worse and expenditures threatening to run out of control, the CAP reform was still in an uncertain state when, throughout the first quarter of 1992, the Farm Ministers considered various details of the "MacSharry plan" (the Commission's reform package) but hardly made any substantial progress. In fact, it sometimes seemed that the Council had gone back beyond its conclusions of November 1991, which at least outlined a general agreement on the principles of price cuts, compensation, reduced production and respect for the environment. The inevitable process of watering down the Commission's CAP reform proposals continued in an atmosphere of displeasure and dissension. Worthwhile discussion and clarification of technical questions took place only within a "high level group" of member state officials having the authority to discuss basic reform problems, but without making or assuming a political decision.

3.1 Reformed Market Regulations Drafted

The two reform papers issued by the Commission in 1991 (Commission 1991a and 1991b; *cf.* also Sturgess 1991, p. 178-182) were followed by more detailed proposals published in the form of draft regulations intended to provide concise information on the pending implementation of the new measures for a number of sectors including cereals, oilseeds, milk, beef and sheepmeat (AEL 25.10.1992).

Cereals

For all kinds of cereals the draft regulation stipulated a common target price. This price was to decrease from 125 ECU/tonne in 1993/94 (the proposed first year under the new scheme) to 110 ECU/tonne in 1994/95 and 100 ECU/tonne from 1995/96. Threshold prices should always be at 110 per cent and intervention prices at 90 per cent of the target price. All these prices should be complemented - as at present - by monthly increments (sharing storage costs). Intervention was further limited to November-May in the northern member states. However, these price levels might be changed if necessary "in the light of developments in production and the markets" and the Commission reserved itself the right to take special intervention

[13] The guarantee section of the European Agricultural Guarantee and Guidance Fund is responsible for covering the cost of price and market stabilization as well as part of the set-aside cost incurred under the Common Agricultural Policy.

measures "where the market situation so dictates" (AEL 25.10.1991).

The basic co-responsibility levy was to be applied at 3 and 2 per cent of the target price, respectively, during the first two years after implementation of the reform but it was to be scrapped at the beginning of the third year. The budgetary stabilizer, with its maximum guaranteed quantity and supplementary CRL, was proposed to be discontinued as from 1 July 1993 so that there would be no price cut in 1993/94 (provided that the transition towards a reformed price system was already under way by then).

The effects of price reduction were (partly) off-set by a system of compensatory payments which directly referred to the price difference incurred. For the Community as a whole and with the overall cereals yield being 4.6 tonnes/ha, the basic payments equalled 115 ECU/ha in 1993/94, 185 ECU/ha in 1994/95 and 230 ECU/ha in 1995/96 (4.6 times the relevant price difference of 25, 40 and 50 ECU/tonne respectively[14]). The amounts applied to individual member states or specified regions were to be fixed according to established yield differentials (regional yields relative to the EC average). Thus, every member state was required to set up a so-called regionalization plan which laid down average yields for any region within the state territory[15] .

However, compensation should be restricted to a "base area" and be dependent on ("voluntary") participation in the current set-aside program subject to different provisions applying to "small" and other producers.

The "base area" was defined as the area sown to CAP-supported crops on each holding in 1989, 1990 or 1991 (according to the farmer's choice). Land idled under a Community or national set-aside scheme was considered to belong to the base area. Thus, the base area represented the maximum area entitling a farmer to apply for compensation. To be eligible for compensation payments, each farmer was required to set aside at least 15 per cent of his base area. If part of the base area is already fallowed under a five-year set-aside scheme, the farmer will have the option of leaving that scheme immediately. Under the new (annual) set-aside schemes rotation of the fallow is imperative. Member states may call for "appropriate environmental measures" or allow farmers to grow industrial crops.

"Small" farms, according to the draft regulation, should be those with a capacity (derived from individual base area times regional yield) to produce not more than 92 tonnes of cereals (on the basis of the EC average yield this would be a 20 hectare arable farm). These farms would fall under a simplified regulation unless application was made for general treatment. The simplified regulation provided for a global compensation based on the cereals aid even if other crops were cultivated on the land and it discharged such farms from the set-aside obligation.

All other producers, the "large" ones (*i.e.* those with a capacity to produce more than 92 tonnes of cereals) and those having opted out of the simplified regulation, would be subject to separate aid systems for the production of cereals and oilseeds (the latter being the system installed by the revision of the common regulation of the oilseed market in 1991, *cf.* section 2.2). Moreover, these producers were required to participate in the set-aside program as a precondition for getting compensatory payments. Set-aside payments were offered under this program but only up to an area needed to produce 34.5 tonnes of cereals (*i.e.* the first 7.5 hectares at the average Community yield). Beyond that level there would be no compensation for idling land. Set-aside payments and compensation for cereals would be paid at the same rate (per hectare).

Milk

Three rather moderate measures made up the core

[14] Originally the price differences would have been 30, 45 and 55 ECU/tonne but these amounts were reduced by 5 ECU each when the cereals crop of 1991 exceeded the MGQ of 160m tonnes.

[15] While all kinds of cereals and specified protein plants (peas, beans and lupins) qualified for the cereals compensation payment, durum wheat was to be subsidized by an additional aid set at 3000 ECU/ha in 1993/94. This aid was to be paid to producers in the traditional durum growing regions of the Community and to be limited to the area planted with durum in 1988/89, 1989/90 or 1990/91 (choice of the year was left to the farmer).

of the reform proposals in the milk sector: modifications in the quota system, a reduction of price support and a new dairy cow subsidy (AEL 25.10.1991).

The quota system, introduced in 1984 as a temporary measure, was to be consolidated and extended for another 8 years to 31 March 2000. The draft regulation identified three aims of consolidation: (i) improving the legal security of the system which has been obscured by countless modifications of existing legislation; (ii) enhancing individual rights and assuring a better protection of such; (iii) improving the functioning of the regime in general. To achieve these aims several measures, some of them typical low cost administrative measures almost without economic significance, had been proposed.

First, all existing legislation was to be consolidated in one single quota regulation and all individual reference quantities were to be reassessed on the basis of the quantities actually available to producers on 31 March 1991. Thus, the 4.5 per cent quota shares having been suspended in 1987 for an annual compensation should be scrapped without any further payment (the 45.5 ECU/100 kg already been paid were considered sufficient compensation). The so-called Community reserve would be discontinued with the quantities in the reserve shared out to extensive producers.

Second, the distinction of formula A and B quota (with individual producers and the dairies, respectively, being responsible for paying the superlevy in case of overproduction) should be dropped (Manegold 1987, p.126). It had become more and more meaningless since even the formula A countries (*e.g.* Germany) have in the meantime allowed for balancing the quota accounts on the dairy level.

Third, administration of "delivery quotas" and "direct sales quotas" was proposed to become more flexible with transfers in both directions being allowed on request of the producer. The more liberal transfer opportunities also implied that the rate of superlevy was to be unified at 115 per cent of the target price for both deliveries to dairies and direct sales.

Fourth, the possibility of leasing out quota shares to other producers within the same member state for up to 12 months was to be made available in all member states. While this would allow producers more flexibility in using their quota, the Commission was, however, also proposing to remove the possibility of quota pooling on a national basis and to limit the amount of quota pooled under one "group buyer" (i.e. a single co-operative or marketing board) to 2m tonnes[16]. Even producer groups should no longer have the possibility of being treated as a single producer.

Fifth, the existing quotas should be cut by 4 per cent over three years with 1 per cent to be reallocated to, in the first place, extensive dairy farms in less-favoured areas. Producers with a reference quantity of 200,000 kg or more would be subject to an obligatory quota reduction. Smaller producers should not fall under the equi proportional quota reduction but be entitled to apply for a contract under a general buying-up scheme which would also be established. Compensation would be available from the Community at a rate of either 5 ECU/100 kg over 10 years or 17 ECU/100 kg over three years. For the first time, payments would be made in form of tradable Community bonds. Member states would be free to pay additional amounts if that was required to reach the goal.

While the quota reduction was proposed to become effective at 2 per cent as from the beginning of the 1992/93 milk marketing year (1 April 1992) and at 1 per cent in each of the two following years the reduction of support prices would not apply prior to 1 July 1993. The price cuts would make up 10 per cent over three years but be different for different products. Compared to the relevant price levels of 1991/92 the target price for milk was proposed to be 4 per cent, 7 per cent and 10 per cent lower in 1992/93, 1993/94 and 1994/95, respectively. For butter the respective rates should be 6 per cent, 10.5 per cent and 15 per cent while for skimmed milk powder the rates should be smaller with 2 per cent, 3.5 per cent and 5 per cent. The overall reduction

[16] This measure would have hurt the large-scale milk processing groups as for instance the Danish Dairy Cooperative and the Milk Marketing Board of England and Wales. They would have been forced to subdivide into smaller regional bodies if the Council had followed the Commission's proposal.

of intervention prices for (Italian) cheese should amount to 6.5 to 8.5 per cent.

Finally, an annual dairy cow subsidy was proposed to be introduced for the first 40 dairy cows of each herd. The payment should be 25 ECU/cow in 1993, rising to 50 ECU in 1994 and 75 ECU from 1995. This payment was thought to compensate extensive farmers for any loss in net farm income caused by lower milk prices which more intensive producers would not incur because of reduced feeding costs. In order to concentrate the subsidy on extensive producers it was reserved for applicants observing a stocking limit of 1.4 livestock units per hectare in less favoured areas and 2 units everywhere else. Producers with a reference quantity of no more than 25,000 kg were, however, not subject to these limits.

Beef

In the beef sector the Commission proposed the adoption of three draft regulations concerning the levels of beef intervention prices, a new system of direct subsidies and a new scheme to promote production of quality beef, respectively (AEL 25.10.1991).

Subject to supply and demand developing accordingly the levels of new intervention prices were proposed for three marketing years in advance. In this regard, three staged reductions of 5 per cent each to become effective in 1993/94, 1994/95 and 1995/96 were envisaged. They would finally lead to an intervention price of 2915.5 ECU/tonne (male cattle, slaughter weight, quality R3 in the Community's beef classification scheme). The changes were seen to be justified on the one hand by the price reductions proposed for cereals and on the other by the need to improve the competitiveness of beef as compared to pork and poultry. No changes were to be made in the intervention buying-in arrangements (safety-net, etc.; *cf.* Manegold 1989, p. 23).

Direct subsidies for young male bovines (special beef) and suckler cows would continue. Instead of being made once in the animal's lifetime the special beef subsidy should be payable once a year during three years. Thus, the payment might be applied for when the animal was in the age range of, respectively, 6 to 9 months, 14 to 22 months, 28 to 34 months. The amount payable should increase from 40 ECU per eligible animal in calendar year 1993 to 60 ECU/head in 1995 and thereafter (summing to a maximum of 180 ECU per male animal).

Suckler cow subsidies should be payable to producers not delivering milk to dairies, on condition that the suckler cows were kept on the farm for at least six months of the year for which the subsidy was applied. But contrary to current practice, the payment should also be available for producers with a milk quota of 60,000 kg or less. The amount of the payment was proposed to rise from 55 ECU/suckler cow in calendar year 1993 to 75 ECU/head in 1995 and it might be increased by an additional 25 ECU/head (at most) to be financed from the national exchequer.

Payments should be made in all cases just after the necessary controls had been effected but not later than 30 April of the year following that for which the subsidy was applied. Under each system payments were restricted to the first 90 animals per farm and year, and they should be available only when, during the whole year for which a subsidy was applied, the stocking rate of each type (dairy cows, suckler cows, male cattle over 6 months of age, and ewes) was kept below certain critical levels. These levels were set at 1.4 livestock units per hectare for holdings in less favoured areas (as defined by special EC regulations; in West Germany, for instance, 56 per cent of all farm holdings with 53 per cent of the arable land are situated in so-called less favoured areas) and at 2.0 units for those elsewhere.

Finally, a third payment should be introduced for slaughtering young male calves of dairy breeds which - if fattened - might destabilize the market while not yielding a product of desirable quality. An amount of 100 ECU was proposed to be payable for each calf withdrawn from production before the age of ten days. The "processing" payments (popularly called "Herod's blood-money") should be made within 4 months after receipt of the application.

The third and last change in the administration of the beef market was to establish a scheme promoting quality beef and veal products. The Commission was suggesting to pay 40 per cent of the costs of generic promotion schemes, or as much as 60 per cent if the measures envisaged "control of meat quality".

Sheepmeat

The amendments of the regulation of the sheepmeat market centred on restricting payment of the ewe (and goat) subsidies. For this purpose, limits would be introduced at 750 eligible ewes per producer in less-favoured areas and 350 ewes in other regions. At the same time, there should be an "individual producer limit" on the basis of the number of ewes eligible for the payment at the beginning of 1990[17]. Thus, any subsequent additions to the producer's flock beyond his individual limit would not be eligible for any Community payment (AEL 25.10.1991).

Moreover, each individual producer's "ewe quota" should initially be reduced by 1 per cent to create a national quota reserve in each member state. This reserve should be used to allocate quota to new entrants into sheep farming, to serve producers whose initial allocation was abnormally low for various reasons and (other) cases of hardship.

To prevent ewe quota being purchased by frustrated beef producers in more affluent agricultural regions, and to avoid eventual desertification in areas where sheep farming is the only viable agricultural option, the Commission proposed to restrict the right of transfer. Once allocated, the quota would be tied to the land and only be passed on by sale, lease or inheritance of the land to which the quota is tied or by sale to the relevant member state government through buy-up schemes which each country would introduce. The proposed maximum price for such schemes would be 100 ECU/ewe (70 ECU per she-doe).

Originally, the Commission proposed to start with the new regulation on 1 January 1992 and to apply a transitional regime in the first two years. During that time, the restrictions would gradually be intensified by reduced flock size limits as well as by reducing a transitional "fairness subsidy" payable for animals exceeding the new limits.

Complementary programs

Under the headings of "Environmental Protection", "Afforestation of Agricultural Land" and "Early Retirement", three programs of accompanying measures were proposed to complement the reform package (AEL 18.1.1991).

The first program offered farmers incentives to engage themselves in a more friendly use of the environment. For example, one aid was proposed to be paid over a period of 5 years to those farmers who made significant cuts in the use of polluting inputs (fertilizers, pesticides and herbicides). Another aid system was to promote an environment friendly management of farmland in order to conserve or re-introduce the diversity and quality of the natural environment (scenery, fauna, flora). The aids should, for instance, compensate for any loss in income incurred by relinquishing methods of intensification (drainage, irrigation, plowing up grassland *etc.*). A third aid would be introduced for the environmental upkeep of land abandoned by farmers or others living in the rural areas. In addition to these aids, a new long-term set-aside scheme was proposed which would specifically aim at the protection of the environment and promote the ecologically sound re-afforestation on agricultural land.

Another program provided for a marked increase in the aids currently paid for afforestation of agricultural land. Payments should be raised from 1,800 ECU/ha to 2,000 and even 4,000 ECU/ha for planting coniferous and deciduous trees, respectively. During the first 5 years of new plantation, cultivation should be supported by an annual aid of 950 (respectively 1,900) ECU/ha. In addition to these payments, the compensatory payment currently available over 20 years at a rate of up to 150 ECU/ha annually was proposed to be increased to the level of the set-aside payment (the older schemes, which are bound to end when the CAP reform is enacted, provided for a maximum of 600 ECU/ha).

The third program aimed at an improved farm structure by rejuvenating the structure of farm

[17] Actually, the producer limits were to be based on eligible ewe numbers in 1991 but these numbers were to be "corrected" by taking into consideration the different development of national ewe flocks in the respective member states. This procedure was to take account of the differing systems for paying the ewe subsidy (UK as compared to the rest of member countries) as well as special cases such as the unification of Germany.

operators. The existing outgoers' scheme was proposed to be reinforced and extended to all farmers aged 55 or more. Those out of this group who made available their land to their successors or to other farmers would (on certain conditions) be eligible for payments without incurring any loss in their pensions due under the respective national social security systems.

Budgetary implications

On the whole, the Commission claimed that the proposed reform would put an effective brake on Community spending on agriculture by 1997. Detailed budgetary forecasts for five of the main sectors affected by the reform program - cereals, oilseeds, protein crops, beef and sheepmeat - showed that total spending on these sectors in 1997 would be only marginally higher than the draft budget allocated to these products for 1992 (AEL 25.10.1991). In the case of arable products, the cumulative increase was estimated to be just 2.5 per cent for the whole five year period (1993-97), compared with the current trend of around 10 per cent annual increases. Rising amounts required for direct payments in the beef sector exceeded the savings resulting from the restrictions imposed on intervention. Additional small savings were expected in the sheepmeat sector.

Another estimate circulated by *Agra Europe* came up with budgetary expenditures on market support falling from 36,000m ECU in 1993 to 30,500m ECU by the end of the century. But it was further expected that the costs of compensatory payments and of the complementary programs would at the same time increase to 16,500m ECU. The 47,000m ECU annual expenditure to be made under reform conditions would, however, compare with almost the same amount required for market support under unchanged policy (AEL 4.10.1991).

3.2 The Council's Reaction

On the whole, the Commission's CAP reform proposals had no chance of being approved by the Council without substantial changes. From the outset of ministerial discussions there were many individual aspects of the reform paper which were bluntly rejected by varying coalitions of member countries. To keep the consultations going, the Portuguese farm minister who chaired the Council during the first half of 1992, repeatedly tabled new compromise proposals (AEL 31.1.92, 14.2.92, 1.5.92) which continuously watered down the Commission's initial concept. Finally, by the end of April, a state was reached which seemed to offer the main elements of an eventual agreement although it deviated considerably from trade liberalization requirements. Compared with the original reform proposal, however, it provided two important features which made it politically more acceptable: a smaller cut in cereals prices and a rejection of the relative discrimination against the larger farmers.

Under the latest (end of April) compromise proposal the cereal target price would be cut to 112 ECU/tonne instead of to 100 ECU/tonne and the difference between the threshold price and the target price, the so-called Community preference, should be 30 ECU (against 10 ECU). All farmers would be compensated at the full price compensation rate for all land which they were required to set aside (the original limitation to the first 34.5 tonnes of production forgone on any single farm being scrapped). Thus, the rate of compensation would be lower (174.8 ECU/ha instead of 230 ECU/ha) but there would be theoretically no reduction in return to any farm from either the target price cut or the application of set-aside.

Compensation would, however, not only depend on the individual farmer's orderly participation in the current set-aside program, but also on collectively observing certain regional area limits. It was proposed that a regional base area equal to the average of the areas planted with cereals, oilseeds or protein plants plus the average put under a public aid scheme in 1989, 1990 and 1991 should be defined for each administrative region. Each producer would submit annually an application setting out the acreage sown with arable crops and the acreage left in set-aside (meeting the actually required general and, where applicable, regional set-aside percentage - for the latter see below). Where the sum of the individual cultivated areas plus the areas put under the general set-aside arrangement was found to exceed the regional base area, the farmers should be subject to: (i) during the same marketing year, a proportional reduction of the various acreage payments requested (compensation payments for cereals, oilseeds and other arable crops, set-aside payments); and (ii) in the following marketing year, the implementation, without compensation, of an additional regional set-aside measure covering the previous excess over the regional base area.

While this approach required less budgetary outlays for direct price compensation it needed more to meet overall set-aside cost. With EC cereals prices maintained at above world market levels export subsidies would, of course, have remained in place and less-reduced producer prices together with full compensation would have cut production less sharply, if at all. Contrary to the Commission's original proposal (which envisaged elimination of export restitutions) the Presidency's proposal would therefore still have required around 700m ECU annually to subsidize exports. This sum would have been compatible with the Dunkel recommendation for a 36 per cent cut in export subsidy but the underlying quantity would have hardly met the 24 per cent volume reduction requirement - to the effect that a much larger set-aside would have been needed.

Further mitigation was proposed by the Presidency for other sectors. The new dairy cow payment and the increased beef aid were both to follow the same, weaker, extensification criteria starting from 3.5 livestock units per hectare in 1993, reduced to 3 and 2.5 units in 1994 and 1995, respectively, and reaching the final limit of 2 livestock units per hectare, applicable from 1996 to all regions, whether disadvantaged or not. In calculating these stocking rate factors account should be taken of all animals per farm for which aids were requested (male bovine animals, suckler cows, dairy cows and ewes). Small holdings of up to 15 livestock units were, however, not subject to the extensification criteria.

Regional Reference Herds (RRH), equal to the number of payments made in a certain reference year (1990, 1991 or 1992 to be chosen by national administrations) should be established for each region within the member states. If, in a given region, the number of requested payments exceeded the RRH level, the amount payable to the individual producer would be reduced proportionally. Contrary to the dairy cow payment for which the levels were kept unchanged from the Commission's proposal, the special beef and suckler cow premiums were increased to 90 and 120 ECU/head, respectively. Special beef payments would be made twice (not three times) in the animal's lifetime, once after it had reached 12 months and again after it had reached 24 months of age. Suckler cow payments would be limited for each producer to the number of payments made in a reference year (1990, 1991 or 1992).

The "processing" payments proposed by the Commission for slaughter of young male animals of dairy breeds was supplemented by a "lightweight" intervention arrangement applicable in countries where subsidized slaughter of unfattened calves would raise public opposition. During a transitional period of three years, the "lightweight" intervention scheme would allow purchase of carcases weighing between 150 and 200 kg while the regular beef intervention was to be subject to a reducing ceiling (falling from 750,000 tonnes in 1993 to 350,000 tonnes in 1997) as well as to tightened rules and lower safety net. Under the safety net, intervention in a single member country would not be released before, during a reference period, the market price was less than 55 per cent of the intervention price. Intervention purchases of category O (the second last in the EC's beef classification scheme "E-U-R-O-P") young bulls would be discontinued from 1993.

With regard to sheep the individual producer's headage limits were proposed to be 1000 head (instead of 700) in the less-favoured areas (LFA) while the limits applicable to other regions were maintained at 350 heads. An additional reserve (not to be taken off current flock size) equal to 1 per cent of the sum of individual producer's headage limits in the LFAs of each member state should be established. It should be allocated exclusively to these same regions. Moreover, it was seen as necessary to avoid the transfer of the rights to payments from LFAs to outside such sensitive areas. Such transfers should be inhibited by administrative means (by linking the rights to the land and by seizing part of the rights in cases of decoupled transfers).

3.3 Decision on CAP Reform and Farm

Prices

During the Council meetings, discussion of the various proposals always gave rise to much controversy. In spite of the Presidency's compliance, Germany, Belgium and Luxembourg remained opposed to "excessive price cuts" while on the other side Agriculture Commissioner MacSharry warned the ministers not to stop short of what was needed for real competitiveness. He persisted in calling for EC cereals prices to be reduced to world market levels. The UK spearheaded a coalition of interested parties from several member countries (Denmark, France, Germany) fighting the alleged discrimination against large-scale producers. Instead of the general set-aside exemption provided for farms with a base area of, on average, up to 20 hectares, Germany, Belgium and France advocated 10 hectares as the maximum size while Denmark, the Netherlands and the United Kingdom called for an upper limit of just 5 hectares.

With regard to the duration of the proposed compensation for the cereal price cuts, Belgium, Denmark, the United Kingdom and the Netherlands all supported a definite time limit put to the payments. France and Ireland, however, seemed to expect the payments to last forever. Denmark saw itself as the prime victim of scrapping the young bull intervention[18] which was accepted by all other member states. Greece, Italy and Spain were mainly concerned with getting their milk quotas increased[19], a claim which Ireland and the UK were not prepared to let pass unless similarly advantaged. Although there seemed to be general agreement that transfers of the new sheep quotas from LFAs to other regions should somehow be blocked, some countries, including the UK, regarded the proposed regulations to be too restrictive and bureaucratic.

The decisive final Council meeting started on Tuesday, May 19. It paved the ground for the final agreement settled in the evening of the 21 May. The package contained most elements of the latest (third) Presidential compromise paper but established the cereals price at a level of 110 ECU/tonne (*cf.* Annex Table which also makes apparent the progressive dilution of the reform package). Full compensation for both the price cut and the set-aside was offered without any decrease in farm size or over time. The dairy farmers escaped any real encroachment on their vested interests regarding either prices or quantities, although supply was officially stated to be around 25 per cent in excess of demand. Beef and sheep farmers will have to comply with some kind of "right-to-payment" quota. Changes in the beef intervention system give way to lower prices - at least during a period of structural adjustment. No direct changes are made with regard to sugar, fruit and vegetable, wine and other crop products (except tobacco). The regulations concerning pigmeat, poultry and eggs will be adjusted according to the new cereals price but will certainly conserve the former protection hidden in feed conversion rates, processing factors and "preferential elements" applicable in the calculation of import levies.

The "unusual situation" of agriculture in the five

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[18] Denmark's beef production happens to be concentrated on the "O" category of young bulls, which constitute about four-fifths of Danish young bull production (AEL 15.5.1992). In other member countries this share is less than one-third. Moreover, young bulls constitute approximately half of Denmark's total beef production of some 205,000 tonnes a year. But since Italy is a regular customer of Danish young bulls the damage by an eventual loss of intervention opportunity might well have been exaggerated.

[19] The milk quota situation in the Mediterranean member countries is heavily disguised by unreliable statistical records and laxity of implementation (AEL 21.2.1992). It Italy, individual quotas and the super-levy system were not fully implemented before October 1991, and only on massive pressure from the Commission. Production estimates still range from 9.6 to 11.1m tonnes and contrast with a quota of, at present, 9.03m tonnes. Thus, the official request of the Italian Prime Minister to the President of the Commission for an additional milk quota of 1.5m tonnes was not only motivated by the Italian elections (1.4.1992) but also by hopes to get the farmers out of paying the super-levy allegedly accrued to around 680m ECU. In public, the demand was justified on grounds of increasing domestic demand, a level of self-sufficiency under 60 per cent (lower than when the quotas were introduced according to Italian sources) and the special situation of hill farmers who the government thinks should be exempt from the co-responsibility levy. The self-conceived justification for Greece's demand for another 100,000 tonnes of milk quota (in addition to its present 531,000 tonnes) was that it was short of fresh products. Those products were said to be no longer importable from the rest of the Community because of transport problems caused by the Yugoslavian civil war (presumably, the opportunities of changing the pattern of production have not been investigated enough). For the Spanish government a 700,000 tonnes increase of the quota (presently 4.975m tonnes) was said to be more a social problem of keeping some 600,000 small farms in operation but similar to the Italian case there seems to be a much larger production surplus than officially conceded (production estimates range from 6 to 7m tonnes contrasting with minor unused quota shares quoted in official reports).

new Länder of Germany was taken into consideration by providing for specific rules. In the arable crops sector, a base area of 3.14m hectares was attributed to the five Länder (compared with around 2.7m ha planted with cereals, oilseeds and pulses in the former GDR) and the average West German cereals yield will represent the regional yield to be applied there (5.6 tonnes/ha compared with a former 4.5 tonnes/ha). The reference quantities referred to in the beef and sheep sectors were, with regard to East Germany, established at 1m ewes, 780,000 young male bovines and 180,000 suckler cows. Thereby, the five new Länder obtained rather favourable terms for their further development (in addition to the large 870,000 tonnes sugar quota and a less generous 6.3m tonnes milk quota).

The Council decision falls very short of what could have been expected on the basis of the first Commission proposals. EC agriculture will remain uncompetitive on world markets without export subsidies. Large scale agriculture continues to be aided under the pretence of social requirements justified (if at all) for small farmers. The unique chance of introducing falling direct subsidies for a limited time period as for instance on the basis of treasury bonds[20] has not been seized. What is to be expected instead is that surplus will continue to tax world markets and the EC budget to the detriment of other exporting nations, farmers in developing countries and last, not least, taxpayers and at the costs of the Community's environment.

The 1992/93 farm price decision finally turned out to be a by-product of the agreement on CAP reform. The most significant single element (and at the same time almost the only one of general importance) was the suspension of the cereals co-responsibility levies for 1992/93. In its price package the Commission originally wanted to collect 8 per cent CRL (5 per cent basic CRL as in the previous year plus 3 per cent supplementary CRL released by the stabilizer mechanism). Together with the 3 per cent reduction in the cereals price the waiver of the CRL brought forward by one year even resulted in a 2 per cent price increase for the farmer (although the market prices would likely follow the 3 per cent reduction in intervention prices). The suckler cow premium, originally earmarked for being cut to 40 ECU/head, remained in place at 50 ECU/cow.

4. GATT Round

The Uruguay Round, paralysed for months by the dispute between America and Europe over agriculture now depends on the compromise agreed to by the EC farm ministers on CAP reform, and on whether America and the other participating countries are willing to accept this compromise. "America should," maintained a leader of *The Economist* (23.5.1992) and further argued "Europe's likely new farm policy is nobody's idea of liberal trade in agriculture; it is not even as good as the earlier MacSharry plan, itself a compromise between reformers and protectionists. It will, however, be a step in the right direction - and is almost certainly as far as the EC will go in 1992."

4.1 The GATT Compromise Paper

The benchmark set at the GATT talks for both CAP reform and GATT conclusion was the plan suggested by GATT Secretary-General Dunkel, by the end of 1991. The paper called for progressively reducing agricultural support and protection in the period 1993-99 and proposed three key measures (AEL 3.1.1992).

First, all non-tariff import barriers were to be converted into tariffs and, on the basis of their respective tariff equivalents, to be reduced by 36 per cent. Agricultural products currently subject to ordinary customs duties were to be treated accordingly, based on the level applied as at September 1986. For any individual product (position in the customs nomenclature) the tariff reduction was to be not less than 15 per cent. In cases of insignificant imports (or still prohibitively high import duties), minimum access opportunities were called for. They should represent in the first year (1993) not less than 3 per cent of the corresponding domestic consumption in the base period and should be

[20] The proposal to buy out farmers' vested interests by issuing fixed-interest securities for a liberalization of EC agricultural markets has been made repeatedly by European economists. It has, however, consistently been disregarded by politicians because the farmers' unions could not be convinced. The arguments of social and/or ecological dumping and the fears of nutritional dependence on insecure and volatile world markets remained paramount.

increased to 5 per cent by the end of the implementation period (1999). Second, budget expenditures on export subsidization were to be decreased by 36 per cent between 1993 and 1999 while, by volume, subsidized exports should decrease by 24 per cent - both on the basis of average levels for the period of 1986-90. Third, domestic agricultural support was to be reduced by 20 per cent in 1993-99 on the basis of average support in the 1986-88 period with allowance for any reduction of support since 1986.

The Dunkel plan further laid down the following five criteria for definition of decoupled income support to be classified as "green box" measures: (1) determination of support by the level of income or factor use; (2) the amount paid out being unrelated to the type or volume of production; (3) the amount of payment being independent from the prices, domestic or international, applying to any production undertaken in any year after the base period; (4) the amount of payment not being related to or based on the factors of production employed in any year after the base period; and (5) payments not requiring any production at all.

It was clear, therefore, that under these criteria, the compensatory payments envisaged by the MacSharry plan of CAP reform as well as the US deficiency payments could not be classified as falling into the "green box" of production neutral measures. But while the Dunkel paper was welcomed by the US administration as an important contribution to finally concluding a GATT agreement, it was criticized by EC officials on the grounds of not taking into account the principles of CAP reform. Denmark, France and Ireland rejected it as a basis for negotiation since these countries would loose substantial shares of their returns from third country exports (AEL 10.1.92).

4.2 The Community's GATT Offer

Refusing the straightforward method of tariffication as proposed by Dunkel, France tried to obstruct the Commission's detailed response which it believed went beyond the original negotiating mandate. The French argued that the EC position drawn up in the December 1990 GATT Ministerial meeting was never discussed nor approved by the Council. The Commission should therefore remove three main concessions made in December: (1) the decision to exclude soya from the rebalancing proposal; (2) the undertaking to limit subsidized exports not only in terms of budgetary expenditure but also quantitatively; and (3) the commitment to guarantee minimum access to the EC market for specific products.

Table 9: EC basic tariff equivalents for market access (in ECU/tonne, average 1986-88)

Product	Internal price	External price	Tariff equivalent
Durum wheat	383	152	231
Common wheat	241	93	149
Barley	236	85	145
Maize	241	96	147
White sugar	719	196	524
Pigmeat carcases (1)	-	-	839
Beef carcases	4289	1526	2763
Frozen bovine carcases	3436	1423	2013
Skimmed milk powder	2170	685	1485
Whey powder	509	437	109
Butter	3905	943	2962

(1) TEs for pigmeat (poultry, eggs) equal the levies applied.
Source: AEL 20.3.1992.

Backed only by Germany and the UK the Commission, however, widely followed the Dunkel approach.

In its position submitted to the GATT following the request of the Dunkel paper, the Commission listed the tariff equivalents (TEs) of a number of agricultural products (*cf.* Table 9) which were liable to the proposed 36 per cent cut. The tariffs for common wheat, for instance, would fall progressively from an initial 149 ECU/tonne to 95.36 ECU/tonne in 1999 while the tariff for butter would be reduced from 2962 to 1895.7 ECU/tonne. For some products, particularly dairy, the Community would benefit from the fact that during the mid-1980s, world prices were lower than at present. In these cases the TEs are considerably higher than the current EC import levy so that the initial adjustment would be less onerous. To manufactured and less important agricultural products "derived tariff equivalents" would be attributed. They would be derived from the TEs of either the raw products contained in the product in question (butter, skimmed milk powder and white sugar in the case of sweet condensed milk) or from specified "leading" agricultural products (barley in the case of oats).

There is, however, an obvious difference in the method of calculation between the Dunkel paper and the EC proposal. While in the former the TEs were defined to be the difference between the average domestic wholesale price and the average cif price converted to domestic currency, the EC started from the level of intervention price augmented by 10 per cent (a margin allegedly required to maintain a preference to EC producers) and multiplied by the "central rate conversion factor" (or "switchover coefficient" as known from the EC's famous agri-monetary compensation system). The possible deviation between the two methods is far from negligible: based on the EC method a wheat TE was likely 25 per cent higher for 1986-88 than the corresponding figure based on the Dunkel method.

Moreover, the Commission advocated more aggregation in the cereals, oils and fats, dairy and meat sectors which would allow processors more flexibility in how they used their raw products and at the same time would alleviate the export restrictions of individual products specifically disadvantaged under the Dunkel method.

The answer to the GATT questionnaire also quantified the implications of minimum market access arrangements and volume restrictions on subsidized exports. The minimum access principle would, according to Commission estimates, in 1999 lead to supplementary imports, as compared with the reference levels, especially in the cases of wheat and flour (281,000 tonnes), meat (78,000 tonnes), SMP (69,000 tonnes), butter (10,000 tonnes), cheese (104,000 tonnes) and eggs (208,000 tonnes). If this proved impossible under the existing tariffs, the EC would have to make additional concessions to meet the 3-5 per cent import targets. Moreover, the Community would have to ensure that preferential access concessions were maintained at a level corresponding to the 1986-88 average. This provision would also apply to New Zealand butter imports which had to be kept at 76,666 tonnes per year (compared with an import quota of 55,000 tonnes in 1992; AEL 20.3.1992).

Special factors to be applied on cereal substitute products were introduced in order to incorporate the "rebalancing" aspect into the calculations - which tacitly implied that the idea of extending rebalancing to oilseeds had been dropped. But with regard to so-called cereals substitutes, the rebalancing demand was, at the same time, specified by claiming the introduction of a 6 per cent import duty (on deliveries of for example corn gluten feed) up to an annual maximum quantity of 4.5m tonnes. Above this quota, 500 ECU should be payable per tonne (AEL 6.3.1992).

Moreover, on the basis of the CAP reform decision, the Community would hardly be able to comply with a 24 per cent reduction in the volume of subsidized exports as required by the Dunkel compromise proposal. While the Dunkel paper stipulated a limit of, for instance, around 12m tonnes of wheat, the EC was determined to maintain a level of at least 15m tonnes (compared with current 19-21m tonnes). From a purely technical point of view, a compromise seemed to be possible simply by applying the 24 per cent limit not to the individual commodity (wheat) but to the aggregate (cereals). This turned out to be unrealistic because both sides, the US and the EC (France), stuck to defending their interests (reaching farther than the difference between 12 and 15m tonnes of wheat).

In the area of domestic support, the Dunkel compromise proposal and the EC position remained incompatible. The Dunkel paper called for a 20 per cent cut in the Aggregate Measure of Support (AMS) between 1993 and 1999. Applying this percentage, for instance, to the AMS which the Commission calculated for wheat (an average 8,000m ECU in 1986-88) would therefore require a reduction to 6,400m ECU in 1999. Such a reduction is to be found neither in the paper submitted to the GATT nor in the Reform package. Quite on the contrary, for each individual product, the sum of the market support and of the compensatory payments will, according to the Council agreement on CAP reform, make up the same total amount of support in 1993 and subsequent years as it was before the reform began. This is an indication of product specific subsidies. The Commission however seemed to assume that the planned EC compensatory payments were accepted by the GATT partners to fall into the "green box" where they were secure from future reductions. This assumption was wrong.

Instead of accepting the EC compensatory payments as non-trade-distorting measures, the US revived an earlier compromise proposal to create a "blue" box as a separate category from the "green" and "yellow" boxes consistently under discussion. The blue box should contain those subsidies which for a certain time period were permitted but which would have to be reduced afterwards. However, even if this idea had been acceptable to other countries it was not to the EC. The difficulty for the EC consisted in the Council decision suggesting (although not expressly defining) full compensation to last for ever. Thus, the blue box solution would have required effective decoupling of the compensation from actual production, and the declaration of diminishing compensation (which until then was anxiously avoided by both the Commission and the Council in order to make the CAP reform politically acceptable to European farmers).

On the whole and taking all the difficulties into consideration which even after the CAP reform still exist, one feels inclined to warn of an explicit failure of the Uruguay Round. In spite of the expedient optimism cautiously shown by high ranking politicians, a positive conclusion of the negotiations has rather moved to the future.

5. New Processes Towards European Integration

The most outstanding single event in 1991-92 with regard to the process of European integration certainly was the agreement of the heads of state or government of the EC member states on accomplishing the Political Union and on a detailed plan to set up a Monetary Union. This success was however not untroubled. The British government insisted on two opt-outs in the Maastricht treaty - one on monetary union, the other on social policy - and effectively blocked any move towards federalism. Several member states denied to cede more power to the European Parliament (which, admittedly, in view of its inability to take and adhere to difficult decisions, may not yet deserve such rights) and in a later referendum a small majority of Danish voters rejected the Maastricht Treaty altogether. Besides this development the processes of integration continued, further "deepening" as well as "widening" European integration.

5.1 The Single Market and the European Economic Area

The creation of the Single European Market by the end of 1992 is not primarily directed at the CAP nor at agriculture and the food sector. There are, however, strong links between the EC 1992 program and intra-Community trade in processed food products, and the EC's food industry will be directly affected by the lifting of still existent internal trade barriers. Roughly three quarters of the 282 directives which the EC White Paper originally urged the Council to enact have meanwhile been agreed to. But the remaining 25 per cent, some dealing with veterinary and plant hygiene matters, remained controversial. Other directives for transportation, financial services and the harmonization of value-added and excise taxes will indirectly affect the EC's processed food and agriculture sectors. Thus, within only a few months, all enterprises of all sectors will have to react on the changes encountered in the Single Market. Two perhaps marginal but not untypical examples are given below[21].

Although EC banana production is of little importance[22], there have always been two spheres of interest with regard to imports. French loyalties to former colonies, on the one hand, secured several ACP countries (*e.g.* Martinique and Guadeloupe) preferential treatment (exemption from a 20 per cent import levy) under subsequent Lomé Treaties. On the other hand, Germany has always reserved its right to import bananas duty free. These imports are from large scale plantations in Latin America (US fruit companies). The very low price of these "Dollar" bananas made this fruit very popular in Germany (pre-unification annual consumption about 1.3m tonnes). From 1993 on, however, free intra-EC trade will require a single import arrangement which, according to French proposals, would combine a common duty (20 per cent) imposed on all imports with some kind of quota management (maintenance of ACP preference assumed). The EC Commission, represented by its Foreign Affairs Commissioner, wants to subject the bananas to normal GATT regulations and, thereby, to the tariffication and tariff reduction processes to be agreed in the Uruguay Round. The Latin American exporting countries threatened to bring their case before the GATT arbitral commission.

Quite another consequence of the Single Market concerned Danish and Irish beef exporters. Worrying about how the US would view their countries' animal health status once the EC's internal borders are removed on 1 January 1993, they raised fears of losing access to the US market. The reasoning was that, with the US Tariff Act requiring imports of meat, meat products and live animals to be admitted only from countries recognized as being free from foot-and-mouth disease, the "white list" status presently granted to Denmark and Ireland as the only EC member countries might be withheld from the entire Community.

In its negotiations with the US administration, the EC Commission tried to obtain a formal declaration that the US, in conformity with the Community approach to animal health problems, would recognize "animal health regions". The Commission argued that under EC regulations any outbreak of animal disease is effectively isolated by a system of danger, buffer and surveillance zones and that the limits of the latter are always a certain distance away from the outbreak, even if a zone crosses a political border into the next member country. Moreover, the Community could also point to its policy of a total ban on vaccination which makes readily apparent any outbreaks and prevents an unrecognized spread of infection.

Although the Community has, so far, not obtained the desired approval as a single livestock exporting region, there is obviously widespread confidence that there will be at least no sudden ban on US meat imports from Denmark and Ireland when the Single Market comes into being. But it is still hoped that the Community will get the desired approval. This expectation does not seem to be unfounded since, on its part, the EC has already accepted regionalization for semen imported from some northern states of the US (AEL 16.4.1992).

European Economic Area

Apart from and in addition to the Single Market there will be the much larger European Economic Area (EEA) comprising the twelve EC and seven EFTA[23] member countries. Originally the EEA was intended to become effective simultaneously with the Single Market at the beginning of 1993 but the final conclusion of the agreement was blocked by the EC Court of Justice on grounds of unclear distribution of juridical competence. A new compromise on a dispute settling mechanism was not found until April 1992, when the way was cleared for ratification of the 11,000 pages of legal texts by each of the 19 participating countries.

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[21] A more concise overview and analysis of several effects of the EC 1992 program is given by Kelch (1991).

[22] French overseas territories, Spanish Canary Island and Portuguese Medeira are the only parts of the Community where bananas are grown commercially.

[23] Member countries of the European Free Trade Area are Austria, Finland, Iceland, Liechtenstein, Norway, Sweden and Switzerland. Unlike the EC, the EFTA has never tried to embark on common policies. In particular, each EFTA country has always remained completely independent to run its own agricultural policy with levels of protection generally above those in the EC.

The EEA treaty is to extend the advantages of the EC's internal market (free movement of labour, capital, goods and services) to another 32 million people endowed with an average purchasing power well above EC standard. Since the main gain of integration was seen to fall to the EFTA countries, the EC bargained hard for getting increased access to their fishing grounds, (mainly Norwegian and Icelandic), extended concessions to EC trans-Alpine lorry traffic across Austria and Switzerland and an important financial contribution for the Community's under-developed southern regions. Agriculture, food and energy generally remain excluded from the new arrangements but there will be improved concessions on the specialized primary and processed food which countries from both groups already trade with each other (AEL 25.10.1991).

When the idea of the EEA was first developed in 1989, it aimed at giving the Community more time to complete its own internal market and establish closer political union before further enlargement. But now, with Austria, Finland and Sweden having applied for EC membership and Norway and Switzerland thinking it over, the EEA rather looks like the prelude to full EC membership of at least the majority of EFTA countries. This movement has been accelerated on the one hand by the very limited nature of the EEA arrangement (exclusion of the EFTA countries from the decision taking processes) and on the other by the dramatic changes in Eastern Europe.

5.2 EC Enlargement and Association of New Countries

Applications for EC Membership

With the Swiss application for EC membership made a few days after the people had (narrowly) endorsed Switzerland to become a member of the International Monetary Fund the country joined the queue of candidates waiting for entry. Turkey, Cyprus, Malta, Austria, Sweden and Finland all applied prior to Switzerland and Norway is expected to follow with some delay (when the opposition from the Socialist Party and the rural Centre is overcome). Turkey was denied membership in the short term on grounds of a negative opinion given by the Commission. Cyprus and Malta were put off with arguments saying that, presently, the "deepening" of integration had priority over the "widening". The affluent EFTA countries, however, encountered less restrictive reactions. The Commission has already delivered a positive opinion on the Austrian application and the others will be favourable, too. Neutrality which constituted a major political problem for EC membership during the Cold War will be judged differently since the Soviet Union ceased to exist. But the Community will insist upon the candidates accepting the "aquis communautaire" (any new EC member has to accept the whole body of legal and political provisions in force at the moment of entry) and fully identifying themselves with the aims of integration underlying the Maastricht Treaty.

Another problem facing the Alpins and the Scandinavians alike is that, in all their countries, agriculture is largely disadvantaged by climatic and topographical factors and, partly for that reason, is highly protected. In terms of producer subsidy equivalents, the OECD's scale of agricultural protection (OECD 1992, Annex tables), Finland, Sweden, Switzerland and Norway all range well above the Community and Austria (60 to 80 per cent compared with around 50 per cent in 1990-91). Agriculture and the food processing industries together with regional policies will consequently be the biggest challenges in the forthcoming negotiations. However, as compared with the eventual outcome of the Uruguay Round, accession to the Community may relieve some stress on their farmers. Since all four candidate countries will negotiate hard for favourable and sufficiently long periods of agricultural transition, entry may finally be delayed beyond the time now envisaged (1995-96). Later on, when the four take part in the decision making processes, they will certainly strengthen the coalition of those who, within the Community, play the protectionist card by increasingly using environmental arguments.

Association of Central European Countries

Following the political changes in their respective countries, Poland, Czechoslovakia and Hungary sought closer economic and political links with the EC. In the second half of 1989, new accords on trade and economic cooperation were agreed and in 1991 three Association Agreements were negotiated as a first step to EC membership. Romania and Bulgaria also applied for an association with the EC but are still waiting for a reply. Albania has expressed wishes to conclude an agreement on trade and economic development yet remained without a definite response.

The principles and subjects covered in the Association Agreements are the same for all three participating countries. Areas to be developed are not only the free movement of goods, workers, services and capital but also political dialogue and cultural exchange at various levels. The agreements further foresee legislation in the three Associate states coming closer into line with that in the EC. Improved access to EC markets is generally provided for yet with major restrictions in three sectors: textiles, coal and steel, agriculture and food. These sectors were regarded to be sensitive to EC members although, at the same time, they represent the fields of greatest economic interest to the three eastern countries.

As regards market access for agricultural products, special clauses for food, agricultural and fisheries products have been agreed, particularly with regard to meat, live animals and dairy products. While the three countries currently export 11,000 tonnes of beef, 18,000 tonnes of sheepmeat and 198,000 head of cattle at a reduced import levy to the Community, each of these totals are allowed to increase by 10 per cent each year over a five year transitionary period. A safeguard clause limits live cattle exports (at reduced and full levy) to 425,000 head. Moreover, apparently at French insistence, the agreement provides that any trade in these products by the three countries under the so-called triangular trade program[24] will be counted against the three countries' quota allowances with the Community.

Although even in the eyes of the Belgian agriculture minister who then presided over the Council, the effect of the agreed concessions would be "so small as to be scarcely noticeable" (AEL 11.10.1991) COPA and COGECA, the umbrella organizations of EC farmers and farm cooperatives, insisted that all additional quantities of beef and sheepmeat exported by the three countries should be sent to other eastern countries. They also demanded that the safeguard clauses be tightened and the EC veterinary, hygiene and animal welfare standards be applied more strictly. While these protests died away the French provisos resulted in delaying the Association Agreement by a couple of months - not without having increased the EC's reputation as a highly protectionist body denying its neighbours the chances of aid by trade.

Early in 1992, new protests came from EC soft fruit producers who successfully warned of the danger of Polish, Czechoslovakian and Hungarian imports flooding Community markets (AEL 1.5.1992). In spite of the general concessions on market access granted within the framework of the Association Agreement, the Commission responded by proposing the imposition of minimum import prices for raspberries, strawberries, red currants and black currants. Despite the anger this act aroused in the three countries these new barriers were likely to be installed before the harvesting season began.

5.3 Decision for a European Monetary Union

In pursuit of the ideas adopted in 1988 with the (first) Delors plan (the Single Market initiative), the heads of EC member states or governments agreed at the Maastricht summit in December, 1991, on a timetable for European Monetary Union (EMU) and for the accompanying move to a common European monetary policy. Provided that enough member countries have achieved a sufficient degree of convergence in their fiscal stances as well as in their inflation and interest rates (and similar other criteria), the exchange rates of these countries will be irrevocably fixed by the end of this century (in 1997 at the earliest, but at the latest in 1999). A European System of Central Banks (ESCB) will then be responsible for formulating a common monetary policy for the area and for implementing it with the aid of the national central banks belonging to the system. The ESCB's overriding goal is agreed to be price stability within the area, other goals will be pursued to the extent that these are compatible with price stability.

Once the Single Market and the EMU are estab-

[24] The triangular trade program covers exports from Poland, Czechoslovakia and Hungary to members of the Commonwealth of Independent States, the former Soviet Union, which are financed by a special EC financial aid scheme.

lished, the European economic integration will have a new quality. Institutional barriers to movements of capital, labour, goods and services will be abolished and there will be a common, supranational monetary policy. These changes also involve some risks. One such risk is that the European Single Market might become a "fortress" at the expense of non-member countries, a fear which, although nourished by certain protectionist tendencies as for instance new import restrictions for motor cars and bananas, the Commission and individual politicians always try to dissipate. Perhaps even more essentially, the ESCB will have to prove its credibility of its commitment to monetary stability without being able to rely on past successes scored by individual national central banks. And the European Parliament, although still disregarded by the Maastricht summit, will finally have to have more legislative power and better control over both the Commission and the Council.

In order to enforce stability the Maastricht Treaty puts a high barrier to the entry of the Monetary Union. There are certain economic criteria (inflation, interest rate, budgetary deficit etc.) to be applied in order to decide whether a country is sufficiently stability oriented to be a viable partner for the monetary community. Moreover, Maastricht provides for a sound operational basis by: committing the ESCB to maintain price stability as its primary objective; granting the ESCB personal, institutional and political autonomy vis-a-vis possible influences from member state or Community institutions; giving the goal of price stability priority over possible Council decisions on a system of fixed exchange rates vis-a-vis non-Community currencies; prohibiting the ESCB from providing monetary financing for government budgets; equipping the ESCB with all the instruments required by modern central bank policies in a market economy; and providing for regulations and surveillance procedures which are intended to promote economic and fiscal policies in the member states that are in line with stability.

While the contractual regulations listed above appear to constitute the indispensable prerequisites of a successful stability policy, much will depend on the decision makers in the ESCB and, above all, on the support of their work by the general public (Tietmeyer 1992, p. 2). With regard to the latter, at least the Germans see the main risks of giving up their stable currency since a similarly strong aversion to inflation as commonly found in Germany is not encountered in all member countries. Low public acceptance of the cost of stability could, however, considerably hamper the implementation of a European stability policy. There is also the danger that the criteria for participation in the EMU will be relaxed owing to political considerations should one of the foundation members of the Community not be admitted on grounds of poor monetary record. Presumably the best way to avoid such risks would be that, in anticipation of the EMU, the national central banks should have an early opportunity to conduct monetary policy independently of their respective governments.

Finally, there are several other challenges to be met. The Maastricht Treaty has to be ratified in every single member state and a referendum will be held on this issue in at least two member states. Several countries will have to amend their constitutions. Should any country reject the treaty[25], difficulties will be caused with regard to further integration for all countries. The completion of the Single European Market scheduled for the beginning of 1993 still needs considerable effort and by the end of the century the Community may have not twelve but sixteen or more members of which only the Alpine and Scandinavian countries score comparable or even greater successes in the field of stability than some of the present member states themselves.

With regard to agriculture, which has long been if not the only then the most stringently integrated economic sector of EC, the EMU is far behind time. Half a century was needed to provide the monetary conditions that were desperately required for a policy based on administered common prices but which will finally be less urgent for a policy relying more on direct payments.

[25] In a referendum held on June 2, 1992, the Danes denied their approval to the Maastricht Treaty by a 50.7 per cent majority. The rejection will however neither stop the integration nor terminate Denmark's EC membership but it will complicate the political life and isolate the Danish government from the relevant decision taking processes.

5.4 Financial Perspectives

When the Maastricht treaty was agreed Commission President Jacques Delors unveiled his plans for another internal reform, the so-called Delors II package (AEL 14.2.1992). Entitled "From the Single Act to Maastricht and beyond - the means to match our ambitions" (Commission 1992) the document outlined the budgetary consequences of the reform measures and of the deepening of the integration. Overall Community spending would, according to the Commission's new five year budgetary planning, rise to 87,500m ECU in 1997, from 66,500m ECU in 1992 and 51,000m ECU in 1987. It would require 1.34 per cent of the member states' combined Gross Domestic Product (GDP), compared to 1.15 per cent in 1992 and 1.05 per cent in 1987. Assuming that the CAP was reformed along the lines originally proposed by the Commission's MacSharry plan and that the other policies were funded according to the aims confirmed by Maastricht, the financial plan foresaw a further rise in CAP spending to 39,700m ECU in 1997 (from 35,300 and 32,700m ECU, respectively) but its relative decrease to 45 per cent of the total (as against 53 and 64 per cent, respectively).

With the global figures quoted above reflecting hardly more than reasoned expectations, there are many critical problems disguised in the document which contain the material for another crisis of the Community. The Council (presumably not the "ordinary" one consisting of the responsible ministers but the "European" one made up of the heads of member states or government) will have to decide on the extension of EC resources, on national contributions and eventual rebates. A new guideline for the agricultural budget and clear regulations on what falls under its cover are required and the funding of structural operations and (other) internal or external policies have to be determined. These problems will cause difficulties. As in many former cases of getting the Community's problem solving machinery work, the necessary discussion of the paper has, for the time being, been postponed.

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Annex Table: Synopsis of main CAP reform measures

Subject	MacSharry plan (October 1991)	3rd Presidency proposal (April 1992)	Council decision (May 1992)
CEREALS			
- **Prices**			
Target price [a]	125 - 110 - 100 ECU/tonne	135 - 125 - 112 ECU/tonne	130 - 120 - 110 ECU/tonne
Threshold price	110 % of target price	30 ECU above target price	45 ECU above target price
Intervention price	90 % of target price	90 % of target price	90 % of target price
Co-responsibility levy	after 8 % in 1992/93 reduced to 3% in 1993/94 and 2 % in 1994/95	not specified	suspended for four years as from 1992/93
Stabilizer	the stabilizer mechanism shall be discontinued as from 1 July 1993		
- **Compensation arrangements**			
Basic amounts [a]	25 - 40 - 50 ECU/tonne	15 - 25 - 38 ECU tonne	25 - 35 - 45 ECU/tonne
Regionalization plans	member states must draw up regionalization plans, establishing average yields for the various regions within their territories ("yield regions", "regional yields");	member states may further define "base area regions" comprising one or more whole "yield regions"	
Reference areas	base areas being defined as the average of the areas sown to cereals, oilseeds or pulses in 1989, 1990 and 1991 plus the areas fallowed under a public aid scheme;		cereals grown for silage treated like other cereals
	individual base areas	regional base areas	regional base areas; member states may opt for use of individual base areas

[a] applicable in the marketing years 1993/94, 1994/95 and 1995/96, respectively

Annex Table: (continued)

Subject	MacSharry plan	3rd Presidency proposal	Council decision
		where the sum of individual cultivated areas plus the areas subject to the normal set-aside is in excess of the regional base area, two measures will apply: (i) during the same marketing year, proportionate reduction of payments (set-aside, arable crops), (ii) in the following year, increase (without compensation) of the set-aside requirement by the area in excess (=.special set-aside to be applied regionally at varying rates)	
Level of payment	the amount of compensation available for the individual producer is defined as basic amount * regional yield * individual base area		
- Set-aside scheme			
Compliance	15 % of the base area, set aside within the farm's crop rotation		
			non-rotational set-aside subject to member state's option (at higher rate of set-aside)
	"small" farmers (base area smaller than area equivalent to production of 92 tonnes of cereals) generally exempt from set-aside		
Rate of payment	the regional rate of set-aside payment is the same as the rate of regional price compensation (basic amount * regional yield)		
Eligibility	limited to a base area equivalent to 230 tonnes of cereals (at EC average yields and 15 % set-aside compensation limited to the first 7.5 ha idled on each farm)	full compensation for annual (regular) set-aside	

Annex Table: (continued)

Subject	MacSharry plan	3rd Presidency proposal	Council decision
MILK			
- Prices and payments			
Prices	intervention prices of butter and skimmed milk powder to be cut by 15 and 5 %, respectively, within 3 years		reduction of butter prices by 2.5 % in 1993/94 and 1994/95 (relative to price in 92/93); SMP price unchanged; price decision subject to later confirmation by the Council
Superlevy	the rate of superlevy is to be unified at 115 % of the target price for both deliveries to dairies and direct sales		
Dairy cow payment	an annual payment shall be made for the first 40 dairy cows in each herd; the rate of payment shall be 25 ECU in 1993 rising to 50 ECU in 1994 and 75 ECU from 1995	the same extensification criteria (density factors) shall apply as for beef and sheep; producers with less than 60,000 kg milk quota shall be exempt	no payment will be made
- Quota arrangements			
Quota system	to be extended for another 8 years to 31 March, 2000; the regime applicable from 1993/94 shall be simplified and consolidated;		

Annex Table: (continued)

Subject	MacSharry plan	3rd Presidency proposal	Council decision
Quota buy-up and redistribution	national milk quotas shall be cut by 2 % in 1992/93 and by 1 % in 1993/94 and in 1994/95; within these limits, a quantity equal to 1 % of the current milk quota shall be reallocated to "extensive" dairy farms in less favoured areas; "extensive" farms are deemed to be those with a livestock density below a certain level (which was left open to be determined)		no quota reduction is to take place in 1992/93; depending on the development of markets a 1 % quota cut is pending to to be proposed by Commission for both 1993/94 and 1994/95
		member states may decide not to apply the 1 % quota cut for redistribution	member states may decide to buy up 1 % of their national quota for redistribution
	quotas will be bought up at an annual rate of 5 ECU/100 kg payable over 10 years		
Additional new quota shares	no change	to facilitate full compliance with the quota regime Spain, Greece, Italy may get additional quotas	subject to the present quota system being applied correctly in 1992/93, Spain and Greece get additional quotas (500,000 and 100,000 tonnes, respectively)
SHEEPMEAT			
Headage limits	750 ewes/flock in LFA and 350 ewes elsewhere, applicable from 1994	individual producer's headage limits shall be 1000 head in less favoured areas (LGA) and 350 head elsewhere	**500 head elsewhere**
	no payments available for ewes above these ceilings		**half rate payments payable beyond these ceilings**

Annex Table: (continued)

Subject	MacSharry plan	3rd Presidency proposal	Council decision
Reference flock size	individual limitation of the number of ewes eligible for payments to the number of ewes eligible in a reference year; any subsequent additions to the producer's flock above and beyond those limits shall not be eligible for any EC aid		
	reference year: 1990	reference year: 1990 or 1991 (to be chosen by the member state)	reference year: 1989, 1990 or 1991 (to be chosen by the member state)
National reserve	1 % cut of individual producer's headage limits for a national quota reserve (cases of hardship)	creation of an additional quota reserve equal to 1 % of individual producer's headage limits in the less favoured areas of each member state; reallocation of this reserve exclusively within the same regions	
Transfer of premium rights	individual producer's premium rights shall be tied to the land devoted to sheep;		
	quotas may only be passed on by sale, lease or inheritance of the land to which the quota is tied or by sale to the relevant member state government	when a producer sells or otherwise transfers their rights without transferring the land, up to 15 % of their rights shall be seized without compensation by the government; rights thus acquired shall be allocated free to new entrants or other priority producers; member states may allow transfers of premium rights without the transfer of land but shall prevent premium rights from moving away from sensitive zones or localities	
			member states may provide for the leasing of premium rights
Level of payments	no change	no change	the "light lamb" payment is raised from 70 % to 80 % of the "heavy lamb" payment

Annex Table: (continued)

Subject	MacSharry plan	3rd Presidency proposal	Council decision
BEEF			
- Prices	intervention price to be cut by 5% annually over three years		
- General "density" arrangement			
Stocking density	in calculating the density factor (livestock units per hectare), account shall be taken of all the animals per farm for which premiums are requested (male bovine animals, suckler cows and sheep) and the number of dairy cattle needed to produce the milk reference quantity attributed to that holding		
	payments subject to density of 1.4 units in LFA and 2 units elsewhere	payments subject to livestock density being kept below 3.5 units in 1993, 3.0 units in 1994, 2.5 units in 1995 and 2.0 units from 1996	
		small farms with less than 15 livestock units shall not be subject to any restriction from stocking density	
- Payments			
Special beef premium	up to 180 ECU/animal, over 3 years of life (60 ECU annually)	up to 180 ECU/animal, over 3 years of life (90 ECU annually)	90 ECU/animal at 10 months of age plus 90 ECU/animal at 22 months of age
		a regional reference herd (RRH) equal to the number of premiums paid for young male cattle in the reference year (1990, 1991 or 1992, left to the member state's decision) shall be established for each region within member states	
		if in any given region, the number of premium requests exceeds the RRH level, the payments made to any producer shall be reduced proportionally	

Annex Table: (continued)

Subject	MacSharry plan	3rd Presidency proposal	Council decision
Suckler cow premium	75 ECU/cow annually	120 ECU/cow annually with the rights to the premium being limited for each individual producer to the premiums paid in 1990, 1991 or 1992; national reserve and transfer of premium rights: same principles as for sheep;	
	up to 90 suckler cows per farm eligible for premium (no change)	(no change)	the ceiling of 90 suckler cows eligible per farm is deleted
Winter beef slaughter premium	not available	not available	60 ECU/young male bovine to be paid in certain member states on slaughter in January-April only, to reduce an excessive seasonality of supplies
Extensification supplement	not available	not available	payments for male bovine and suckler cows to be increased by 30 ECU/head on holdings where stocking density over a year is less than 1.4 units
Calf conversion payment ("Herodes")	100 ECU/head payable for slaughter of male calves of less than 10 days of dairy breeds	member states shall apply: - either the calf conversion payment (as proposed) - or the intervention arrangement for lightweight animals (see below)	

Annex Table: (continued)

Subject	MacSharry plan	3rd Presidency proposal	Council decision
- Beef intervention			
Lightweight intervention	not available	intervention of beef carcases of 150-200 kg (optional for member states for three years)	
Ceilings of intervention	not imposed	the following ceilings shall be observed: 750,000 tonnes (1993), 650,000 tonnes (1994), 550,000 tonnes (1995), 400,000 tonnes (1996) and 350,000 tonnes (1997)	
Category "O" young bulls	no change	category to be excluded from intervention as from 1993	
Safety net	applicable in a member state where, during a reference period, the market price is, relative to the intervention price:		
	less than 72 % (no change)	less than 55 %	less than 60 %; purchases under the safety net shall not be counted against the new ceilings
Sources:	*Agra Europe* (British edition) of 25.10.1991, 1.5.1992 and 22.5.1992; *Agra Europe* (German edition) of 18.11.1991, 25.11.1991 and 25.5.1992		