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This study focuses on the problems affecting the European Community's Common Agricultural Policy (CAP) and assesses its ability to reform that policy. This study recognizes that the CAP, although it is only a small part of the Community's overall effort, is an important yardstick of the EC's success as a supranational body. Several of the key judgements may appear self-evident to a student of agro-economics, but the importance of agro-politics within the European Community has probably been underestimated in previous studies.

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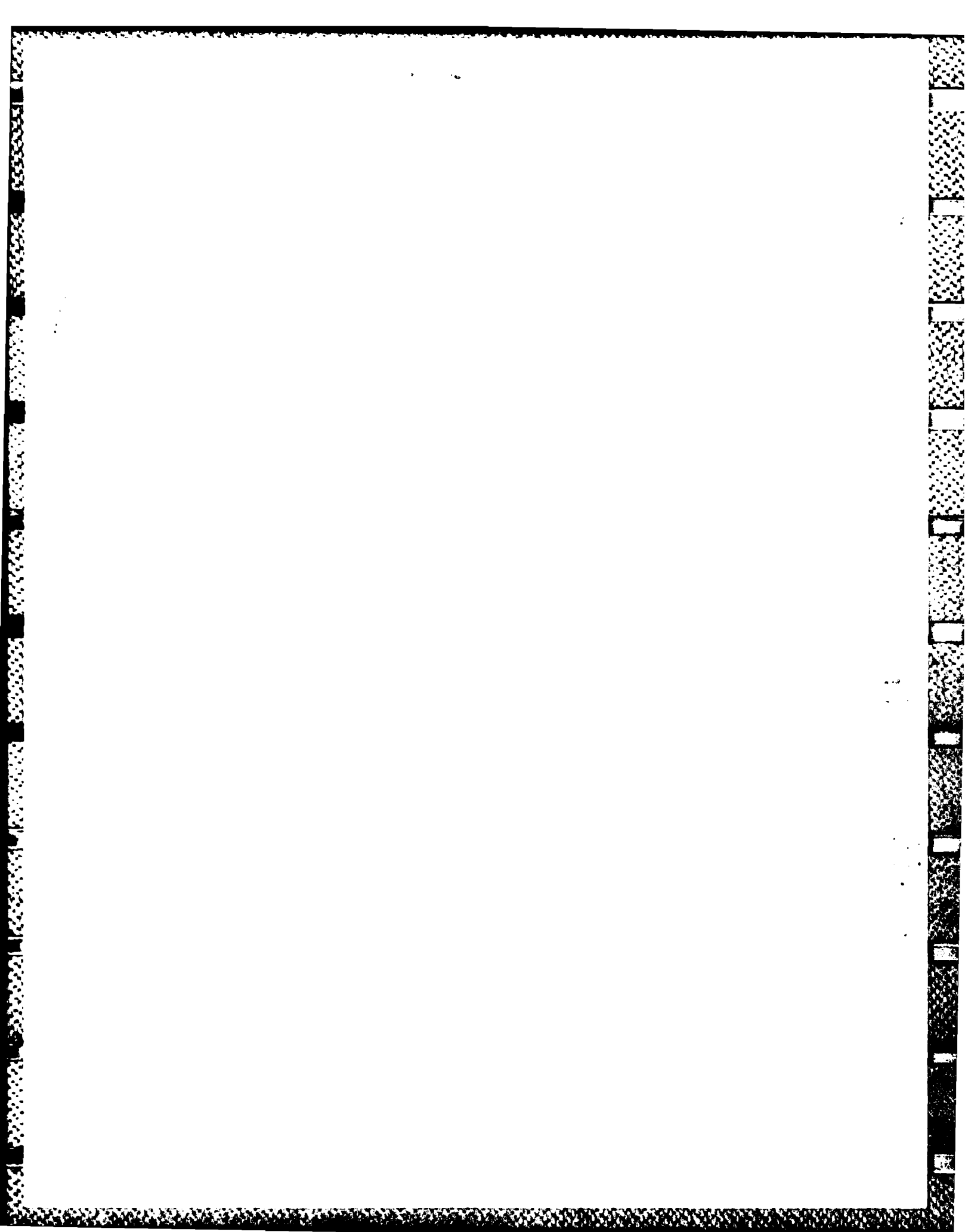
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THE EC'S COMMON AGRICULTURAL POLICY: AGROPOLITICS AND
THE PROSPECTS FOR REFORM

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SCOPE NOTE

This study focuses on the problems affecting the European Community's Common Agricultural Policy (CAP) and assesses its ability to reform that policy. This study recognizes that the CAP, although it is only a small part of the Community's overall effort, is an important yardstick of the EC's success as a supranational body. Several of the key judgements may appear self-evident to a student of agro-economics, but the importance of agro-politics within the European Community has probably been underestimated in previous studies.

KEY JUDGEMENTS

The European Community's (EC) Common Agricultural Policy (CAP) finds itself today in a crisis situation. This situation has been brought about by severe budget constraints and a growing protectionist attitude world-wide. Attempts at reformation of the CAP have been met with bitter debate, political infighting and foot-dragging on the part of the members of the EC. The failure to reach an accord on a major reformation of the CAP has brought the Community to the edge of bankruptcy and raised doubts as to its ability to operate as a supranational organization.

The CAP has been an integral part of the Community since 1962. The policy is based on three main principles: common pricing, Community preference and common financing. Covering approximately 90% of all EC farm products, the CAP uses five different market-manipulation mechanisms to support Community farmers. These are: high support prices, import levies, export subsidies, supplementary and fixed-rate aid and structural aid. The result of the policy has been a dramatic rise in agricultural production throughout the Community.

When judged against its original objectives (security of food supplies at reasonable and stable prices, increased efficiency and productivity, and a fair standard of living for farmers), the CAP appears to be a success. But the costs (inefficiency, gross overproduction and international trade tensions), have been high. Further, the CAP presently takes

up over two-thirds of the Community's budget and, as a result, the EC is in dire financial straits. This problem continues to worsen because of the growing disparity between EC incomes and outlays.

Since its inception, numerous attempts have been made by the Community to reform the CAP. The results have been less than successful. The reason behind this failure to achieve reform is the strong agricultural lobby within the Community, which wishes to protect the massive benefits it derives from the CAP.

In order to overcome the present problems, a massive reformation is needed. The leadership of the EC has recognized this need but has been unable reach a consensus as to the proper steps to take. Because the CAP has become a political albatross, it is doubtful that the changes that are necessary will ever be achieved.

The CAP was a result of complex political compromises among the original members of the Community. All attempts at reform have thus far been derailed because of the EC leadership's inability to place supranational interests above national interests. This is due primarily to the strong political clout of the Community's farm lobbies.

Three countries play key roles in the CAP controversy:

- * The UK--Despite being ambivalent about its membership in the EC, the British have been the leaders in the reform movement within the Community. Britain is second only to the FRG in the amount of money paid into the Community fund, but it receives fewer benefits than any

other member. The British government and the country's farm lobby have worked closely in the past to improve the CAP. However, this close relationship has recently become strained.

* France--Although its farmers are the least efficient in the Community, France benefits from the CAP more than any other member. Not surprisingly, it is the most militant defender of the policy. The French government has become a pawn of the agricultural lobbies within the country and seems incapable of breaking from their grasp.

* The FRG--West Germany has been inconsistent in its efforts to bring about a change in the present structure of the CAP. Because Germany is the largest contributor to the Community fund, it would benefit the most from any reforms that lower the cost of the CAP. But because of the strong farm lobby within the country, the government has been unable to push effectively for any reform effort.

The pressures for reform diverge widely among the "Big Three", largely because of the different roles played by the respective farm lobbies within these countries. Immediate prospects for reform are thus limited. A more likely course is the continuation of small token gestures to pacify reformist countries like the UK, as well as to lessen reformist pressures from outside the EC.

According to the EC, the CAP is first and foremost a Community problem that must be solved internally. The EC main-

tains that U.S. farm policy is far more protectionist than the CAP. The EC does recognize the concerns of non-EC countries, but remains steadfast in rejecting external "interference".

DISCUSSION

Introduction

The Common Agricultural Policy (CAP), long considered the cornerstone of the European Community (EC), today finds itself in a crisis situation. This situation, both political and economic in nature, is due to severe budget limitations and the possibility of a world trade war. Aggravating the crisis further still are the global agricultural surpluses that have seriously depressed farm prices in the world market. The result has been farming depressions throughout the agricultural-exporting world. Thus far, attempts at reform of the CAP have been met with bitter debate, political infighting and foot-dragging on the part of the member countries of the EC. The failure to achieve any substantial reform has brought the Community to the brink of bankruptcy, raising concerns about the EC's future and its ability to operate as a supranational organization.

The CAP, as the EC is quick to point out, has had a substantial effect on the development of Community agriculture. The EC believes that, for the most part, the benefits have been positive. However, these benefits have occurred at a great cost to both the Community and the world. The CAP has created an agricultural sector that is restrictive, distortive and very expensive to maintain.

The U.S. and other non-EC countries have long considered the EC's agricultural policy to be unfair. The EC has

maintained that the CAP is an internal matter and just as equitable as any other country's agricultural policy, especially that of the U.S. Tension between EC and non-EC countries has now heightened to the point where a failure to reach an acceptable resolution of the problem could lead to an era of world trade protectionism. Such a development would be economically disastrous for all involved.

Attempts at reform of the CAP have been undertaken with mixed results throughout its 20 year history. Those reforms that have been enacted during this period have been short term in nature and had little real effect. The EC's Council of Ministers has thus far avoided the politically difficult decision of a massive reformation of the CAP. The Council's past reticence towards making such a decision is due to the efforts of the politically powerful farm lobby within the EC which has successfully blocked major reform attempts to protect the lucrative benefits provided by existing policy.

Recent attempts at reform by the EC have met this same stumbling block. The latest reform movement is led by the UK, which hopes to lessen the financial burden it bears as a result of current policy. France, on the other hand, is the least in favor of reform because of the massive benefits it receives despite a very inefficient agricultural sector. Additionally, the farm lobby in France is quite vocal in its efforts to maintain the status quo. The views of the remaining EC members fall in between these two countries with res-

pect to the desirability of change. It remains to be seen whether the severity of the situation will bring about a political compromise so that a total breakdown of the current policy can be prevented.

What is the CAP?

The CAP has been an integral part of the EC since its implementation in 1962. The CAP was designed to ensure security of food supplies at stable and reasonable prices. Additional objectives were to raise efficiency through increased productivity and to bring farmer's incomes in line with those of non-agricultural sectors.(1) These objectives were developed in response to the food shortages and austerity experienced on the continent following WW II.

When the EC was created in 1957, it was clear that a common policy was needed to enhance trade between member countries. The initial attempt was establishment of a customs union that allowed for the free movement of goods, persons, services and capital between members.(2) However, because each country had developed its own agricultural policy which promoted exportation of their own goods but hindered imports, the customs union failed. In order to overcome these self-inflicted obstacles, a political compromise was reached that harmonized individual country policies into a single policy --the CAP.

The CAP is based on three principles which have become the framework upon which any attempted reform must be based. These three principles are: common pricing, Community prefer-

ence and common financing. A policy of common pricing is maintained Community-wide to ensure the free movement of goods. Until recently, this also meant that no restrictions were placed on the production levels of goods. Recently the Community has made some effort to reduce surpluses by setting production ceilings on some dairy products. The result of common pricing has been the creation of a single market within the Community that allows for unrestricted trade among members. The second principle, Community preference, is the logical result of the establishment of a single market.(3) Community preference is accomplished by ensuring that domestic products will always be cheaper than corresponding imports. This is achieved by using subsidies on domestic prices and establishing minimum import prices. The last principle, common financing has become an integral element of the CAP; it has also caused the most problems for the members of the EC. Each member of the Community is required to pay whatever is needed to meet the costs of unlimited support to agriculture. This money is distributed through a Community fund, the European Agricultural Guidance and Guarantee Fund (EAGGF). This requirement must be met regardless of the product or the member state concerned.(4) Payment into this fund has been a major factor in the U.K.'s call for reform of the CAP. The UK and the FRG are the only two countries within the EC that pay more into the fund than they receive from it.

Approximately 90% of all EC farm products are covered by the CAP. The only two major products that are not a part of

this policy are potatoes and agricultural alcohol.(5) The CAP uses five different market mechanisms to support Community farmers. These are: high support prices, import levies, export subsidies, supplementary and fixed-rate aid and structural aid. These methods are used concurrently or alone depending on the product being supported.

High support prices are used for about 70% of the Community's output. Each spring, the Community's Farm Ministers meet to establish the minimum price for these products on the internal market. If the market price falls below the established price levels, intervention agencies buy up whatever is placed on the market. The intervention agencies then store these products until the price improves. If this occurs, they are reintroduced to the internal market or to the world market. The products that receive high support prices also receive supplemental protection from cheap imports through other price mechanisms utilized by the Community.

The first of these are import levies. By using a variable levy, imported products' prices are raised to EC level. This method is used for about 25% of the Community's products. These levies are used to support primarily those products that can be produced in relatively short production cycles and are not considered staple foods.

The second method of protection against external farm produce is achieved through export subsidies. These subsidies make up the difference between EC and external prices. This allows Community farmers to sell their products on the

world market. Presently, these subsidies make up over half of all CAP spending.

The third method, supplementary and fixed-rate aid, is used for about 2.5% of Community farm output. These are very specific products for which there is low consumer demand and therefore, little impetus for their production. By providing this production aid, farmers are given support in proportion to their output and consumer prices are kept low.

The final method of market support provided to producers is structural aid. Through its fund the CAP pays grants for farm modernization and improvement. At one time structural aid was the largest item in the Community budget. However, because of present day budgetary constraints, less than 5% of the CAP's budget is now used for these grants.(6)

The overall result of the use of these economic mechanisms and the CAP as a whole has been a dramatic rise in agricultural production. High prices, with little or no limit on what the Community will buy, have led to the development of a farmer's nirvana: the more produced, the more profit enjoyed. Great strides have been made in European agriculture as a result of the CAP, but these are totally incommensurate with the costs to the Community and the world.

CAP Benefits, but at what Cost?

The objectives of the CAP are both consumer and producer oriented. The policy is intended to provide consumers with a reliable source of food at reasonable and stable prices. For the producers, the CAP is supposed to provide a reasonable in-

come, improved productivity and a stabilized market place.

At first glance the CAP appears to have been quite successful in meeting these objectives. Food supplies have improved both quantitatively and qualitatively. Shortages have been avoided while prices have remained low in comparison to consumer prices as a whole. Productivity within the agricultural sector has risen at a six percent rate while the overall Community rate has been four percent. This has occurred despite a sharp decline in the farming population, from 20 million to 8 million. Real income within the farming sector has increased; in fact, farming has become a lucrative livelihood for many of its participants.

In just over twenty years, the EC has established itself as a world economic power due at least in part to the CAP. The Community has become largely self-sufficient in food production and accounts for over one-fifth of all world trade. The EC is presently the world's largest importer of agricultural products as well as the second largest exporter. Although, the latter, it has been argued, is a result of the Community's dumping their overproduction onto the world market.

When judged by the original objectives established by the founder's of the CAP (security of food supplies at reasonable and stable prices, increased efficiency and productivity, and a fair standard of living for farmers), the policy appears to be a success. However, these results have been achieved at great cost and are far outweighed by the problems

they have created. These problems have led to the present situation of near bankruptcy for the Community and a possible world trade war.

The CAP has brought about an agricultural sector within the Community that is grossly distorted. The policy has benefited larger farms while hurting the smaller, more numerous, farms. Despite its aims, the CAP promotes inefficiency in production through its high price supports. Today, the CAP takes up over two-thirds of the entire EC budget. The barriers to imports that have been established are highly restrictive and have fostered ill feelings among nations. Stated simply, the CAP costs too much, raises prices unnecessarily and is a menace to international trade.(7)

In 1984, the CAP cost the EC taxpayers \$11 billion, an increase of nearly 100% (in real terms) since 1975. The primary cost was export subsidies. This problem continues to worsen because of the growing disparity between flat incomes and rising outlays. The amount of income being brought into the Community has remained relatively stable, while costs have continued to rise. The EC relies on its member states to provide the funds it needs to operate; therefore, an increase in member states' payments is needed. Such an effort will be hardly welcomed by countries that are already pressing for reduced payments. The expenditures will continue to rise unless a radical reform of the CAP, based on lower support prices, is implemented.

The tales of mountains of butter and lakes of milk are

not far from the truth. Because the CAP is based on an artificial, bifurcated pricing system, supply expands without stimulating a corresponding rise in demand. Productivity within the EC has increased at a rate four times greater than consumption. The resulting surpluses are costly to store and export. They are also a wasteful use of resources that could be put to better use elsewhere. These surpluses have also annoyed non-EC countries who must face this unwelcome competition on the open market. The majority of the surpluses are dairy products, which are responsible for the draining of a third of the EC's budget.

The CAP is very costly to the consumer who gets hit both ways. He must pay prices that are 30 to 50% above world market prices and he must foot the tax bill that supports these massive subsidies. The result is that the less wealthy sectors of society must bear the brunt of a policy that, in theory, was to be to their benefit.(8) In this sense, the CAP is very regressive. The only real beneficiaries of the policy are the farmers who know that whatever they produce will be bought.

The CAP also has a two-pronged effect on non-EC countries. Their agricultural products are excluded from the EC market and world prices are depressed because of the Community's massive exports.(9) As a result, non-EC countries share the burden of financing the CAP along with EC consumers. The EC has in effect become a cartel that imposes part of the burden of its inefficient policy on non-EC countries

but prevents them from obtaining any benefit from the policy. This fact, along with world-wide budgetary problems, has led to ill-feelings among EC and non-EC countries.

Whether viewed in terms of economic efficiency, burden-sharing equity among members or social welfare, the CAP has failed to live up to the expectations of its founders. The CAP is wasteful because it encourages production for which there is no demand. Income is redistributed perversely, favoring the better off. Resources are transferred among member states in an unfair and unintended manner. The gap between supply and demand is steadily growing and, if left unchecked, could cause the system to collapse. The artificial prices of the CAP were supposed to balance supply and demand as well as subsidize the policy. They have done neither.

Attempts at Reform

Since its inception in 1962, numerous attempts have been made by Community members to reform the CAP. These have included measures to ensure a better matching of supply and demand, as well as steps to make producers more aware of the costs of overproduction.(10) The results, to date, have been less than spectacular. Political infighting and foot-dragging by the members of the Community have reduced the effectiveness of these measures. The root of the problem is found in the farm lobbies which have continually been successful in protecting their golden goose from being beheaded.

The first of these efforts was the Mansholt Plan for "Agriculture 1980". Presented to the Council of Ministers

in 1968, the plan proposed a radical restructuring of farming within the EC. Its objectives were to raise the standard of living of farmers and to lower the costs of maintaining the CAP.(11) This was to be achieved by promoting the creation of larger farms, thereby reducing subsidy payments. Additionally, the plan included the removal of 5 million hectares from agricultural production to facilitate the movement of 5 million people out of the agricultural sector. These latter proposals were strongly resisted by agricultural pressure groups. For this reason, the plan attracted minimal interest from member governments. A compromise was reached and in 1972, three directives of the plan were adopted by the Community. These applied to farm modernization, retirement pensions and retraining programs. This new legislation was already an integral part of each country's existing agricultural policy. Therefore, the reforms were largely cosmetic; however, they did mark the first successful attempt to broaden the CAP beyond price support measures.(12)

Later that same year negotiations were undertaken within the Community concerning the fixing of intervention prices and compensatory amounts for agricultural products.(13) The Council of Ministers reached an agreement in these areas for cereals. However, when the world price dropped sharply shortly thereafter, the members of the EC asked to renegotiate the agreement. This problem was resolved, and similar agreements were also reached for milk and other dairy produce. The UK, which was just entering the EC at the time, accepted these

proposals with the proviso that the interest of consumers would be taken into account when fruit and vegetable prices were established in the future. This was the first time that consumers had been mentioned in price fixing discussions. It was agreed that thereafter this principle would be written into any future decisions on prices. Although this was not a major reform, it is a good example of the member countries working together for the betterment of the entire Community.

The 1980's have seen a myriad of reforms discussed and initiated by the Community. Of those adopted, most have fallen short of their objectives. In 1983, the Community attempted to limit subsidies by reducing output. To achieve this goal the Community outlined several proposals, only two of which were accepted. They were price penalties for overproduction of grain and milk production quotas. These were the first real price reforms within the EC in over 20 years. 1984 saw the implementation of price cuts for several products, especially grains, in order to bring these prices more in line with the world market. This year the Community decided to lower subsidized prices and remove the production quotas on milk that were instituted in 1983. The Community found that administering milk quotas was difficult and costly. EC farmers were found to be killing their dairy cattle in order to remain below their established quotas. The result was a 45% increase in beef exports to the world market, which brought sharp criticism from world beef producers. To date, the Community has avoided the difficult decision on the

extent of the newly instituted price cuts. The Community is also discussing the possibility of having farmers pay for part of the cost of their overproduction.

What Would Need to be Done?

If these deficiencies are to be corrected, a major reformation of the CAP would be necessary. The leadership of the EC has recognized that sweeping reforms are needed in order to make it the policy that it was originally intended to be. To date, however, most of their attempts at reform have been stop gap measures which have had little or no impact on improving the effectiveness of the CAP.

Any attempt at reform would have to be in accordance with the CAP's three main principles of common pricing, Community preference and common financing. One of the main objectives of any reform package would be the lowering and the redistribution of the costs. A more equitable distribution of the policy's benefits would also be sought. Finally, an end to the gross overproduction caused by the CAP would be integral to any major reformation attempt. These objectives, whatever the level of success, would have several positive results. These include: the establishment of reasonable prices and a fair standard of living for Community farmers, the directing of benefits to small and poorer farmers and an improvement in world trade relations.(14)

Ideally, a sound pricing policy that is tied directly to the world market supply and demand cycle would be desirable. Such a policy, coupled with a more equitable system of col-

lection and distribution of CAP funds, would create a more efficient system. These reforms would initially necessitate product quotas and a reduction in farm supports. Additionally, major price cuts across the board would be needed to bring prices in line with the world market. Lastly, any major reforms would not be complete without the reduction of export subsidies in order to place a heavier cost on farmers for wasteful overproduction. The net effect of these reforms would be an immediate reduction of expenditures. But such a massive reformation effort would have to be implemented with the long term benefits that would be derived in mind.

There is little doubt among the members of the EC that something needs to be done, but the question of how has yet to be answered. The CAP has become such a political albatross that no EC leader would ever support the reforms outlined above. The farm lobby within the Community is politically very important and, to date, has been successful in stopping or watering down all attempts at massive reform of the CAP. The agricultural sector refuses to give up any of the massive benefits they now enjoy because of the inefficiencies of the CAP. But the underlying fact remains that it is no longer financially possible, nor economically healthy, to maintain guaranteed prices for what has become unlimited quantities of farm products.(15)

Agropolitics in the European Community

The CAP was the result of complex political compromises by the "Original Six" members of the EC. Thus, its roots

are mired in political soil. All decisions made by the Council of Ministers concerning the CAP are made with national, regional, producer and consumer interests in mind. The political aspects of the CAP cannot be over-stated.

Despite the Community's belief that the CAP must be reformed, all serious attempts have thus far been derailed for primarily one reason: the inability to place supranational interest above national interest and national interests above sectoral interest. The effect has been an almost total paralysis of the reform movement. The strong farm interest groups seek to maintain the status quo because of the benefits they enjoy under the present structure of the CAP. In fact, given the choice, they would like to see more restrictions placed on agricultural imports in order to further drive up their profits. In the past, announcements of a meeting of the Community's Agricultural Ministers have been known to bring farmers out into the streets to demonstrate for their cause, a reminder to all concerned that they are an important political force that must be reckoned with.(16)

At one time the CAP was considered the showcase of European unity. But the sharp divergence of agricultural concerns within the Community has risen to the forefront in 1985. The UK, long the leading proponent of reform, has been unable to rally the Community to its cause. France, the main beneficiary of the CAP, refuses to accept any reforms. Germany, long considered to be a supporter of the UK's reform efforts, this year blocked an attempt by the Community to low-

er the cost of the CAP. The remaining members of the EC fall somewhere in between these three countries with respect to CAP reform. Because of the "Big Three's" overriding importance within the Community, their internal agropolitics will be the main focus of discussion.

UK Agropolitics

Great Britain has long been ambivalent about the positive aspects of the EC. They see only a high cost for what is perceived as a small return. Britain's blame the EC for the economic ills the country experienced during the 1970's. A recent poll revealed that only one-third of the population actually supports their country's membership in the EC.

The UK has been seeking reform of the CAP since they joined the Community in 1973. Their argument is that their own efficient farms should not be hurt because of an agreement originally designed to aid France and Germany. (17) Britain is second only to the FRG in the amount of money paid to the Community. Like the FRG, it takes out less from the fund than it puts in.

Because the British government has maintained programs to ensure a lower proportion of farmers than most countries in the EC, its agricultural lobby is weak. Social policy in Britain has not exhibited as much sympathy for the farmer as is found in other countries. Most British farms are large and operated like small industries. These factors have led to a different British perspective on the farming sector, and a view that the rest of the Community should follow their pat-

tern and restructure their respective farming communities, thereby increasing efficiency. This belief has led to the British looking at farm reforms from their own perspective which is completely different from the rest of the Community.

The size of Britain's payments into the Community fund is the main reason for their call for reform. The problem is that the British agricultural system is so small that it receives fewer subsidies and price supports than the rest of the Community. This occurs despite the fact that Britain is second only to West Germany in terms of payments made into the fund. Prime Minister Thatcher has been calling for a repayment of some type since her election to office in 1979. In 1984, an attempt to appease the British was made by the Community when it authorized a rebate of a portion of their payments. However, Britain has yet to receive a major portion of this rebate.

Earlier this year, the normally close relationship between the British government and the country's farm lobby, the National Farmers Union (NFU), worsened considerably. At their annual meeting, farmer's complained about the ineffective efforts of the British Farm Minister. Specifically, they referred to his role in EC price negotiations and his failure to implement an effective national farm policy. The situation was further aggravated when the President of the NFU charged that the British government was trying to disassociate itself from the lobby.

This tough talk comes at a time when the NFU is attempt-

ing to reassert itself within the country. However, internal turmoil has further weakened the NFU's ability to effectively represent its members. At the same time, the CAP, long a sore point with the British consumer because of the dramatic rise in prices it brought, has again come to the forefront within the country.(18) This renewed interest in the CAP is partly a result of the criticism that Prime Minister Thatcher has received for her failure to lower farm subsidies.

Until this recent falling out, the NFU and the British government had worked closely in an effort to bring about equitable reforms that would aid consumers and producers as well as cut costs. Such a united effort is unprecedented in European agropolitics. However, it remains to be seen what effect if any these now seemingly strained relations will have on British efforts to reform the CAP.

French Agropolitics

Perhaps no other country's agricultural sector benefits from the CAP as much as that of France. Thus, France has become the biggest defender of maintaining the present structure of the CAP. Because each country within the Community has the ability to veto any legislation, the French have been able to hold up all attempts at sweeping reform.

French farmers are the most inefficient within the Community. Since the CAP promotes such inefficiency, French farmers have been the most militant defenders of the CAP. In the spring of 1984, French dairy farmers travelled across the Channel to protest the newly implemented dairy quotas that

had been introduced by the British. The French government also recognizes how easily a volatile situation could develop if it were to support reformist measures. In 1981, prior to the French national elections, farmers took to the streets to demand price increases. Due to their efforts, the EC's Council of Ministers raised prices 9.5%. (19)

Within France, the farm population is declining at the same rate as agricultural output. Historically, the government has tried to maintain a high agricultural population in much the same way as the FRG. The rationale behind this policy is that it is better to have farmers in rural areas, although highly subsidized, than to have this technically deficient population move into urban areas. The rural population in France has always been more attuned to the political situation in the country, something very unusual among European agricultural sectors. The result has been the development of numerous agricultural lobbies covering the entire political spectrum. (20)

The French government has always worked closely with these groups. Meetings are held each month between the two major farm lobbies and the French Minister of Agriculture. This provides these groups with direct and continual access to French policymakers. It also allows these groups to influence the development of French agricultural policy as well as to indirectly participate in EC CAP discussions. The ultimate result of this close cooperation is an appearance of the tail wagging the dog.

President Mitterand faces reelection within the next two years. Polls show that his party is facing defeat. In order to maintain support among the farm community, he has set about protecting their interests at the cost of other sectors. This has led to the development of a politically difficult situation within the country. France is suffering from several economic woes, including high inflation and unemployment. Mitterand has set a tight fiscal policy in order to cut government expenditures. However, when it comes to the CAP, he staunchly defends the policy and its high cost. He claims that he is doing this in order to protect the interests of all farmers within the EC. In all likelihood, his efforts are only a political gesture to show that he can stand up to UK, FRG and U.S. pressures for reform. Another important aspect is the potential for internal unrest created by the more militant farmers.

The internal political pressures in France today far outweigh the external pressures for reform. The French government has tied itself to the farm lobbies and seems incapable of breaking free from their political grasp. Whenever these lobbies have felt that their livelihoods were threatened, they have shown the resolve to take their message to the government. This is something Mitterand cannot afford prior to his try for reelection in 1988.

FRG Agropolitics

With their recent veto of a relatively modest CAP reform effort to cut grain prices, the FRG has put itself right in

the middle of the EC's budget crisis. The veto came despite recent FRG attempts to tighten Community expenditures. The inconsistency can be explained in terms of domestic farm politics.

Germany is by far the largest contributor to the EC and the attempted price cuts would have provided the most benefit to them. This point has often been brought up by the FRG in previous discussions concerning CAP reform. The problem lies in the fact that, despite a steady decline of the farming population, the agricultural sector remains a major political force within the Republic. This is amazing, considering that this sector amounts to only five percent of the total population of the country. There are two sociological reasons for this phenomenon. First, farmers are credited with saving millions of lives by providing adequate food supplies after WW II. The second factor is that, despite the steady decline of the farming community, many people within the country maintain close ties with this sector.

Under the structure of the CAP, German farmers have expanded output tremendously. With the aid of monetary compensation from the Community, the FRG has become the fourth largest exporter of food in the world. Prices within Germany are 40% higher than in the UK. The result is that the less efficient German farmers are encouraged to produce more than the efficient farmers of the UK.(21)

German farms are the smallest in the Community, so small in fact as to be uneconomic. This fact, combined with the

EC monetary system, has created a major problem. Because the present coalition government is considered to be hardline when it comes to protecting the farmer, their policies have come under a great deal of pressure. With the implementation of milk quotas and the subsequent removal of milk subsidies, a tremendous outcry against this policy was heard. Chancellor Kohl was forced to get permission from the Community to grant a special tax allowance to the affected farmers.

Logically, Germany should want the lower food prices that would be brought about by reformation of the CAP. Its consumers now must bear the cost of the present policy and there are far more consumers than farmers among the voting population. Consumer organizations estimate that these high costs, added to industry costs, have resulted in a loss of over a half a million jobs. This over-investment in farming has also diverted much-needed resources from the industrial sector.

The underlying cause of the failure to push for major reforms is the strong farm lobby within the country. Moreover, the German Farm Minister enjoys an unusually large influence within the cabinet, partly because Prime Minister Kohl needs the farm support in his coalition government and partly because German governments have long been committed to maintaining farm incomes at a parity with industrial incomes.(22) Finally, because German farms are so small, these farms would find it difficult to make a living at lower prices.

CONCLUSIONS

Prospects for Reform

The pressures for reform diverge widely among the "Big Three", largely because of the different roles played by the respective farm lobbies within these countries. In the UK, at least until recently, the farm lobby has been squarely behind the government's push for reform. In Germany, the strong agricultural lobby has successfully scuttled attempts at reform. However, officials within the government do recognize the need for reform and pragmatism may ultimately win out over internal politics. In France, the two major farm lobbies are the Community's primary stumbling block to reform. This is due to the enormous influence these two lobbies have over the Mitterand government.

The immediate prospects for a reformation of the CAP are limited. Up to this point, the strong farm lobbies within the Community have been able to block any attempt at major reforms that could deprive them of their massive benefits. The more likely course of action is a continuation of small token gestures to pacify reformists countries like the UK and to lessen pressures from outside the EC.

At the beginning of 1986, Spain and Portugal became members of the EC. Their entry into the Community further exacerbates the problem. With the added weight of two more countries, the Community's budget problems will be compounded. Although neither country will fully join the CAP for

another ten years, a failure to plan for this event will have serious consequences. Both of these countries have large, inefficient agricultural sectors, further compounding the present problems of the CAP. Secondly, with the addition of two more countries to the Community, the problem of implementing worthwhile reforms becomes even more difficult. Now instead of ten countries that must agree, there are twelve.

Only the UK thus far has pushed for massive reforms of the CAP. Community leaders have agreed in principle that something must be done, but they have refused to make any real effort in the right direction primarily because they do not want to go against the agricultural interests within their own countries. Although consumers throughout the Community have called for reform, they lack the political clout of the farm lobbies who have used this tool very effectively to protect their interests. For this reason, the massive reforms that are needed to bring about real change in the CAP are not likely to occur in the near future. The result will be a continuation of the recent attempts at reform which have had the effect of two steps forward and one step back with respect to solving the the Community's real problems.

There are a several scenarios by which impetus for real change might develop. The first involves a pull out-- or the threat of a pull out--by one or more countries. This possibility is not as remote as it might seem. The UK, for example, has been displeased with the CAP since it joined the Community and might see such a radical step as the only alter-

native to its present economic problems. There is also an historical precedent for such an event, i.e. France's comings and goings in the 1960's. Such an action might force the hand of Community leaders who have thus far been unable to deal with the problems of the CAP. A second scenario envisions a maintenance of the status quo and a further rise of protectionism, possibly leading to a world-wide trade war. This might force the Community to change its policies in order to survive even as a mere customs union.

As previously discussed, the implementation of stop gap measures to solve short term problems with a continued incapacity to adopt a long term solution is more likely to occur. Such stop gap measures might include the further implementation of production quotas to reduce the need for export subsidies, including measures that would place some of the burden for the cost of overproduction on the farmers. In addition, the continued use of price cuts would further bring prices in line with the world market. These cuts would be augmented with increased farm support to poorer farmers to offset their loss of income.(23) These would be steps in the right direction and as evidenced by the Community's efforts thus far, can probably be implemented despite the present political obstacles. But any such reforms would have to be implemented slowly to allow the agricultural sectors to adjust to their new market situation.

Implications for the U.S. and the other Non-EC Countries

Although the U.S. supports a united Europe, it does not

support the CAP. As the CAP is structured today, U.S. farmers--as well as the other farmers of the world--must pay the cost for the EC's persistent overproduction and protectionism. Because of world economic difficulties the outcry against this unfortunate policy is mounting. The result has been a heightening of trade tensions and talk of retaliation.

The EC refuses to admit that the CAP is a major world problem, and rightly so, insisting instead that it is an internal matter and that U.S. trade policies are far more protectionist in nature than the CAP. The EC points to the fact that, because of the CAP, the European Community is the largest importer in the world. Additionally, it remains the largest U.S. trade customer. The EC has also become the world's largest exporter of agricultural goods. The Community places the blame for U.S. agricultural problems on the strong dollar, high interest rates, record Soviet and U.S. harvests and the world recession.

The CAP has resulted in the creation of a trade wall within the Community whereby the world's agricultural producers, both EC and non-EC, are unable to realize the full potential of the European market place. Secondly, the gross overproduction of goods throughout the world has driven down world prices. Non-EC countries are thus doubly hit, unable to sell their goods at fair prices on the Common Market and suffering the results of overproduction on the world market.

A failure to achieve major CAP reforms could have dramatic consequences for non-EC countries. But any attempts at re-

form, no matter how small, will be welcomed by the world's agricultural producers. The U.S. has expressed its displeasure with the CAP on numerous occasions. The EC recognizes these outside concerns, but maintains that the CAP is a cornerstone of the European Community and any problems with the policy will be dealt with internally. The two trading superpowers have resorted at times to threats and name calling, but this has accomplished little. Meetings between the two parties have proved to be more fruitful and movement on both sides has occurred.

The CAP is first and foremost a Community problem that must be solved domestically. The U.S. and other agricultural producing countries of the world, although harmed by the policy, are not as seriously affected as the Community's members. While hoping for major reforms, these non-EC agricultural producers are willing to accept any effort at change, especially those that will open the European market to their own products and reduce the glut of EC products on the world market.

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