THE MAKING OF THE EUROPEAN COMMUNITY'S WHEAT POLICY 1973-88:

AN INTERNATIONAL POLITICAL ECONOMY ANALYSIS

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Abstract

This thesis examines the political and economic changes in the domestic and international organization and operation of the European Community Common Agricultural Policy for wheat during 1973-88. Its purpose is to demonstrate the opportunities and constraints in the agricultural talks in the Uruguay Round of the GATT begun in 1986.

An international political economy approach is adopted to bring into prominence the key security, production, finance, and technology power structures and to demonstrate how these transformed the interlocking and overlapping set of bargains that determined policy.

The thesis shows that throughout the 1970s the EC wheat price policy concentrated on supporting farm incomes, and this neither required nor permitted an external policy beyond measures to dispose of surpluses. In the 1980s, however, prices were increasingly directed by market conditions. This reorientation was caused by shifts in the structures surrounding the wheat system. These weakened the pan-European farm lobby, and a patchwork of new agreements evolved between policy makers, commodity groups, and non-farm lobbies to support an active rather than defensive export policy.

Consequently, the EC set specific commercial goals for the Uruguay Round of the GATT which makes it a formidable and active participant in the negotiations. In contrast, during the Tokyo Round in the 1970s the Community had adopted a strongly defensive and obstructionist posture to protect its domestic system.

Examination of the agricultural trade negotiations between 1984 and 1988 confirms that the other participants have not recognized these transformations. The thesis concludes that the Uruguay Round could fail, and the GATT could be seriously impaired, unless negotiators acknowledge the transformed bases of the new EC wheat policy.

CONTENTS

FORWARD AND ACKNOWLEDGEMENTS

When I arrived at the LSE I was in a predicament because my chosen subject cut across many theoretical disciplines. I would like to thank Professor Susan Strange for assisting me to sort out my thoughts. Her advice both at the beginning and throughout my research was decisive. I also thank Michael Donelan for his efforts: he kindly stepped into the breach to see my research to completion.

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LIST OF FIGURES AND TABLES

1. FIGURES

2. TABLES

2. <u>TABLES</u> (con't)

2. <u>TABLES</u> (con't)

2. TABLES (con't)

ABBREVIATIONS AND MATHEMATICAL NOTATIONS

AGPB	Association Générale des Producteurs de Blé (French wheat producers association)
ASC	Agricultural Situation in the Community, published annually by the Commission
AUA	Agricultural Unit of Account
BEUC	Bureau Européen des Unions des Consommateurs (EC consumer lobby)
CAP	Common Agricultural Policy
CCC	Consumers' Consultative Committee of the ECs
CDU	German Christian Democratic Party
CIAA	Confédération des Industries Agro-Alimentaires de la CEE (Food and drink federation)
COFACE	Compagnie Français d'Assurances pour le Commerce Extérieur (French Export Credit Agency)
COGECA	Committee of Agricultural Co-operation in the EC
COM	Communication from the Commission
COPA	Committee of Professional Agricultural Associations
CPE	Centrally planned economy
CSU	German Christian Socialist Party
DBV	Deutscher Bauernverband, West German Farmers Union
DG-I	Commission Directorate General I responsible for external relations
DG-VI	Commission Directorate General VI responsible for agriculture
DG-XIX	Commission Directorate General VI responsible for budgets
DM	Deutschmark
EAGGF	European Agricultural Guidance and Guarantee Fund, also known as FEOGA after French acronym
EC	European Community(ies)
EC6	EC comprising the original six members: Belgium, France, Germany, Italy, Luxembourg, & Netherlands
EC9	EC after accession of UK, Ireland, & Denmark in 1973
EC10	EC after accession of Greece in 1980
EC12	EC after accession of Spain and Portugal in 1986
ECGD	Export Credit Guarantee Department (UK)
ECSC	European Coal and Steel Community
ECU	European Currency Unit
EEB	European Environmental Bureau
EEC	European Economic Community, now called EC
EMS	European Monetary System
EP	European Parliament, also known as the Assembly
ESC	Economic and Social Committee
FAO	UN Food and Agriculture Organization
FDP	German Free Democratic Party (Liberal)

ABBREVIATIONS AND MATHEMATICAL NOTATIONS (con't)

FNSEA	Fédération Nationale des Syndicats d'Exploitants Agricoles (French farm lobby)
FRG	Federal Republic of Germany
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
H-GCA	Home-Grown Cereals Authority (UK)
IMF	International Monetary Fund
IPE	International Political Economy
IWA	International Wheat Agreement
IWC	International Wheat Council
MAFF	UK Ministry of Agriculture, Fisheries and Food
MCA	Monetary Compensatory Amount
MP	Member of UK Parliament
MEP	Member of the European Parliament
NFU	National Farmers Union of England and Wales
OJ	<u>Official Journal</u> of the EC
ONIC	Office National Interprofessionel des Cereales
SAFER	Société d'Aménagement Foncier et d'Etablissement Rural
SCA	Special Committee for Agriculture
SPD	German Socialist Democratic Party
UA	Unit of Account
UK	United Kingdom
UNICE	Union of Industries in Europe
US	United States of America
USSR	Union of Soviet Socialist Republics
VAT	Value Added Tax

OTHER ABBREVIATIONS

B - billion
Ch - change
ha - hectare
M - million
Mo - month
nc - no change
NC - national currency
t - tonne (metric)

1 B = 1,000 M

DATES

dd-mm-yy

Chapter 1

INTRODUCTION: ALTERNATIVE APPROACHES TO POLICY ANALYSIS

> The trinity of grain, flour, bread is to be found everywhere in the history of Europe. It was the major preoccupation of towns, states, merchants, and ordinary people for whom life meant 'eating one's daily bread.'[1]

Braudel's observation, which refers to the period between the 15th and 18th centuries, is equally apt today. The trinity continues to generate great interest in business, government, and the press. Agriculture has been at the forefront of debate in the European system since 1958 and, in 1982, it was elevated to the top of the world trade agenda. The current round of multilateral trade negotiations (MTN) in the General Agreement of Tariffs and Trade (GATT), more than any in the past, will be judged a success only if there is agreement on agriculture.

Trade policy, however, "is the stuff of domestic politics"[2] and, as such, any examination of the GATT must necessarily begin with a review of the domestic policy system. This thesis therefore examines the political and economic changes in the domestic and international organization and operation of the European Community (EC) Common Agricultural Policy (CAP) for wheat during the 1973-1988 period to demonstrate the opportunities and constraints in the current GATT round. An international political economy approach is adopted to bring into prominence the key security, production, finance, and technology power structures and to demonstrate how these transformed the interlocking and overlapping set of bargains that determines policy.

The CAP wheat price and trading system throughout the 1970s focussed on achieving social objectives. Pri-

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1. Braudel (1980), p. 143.
2. Spero (1985), p. 91.

ces after 1972 were generally based on the 'objective method criterion' to provide smaller and less competitive farmers with an income comparable to non-farm workers. Market concerns were largely ignored. Instead, the Community agricultural structures policy was used to rationalize the farm sector and to assist farmers to become economically viable. This domestic orientation neither required nor allowed much of an external policy for agriculture. Trade policy was used almost entirely to secure domestic supplies of wheat for European consumers; export was simply regarded as a cheap and simple means of disposing of surpluses.

This thesis shows that the structures surrounding the wheat system began to shift about 1980, causing some of the underlying bargains that determine policy outcomes to break down and others to form or strengthen. Worldwide political and military tension lessened and production of all goods became internationally interdependent, so that strict food self-sufficiency became neither necessary nor feasible. New production techniques and seed varieties, meanwhile, expanded output but made farms more vulnerable to the increasingly uncertain market, inflation, exchange, and financial risks. Technological change drove producers, consumers, and policy-makers to adapt quickly to the new opportunities and information. Domestically, these changes reshaped the policy community, so that the farm lobby no longer dominated. Bale and Koester note that beginning in 1980 "a fundamental change in the source of criticism occurred"[3] and agitation for change moved from outside the system (i.e., consumers, the press, manufacturers, and academics) to within the Commission, Council, European Parliament (EP), Economic and Social Committee (ESC), and even into some of the farm organizations.

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3. Bale & Koester (1983), p. 387-88.

The price system in 1989 was fundamentally different from the one prevailing in the 1970s. Debate over prices in the late 1980s was largely directed by markets while the Community structures policy addressed social concerns. Farmers in 1989 received well below the 'guarantee' implied by the intervention price;[3a] two cereals co-responsibility levies and a fundamentally different intervention system (that operates as a market of last resort and not an alternate market) ensure that market prices at least partially reflect market conditions. Future price changes also are largely dictated by the super levy system (which triggers automatic price cuts whenever the maximum guaranteed quantity is exceeded) and the 1988 budget agreement that limits growth in EC agricultural outlays to less than overall budgetary growth.

This new system provides a firm basis for the Community to develop a lasting export presence. The surge in EC wheat yields encouraged by the incomes-based price policy of the 1970s placed many EC wheat producers among the most competitive in the world by the mid 1980s, which created inexorable pressure for the Community to move into world wheat markets as a commercial exporter. Beginning in the 1980s, the Community began to develop a variety of trade instruments and by 1989 the full scope of the complete EC wheat trade policy was clear: it would include targeted marketing with selected refund offers, flexible commercial and concessionary credit, credit guarantees, multi-annual supply agreements, and an active storage system.

The EC push onto the international wheat market occurred just as shifting structures were forcing changes in world markets. Whereas the Community adopted a highly defensive posture in line with its domestic orientation in the 1973-79 multilateral trade negotiations, the new international focus of the CAP makes the EC a formidable participant in the GATT. The EC, as an outward-looking,

3a. "Guaranteed price" refers to the effective support provided for farmgate prices by the institutional (intervention and threshold) prices.

export-competitive participant, is positioned to take an active role in developing the rules and procedures in the world wheat trade. Provided other parties at the GATT recognize and accept this transformation, these changes in EC policy should enhance the potential for a political resolution to the subsidy dispute which has dominated the world wheat trade during the 1980s. The agricultural trade negotiations between 1984 and 1988 demonstrate that the other participants have not recognized these transformations. The thesis concludes that the Uruguay Round could fail, and the GATT be seriously impaired, unless negotiators acknowledge and accommodate the new EC wheat policy.

THE TRADITIONAL APPROACHES TO FARM POLICY ANALYSIS

The single-disciplinary approach commonly used in academic and professional work has not disclosed the full array of changes in the EC. This thesis uses the theory of international political economy and Susan Strange's structures-bargains model to examine the EC wheat policy, first, to illustrate the explanatory power of IPE and, second, to substantiate the fundamental changes that have occurred in the wheat system.

The reorientation in EC policy, however, has gone unobserved by most academic and government actors. The analytical approach chosen frequently forces the analysis to focus either on the microeconomic issues (e.g., farmers, consumers) or on the macroeconomic concerns (e.g., security, economic growth) in absence of the political context. The analyses therefore frequently miss the critical linkages among the microeconomic, macroeconomic, and political levels. Most agriculture research, for example, examines ECU prices and averages for the Community, thereby ignoring that farmers, who are after all the basic unit in the system, work and live in a national context: farmers are concerned with national currency prices and often divergent national market pressures, and have their most direct access to policy makers through national organizations and national political systems. Yet the policy system and many of the key economic pressures facing farmers and policy makers are set in an international setting. Analyses that ignore either the national or international dimensions err. An examination of international agricultural affairs, therefore, requires analytic tools that span national industries, domestic politics, international markets, and high politics. As shown below, the economics, welfare economics and international relations approaches fail to do that.

Economics

The economic approach concludes that the CAP wheat policy is inefficient and wasteful and, as Hill says, "the basic problem of the CAP is that it attempts to defy the underlying forces of economic development." He concluded that: "If the CAP continues as it is at present the costs of surplus disposal will bankrupt the Community."[4] The US Export Enhancement Program, introduced in 1985, is an effort to increase the budgetary cost of the wheat policy and thereby precipitate bankruptcy.[5] In summary, economic logic says that the policy must be reformed.

Available evidence, however, does not support that conclusion. Studies (listed in Table 1.1) show that the annual economic costs of defying "the underlying forces of economic development" averaged only 27 ECUs per capita in Europe during the 1975-83 period. This suggests that economists have incorrectly assumed that the critical issue is market efficiency. Petit notes that because econ-

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4. Hill (1984), pp. 158-59, concluded that bankruptcy would occur in 1984.
5. Financial Times, 6-9-84, reported that the USDA estimated that US outlays for wheat support would rise by US$10 for every US$1 cost increase inflicted on the EC. Other sources estimated the range was 5-1 to 19-1. Thus, the EEP was an imperfect means of achieving this goal.

omists usually ask "how bad are the agricultural policies of country X?" the great majority of economic studies of farm policy have placed "too much emphasis on the normative and prescriptive, at the expense of the positive."[6]

A plethora of macroeconomic studies (Tables 1.1 & 1.2) concur that protectionist policies in the EC cause deadweight losses[7] for the Community because support for producer prices above the world market-clearing price encourages farmers to produce greater volumes at higher marginal cost than the world market clearing price and higher consumer prices depress domestic demand for food, reducing consumer surplus. Depending on the period, commodities, countries, and policies examined, the loss represents between 0.1% and 2.7% of Community gross domestic product (GDP). But agricultural policies are not unique in creating deadweight losses. Although national defence imposes a loss, few argue that the economic calculus in that case is the full story. The numbers really only provide an estimate of the cost of providing public policies. Both agriculture and national defence policies have other non-quantifiable benefits, such as protection from coercion from other countries or greater social harmony through greater equality of incomes.

Sector specific studies—inter-sectoral and multisectoral—show deadweight losses for the Community for single years between 1976 and 1985 ranging from approximately 0.13% of GDP (Bale & Lutz for 1976) to 1.3% (Tyers & Anderson for 1985). The Australian Bureau of Agricultural Economics (BAE) estimates the annual deadweight loss of all European farm policies averaged about

6. Petit (1985), p. 9.

7. Deadweight losses include wastage due to inefficient production and lost consumer satisfaction because of suboptimal consumption. They do not include income transfers, whether from or to consumers, producers, or governments.

0.3% of Community GDP over the 1973-83 period, equal to a per capita loss of about 27 ECUs (in 1982 values or US$26 at 1982 exchange rates).

Table 1.1 Cost of Agricultural Support in the European Community: Partial Equilibrium (Intersectoral and Multisectoral) Studies

Ref. Year	Author & Date of Study	Commodities & policies [EC9 unless stated]	Prices	Deadweight (DW) Loss	DW Loss as % GDP
1976	Bale & Lutz (1981)	CAP & State Policies in France, Germany & UK; cereals, sugar, beef	C	1.2 B ECU	0.13%
1978	Morris: IFS (1980)	Cereals, dairy, sugar, beef, pigs, poultry, eggs & olive oil	C 82	6.2 B ECU 9.3 B ECU	0.53% --
1978	BAE (1985)	All policies (CAP & National) for all CAP commodities	82	11.2 B ECU	0.48%
1980	Buckwell, et al. (1982)	All CAP commodities & policies (a) diff. from self sufficiency (b) diff. from free trade (b) diff. from free trade	 C C 82	 3.2 B ECU 11.1 B ECU 13.5 B ECU	 0.13% 0.55% --
1980	BAE (1985)	As above	82	8.1 B ECU	--
1980	Tyers (1985)	Cereals, meats, dairy, sugar	80	22.3 B ECU	1.10%
1980 -82	Tyers & Anderson (1987)	Cereals, meat, dairy, sugar EC10	80	4.9 B ECU	0.27%
1983	BAE (1985)	As above	82 C	8.0 B ECU 8.6 B ECU	0.32% 0.25%
1983	Devereau & Morris (1983)	All CAP commodities & policies	C	14.0 B ECU	0.40%
1984	Harvey & Thomson (1985)	All CAP commodities & policies	C	13.8 B ECU	0.37%
1985	Tyers & Anderson (1986)	All policies (CAP & National) for all major commodities	80	24.1 B US$	1.30%

Note: C means current year; otherwise date is year to which prices are deflated.
Sources: Walters (1987); BAE (1985); Buckwell, et al. (1982); and IMF (1988).

General equilibrium models show larger losses because higher food prices reduce household resources available to save or to spend on manufactured goods and services, while higher farm production attracts resources (including entrepreneurs) from other sectors, which reduces non-farm growth. EC farm support is estimated to depress GDP between 1% (Spencer for 1980) and 2.7% (Burniaux & Waelbroeck for 1985). Stoeckel's 1985 study estimates EC farm support in 1980 increased exports from the agriculture, food, beverage, and tobacco industries by an average 37% and caused imports to fall by more than 20%. This increase to the trade balance raised the average European exchange rate by 4.4%, and thereby caused a 4% drop in manufacturing exports and a loss of approximately one million jobs (1%). More than 400,000 of the jobs lost would have been in manufacturing.[8] It is important to remember that these studies assume total factor mobility between sectors, which is not necessarily true for either labour or capital in the farm sector, and therefore could be too high, especially in the short run. World-wide, agricultural support is estimated to cost industrial market economies US$45 billion, or about 1% of their combined GDP.[9]

Table 1.2 Cost of Agricultural Support in the European Community: General Equilibrium Studies

Ref. Year	Author & Date of Study	Commodities & policies [EC9 unless stated]	Deadweight (DW) Loss	DW Loss as % GDP
1980	Spencer (1985)	All CAP commodities & policies	na	approx 0.9%
1980	Stoeckel (1985)	All policies (CAP & National) for all CAP commodities	approx 1 million jobs	n.a
1985	Burniaux & Waelbroeck (1985)	All policies (CAP & National) for all CAP commodities	na	2.7%

Source: As for Table 1.1.

8. Stoeckel (1985), pp. 40–41.
9. World Bank (1986), p. 131.

The economic paradigm of supply and demand curves is a powerful tool for analyzing questions of efficiency and wealth creation but operates only by imposing severe limits on the variables that are considered: non-quantifiable costs and benefits are assumed to be unimportant or constant and therefore are not considered. Economic analysis is perhaps most severely hindered by the explicit separation of political and economic processes. Economics implicitly assumes that a 'black box' political system resolves all conflicting demands at one time, leaving a new equilibrium. This obviously does not happen in real life. Policy compromises are achieved recursively, as power and interlocking bargains shift. Economic policy analysis therefore ignores political factors critical to policy development.

Welfare Economics

Many academics around the world have adopted a welfare economics approach to explain the CAP and to examine alternative policies. The theory of rent-seeking expands the economic approach because it examines how people compete for economic rents created by the incomes-based price system in Europe.[10] This helps partly to explain the efforts of large, efficient producers to push the farm ministers to sustain or increase common prices in Europe. The Australian government also adopted this approach to examine the CAP, concluding that "the best prospects for agricultural policy reform lie in groups outside agriculture realising their common interests in substantially changing the political will of governments to reform bad policies."[11] The solution therefore is to educate European consumers, the unemployed and industrialists to the costs of the CAP. But this approach is neither necessary nor sufficient for policy reform be-

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10. Tollison (1982), p. 575, defines economic rents as a return in excess of a resource owner's opportunity cost.
11. Centre for International Economics (1988), p. 6.

cause it continues to ignore the critical importance of non-quantified concerns.

Table 1.3 **Inter-Sectoral Transfers Caused by the EC Common Agricultural Policy (ECU)**

Ref. Year	Author & Date of Study	Policies & commodities [EC9 unless stated]	Base Prices	Consumer Loss	Producer Gain	Taxpayer Loss
1976	Bale & Lutz (1981)	CAP & state policy; Fr., FRG, & UK; cereals, sugar, & beef	C	3.9 B	4.7 B	0.2 B
1978	Morris: IFS (1980)	Cereals, dairy, sugar, beef pigs, eggs, poultry & oils	78	23.3 B	21.5 B	5.1 B
1980	Buckwell, et al. (1982)	All CAP products & policies	C	24.8 B	22.0 B	8.3 B
1979 -81	OECD (1987)	All policies for EC10 (total consumer & taxpayer losses)	C	56.5 B	--	inc.
1983	BAE (1985)	All policies (CAP & State) for all CAP commodities	82	30.6 B	47.5 B	24.9 B
1984	Harvey & Thomson (1985)	All CAP products & policies	C	42.5 B	46.5 B	17.8 B
1985	Tyers & Anderson (1986)	All policies (CAP & State) for major products for EC10	80	$49.0 B	$27.2 B	$2.2 B

Sources: Same as for Table 1.1.

Josling believes that "preoccupation with efficiency of resource allocation and disregard for analysis of income transfers has been a major cause for the frustration of many economists who see agricultural policy as a jumble of politically motivated and expensive follies."[12] He, and others, therefore reject the strict classical liberal trade theory. The alternative, rent-seeking, games theory approach improves on classical economics because it identifies the transfers that flow among consumers, producers, and taxpayers and thereby provides esti-

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12. T. Josling quoted in Haen, Johnson, & Tangermann (1985), p. 32.

mates of which groups in society bear the economic costs and acquire the benefits of the policy (Table 1.3).

But the welfare approach does not necessarily identify the potential for change. There are two problems. First, the theory incorrectly assumes that the bargaining position of each actor in the system is based solely on its relative benefits and costs. When opinion surveys are compared with the benefits or costs of the CAP, some of the results refute such a close economic tie between economic self-interest and bargaining positions. German farmers, for example, get an average 33% more support per capita than other Community farmers[13], yet are the least satisfied that the CAP is "on balance ... worthwhile."[14] More importantly, however, this theory, like economics, still assumes that politics takes place in a black box. The distribution of winners and losers is usually presented as yielding an obvious outcome. But the political system does not work that way. The economic calculus of income transfers ignores the often more important social, political, and cultural concerns that determine policy.

International Relations

International relations specialists conclude that the CAP remains a key part of the political bargain between Germany and France that sustains the EC and thereby bolsters the Western European alliance against Soviet expansionism. The IR approach fails largely because it focuses almost exclusively on state-state relations and on international security and thereby ignores the increasing

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[13]. Buckwell, et al. (1982), p. 141, table 9.1. Producer benefits in Germany were estimated at 4207 EUA/head compared with the EC9 estimate of 2793 EUA/head.

[14]. Eurobarometre, 27 (June 1987), p. A118, table A40. Only 37% of German farmers agreed that: "Although there is a lot to criticize and to put right in the EC CAP, on balance it is worthwhile." About 44% disagreed. The nearest percentage of national farmers which disagreed was 31% in France and Luxembourg.

commercial orientation of international relations. The CAP, in particular, cannot be understood completely without examining the great variety of both state and non-state actors.

It is certainly true that the EC Common Agricultural Policy was designed to contribute to economic and political integration and security in Europe: "Farmers in particular were expected to facilitate this process, since they were considered to be a 'functional' group whose common interest would outweigh their national allegiances."[15] The early years of the CAP make sense in the context of post-war reconstruction and the impetus to develop a stronger and more integrated European economy because the CAP provided the means for the original six EEC members to strengthen their farm structures and to increase European agricultural production. As such, it contributed to the western security alliance.

Since then, however, international relations cannot properly explain the policy processes and developments in the CAP. Under-emphasising all other motives in international affairs except security reduces its ability to explain and contribute to the discussion of largely economic and trade-related issues. Henry Kissinger, US Secretary of State during the Nixon and Ford administrations, said in 1975 that "a new and unprecedented kind of issue has emerged." He explained that: "The problems of energy, resources, environment, population, the uses of space, and the seas now rank with questions of military security, ideology, and territorial rivalry which have traditionally made up the diplomatic agenda."[16] International relations does not provide a means to analyze such issues.

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15. Pearce (1983), p. 143.
16. Keohane & Nye (1977), p. 26.

Runge and Witzke argue that "the economists penchant for treating the institutional framework as 'given' has left little to say about the CAP other than to cite its negative economic benefits."[17] International relations, by ignoring both the economics of the CAP and the connections between domestic and international politics, has similarly reduced its ability to assist analysis.

AN ALTERNATIVE APPROACH: INTERNATIONAL POLITICAL ECONOMY

Carole Webb, in the opening chapter of the collection of policy reviews published under the title Policy Making in the European Community, asserted that the "fundamental intellectual problem [of policy analysis is] the problem of defining the boundaries."[18] A major problem of the past has been to reconcile the economic, welfare economics, and international relations approaches. Susan Strange's States and Markets[19] presents a schematic approach to social science studies that incorporates and illuminates the relationship among the separate disciplines. In brief, she argues that society balances four conflicting goals: individual, group, or national security; wealth creation or maintenance; economic, social or legal justice for individuals or groups; and freedom of choice or action for either individuals or groups. No society can elevate all these goals to an equal status because they are often contradictory. The relative power of government and private actors determines the balance among the various goals, which thereby determines the organization of markets and states.

Each of the approaches examined in the previous section concentrates on a single segment of this balancing act. By examining the key focus of each discipline, it is easy to determine the linkage among the 'bureaucratic

17. Runge & Witzke (1987), p. 213.
18. Webb (1983), p. 10.
19. Strange (1988).

creations' of the social sciences. Economics examines wealth creation, welfare economics concentrates on distribution issues (also sometimes on the trade-off between wealth creation and distribution), and international relations focuses on questions of security. Each, in its own way, works on part of the information necessary to understand policy.

International political economy, in contrast, attempts to examine the balance among each of these conflicting goals. By accepting the inseparability of politics and economics at both the domestic and international levels, IPE provides the means to deal with the second-best[20] world of agriculture. International political economy analyses begin with the basic question of "cui bono"[21], or who benefits, but go beyond the economic calculus to look at social, political, and philosophical issues and conflicts.

IPE therefore is a focus of inquiry which "denotes an area of investigation, a particular range of questions, and a series of assumptions about the nature of the international 'system'."[22] Strange's model provides a means of putting into practice this rather general pronouncement.[23] She argues that 'power' decides the mix and change in balance of state and market control.[24] The best approach is to examine changes in the four key 'pow-

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20. The general theory of the second best optimum states that "if there is introduced into a general equilibrium system a constraint which prevents the attainment of one of the Paretian conditions, the other Paretian conditions, although still attainable, are, in general, no longer desireable." The New Palgrave, V.4 (1987), p. 280.
21. Strange (1985), p. 23.
22. Tooze (1984), p. 2.
23. Gilpin (1987), p. 9 & 25, in contrast, proposed that the solution is "an eclectic mixture of analytic methods and theoretical perspectives." Eclecticism may be fine for well-read analysts but is an inadequate base upon which to build a discipline.
24. Strange (1988), p. 23.

er' structures in the system (i.e., security, production, finance, and knowledge) and to determine how they cause the essential bargains in the system to change. These usually overlapping and interlocking bargains among consumers, producers, governments, and non-state actors provide the true background and explanation of system changes.

The Theory of Bargains

Strange asserts "drawing bargaining maps will ... reveal the domestic roots of international agreements, and tell us about what is likely to be permanent and what will probably prove ephemeral about them."[25] All theoretical disciplines need a focus for analysis. Economics looks to the invisible hand of the market to regulate supply and demand while international relations sees the world as regulated by military might. Bargains can provide the same power and depth to IPE as markets and military power provide for economics and international relations.

The concept of bargains, however, is largely undefined or unexplained. The dictionary defines them as: "bargain, n. agreement on terms of a transaction; beyond the strike terms, moreover; make or strike a --; come to terms."[26] This definition is constrained by its contractual focus (e.g., union-management bargains or international treaties). If bargains are only formal agreements or transactions and have explicit strike terms, many important tacit understandings that often fundamentally influence policy would be excluded. Thus, the concept of bargains must also include "understandings· n., agreement, harmony, convention, thing agreed upon" as well as "conventions, n., agreement between parties; agreement

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25. Strange (1983), p. 353.
26. The Concise Oxford Dictionary of Current English, 6th ed. (Oxford, 1976).

between states, less formal than a treaty; general (often implicit) consent."[27] Therefore, bargains in IPE should include all explicit or implicit agreements, understandings, and conventions that underlie the operation of a modern economy.

Bargains in political economy provide a means for people to acquire power. The quest for power and the forging of bargains are therefore closely intertwined. Almost everyone would welcome an opportunity to bargain to increase their power. To a great extent, however, 'he who has, gets.' Bargains only convert potential sources of power into actual power, or exchange power over one area for power in another. The four power structures (i.e., security, production, finance, and knowledge) and the existing rules systems (treaties, laws, etc.) apportion power among the various actors in the system. Shifts in the power structures therefore causes power to ebb and flow between actors. Bargains weaken or new bargains are struck to accommodate the changes.

By implication, there are limits to bargains. Bargains cannot, for instance, create power where it does not exist; they just make that power effective. Some bargains that provide structural power may create power that no other group had been able to use. Nevertheless, that power was always available. Bargains by their very nature also limit independent action by creating greater certainty. Individuals, groups, corporations, and governments make either explicit or implicit bargains that let all parties know how each will react to specific developments. The converse is that each party to a binding bargain gives up freedom to react in exchange for this greater certainty.

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27. Ibid.

The variety of bargains is almost as great as the number of actors in the system and they often overlap and interlock, so that adversaries on some issues may be allies on others. It is not possible, therefore, to identify an archetypical bargain that encompasses all possibilities. "The bargain struck is apt to consist of a highly variable mix of political and economic benefits conferred and opportunities opened up. Bargains will reflect both the positive goals the parties severally wish to achieve and the negative risks and threats from which they want to find some security."[28]

Leadership is the key imponderable variable in analysis of bargains. Public policy is created by people, who can act for either rational or irrational reasons. Consequently, the ebb and flow of bargains is not necessarily continuous. By sheer force of personality, strong leaders may forge new bargains before the necessary structures have fully developed or can sustain failing bargains beyond their natural lifespan. Alternatively, weak leaders can precipitate the destruction of some bargains that would otherwise survive for a time or fail to create new bargains when the structures are supportive.

Regimes and Bargains

Students of international relations might question the need for bargains. Regime theory, at least superficially, appears to answer the same questions. Finlayson and Zacher define international regimes as:

> composed of sets of explicit principles, norms, rules, and decision-making procedures around which actor expectations converge in a given issue area of international relations and which may help to coordinate behaviour. 1. Principles are beliefs of fact, causation, and rectitude. 2. Norms are standards of behaviour defined in terms of general rights and obligations. 3. Rules are specific prescriptions and

28. Strange (1983), p. 353.

> proscriptions regarding behaviour. 4. Decision-making procedures are the prevailing practices for making and implementing collective choices.[29]

But the criteria for regimes miss the critical issues in policy areas. Regime theory is directed primarily at how states and governments conduct their affairs in a non-hegemonic power system which excludes non-state actors that are increasingly important in the development and determination of policy.[30] Regime theory is also static.[31] Each regime has a variety of norms that determine how states act; if even one norm changes a new regime develops. Consequently, regime analysis is similar to comparative statics in economics in that it compares relative fixed situations. Bargains, in contrast, highlight the dynamic nature of systems, and are therefore comparable to general dynamics theory in economics.

This can perhaps be best illustrated by examining the international regime for the world food system between 1949 and 1980 elaborated by Puchala and Hopkins.[32] Their study categorized the norms of the regime that regulated the food system as:

1. respect for a free international market;
2. national absorption of adjustments imposed by international markets;
3. qualified acceptance of extramarket channels of food distribution, such as food aid;
4. avoidance of starvation;
5. the free flow of scientific and crop information, especially after 1970;
6. low priority for national self-reliance;
7. national sovereignty and the illegitimacy of external penetration; and
8. low concern about chronic hunger.

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29. Finlayson & Zacher (1983), p. 275.
30. Strange (1983), pp. 349-51.
31. Strange (1983), pp. 346-49.
32. Puchala & Hopkins (1983), pp. 79-81.

This characterization of the norms of the world food system in the post-war period poses a number of problems. First, the order Puchala and Hopkins imposed on the norms is confusing. All the norms outlined by the two authors cannot be viewed as equal, or even ranked in importance as implied by their number (supplied by Puchala and Hopkins). Norm 7 probably had the highest priority, with national sovereignty for most of the post-war period overriding concerns about free markets (norm 1), avoidance of starvation (norm 4), free flow of scientific and crop information (norm 5), and low priority for self-sufficiency (norm 6).

Second, regime theory implies that norms—"standards of behaviour defined in terms of general rights and obligations"—are accepted by all member states in the system. At least three of the above norms fail that criteria. Most developing countries, the EC, Japan, and the US have not allowed markets to operate freely (norm 1) in the post-war period. Governments frequently use quotas, tariffs, taxes, and subsidies to manage their domestic markets. Meanwhile, although the rhetoric supported free trade, countries worked hard to reach food self-sufficiency in contradiction of norm 6. Finally, Norm 2 held as the basis of the International Wheat Agreements, where exporters and importers were to regulate the market. But overt market control failed in 1969 and has not been resurrected.

This regime-based analysis of the world food system also does not contribute to our understanding of why or how things happen. If the above norms held relatively constant over the 1949-80 period, it is not obvious why the International Wheat Agreement rose and then collapsed during the period. Also, because regime theory is basically comparative statics, it does not show how change has been brought about. The "norms" identified above are better understood as bargains, which strengthened or weakened depending on support from states and non-state actors and on the development of the underlying power structures.

<u>Simultaneity between bargains and power structures</u>

Bargains and the underlying power structures are often interrelated and simultaneous. When parties to a bargain acquire structural power—to decide how things will be done—they also acquire the ability to build or alter their own environment. This creates a complex problem of where or how to begin to analyze a simultaneous system, where bargains create the structures which in turn either support or change the bargains.

Simultaneity is not unique to questions in international political economy. All social scientists must approach and disentangle interrelated motives, markets, and power relationships to understand the world. In economics, for example, macroeconomists routinely build large, simultaneous econometric models to approximate the linkages between sectors. They start by setting the exogenous variables and then allow their model to iterate towards a stable and unique solution.

The IPE framework provides the means to do likewise. Chapter 2 shows that many power structures are influenced or determined by events well beyond the scope of any of the related bargains. Especially for this sectoral analysis of the European wheat market, most of the security and knowledge structures are not determined by bargains within the agricultural policy community. Consequently, those power structures can be examined in isolation from the related bargains. For the rest, where bargains bestow structural power on actors in the system, an iterative approach is necessary, starting with the baseline set of power structures and bargains and then examining how, over time, existing bargains are influenced by the power structures and how the bargains also change the power structures. This study of European wheat policy confronts the simultaneity problem directly by working iteratively from the power structures to the bargains and then to a re-evaluation of the power structures.

The structures-bargains approach differs fundamentally from the approaches reviewed above in that non-economic factors are elevated to an equal status with economic ones. Economics, in particular, usually ignores or assumes constant all non-quantifiable non-economic factors. IPE uses the bargain approach to reveal the implicit value attached to these non-economic variables and restore them to their rightful position.

IPE AND EUROPEAN WHEAT POLICY

Strange and Tooze posit that "sectoral analysis (by which we mean any study of the political economy of a specific industry in its world context, or of specific markets for goods and services) will illuminate the key bargains, whether these are inter-governmental, company-government, inter-company or intra-company, or between the company and its labour force or its financial backers."[33]

The European wheat market has been in a period of transition since the mid-1970s, shifting more towards a market directed approach from the heavily state-managed approach of the early years of the CAP. The use of Strange's model reveals that change. Comparison of snapshots of the priorities of the system in the early years and again in the late 1980s shows that the system has shifted significantly away from security-distribution concerns towards wealth creation. The priorities of the two periods could be ranked as follows:

33. Strange & Tooze (1981), p. 12.

GOAL	EARLY 1970S	LATE 1980S
SECURITY	1	4
WEALTH	3	1
JUSTICE	2	3
FREEDOM	4	2

1 = most important 4 = least important

The relative ranking of some of the goals is subjective, but even a cursory examination of Community action shows that security and food self-sufficiency no longer drive the CAP policy. Commission reports now pay much more attention to the role and position of agriculture in the entire economy and its contribution towards economic growth and development than in the early years. This simple substitution of goals has required a concomitant shift towards market control and away from administrative direction.

There are two cases in the past decade that excellently demonstrate the power of the IPE approach: first, the price system in Europe began to change beginning in the late 1970s as support for farm incomes became increasingly expensive and shifting power structures changed the distribution of power within the Community; second, the Community began to develop a commercial policy for wheat through unilateral action and multilateral processes.

To understand better these changes, this study focuses on common wheat[34] and on the relations between consumers, producers, and governments in France, West Ger-

34. European farm policy distinguishes between hard wheats (durum) and soft wheats (frequently called common wheat). Within the common wheat class, the policy also differentiates between wheat of bread-making quality and feed-grade wheat.

many, the United Kingdom, and at the European level. It is necessary to go beyond the general to the specific. Most studies of the CAP attempt to encompass all of the agricultural producers and products in the Community, which usually results in a vague analysis that does not truly capture the subtleties of the situation. Wheat was chosen because it plays a critical role in the domestic food industry: "The price of grain had to be given a key position, cereals being both a staple food and a raw material for animal production, greatly influencing the price of pigs, poultry, eggs and, therefore, in an indirect way, the price level of all animal products."[35] Cereals were the first set of commodities for which the Community was able to negotiate a common market regime and still remain the focus of much attention.

Wheat producers also were and continue to be the most influential non-government actors in the agricultural system in Europe. "In France, the power of the wheat growers' organization often makes them act as the spokesmen for all agricultural interests, especially in the European domain, even though they represent only a small part of French agriculture. In Germany, cereal producers predominate among the farm representatives who represent Germany in the various Community professional groups and consultative bodies."[36]

Wheat, as well as dominating CAP diplomacy, is a key export commodity that has attracted international attention. The issue was raised at the G7 Summit in Tokyo in 1986 and discussions continued at the Vancouver and San Francisco meetings of agricultural and trade ministers from the big five exporters over the following 12 months. Wheat trade issues also were prominently raised in the opening meeting of the Uruguay Round of the GATT and then

35. Priebe (1972), p. 5.
36. Averyt (1977), p. 44.

paralysed the mid-term review meeting in Montreal in December 1988. Concern for wheat exports also caused Australia and 12 other self-styled 'fair traders' in 1986 to form the Cairns Group, which may change the direction and content of future trade talks if it acts as a 'third voice' between the Europe and the US.[37]

Finally, within the Community, the three predominant nations in the fields of wheat production and agriculture policy formulation are France, Germany, and the UK. The big production increases (Table 1.4) were in the three largest producers: common wheat output grew to 52.4 Mt by the 1984-86 period, up from an average of only about

Table 1.4 Common Wheat Production in the EC

	France	Germany	UK	Others	EC9
Average Production (Mt)					
1969-71	13.9	6.3	4.1	9.3	33.5
1984-86	28.7	10.1	13.6	9.9	62.3
Average Area Seeded (M ha)					
1969-71	3.8	1.5	1.0	3.1	9.3
1984-86	4.7	1.6	1.9	2.1	10.4
Average Yield (100 kg/ha)					
1969-71	36.8	41.4	42.1	30.2	35.9
1984-86	60.4	62.3	70.1	47.0	59.8
Increase 1984-86 cf 1969-71					
Production	107%	61%	229%	7%	86%
Acreage	26%	7%	98%	-32%	11%
Yield	64%	50%	67%	56%	67%
Contribution to Production Increase					
Acreage	24%	12%	43%	na	13%
Yield	76%	88%	57%	100%	87%
Compound Yield Growth (1969-71 to 1984-86)					
Common Wheat	3.4	2.8	3.5	3.0	3.5

Source: Eurostat, Supply Demand Balance Sheets, ASC.

37. The Western Producer, 29-10-87, p. 15.

24 Mt in 1969-71. The total land seeded to wheat in France, Germany, and the UK increased by about 30% over the 15 years to 1984-86, largely due to a doubling in the UK and a 26% increase in France. As a result, the three accounted for more than 84% of output in 1984-86 compared with only 72.5% in 1969-71.

The other six members of the EC9 are either net importers or insignificant exporters of wheat: consumption of common wheat in those countries rose significantly faster than domestic production over the 1969-86 period, so that by 1984-86, they imported an average 4.4 Mt of wheat annually, compared with only about one million tonnes in 1969-71 (Table 1.5).

Table 1.5 **Common Wheat Production & Use in Belgium, Denmark, Ireland, Italy, Luxembourg, and the Netherlands**

000t	Production	Total Use	Net Balance
1969-71 average	9,260	10,350	-1,090
1984-86 average	9,884	14,315	-4,431

Source: Eurostat, Supply Demand Balance Sheets.

Italy, although a major producer of durum and the only remaining large importer of wheat, "had only an intermittent and on the whole marginal influence on the creation and early development of the CAP,"[38] and to a large extent continues to have little impact on wheat policy. Greece, Spain and Portugal have all joined the Community in the 1980s, adding significantly to the wheat production base. But their impact on the policy, at least until 1988, was minimal and therefore they are excluded from this study. Observers of the Community assert that the key pressures will continue to come from

38. Neville-Rolfe (1984), p. 149.

the "big, not the small, countries—and from the north not the south" which means, in effect France, Germany, or the UK.[39]

The remainder of the thesis examines the fundamental changes in the four key power structures (security, production, knowledge, and finance) and demonstrates how they have affected the vital interlocking and overlapping bargains that sustain and support the European wheat system. Chapter 2, examines the critical structural changes that have influenced the IPE of wheat in Europe since the mid-1970s. Chapters 3 to 7 examine domestic reforms centered on the price-fixing, beginning in 1972 and continuing through to 1988, with a focus on how the shifting structures caused the pattern of interlocking bargains to change. Chapters 8 and 9 show when, how, and why the CAP has developed a comprehensive commercial policy for wheat. Finally, Chapter 10 draws some general lessons for the major world wheat exporting countries.

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39. Duchêne, Szczepanik, & Legg (1985), p. 181.

Chapter 2
POWER STRUCTURES: WHEAT, EUROPE, AND THE WORLD

The basic power structures of the Common Agricultural Policy for wheat partly determine the shape and durability of the interlocking bargains and partly are determined by those same bargains. The CAP wheat policy has been influenced by a myriad of events that on the surface appear completely unrelated to wheat production, consumption, or trade. But a gradual transformation in the interconnected security, production, finance, and knowledge structures provided the basis for both the creation of the CAP in the beginning and for the recent reforms.

Greater complexity stands out as the most striking difference between the environment in the 1980s and conditions in the 1950s. In retrospect, the earlier period appears relatively simple. In the first two post-war decades the security structure was often characterized as 'black and white': nations were either friendly or hostile. National security was to be assured by military might and food self-sufficiency. Production patterns and methods were largely unchanged from times of the agricultural revolution; small, atomistic farm units accounted for most of the acreage and production. World-wide, production and trade was predominantly in and among the developed countries. Farmers and national governments also relied on a relatively stable set of financial structures (interest, exchange, and inflation rates) and the knowledge base was comfortably constant, with few developments that required farmers, governments, consumers, or traders to adjust.

But the pace of change accelerated in the 1970s and 1980s and made life for farmers, consumers, and governments more uncertain and complex. Each new shift in a power structure precipitated changes in the other structures, so that the stability of the earlier period was replaced with perpetual adjustment. The simple security structure of the immediate post war period was replaced by an interdependent world where superpower (nuclear) war seems unthinkable and strict national security is almost impossible because of the interdependence of production for both food and strategic goods. The agricultural investment boom of the 1970s and 1980s generated two different types of farms. About three-quarters of Community wheat is now produced on high-volume and low-margin commercial farms which depend on a stable supply of imported inputs, access to financial capital, and a properly functioning distribution and trading system. These farmers often produce only a few products and have little opportunity to shift production. The rest of the farms in the EC are low volume and high margin, and remain small, undercapitalized, and largely removed from commercial and financial pressures. This division within the farm sector complicated policy development at both the farm organization and government levels. Meanwhile, the farm credit expansion opened the sector to the uncertainties of impersonal financial markets: interest rates change frequently, exchange rates vary greatly, and inflation occasionally causes havoc. When the Community became a major exporter in the 1980s it found that the export market had also changed: price and non-price competition had increased as developed country markets shrank and new opportunities arose in lesser developed countries (LDCs) and centrally planned economies (CPEs). Finally, the knowledge explosion in the 1970s and 1980s radically changed the opportunities and pressures on the CAP. Farmers became better educated, which helped them adopt new farm technologies. But more knowledgeable farmers forced governments to re-examine goals and methods because quick action by farmers increasingly thwarted government attempts to manage the market.

SECURITY STRUCTURES

The world security system has changed radically since the 1950s. Following the Second World War, the system was dominated by two large, expanding power blocs, led respectively by the United States of America and the Union of Soviet Socialist Republics (USSR). Cold war prevailed for more than two decades, interspersed with periods of fierce but isolated fighting (Korea in 1950-53 and Vietnam in 1955-73). It was generally regarded as a bad time to be outside one of the alliances. The US Truman Doctrine used a combination of economic aid (Marshall Plan) and military support (ANZUS, Baghdad, NATO, and SEATO Pacts) to encourage allies and friends to encircle the Communist alliance while the USSR expanded its influence in Europe and the Third World through direct military action (Hungary in 1956 and Czechoslovakia in 1968), military and economic support for Communist forces in other areas (Vietnam and Cuba), and expansion and consolidation of its sphere of influence (Warsaw Pact of 1955 and building the Berlin Wall in 1962). Rhetoric and anxiety both reached a high level. The threat of war seemed real.

Food self-sufficiency remained a key security interest of most nations. The Second World War had shown that food was a strategic resource: Japan annexed Manchuria in 1936 partly to gain rice fields; Germany sought to control the vast wheat lands of the Western steppes when it invaded the USSR in 1941; and scarce ships were diverted from military use to transport food from North America to the food deficient UK.[1] In the immediate post-war period, West European governments set food security as a top priority for national reconstruction.

Since then, a series of economic and military failures have caused the two power blocs to re-evaluate their positions and seek less confrontation. Meanwhile, the economic structure of the world economy became increasingly interdependent, so that food self-sufficiency now

1. Kennedy (1983), p. 6.

is less essential and less possible than in earlier times. The CAP, built in response to the cold-war climate of the 1950s and 1960s, appears to many as inconsistent with the interdependence of the 1980s. This new world requires guaranteed access to world markets for output and to ensure supplies of inputs. In the opinion of many, the CAP, by dampening overall industrial output and investment in Europe and providing a visible target for trade disputes, threatens to destabilize the very features that underlie the security structure of the western world in the 1980s.

Security in the Cold War

The battered, weakened, and divided West European states concentrated on economic and social reconstruction in the post-war period. The US helped by providing all the national security in those countries immediately after the war but was determined to strengthen Western Europe in order to provide a bulwark against Soviet expansion. Thus, the US encouraged West Europeans to join the NATO alliance and accept military and economic support from the United States. Meanwhile, the Organization for European Economic Cooperation (OEEC), founded in 1948 to administer US Marshall Plan funds for European reconstruction, successfully assisted rebuilding European industry.

But the Marshall Plan did not extend to the farm sector, where circumstances were difficult. Immediately after the war, farming accounted for more than 30% of German and almost 40% of French employment; governments wished to assure both the survival of these jobs and farmer support for the new democratic governments. The West German farm economy was in particularly poor shape. With partition, the output of the large efficient farms in Prussia was lost to the West. The region that now forms West Germany contained mostly small and inefficient farms.[2] Immediately following the war, food was scarce. In 1947 the shortages worsened and food was rationed and during that winter thousands died of starvation. Although the United States and other allied countries provided food aid, the German government decided it was unwise to depend on food imports. In response, both subsidies and import duties were raised to encourage greater production. The other continental governments also concentrated on reconstruction. These policies were so effective that pre-war levels of food production in the EC6 were regained as early as 1951.[3] Even so, the six remained large net importers of all major foods.

When the European Coal and Steel Community (ECSC), founded in 1950 by the "Six" to manage the continental resources of coal and steel, demonstrated the economic and political benefits of European cooperation, continental farmers began to agitate for a similar agricultural arrangement. German and French delegations of farmers to the 1950 meeting of the International Federation of Agricultural Producers (IFAP) called for a corresponding common agricultural market. The ministers of agriculture from France and the Netherlands subsequently embraced the proposition. Although unification proposals were discussed both by the Council of Europe and the OEEC, the effort failed in 1954 because of the collapse of the European Defence Community initiative.

But the European movement continued. The Messina Conference of the ECSC members in 1955 commissioned Paul-Henri Spaak, the Belgian minister of agriculture, to examine the possibility of creating a European Economic Community along the lines of the ECSC. Spaak thought it "inconceivable" for agriculture not to be part of any

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2. Hendriks (1987), p. 35.
3. Tracy (1982), p. 232.

European community.[4] The Spaak Committee reported in 1956 to the ECSC Council, negotiations to create the EEC began later that year, and, in 1958, the French and German governments reached agreement. German industry would get access to the French market in exchange for French farmers' access to German consumer markets.

The United Kingdom, which had a different approach to farm policy than the continental countries, did not join in the founding of the EEC or the CAP because successive governments judged that it had other priorities and opportunities. The UK preferred an open farm trade policy (with low consumer food prices and deficiency payments to farmers), rather than the protectionist system sought by continental farmers and governments. Moreover, the UK was unwilling to sever its economic and political connections with the Commonwealth, which would have been the outcome of joining the Community. By the mid 1960s, when the Commonwealth had become little more than a fraternal club of ex-colonies and the UK economy had deteriorated relative to that in the EEC, the UK had missed its chance to help build the Community or its farm policy. In 1963 the Conservative government formally applied to join the Community but French President Charles de Gaulle vetoed the application and the UK had to wait to join until after de Gaulle had left the presidency.[5]

In the absence of UK participation, the CAP was thereby created in line with continental concerns. Art. 39.1 of the Treaty of Rome stated:

> The objectives of the common agricultural policy shall be:
> (a) to increase agricultural productivity by promoting technical progress and by ensur-

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4. Neville-Rolfe (1984), p. 185.
5. The UK finally joined the Community on 1 January 1973. The provisions of the CAP were introduced in five equal stages until they were fully in force on 1 January 1978.

ing the rational development of agricultural production and the optimum utilization of the factors of production, in particular labour;

(b) thus to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture;

(c) to stabilize markets;

(d) to assure the availability of supplies;

(e) to ensure that supplies reach consumers at reasonable prices.

Neville-Rolfe noted that "the next ten years, punctuated by at least four major crises round the Council table, were spent in the search for common means to bring about the common ends so enthusiastically assented to at Stresa."[6] The key provisions of the CAP were eventually agreed for the wheat regime in the early days of 1962, with the system fully in force on 1 July 1967.

Pearce argues that the main decision of the 1958-62 negotiations was "that the policy's chief objective would be to maintain farm income and that its principal instrument would be price support."[7] The common set of prices therefore became the most important feature of the CAP wheat regime. Until the 1980s, the Council annually set the target price, which represented the maximum price that farmers would receive, at a level which provided farmers in the consuming regions (i.e., Duisburg in Germany) with a desired level of support. The minimum (floor) price for wheat, called the intervention price, was usually set about 12% to 20% below the target price, to reflect transport costs between the producing regions (Orleans-Ormes in France) and consuming regions.[8] Market prices in surplus areas during periods of glut were protected from falling below the intervention price because public agencies were required to intervene and purchase

6. Neville-Rolfe (1984), p. 204.
7. Pearce (1983), p. 147.
8. Swann (1984), p. 209.

at an intervention price all quantities of grain offered, subject to minimum quality standards(Figure 2.1).

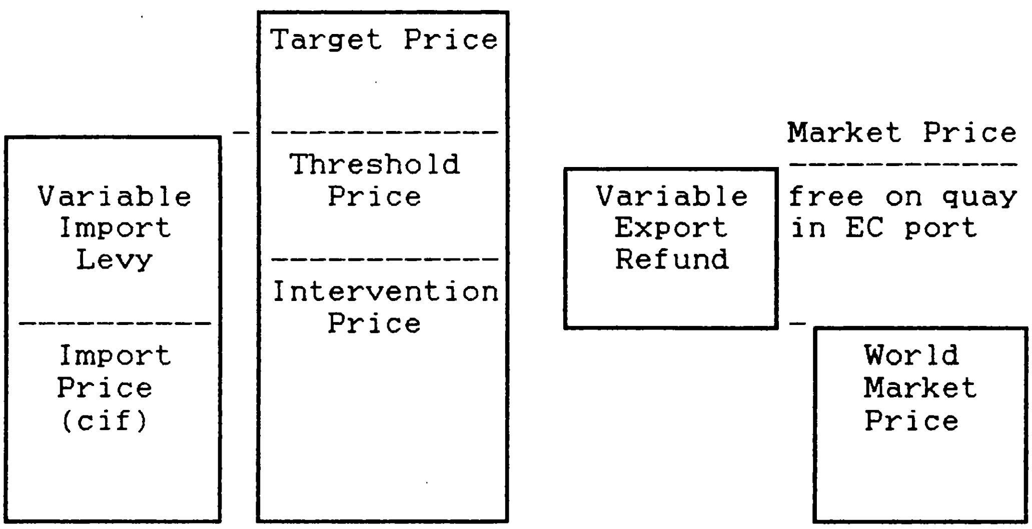
Although the Community wanted to give preference to domestic production, it also wished to use world grain markets to stabilize the domestic market. If the EC system had been autarkic, domestic prices would have risen sharply because farmers in the original six countries were unable to produce enough food to satisfy domestic demand at any reasonable cost. The wheat regime was therefore designed to allow imports whenever domestic production was inadequate. The Community defines a floor price for wheat imports (threshold price) such that the price of imported wheat in the consuming region is equal to the target price after accounting for the transport, handling, and other delivery costs from the port of Rotterdam to Duisburg. When the world price is below the threshold price, the Commission assesses a variable levy (tariff) equal to the difference between the threshold and third-country offer prices (cif Rotterdam). When world prices rise above the threshold price (as occurred in 1972), the levy becomes a subsidy to imports and helps hold down domestic prices. The wheat regime also allows exports of Community surpluses. The Community assesses a restitution payment (usually a refund or subsidy) equal to the difference between the EC market price (which is usually higher) and world export price. If world prices rise above the domestic price (as in 1972), the restitution becomes a tax on exports, ensuring that producers do not receive more than the domestic price.

This system of protected internal markets and limited access to international markets suited both the national security concerns of the original six member states in the 1950s and 1960s and the strategic goals of the US. The CAP was deemed a "cornerstone" of the security policy of Europe because higher prices and farm incomes were expected to encourage production and protect employment in the farm sector. A stronger farm sector would support economic growth in Europe and farmers would sustain the efforts to integrate the European economy. Taylor argues that the cost of the CAP was minimal relative to the potential cost of war and concluded that "a more unified western Europe could provide a stronger deterrent against further Soviet expansion, both because of its ability to organize a more coordinated military effort and because of its diplomatic weight."[9] Keohane and Nye point out that the US government accepted the autarkic agricultural system in the EC because "concern about a communist military threat helped stimulate Americans to make short-run economic sacrifices."[10] Consequently, the US accepted in the Kennedy Round of the GATT in 1963 that the CAP was compatible with the general provisions of the Treaty.

Figure 2.1

THE CAP WHEAT PRICE, REFUND AND LEVY SYSTEM

Import Levy System: Export Refund System:



Source: Burtin (1987), p. 20.

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9. Taylor (1983), p. 301.
10. Keohane & Nye (1977), p. 47.

The EC political commitment to food self-sufficiency was then bolstered during the early 1970s when the world supply of food, energy, and raw materials appeared to be running out. Many of the European colonies which gained independence between 1945 and 1965 formed regional or commodity groups and worked to redistribute both political and economic power in the world system. In 1973, the impact was first felt when the OPEC nations took the opportunity of the Israeli-Arab war to triple oil prices. This event provided the impetus for intensive, almost panic-driven, Malthusian analysis of the supply and demand situation in commodity markets. Governments considered rationing and market control, academics examined the economics and politics of commodity markets, and international agencies such as the Club of Rome produced voluminous reports forecasting increasing scarcity and conflict over commodities. During that period food also was used as a political weapon. The US had frequently used food aid to reward friendly countries but during the 1970s it accepted that food exports could also be selectively withheld to support its foreign policy (e.g., the 1979 grain embargo against the Soviet Union in response to the invasion of Afghanistan).

EC policy makers were comforted in their knowledge that Europe was fast approaching self-sufficiency in most temperate-zone foods because of the CAP. The Community thus entered the 1980s convinced that the CAP was a cornerstone of both European and world security.

Security in the 1980s

During the 1970s, super-power politics began to shift towards discussion and mutual coexistence and away from confrontation. The Nixon administration finally opened trade and diplomatic relations with the Peoples' Republic of China (PRC) in 1971 and, shortly afterward, the US negotiated withdrawal from Vietnam. Disengagement between the two military blocs in Asia and opening relations with China reduced tensions between the communist and capitalist blocs. Jointly, the US and USSR used this period of reduced tension to implement new agreements to lessen the nuclear threat. In addition to the Partial Test Ban Treaty and Hot-Line Agreement from the 1960s, the two governments negotiated the Non-Proliferation Treaty (1968), the Helsinki Accord (1975), and the Strategic Arms Limitations Treaties (SALT I and II) in 1972 and 1979.

The Soviet invasion of Afghanistan in 1979 and election of President Ronald Reagan in the United States in 1980 at first appeared to signal a return to cold war politics. But changes within the Eastern bloc checked this tendency and subsequently accelerated disengagement. The economic troubles that plagued Poland beginning in 1980 also began to appear in other Eastern bloc countries. Then, the death in 1982 of Leonid Brezhnev, General Secretary of the Communist Party in the USSR since 1963, opened the way for new leadership. When Mikhail Gorbachev gained power in 1985, he introduced sweeping reforms of Soviet politics, economics, and international affairs. These efforts reached a peak in 1987-89 when the Soviet government introduced the economic 'perestroika' program of market liberalization and the 'glastnost' political reforms, held contested elections for the Supreme Soviet, withdrew military forces from Afghanistan, pressed Cuba and Vietnam to resolve territorial disputes in Angola and Kampuchea, announced unilateral cuts in conventional military forces in Europe, and negotiated agreement on intermediate range nuclear missiles (SALT III). Gorbachev signalled that the international reforms were more than just fine tuning when he declared in Cuba in 1989 that "we are against the doctrines that endorse the export of revolution or counter-revolution" and that Russia is "not seeking political or military advantages in [the North American] hemisphere."[11] In May 1989, Soviet allies began to dismantle the 'iron curtain' security fence dividing Eastern and Western Europe, the ultimate symbol of the cold war.[12]

As United States strategic interests shifted, the US government re-evaluated its trade policy. Disengagement between the two super-power blocs and declining economic growth changed the balance between international and domestic concerns. Beginning in the 1970s in the Tokyo Round of GATT and continuing through the 1980s, the US government sought to open foreign markets to expand trade and enhance economic growth, which conflicted with the long-standing US policy of support for European integration. As domestic concerns gained the upper hand, the official US policy shifted. First, in 1982, President Reagan announced the US would never again use food embargoes to enforce its other foreign policy objectives; farm exports would henceforward be driven exclusively by commercial concerns. Since then, the US has actively criticized European policies that limit trade and investment: the CAP wheat policy became the prime target.

At the same time, the world economy has been transformed by the expansion of trade and the operation of large transnational corporations. The traded share of national GDP continued to rise in almost all national economies over the 1960-85 period, leaving the European member states more open to international market developments. Meanwhile, transnational corporations transformed the nature of international trade, as much of it became intra-industry and intra-firm. Aquino found that in 1972 intra-industry trade represented more than 70% of Canadian international trade, most of Western Europe's, and

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11. The Economist, 8-4-89.
12. The Economist, 6-5-89.

about 57% of US trade.[13] Much of this intra-industry trade was also intra-firm trade, with transnational corporations producing components of single products in different countries and only assembling them in the destination market (i.e., 'screw driver' plants). Such strategic goods as aircraft, trucks, computers, and weaponry have become world products. This production system depends critically on the continuation of trade and financial flows. European and US strategic interests therefore dictate their support for liberal trade and exchange regimes.[14]

EC strategic interests have also changed in other ways. When the EC faced the threat of world-wide food shortage in the 1970s, policy makers were initially comforted by their knowledge that Europe had nearly achieved temperate-zone food self-sufficiency. But detailed study revealed that it did not necessarily provide greater security from international developments. Livestock and dairy yields now depend critically on imported high-protein feeds from America and the LDCs while the whole farm industry is heavily dependent on imported energy (used to operate machinery and embodied in the yield-enhancing fertilizers, pesticides, and herbicides). The Community had and still has little prospect of reducing dependence on these imports. The EC therefore has a strong reason to support and strengthen the world trading system. The autarkic CAP system, however, undercuts the EC bargaining position in world trade forums.

General economic developments both within the European Community and in the world economy during the late 1970s and in the 1980s further shifted EC security interests. Overall growth in real economic output in the EC12 slowed to 1.7% per annum in the 1980s from about 3% in

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13. Lipson (1983), p. 261, cited Aquino data.
14. Pearce (1981), p. 61.

the 1970s and almost 5% in the 1960s. At the same time, employment, which had grown only 0.2% annually over the 1960-80 period, fell about 2.6% during the 1981-83 recession and had barely recovered 1980 levels by 1988. When the post-war baby-boomers entered the labour market in the late 1970s, that growth rate was unable to satisfy employment demand. Consequently, the average unemployment rate in the Community rose from a relatively stable range of 2% to 2.5% in the early 1970s to a peak of 11.1% in 1985-86 (for EC9). By 1988, the average unemployment rate had dropped only marginally to 10.8% while the French jobless rate continued to rise.

The EC economy, with stagnant economic growth and high unemployment, compared poorly with Japan or the US. Japanese growth slowed from over 10% per annum in the 1960s to an average 3.5% in the 1980s, but employment continued to grow in the 1% range, holding the unemployment rate below 4%. In the US, economic growth slowed in the 1970s but accelerated sharply after the 1982 worldwide recession, creating an average 2.4% more jobs per year over the next five years. From a high 9.7% in 1982, the jobless rate dropped below 6% in 1988 for the first time in almost a decade and was judged by many to be near the non-accelerating-inflation rate of unemployment (i.e., "natural rate"). The growing economic disparity between Europe, the US, and Japan threatens EC security and autonomy. Unless the EC economy can at least maintain its relative place in the world economy, it cannot participate fully in either western economic relations or the security alliance.

The European Council in Copenhagen recognized these trends in 1982 and confirmed that it would seek to complete the single European market within 10 years in an effort to strengthen the economy. The movement for a stronger Europe was then taken up by the new Commission of the European Communities in 1985 and the Single Act was signed and enacted on 1 July 1987, creating the "One Europe" policy of intra-community trade liberalization. The Single Market is designed to create more efficient and dynamic pan-European corporations that can compete on world markets, thereby boosting economic and employment growth in Europe in the 1990s. The Commission and most governments in the member states believe that the maximum benefits from the 1992 policy will only be realized when strengthened pan-European corporations compete in a more open world marketplace. Opening intra-EC markets will not be enough because they are mature: in the late 1980s per capita incomes were rising only slowly, housing and consumer markets were reasonably well satisfied, and national populations were either stagnant or declining (e.g., Germany). Before 1988, debate over CAP reform frequently diverted attention from the domestic adjustments emanating from the 1992 policy and the EC position on international farm policy reform threatened to derail the Uruguay Round of the GATT twice between 1986 and 1989. The reform of the CAP, therefore, a became a strategic goal of the Community during the 1980s because it represented a major stumbling block in the pursuit of a strengthened international trade system.

Although primarily sold as an economic measure, the Single Market also has a political dimension. As the cold-war thawed in the 1980s, concern increased, especially in France, that West Germany could be enticed from the West European alliance by promises of reunification of the two Germanies.[15] The 1949 Basic Law stated reunification was a goal of the new Federal Republic. As East-West relations improved, West Germans became less convinced that they needed either NATO or the US nuclear umbrella. France decided that if the internal market was completed, West Germany would find it increasingly diffi-

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15. B. Beedham, "East of Eden: A Survey of Eastern Europe," The Economist, 12-8-89, p. 18.

cult, and ultimately impossible, to contemplate turning from the EC toward either a neutralist or nationalist status, either alone or re-unified with East Germany. France therefore accepted that the CAP would need to be reformed, so that farm outlays could be cut and resources redirected to implement the measures that would be needed to complete the Single Market. Consequently, the CAP, which in the 1950s and 1960s was regarded as a corner-stone of the western security alliance, was by the 1980s viewed as a stumbling block in the path to a new West European security structure.

PRODUCTION STRUCTURES

In the early postwar years and up to the beginning of the CAP, the typical continental farm was a "small family undertaking employing only a few work units, usually members of the farmer's family."[16] These small farms had low productivity (output per hectare or per head of cattle) and generally produced a wide range of products in much the same way as their ancestors had done since the agricultural revolution of the 18th century. They produced most of the inputs for crops or livestock (horsepower, fertilizers, and feed) and consumed or processed a large portion of the output on the farm (feed, dairy products, vegetables, and fruit) or sold directly to consumers. Meanwhile, world markets were dominated by production in the northern, developed countries.

Over the intervening 30 years, European agriculture emerged as a highly productive sector capable of competing in the world markets. Cline has argued that for many industrial sectors "comparative advantage is made, not given."[17] The same is true for farming, as it has become commercialized and more dependent on inputs and markets. Community policies on prices, finance, investment, taxes,

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16. Green Europe 217, p. 55.
17. W. Cline in Rubin & Graham (1984), p. 26.

trade, regulations, and research have largely overcome the limitations imposed by the endowment of farm land in Europe, so that EC farmers now are competitive with the best in the rest of the world. Although the majority of farm output now is produced on large commercial farms, there remain a significant number of small farms in disadvantaged regions[18] in all countries. At the same time, world markets have changed rapidly. Wheat production has shifted into the developing world and by the mid-1980s India and China were usually able to meet their needs from domestic production. But world wheat supply has not become more secure because production in new areas is more volatile and risky than in the older, more established growing areas. Furthermore, although the new production techniques increased productivity, they did little to relieve the risks or consequences of severe drought, as was demonstrated in North America in 1988.

Gross Fixed Capital Formation and Production Advances

The key change in the past 30 years was the surge in capital investment in farm machinery, structures, and technologies in Europe. The EC farm sector received an above average share of the new gross fixed capital formation (GFCF) following the beginning of the CAP. German and British farmers, in particular, consistently invested heavily while French farmers were slow to invest in new capital equipment or infrastructure until increased government support encouraged expansion in the mid-1970s (Tab. 2.1).

The different investment patterns in the three main wheat producing countries in Europe result from the structure of the industry and the support from the respective national governments. In Germany, small farmers

[18]. The EC has defined approximately half of all the farm area in the Community as 'disadvantaged.' Most of that land has natural disadvantages (e.g., hills and lack of moisture) or has a poor economic structure (e.g., land holdings smaller than economically viable).

Table 2.1 Gross Fixed Capital Formation as a % of Gross Value-Added at Factor Cost

		1970	1973	1976	1981	1983	1987
Farm Sector	France	15.9	17.9	22.1	23.0	21.8	15.1
	FRG	26.7	24.6	25.9	27.6	25.3	31.0
	UK	24.6	28.9	26.4	20.3	23.7	--
	EC10	20.4	20.2	24.2	26.0	22.3	--
Total Economy	France	23.4	17.7	23.3	21.1	--	19.4
	FRG	25.5	17.4	20.2	21.9	15.5	19.4
	UK	18.6	15.9	18.9	15.7	13.5	17.3
	EC10	24.6	16.9	22.1	22.3	--	--

Sources: Stoeckel (1985), p. 25; COM(85)333, table 1b; ASC 1988, p. T.37.

were well supported by government funds to modernize and invest in new technologies. In contrast, the relatively large farmers in the UK were not assisted to nearly the same extent. The UK government wound down its income support programs when the CAP support systems were introduced and did not replace them with significant production enhancing programs. In the late 1970s, the UK government re-directed efforts toward expanded research activities and dissemination of information to the farm industry. Farm investment continued strong even without government support, however, because the larger, more commercially viable UK farms had adequate profit to re-invest and could easily borrow additional amounts. In France, on-farm investment accelerated after 1975 when government aids were supplemented by an expanded program of research and farmer training in an effort to improve the technical skills of existing farmers (Table 2.2).

Much of the capital invested in farming was used for equipment, irrigation, and land drainage, thereby helping to improve the productivity of the land. The most important change in farm practice brought about by

Table 2.2 National Expenditure on Agriculture (M ECU)

Outlays For:		1975	1976	1977	1980
Projects to enhance production	France	57.6	92.1	71.2	185.0
	Germany	50.6	44.5	79.6	109.7
	UK	88.6	76.0	53.1	32.2
Land & cost improvement	France	162.1	745.2	260.6	1463.6
	Germany	647.6	780.3	536.5	681.3
	UK	269.0	212.4	146.4	466.4
Income support & other	France	963.9	891.2	1317.4	733.5
	Germany	753.6	624.8	621.6	547.8
	UK	1093.5	286.8	348.6	254.4
Total	France	1183.6	1728.5	1649.2	2382.1
	Germany	1451.8	1449.6	1237.7	1338.8
	UK	1451.1	575.2	584.1	753.0

Source: ASC, 1977, 1978, 1980, 1986.

this investment was the large increase in use of power machinery and equipment.[19] By 1985, virtually every farmer owned or had use of (through cooperative arrangements) both tractors and combine harvesters (Table 2.3). As powered machinery replaced the horse, more land became available for cash crops. In the EC9 member states, farmers planted 3.7 Mha of oats (the main feed for livery animals) as recently as 1968. By 1987 the area planted to oats in those states had declined to 1.3 Mha.

[19]. Johnson (1973), p. 73, showed that the earlier movement from animal to tractor power in the US made possible the sharply increased level of production. He calculated that the maximum horsepower (hp) available if all land was used for feed would only be about 125 M hp; in 1970 the US farm industry required about 200 M hp to produce and harvest the crop. Thus, the current level of production usable off-farm could not be sustained without tractors and petroleum.

Table 2.3 Investment in Tractors and Combine Harvesters

			France	Germany	UK
Tractors	(000)	1958[1]	623.0	699.2	512.0
		1985	1485.0	1479.0	515.2
	/100 ha	1958[1]	1.8	4.9	2.4
		1985	5.1	12.4	3.1
Combines	(000)	1958[1]	42.0	26.0	55.0
		1985[2]	154.5	139.0	54.5
	/100 ha	1958[1]	0.5	0.5	1.8
		1985[2]	1.6	2.8	1.4

Notes: (1) 1961 for UK; (2) 1984 for Germany.
Source: Eurostat, Agriculture Statistical Yearbook 1988, IC12.

Following the beginning of the CAP, farmers also invested heavily in irrigation. Between 1965 and 1985 the area of land under irrigation rose by more than 70% to almost 6.7 Mha. In 1985 about 7% of French land was irrigated, compared with 4.4% in Germany, 2.2% in the UK, and 32% of the land in the other member states.[20] Irrigated land is not often used for wheat due to deleterious effects on quality of too much moisture but it is satisfactorily used for growing other types of feed, such as maize and barley. As a result, irrigation investment has made the non-wheat feed industry less weather dependent and more competitive with feed wheat.

The high assured prices offered to farmers, combined with the use of labour saving machinery, also opened the way for farmers to adopt modern agronomic practices. European farmers rapidly adopted intensive production techniques, with a sharp rise in use of fertilizers and pesticides to maximize production from each hectare. By

20. FAO, Production Yearbook 1986, Table 2; Eurostat, Agricultural Statistical Yearbook 1988, Table IC08.

the mid 1980s farmers used 18% of the potassium, 15% of phosphate and 13% of nitrogen fertilizers consumed by world agriculture and applied them to only 2% of the world's area (Table 2.4).

Table 2.4 Total Fertilizer Usage (N, P_2O_5, K_2O) (kg/ha)

	1956-60	1979-80	1985-86
France	56	188	181
Germany	148	294	265
United Kingdom	79 *	120	135

* 1965-66
Source: Eurostat, Agriculture Statistical Yearbook 1988, p. 74.

The surge in real capital investment during the past 30 years and increased use of fertilizers, pesticides, and herbicides boosted the average yield of a hectare of wheat# from about 2.2-3.1 t/ha in the 1954-58 period to more than 5.7 t/ha in 1983-87 in each of the three main

Table 2.5 Comparative Wheat Yields

t/ha	France	Germany	UK	USA
1904-08	1.38	1.79	2.24	.88
1934-38	1.58	2.28	2.31	.66
1954-58	2.24	2.90	3.10	1.45
1964-68	3.11	3.63	3.98	1.79
1973-77	4.33	4.38	4.35	2.03
1983-87	5.72	5.92	6.72	2.52*
Annual % Change				
1906-36	0.4%	0.8%	0.1%	-1.0%
1936-56	1.8%	1.2%	1.5%	4.1%
1956-66	3.3%	2.3%	2.5%	2.1%
1966-75	3.8%	2.1%	1.0%	1.4%
1975-85	2.8%	3.1%	4.4%	2.2%

* 1983-86
Sources: Malenbaum (1953), pp. 236-39; IWC, World Wheat Statistics; Data from EC Commission.

Also due to new seed varieties; see pp. 82-84.

European countries, and to more than 6.7 t/ha in the UK. A group of particularly productive UK farmers have founded a 'ten tonne' club, for individual farmers who have harvested at least that amount of common wheat from a hectare of land (Table 2.5).

Recent studies of the relative economic efficiency of European farmers show that cereals producers in both the UK and France are highly competitive in world terms. Table 2.6 shows that the cost of the relatively greater use of inputs in Europe is offset by the significantly higher yields, so that Europe is competitive with dry-land farming in North America, Argentina, and Australia. This is particularly true since 1985, because the sharp drop in energy costs make the energy-intensive farm system in Europe even more competitive. Thus, in both economic and financial terms, commercially-oriented East Ang-

Table 2.6 Relative Costs of Producing Wheat in Major Exporting Countries (US$/t)

Study	Year	Argentina	Australia	Canada	France	UK	USA
Total Costs Including Land							
Stanton	1982	--	--	--	132.3	137.8	152.8
Cambridge Land Economy	1983-84	--	--	--	162.0	183.4	188.6
Stanton	1984	--	--	--	--	92.2	150.6
University of Guelph	1984	--	--	108.7	107.2	92.2	150.7
University of Guelph	1986	--	--	101.3	134.1	94.4	149.7
Fed. Bank of Kansas City*	1987	86.7	159.1	179.3	--	146.9	138.8
Total Costs Excluding Land							
Stanton	1982	--	--	--	--	110.6	119.4
Cambridge Land Economy	1983-84	--	--	--	130.0	151.9	145.7
Stanton	1984	--	--	--	--	72.7	118.3
Fed Bank of Kansas City*	1987	70.3	125.1	137.4	--	117.8	119.9
Yield (t/ha)	See note	2.3	1.3	1.9	5.7	6.7	2.5

* Central Plains, including Kansas.
Yields: UK & France (1983-87); USA (1983-86); Canada, Argentina, & Australia (1980-84).
Sources: Murphy (1985), table 3.10. Barkema & Drabenstott (1988), p. 9. A.H. Sarris, "EC-US Agricultural Trade Confrontations," in Baldwin, et al. (1988), p. 107. The Globe & Mail, 12-1-87.

lia farmers in the UK and French farmers in the Paris Basin can compete with Kansas wheat producers.

Although the relative competitiveness of European farmers depends greatly on the ECU-US dollar exchange rate, the data from the studies in Table 2.6 suggest that UK and French farmers should be competitive at even extreme exchange rates. The Stanton and Kansas City studies, for 1982 and 1987 respectively, show that even when the ECU was strong relative to the US dollar, UK and French farmers produced wheat at about the same or lower cost than US farmers.

A major factor limiting European farmers from competing freely with North American or Australian farmers is the relatively high cost of transporting grain to export position. In the early 1980s, it cost approximately US$33/t to move a bushel of wheat from the Paris Basin to the export port of Ghent while wheat could be moved from Minnesota to New Orleans (a distance twice as far) for only about US$12.50/t.[21] During the 1980s, however, the wholesale and distribution system has been upgraded and is beginning to reduce the cost of competing in world markets. Southampton, for example, was expanded during the decade so that it can now move as much as 10 Mt of grains in a single year.[22]

Consolidation and Specialization in EC Farming

Another major change in Europe has been the marked increase in the size of the average farm and the specialization of commercial units. In the 1950s, the majority of continental European farmers produced and lived much in the same manner as their forebearers in the nineteenth century or earlier. They produced cereal and vegetable

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21. Insel (1985), p. 899.
22. Discussion with Home-Grown Cereals Authority, August 1989.

crops on small, often widely scattered, plots of land, with little use of powered machinery (at least partly because powered machinery was physically unable to operate in many of the small holdings).[23] Horses, oxen, and humans provided much of the energy on the farm so a significant share of farm output was consumed rather than marketed.

After 1958, increased availability of financial resources allowed farmers to invest heavily in machinery and land. As a result, farmers were able to expand the size of their farms, to consolidate plots of land into larger areas that could be worked by power machinery, and to shift their planting towards crops best produced and harvested by machinery. In the case of wheat, this allowed farmers to realize the production potential of their investment.

Table 2.7 shows that large farms (with over 50 ha of utilizable agricultural area (UAA)) represented only about 18% of total farmers in France in 1986 but cultivated almost half the land; this was up from less than 30% of the land cultivated by the 5.5% largest farmers in 1960. In Germany, only about 5.5% of all farms had over 50 ha in 1986 but they cultivated more than a quarter of the land in the country. In 1960, only 1% of German farms were large and they cultivated about 10% of farm land. The large farms in both France and Germany cultivated about 80 ha each in 1986. Changes in UK farm sizes are even greater: by 1986 more than one third of farms cultivated more than 50 ha of UAA and together accounted for almost 83% of the farmland in the country. These large farms had an average 171 ha under cultivation in 1986, compared with only 110 ha in 1960.

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23. Furtan, et al. (1988), p. 105.

Table 2.7 Growth in Cereals Farms in France, Germany, and the UK

	1960	1986
France		
Total number of holdings	1773.5	1000.0
- % with over 50 ha	5.5%	18.4%
Total ha in agricultural use	30162.0	28240.0
- % on farms over 50 ha	29.7%	49.8%
Average ha/holding	17.0	28.2
- on farms over 50 ha	86.0	76.4
Germany		
Total number of holdings	1385.2	707.7
- % with over 50 ha	1.2%	5.5%
Total ha in agricultural use	12935.0	11910.0
- % on farms over 50 ha	10.3%	25.3%
Average ha/holding	9.3	16.8
- on farms over 50 ha	81.9	78.2
United Kingdom (1960 + 1985)		
Total number of holdings	443.1	241.7
- % with over 50 ha	18.7%	33.6%
Total ha in agricultural use	14191.0	16838.0
- % on farms over 50 ha	64.5%	82.5%
Average ha/holding	32.0	69.7
- on farms over 50 ha	110.7	171.3

Source: Eurostat, Agriculture Statistical Yearbook 1988, p. 70.

As they expanded, commercially-directed farms concentrated their efforts on production of a smaller number of products.[24] In 1970-71, about 46% of European farmers (EC9) produced some common wheat: in Germany more than 61% of farmers planted some wheat, compared with 48% in France and only 15% in the UK. By 1985, only 36% of Community farmers (EC9) planted any wheat: the number of farmers growing wheat dropped to less than 56% in Germany and about 46% in France, and remained fairly steady in the UK. At the same time, the average area planted to

24. Bowler (1985), p. 114.

wheat per farm rose a little in Germany, and more than doubled in France and the UK(Table 2.8).

Table 2.8 All Holdings Producing Common Wheat in Europe

	1970-71	1975	1980	1985
Total Farms (X1000)				
France	762.2	596.5	564.6	489.4
Germany	659.8	555.7	503.2	413.9
United Kingdom	48.7	43.1	41.7	46.2
% Total Farms				
France	48.1%	45.4%	45.0%	46.3%
Germany	61.7%	61.5%	59.2%	55.9%
United Kingdom	15.1%	15.5%	15.5%	17.9%
Average ha/Farm				
France	4.8	6.4	7.3	9.4
Germany	2.3	2.7	3.2	2.9
United Kingdom	20.7	24.2	32.9	41.1

Source: Eurostat, Agriculture Statistical Yearbook 1988, p. 46.

Specialization has been a two edged sword. As the industry specialized and farmers improved their incomes, they also became more exposed to the effects of policy changes and market fluctuations. In earlier periods when most farms produced a mix of cereals, vegetables, and livestock, it was possible for farmers to shift production towards profitable areas. In those days the physical capital on farms was almost perfectly interchangeable. The average farmer would have horses or oxen for power and an array of simple tools and structures (wagons, plows, scythes, shovels, hoes, and basic buildings) that could be used alternately to produce and store cereals, vegetables, or livestock. If cereal prices dipped, for example, farmers could shift into feed crops (oats, barley, or turnips) and expand livestock production quickly. The simple buildings served both as storage for field crops or as barns for livestock. The application of new technologies and the introduction of specialized machinery, equipment and structures make shifts more difficult. Wheat farmers often do not have the necessary equipment to produce other field crops (e.g., lentils, vegetables) or livestock. The new physical capital is no longer versatile. Specialized seed drills, combination harvesters, granaries, and transportation equipment for wheat are not easily adaptable for other products. Farmers are therefore more exposed to consequences of shifts in markets than in pre-CAP days.

Table 2.9 Proportion of Working-Time Worked on Farms

		1975	1980	1985
France	100%	51.8	55.0	56.6
	50% to 100%	18.2	15.2	15.0
	less than 50%	29.9	29.8	28.4
Germany	100%	46.5	44.0	44.8
	50% to 100%	10.1	7.7	8.0
	less than 50%	43.3	48.3	47.2
UK	100%	72.0	63.3	63.0
	50% to 100%	19.9	13.0	12.8
	less than 50%	8.0	23.6	24.2

Source: ASC 1987, pp. T.104-05.

But farm consolidation also increased off-farm income opportunities, so that farm income statistics no longer reflect the true situation of farm families. As farmers consolidated their holdings and specialized, they required less labour. The introduction of labour saving machinery and specialization (cereals production alone without livestock rearing, for example) left greater periods of the year available for off-farm pursuits. In Germany, for example, less than 45% of all farmers work full-time on their farms, while 47% of farmers work less than half time. In contrast, there is less opportunity and need for farmers in France and the UK to seek outside employment; between 55% and 65% of farmers work full-time on farm in those countries (Table 2.9).

Many farmers have taken the opportunity to work off-farm to supplement the family income (Table 2.10). The data shows that in 1985 about 23% of European farmers had other main gainful employment while another 7.5% had other secondary employment. This varied widely over the Community, with about 42% of German farmers, 32% of French farmers and 21% of British farmers working elsewhere to supplement their farm incomes. The German government has encouraged this trend, implementing regional economic development programs that assist industry to locate in rural areas to tap this source of manpower.[25] The move to off-farm work in the 1980s has been most marked in France, where the number of farmers holding other secondary gainful employment jumped to 19% in 1985 from less than 5% in 1980.

Table 2.10 Employment in Agriculture

	France	Germany	UK	EC10
1975				
No Other Employment	80.1%	56.9%	76.9%	n.a.
1985				
No Other Employment	67.7%	57.5%	78.8%	69.5%
Other Main Job	13.0%	37.6%	12.3%	22.9%
Other Secondary Job	19.3%	4.9%	9.0%	7.5%

Source: ASC 1987, p. T104-5.

As a result, farm income statistics are unreliable indicators of farm family incomes. In addition to farmers themselves working off-farm, in many cases other members of farm families are also employed off-farm, supplementing the family income with their earnings. Farm income statistics rarely report these figures. Gross farm

25. Ardagh (1987), p. 131-32.

income data also should not be used to make either cross border or farm versus non-farm income comparisons because the figures are not adjusted for the often very favorable tax treatment for farmers, they ignore imputed and realized capital gains from owning farm land and equipment, and they only marginally account for the imputed income available in the form of housing, transport, and food from the farm operation.[26] The data in Table 2.11 indicate some of the benefits accruing to farmers through special tax and social insurance relief. At the beginning of the 1980s, farmers were receiving roughly 2,500 to 5,000 ECU each in such special forms of support.

Table 2.11 National Agriculture Expenditure

Outlays For:	1975	1976	1977	1980
Tax Relief (M ECU):				
France	--	--	196	431
Germany	--	401	427	685
United Kingdom	--	857	1025	--
State Contribution to Farmer Social Insurance (M ECU):				
France	2844	3132	3394	5098
Germany	766	888	1299	1271
United Kingdom	340	339	220	--
Average per Farm Holding (ECU/farm):				
France	--	--	3125	4971
Germany	--	1461	2007	2453
United Kingdom	--	4483	4753	--

Sources: ASC, 1977, 1978, 1980; EC Commission (1984), Public Expenditures on Agriculture, Study P.229.

For the majority in the European wheat sector, therefore, the shift in production technologies and cropping patterns has narrowed the interests of individual farmers and broadened the income base for farm families

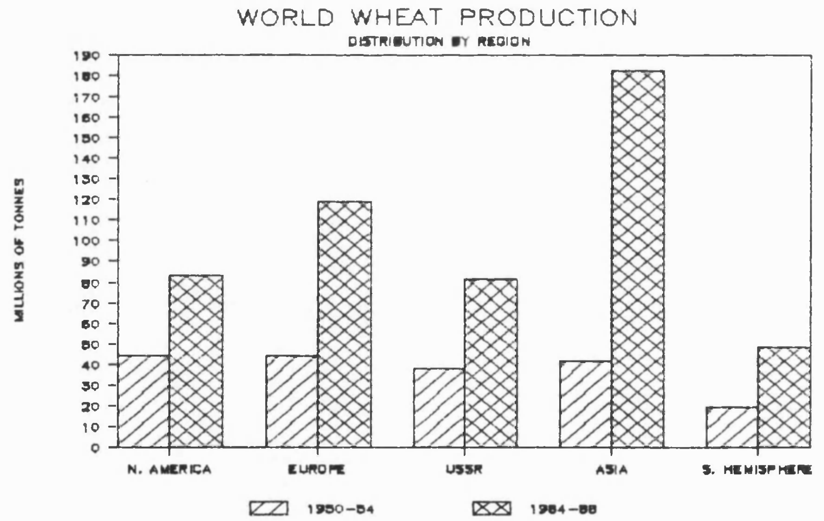
26. Howarth (1985), p. 30-34.

at the potential cost due to greater exposure to market changes.

World Production Changes

The European wheat market does not exist in isolation. Developments in world markets have defined the physical and economic environment for European decisions and affect the commercial prospects for European wheat importers and exporters. Before and during the early years of the CAP, the Community imported significant amounts of bread wheat while France exported only modest amounts of soft wheat and wheat flour. More recently, the Community has moved ahead of the US as a wheat producer and has emerged on the world market as one of the three largest exporters of wheat and wheat flour.

Figure 2.2



The major development in the world market since 1950 is the shift in production to developing countries. Between 1950 and 1984 wheat production grew by more than 230% in developing countries and 170% in centrally planned economies but rose only 120% in developed countries. Overall, total production increased by 150% (Figure 2.2). The largest increases were recorded in Asia, where Chinese production rose six-fold and Indian output increased more than 700%. By the mid-1980s, Asia produced about 80% more wheat than North America; in the early 1950s Asia produced less wheat than Canada and the US. Consequently, both China and India by the mid-1980s were judged to be normally self-sufficient. A crop failure in 1987 in India, which would in the past have caused widespread starvation, was managed without difficulty.[27]

The changing farm policy in the Soviet Union is the other major factor in the world market. In 1953 the Soviet government ended Stalin's policy of maintaining wheat exports, regardless of domestic conditions, and allowed shipments to vary in line with domestic supply and demand. Although the USSR attempted to expand production and exports over the succeeding years, yields became more erratic and forced the Soviet government to frequently adjust its export and import plans. The government expanded cereals production onto 40 Mha of new land in the semi-arid steppe region but quickly found that yields there were highly variable because small changes in precipitation caused large swings in output. Meanwhile, much of Soviet agriculture had been collectivised, dampening productivity growth over the years that followed. Farm productivity on collective and state land rose only slowly after 1953 while productivity boomed on the 3% of the land owned by farmers; by 1976, more than 30% of the gross agricultural output in the Soviet Union was produced on private lands. The increased volatility in Soviet production spilled over into the world market and caused wide swings in wheat trade prices during the 1950s and 1960s.[28] Then, in 1970, the Brezhnev government decided to expand livestock and milk production in the USSR, which necessitated a sharp rise in grain imports for animal feed. Since that time the USSR has been the

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27. <u>The Economist</u>, 2-7-88.
28. Johnson (1977), pp. 10-12, 20; OECD (1983a), p. 55.

largest single importer of wheat and feed grains. In the 1980s, agricultural reforms related to "perestroika" reversed past policies in order to provide incentives for production increases. Some commentators predict the Soviet Union will regain self-sufficiency in wheat and other grains if the policy succeeds.

The combination of expanded production in Asia and the USSR made world wheat yields in the 1975-84 period more volatile than in the immediate post war period. This volatility did not fully translate into wider production swings, however, because the US government used its farm programs to encourage farmers to set-aside large blocks of land to offset some of the instability in world markets. Consequently, instability in world wheat production actually diminished in the 1975-84 period compared with the 1946-55 period. The US ability to act as swing producer is diminishing, however, because each year it produces a smaller proportion of total production. Consequently, unless other producing and exporting countries join the US as swing producers, world production will follow the trend in yields and become increasingly volatile (Table 2.12).

Table 2.12 Instability in World Wheat Yield & Production

		WORLD LESS USSR	USSR	WORLD
Yield:	1946-55	3.1	8.7	3.5
	1975-84	3.2	9.4	4.4
Production:	1946-55	n.a	n.a	5.1
	1975-84	n.a	n.a	3.5

Note: Instability is measured as the mean absolute percent variation from the fitted trend.
Source: IWC, World Wheat Statistics; Author's Calculations

FINANCIAL STRUCTURES

The changes in the 1958-88 period in the production structures depended critically on the corresponding transformation of the financial structures in Europe and the world. In the 1950s and 1960s world financial markets were heavily regulated, with countries such as the UK and France still using exchange and credit controls. Farmers, however, did not use much credit and so had little interest in the operation of the financial system. Meanwhile, exchange rates were managed under the terms of the Bretton Woods system and capital flows were small relative to the flows of trade.

The changes in the financial system began slowly but accelerated rapidly in the 1980s. Domestically, governments gradually deregulated their financial systems, allowing farmers greater access to the financial capital that would facilitate the reform of the production systems in Europe. But when the governments attempted to use monetary policy more actively for macroeconomic purposes in the 1970s, they discovered that they were less able to control financial instruments. Rather than improving economic performance, governments found that they often just caused higher inflation. Meanwhile, international capital flows multiplied as the financial system recycled the massive oil revenues accumulating in OPEC countries. In 1985 world capital flows reached US$84 trillion while trade flows totalled only US$2.7 trillion.[29] The combination of varying degrees of deregulation and large pools of mobile international funds stressed the world financial system. These factors contributed in the 1970s to abandonment of the gold standard and the end of the Bretton Woods system of fixed exchange rates and in the 1980s to increased volatility in both interest and exchange rates.

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29. Hiemstra & Shane (1988), p. 7.

Sources of Capital

The fundamental change in European farming is at least partly due to the large increase in the financial capital available to the sector. It is often difficult to determine the exact causality of the changes, but it is certain that without the provision of capital from other family members, the commercial financial industry, governments, and the farm supply business, the dramatic shifts in production techniques and land holdings would not have been possible. In France, for example, agriculture was a net provider of funds to other sectors of the economy for the century prior to 1970. Since, working capital has replaced labour employment, to the point where agriculture has been described as "heavy industry"[30] because the average farm had a debt load in 1985 of 44,369 ECUs or about 2.4 times the annual net value added per farm. German and UK farms had even higher debts. The average German farm owed 52,767 ECUs or about 2.8 times the net value added per farm while the average UK farm had debt totalling 63,043 ECUs, which represented about 1.6 times the average net value added.[31]

In Germany and France in the 1950s the average farmer inherited his land holdings and equipment from his father and the trend was for the available land and capital to be divided rather than augmented. Inheritance laws (in the Napoleonic Code which prevailed in the predominantly Catholic countries of the EEC in 1958) provide each legitimate offspring with an equal share of any land. Thus, land holdings were perpetually being broken apart. Although the laws have not changed, the general economic boom in the post-war period provided for much greater movement from the farm into industrial employment. When a farmholder dies now, it is unlikely that all the offspring will depend on the income or sale of

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30. Rosenfeld, Girling, & Reid (1980), p. 46.
31. ASC 1987, p. 59.

the asset. If there is a sibling who wishes to farm, the off-farm inheritors either continue to own a portion of the land, taking only a small share of the operating profits as their return, or they sell the land to the sibling on a preferential basis. As a result, in France probably more than 20% of the population, much of it urban, has an interest in farm land.[32]

The majority of the additional capital, however, has come from commercial sources (Table 2.13). The revolution in financial services and the creation of more flexible loan terms has provided an opportunity for farmers to consolidate and expand marginal farms so they can realize economies of scale in the use of machinery, labour, and human capital. In France and Germany, where farms tend to be smaller and less commercial, the government has been heavily involved. In France, the government provides subsidies to the Credit Agricole co-operative to provide low-interest loans to farmers. About 70% of the financial capital in the French farm sector comes from Credit Agricole. In 1978, 5.3 B FF was paid to Credit Agricole to subsidise 42% of its loans to farmers; more than 70% of the loans were subsidised in 1970.[33] The German government also provides subsidies to the commercial banks and the loan co-operatives, which have captured almost 90% of the farm loan market. In contrast, UK farmers are larger and more able to meet the loan conditions established by the commercial financial system, so the government provides only limited support to new and expanding farmers through the Agricultural Mortgage Corporation. By and large, UK farmers use banks, which provide 75% of the funds going into the farm sector. As a result, in 1983 families and commercial suppliers provided only 17% of farm finance, compared with 44% in 1970.

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32. Financial Times, 16-6-80.
33. House of Lords (1981b), pp. 137-44.

Table 2.13 Farm Debt in France, Germany, and the UK

		1970	1978
France:	Total Outstanding (FF B)	48	129
Sources:	Credit Agricole (subsidized)	70%	70%
	Commercial Banks	14%	na
	Suppliers	8%	na
	Private Lenders	8%	na
		1969	1979
Germany:	Total Outstanding (DM B)	24.6	37.3
Sources:	Banks (subsidized)	na	89%
	- of which Loan Cooperatives	na	(27%)
	Other	na	11%
		1970	1983
UK:	Total Outstanding (£ M)	1250	6257
Sources:	Ag. Mortgage Corp. (subsidized)	14%	7%
	Bank & Insurance Credit	43%	75%
	Private & Family Credit	26%	9%
	Hire Purchase & Leasing	18%	8%

Sources: Rosenfeld, Girling, & Reid (1980), pp. 102, 107-8; Burrell, et al. (1984), p. 60.

The Community has also been active in farm finance. Since 1972 it has assisted marginal producers either to leave the industry or to expand to a scale that is commercially viable. Between 1975 and 1986, for example, Directive 72/160/EEC assisted 215,741 farmers to cease farming and release 1.62 Mha for use by about 122,000 other farmers. France was the greatest user of this program, with 119,785 holdings and more than 1.1 Mha transferred over the 11 year period.[34] The resulting larger farms have tended to be more productive.

Farmers who used outside capital to rationalize and consolidate their farming operations now have larger and more efficient farms but they must operate at or near physical capacity limits in order to service the result-

34. ASC 1988, p. T.134.

ing high levels of debt. In 1985, farm debt payments represented 23% of German total outgoings, 28% in France, and 13% in the UK.[35] Consequently, farmers now are significantly more exposed to variations in credit conditions than in earlier periods.

Commercialization of Farming

Agricultural policy analysts often ignore the upstream and downstream industries that rely on farm production. The artificial distinction in the national economic accounts between primary, secondary, and tertiary industries masks the true linkages between the sectors. The World Bank noted in 1986 that only about one-half of all agricultural spending in the world ultimately accrues to farmers. The rest is divided among other sectors of the economy. Ignoring the linkages between the farm and non-farm sectors in Europe may have made sense in earlier times when farmers supplied most of their inputs on-farm and consumed or sold directly for local consumption the large majority of their output. But the application of intensive crop techniques and the use of capital intensive machinery and equipment has fully brought the northern European farm community into the economic mainstream.

Table 2.14 **Purchases from Non-Agricultural Sectors as % of Gross Agricultural Output**

	France	Germany	UK	EC10
1958-60	21.1	30.4	50.7	n.a
1987	45.4	54.8	53.7	44.0

Sources: Lane (1966), p. 386; ASC 1988, p. T27.

35. ASC 1987, p. 59.

As recently as 1958, German farmers purchased only about 30% of their inputs from other sectors while French farmers bought just over one-fifth of their inputs from non-agricultural sectors (Table 2.14). The average UK farmer, in contrast, purchased more than half of his inputs from non-agricultural sectors. With the rapid adoption of capital and intensive production technologies, French and German farmers are now in line with UK practice.

The 1986 farm accountancy data in Table 2.15 show that outlays for capital depreciation, wages, land rent, and interest accounted for almost another 30% of gross farm output in Germany, 26% in France and almost 36% in the UK.

Table 2.15 Gross Value Added by Factor of Production, 1986

M ECU	France	Germany	UK	EC10
Final Farm Output*	42800	29167	17963	163737
- intermediate inputs	18485	14428	9414	68904
- depreciation	4402	4869	2122	22654
- wages for hired labour	3394	1434	3037	16831
- rent	1389	583	244	3077
- interest	2016	1827	1048	9966
Net Farm Income	13114	6024	2098	42302
% of Adjusted Final Farm Output				
- intermediate inputs	43.2%	49.5%	52.4%	42.1%
- depreciation	10.3%	16.7%	11.8%	13.8%
- wages for hired labour	7.9%	4.9%	16.9%	10.3%
- rent	3.2%	2.0%	1.4%	1.9%
- interest	4.7%	6.3%	5.8%	6.1%
Net Farm Income	30.6%	20.7%	11.7%	25.8%
Final Farm Output to Total Outlays				
1986	1.44	1.26	1.13	1.35

* Final Farm Output is the gross final output less net subsidies.
Source: Eurostat, Agriculture Statistical Yearbook 1988, pp. 226-27.

As a result, agriculture now plays a central role in the agro-industrial complex. In the early 1980s, the EC Commission presented a number of examples of the wide-spread influence of farming on the economy. The Commission analysis showed that less than half of the estimated impact of agriculture on European GDP is generated on-farm. In addition to the approximately 3.5% to 5% of EC GDP and 7-10 million jobs contributed by on-farm value-added activity, input purchases by farmers supported an estimated additional 1.9% of the total European economy while off-farm processing, distribution, and marketing of the output contributed another 3.4% to 5% of GDP and employed as many as 2.7 million workers.[36] In the cereals sector, where the only output consumed in the raw form is as feed and many of the producers use intensive cultivation practices, the value-added off-farm could be more than double the on-farm value-added.

These strong linkages between cereals producers and upstream and downstream industries have created many opportunities for improved economic performance of the sector but have also opened the farm sector to two new market influences: credit conditions and inflation. Since 1958, the ratio of gross incomes to purchased inputs and costs such as depreciation, rents, and interest charges, has declined from over 3-to-1 to only 1.35-to-1 (and only 1.13-to-1 in the UK). Consequently, farmers have much less opportunity to manoeuver. In earlier times, when farmers earned more than three times what they spent on inputs, large swings in prices had only a small effect on the prosperity and viability of the farm. Now, with small operating margins, farmers are much more vulnerable to inflation of their input costs, interest rate rises, and small declines in producer prices.

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36. ASC, 1980 & 1982.

The Changing International Foreign Exchange Markets

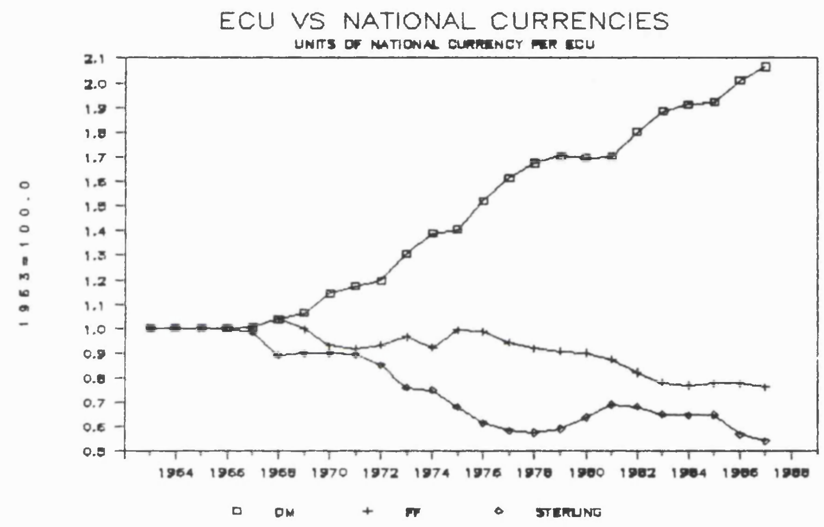
The CAP system for wheat had a relatively smooth start once the question of price levels had been set. The common prices in Units of Account (UAs) were converted to national currencies at the prevailing fixed exchange rates and for 18 months truly common prices prevailed across the Community. Then the financial base for the CAP began to crumble. In 1969 France devalued the Franc by 11.11% and shortly after Germany revalued the DM by 9.29%. In absence of any ameliorating measures, the target and intervention prices in France should have risen and those in Germany should have dropped. Neither government was willing to accept the political consequences, and those changes were not made.

The Treaty does not require a single price for commodities at either the wholesale or retail level: Art. 40.3.3 states that the common price policy only need be based on common criteria and uniform methods of calculation.[37] A compromise system developed: common prices in UAs remained unchanged but the exchange rate used for converting the common prices to national prices deviated from the market exchange rate. These 'green' rates of exchange are overvalued for devaluing countries, thereby dampening increases in domestic prices, and undervalued in revaluing countries, thereby sustaining prices in domestic currencies. The original green rates set in 1969 were expected to move quickly to the official exchange rates, thereby eliminating the discrepancy between revaluing, devaluing, and steady currency countries (the gap between market and green rates is known as the "monetary gap"). To ensure intra-Community trade was not disrupted by different price levels in different Community countries, monetary compensatory amounts (MCAs) were created to act as border taxes and subsidies to equalize offer prices in all countries. They were set equal to

37. Snyder (1985), p. 100.

the difference between the market central rate for the currency and the green rate, minus a "neutral margin" factor to avoid over-compensation. Countries with undervalued green exchange rates (i.e. strong currency countries such as Germany) received subsidies (positive MCAs) to export and tax imports. The reverse occurs in countries with overvalued green exchange rates (i.e., weak currency countries such as France).

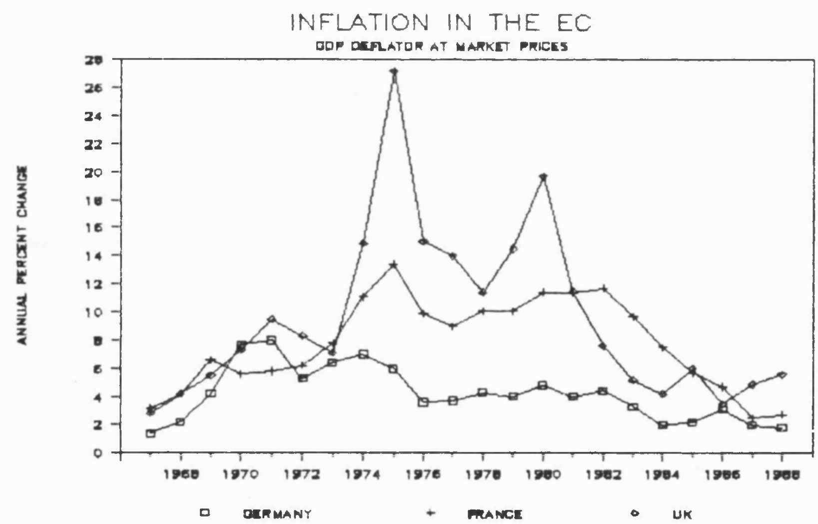
Figure 2.3



Under the system of fixed exchange rates, the Community had little difficulty sustaining relative prices of individual farm products in different member countries. But with the collapse of the Bretton Woods system of fixed exchange rates in 1973, exchange rates became highly volatile (Figure 2.3). The Commission calculated that the average annual variation of the UA relative to individual member currencies in the 1975-78 period was as high as 17%; currencies not conforming to EC monetary arrangements often varied more. In 1976, for example, the Italian lira varied by an estimated 27.5% relative to the UA whereas the US dollar varied by about 15% twice between 1975 and 1978.

Beginning in 1972 the Community attempted to control intra-EC exchange rates with the 'Snake' exchange agreement[38] but had difficulty controlling currency swings because the UK, Irish, Italian, and French governments would not accept the loss of independent monetary and fiscal policy necessary to maintain stable rates. The UK and Ireland originally joined the Snake but dropped out in June 1972 when speculation drove their currencies outside the band. Italy joined but withdrew within a year and France joined in 1972, quit in 1974, rejoined in July 1975, and finally quit for good in March 1976. When the inflation gap between France and Germany and the rising current account deficit in France put pressure on the franc, Giscard's government chose to leave the Snake rather than to deflate the economy or devalue the franc (Figure 2.4).

Figure 2.4



The European Monetary System and the ECU were introduced in 1979 to replace the looser Snake. France became a full member but Italy had a wider band (6%) and the UK

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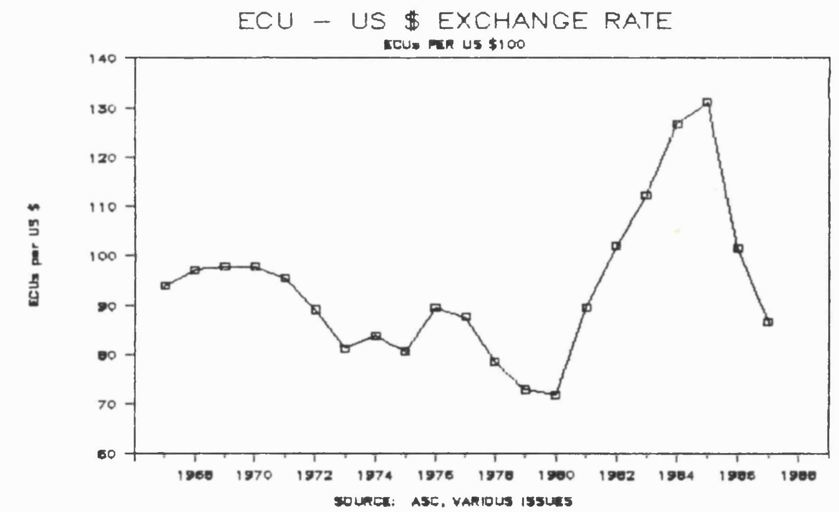
38. The EC9 member states agreed in 1972 to limit the fluctuations in their currencies about central rates to a maximum 2.25% band; the existing international agreement at the time only held fluctuations to a 4.5% band.

refused to join. Even for those countries belonging to the system, green rates continued because diverging underlying economic conditions in the member states caused the German and Benelux currencies to rise and the franc, punt, and lira to depreciate. European exchange rates began to move less wildly after 1983, when monetary and fiscal policies were more closely coordinated and inflation rates converged.

Perhaps more importantly in recent years, the wide and unstoppable swings in the dollar value of the ECU caused major adjustments to the cost of export restitutions. Restitutions vary depending on the ECU price of wheat exports, which depends on a combination of the world wheat price (in US dollars) and on the US$-ECU exchange rate. Between 1980 and February 1985 the US dollar rose sharply relative to the ECU, reducing the net export restitutions required to export grain. As the US dollar depreciated between February 1985 and 1988, the cost of export restitutions rose sharply (Figure 2.5).

Figure 2.5



Since the end of fixed exchange rates in 1973, the European farm system has had to adjust to wide divergences between European exchange rates as well as accommodate both the surge in the US dollar after 1979 and then its even quicker slide after 1985. This accommodation exercise has strained many of the long-term bargains in the system.

Shifting Wheat Trade

International trade in wheat also changed significantly in the past 30 years. In the 1950s four traditional exporters—the US, Canada, Australia, and Argentina—controlled about 90% of the export market and developed countries still purchased 58% of the wheat sold internationally. By the mid-1980s, the four traditional exporters share of the market was below 80% and more than 87% of the wheat was being sold to LDCs and CPEs, especially the USSR (Table 2.16).

Table 2.16 Wheat Import and Export Market Shares (%)

	1934-38	1949-54	1966-70	1980-84
Exporters				
Argentina	23%	8%	4%	7%
Australia	20%	11%	14%	12%
Canada	33%	32%	21%	19%
USA	10%	39%	35%	42%
Other	14%	11%	26%	21%
- EC	na	na	9%	15%
- USSR	na	na	11%	1%
- Others	na	na	6%	5%
Importers				
Developed Countries	80%	58%	29%	13%
Other	20%	42%	71%	87%
- Developing	na	na	49%	48%
- CPEs excluding USSR	na	na	20%	18%
- USSR	na	na	2%	21%

Source: IWC, World Wheat Statistics, 1985

The two most important shifts on the export side were the emergence of Europe as one of the three largest exporters and the end of exports from the USSR. The development of wheat surpluses in Europe pushed the Community into the export market in a big way after the mid-1970s (France had been a small exporter since before the Second World War). Equally significant, the USSR ceased exporting in the late 1970s when Soviet food policy concentrated on red meat production. Exports were initially curtailed in the 1970s and then virtually eliminated during the 1980s: in 1966-71 the Soviet Union exported an average net 1 Mt per year; by 1980-85, the USSR annually imported an average 20 Mt.

Apart from the rise of the Soviet Union as the largest single import market for wheat, the other significant shift was the rising demand in LDCs and CPEs. Rapid population and income growth and marketing programs to develop the taste for bread succeeded in creating markets for wheat in Africa, Asia, and much of South America. Meanwhile, CPEs apart from the USSR now account for about 18% to 20% of the market. But selling to LDCs and CPEs is not easy. Following financial deregulation and the sharp rise in petro-dollars in international financial markets after 1973, third world countries and CPEs borrowed heavily to fund consumer subsidies and development projects. After the US and other OECD countries tightened monetary policy in 1980, debt service costs soared, often above the total net export revenues of these countries. To forestall default, commercial bankers, the US Federal Reserve, the International Monetary Fund, and the World Bank coordinated efforts to reschedule debt repayments. Each package, however, usually required LDCs to cut imports, which contributed to the 15% decline in world wheat trade between 1984 and 1987.

The method of marketing wheat changed as the position of exporters and importers shifted. In 1972 the 'great grain robbery' highlighted the risks of dealing in this new market situation. Following a Soviet crop failure in 1972, USSR grain buyers quietly purchased the bulk of free world stocks before the news broke. Prices soared to record levels when the full dimensions of the new market situation were finally revealed. Beginning in 1975, the major exporters sought assured markets for their product through long-term framework agreements to prevent repetition of such disruptions (Table 2.17). By the mid-1980s, Canada, Australia, and Argentina had commitments for more than 60% of their expected minimum annual exports. The US had less than 20% of its lowest annual wheat export volumes committed and the EC (France) had negotiated only one binding agreement. The FAO estimates that in 1979-82, between 42% and 56% of the total world wheat trade was committed under agreements, with about 89-100% of Chinese trade, 16% of Brazilian trade and 31-50% of Soviet trade under agreements.[39]

Table 2.17 Estimated Minimum and Maximum Wheat Commitments under Long-Term Framework Agreements

(Mt)	Argentina	Australia	Canada	EEC	USA
1982	1.7-2.0	2.9-3.9	9.0-10.5	0.5-0.7	7.0-12.0
1983	2.8-3.1	3.4-4.6	10.5-12.0	0.5-0.7	7.0-12.0
1984	2.5-2.8	5.2-6.2	10.5-12.0	0	7.0-12.0
1985	2.5-2.6	3.6-3.9	13.3-14.8	0	4.0-8.0
1986	0.8	3.3	12.0	0	4.0-8.0
Annual Wheat Exports (range for 1982-86)					
Min.	4.3	8.5	17.5	14.1	38.3
Max.	9.6	15.5	22.0	17.3	49.3

Source: IWC, World Wheat Statistics (Various), Table 10.

Another key result of the shifts in the wheat market was the sharp rise in state trading (Table 2.18). About 95% of all wheat trades are handled by state traders at either the buying or selling ends of the deal. Only about 60% of

39. R.A. Goldberg, "Enhancing Competitiveness: Infrastructure and Agriculture," in Federal Reserve Bank of Kansas City (1985), p. 60.

trade in the late 1950s had state trading connections.[40] On the export side, the US, Europe, and Argentina have always used private traders but Canada and Australia use wheat boards and the USSR uses a state trading house. The share of the export market dominated by state traders declined to 39% in the late 1970s from 56% in the 1950s largely because of the end of Soviet exports and the rise of EC exports.[41] But as demand shifted toward developing countries and CPEs, all of which use state trading houses, the state-trader share of the import market rose to more than 90% from about 60% in the 1950s. Consequently, competition became increasingly intense because state traders in the importing countries used their market power to negotiate better terms from the exporters.

Table 2.18 State Trading in Wheat (% of Volume of Principal Exporters moved by state traders)

	Exports	Imports
1953-57	56.0%	61.0%
1963-67	42.9%	86.0%
1973-77	39.0%	91.3%

Source: Schmitz et al. (1981), p. 25.

The market shift towards developing countries and CPEs also affects the pace of growth in demand for wheat. As countries develop, their income elasticity of demand approaches the developed country level of 0.2% and population growth slows, reducing the growth in demand for wheat.[42] The world wheat market is also slowly evolving into a mixed bread and feed wheat market. As developing

40. Schmitz, et al. (1981), p. 7.
41. Canadian Wheat Board, Grain Matters, Nov-Dec 1988, p. 3, claims the role of state traders on the export side has in fact risen much higher as the US Commodity Credit Corporation has been a key actor in all US wheat sales since 1986.
42. Gerrard (1985).

countries and CPEs develop economically, the demand for red meats usually accelerates and livestock production increases. Wheat is disadvantaged as a feed grain, however, because it costs more to produce than maize but provides less feed energy. Meanwhile, the price elasticity of demand for unprocessed wheat has declined in all developed and developing countries. The average price of a loaf of bread in North America and Europe now represents the value not only of the raw wheat (10%), but also the costs and profit margins of the related transportation, milling, baking, packaging, distribution, advertising, wholesale, and retail systems.

KNOWLEDGE STRUCTURES

The application of additional physical and financial capital was necessary for the increases in production after 1958, but the gains would not have been possible without corresponding changes in the knowledge structure. The rapid change in European farming after 1958 was assisted by increased investment in education and farmer training as well as in the research and development of new wheat strains and new methods of cultivation. At the same time, farmers and farm policy makers face rising consumer demands for greater variety and higher quality output and pressure from environmentalists to reduce pollution which has accompanied the new, intensive production methods.

Education

Farmers in Europe, as in much of the world, have usually received little formal education; most of their training was on-the-job, either on family farms or in larger commercial enterprises. This pattern of education was adequate when farming was largely a matter of having 'a strong back.' Now, an operator of a commercially-motivated wheat farm must understand: economics so he can decide on the best mix of crops to take advantage of market conditions; horticulture and soil sciences so he can choose the optimal time to sow and harvest and the optimal mix of and time to apply fertilizers, pesticides, and herbicides; mechanics so he can repair his increasingly complex machinery and equipment; accounting so he can keep track of the cash flow and manage his debt; and, ideally, computers, so he can conduct the sophisticated analyses needed to keep the farm operating profitably.

Table 2.19 **Agricultural, Forestry and Veterinary Sciences Students in the UK**

	1969	1976	1982
Students Studying Agriculture, Forestry & Veterinary Sciences	na	22,700	24,700
- Full Time & Sandwich Courses	na	6,400	16,300
- Part-Time and Evening	na	16,300	16,700
- At Universities	4,291	5,258	6,409
National Diplomas in Agriculture	na	833	1015
First University Degrees Awarded	736	927	1,430*
Higher University Degrees Awarded	279	476	589*

* 1981 data
Source: Burrell, et al. (1984), p.44.

At the founding of the CAP, production in the Community was limited by the low level of formal training among farmers and farm families. In France, for example, even as recently as the early 1980s only about 5% of farmers had received any formal training in agricultural or agronomic practices.[43] German farmers are generally better educated, but not necessarily in farming matters. UK farmers are probably better trained because of a comprehensive system of apprenticeship with larger farms and the availability of related university training. In the UK there has been a marked increase in the number of students in agriculture-related training programs (Table 2.19). In 1982, for example, more than 24,700 students were studying agriculture. In addition, the number of farm-related first

43. Duchêne, Szczepanik, & Legg (1985), p. 95.

and graduate university degrees granted in 1981 was about double the number awarded in 1969.

Table 2.20 National Expenditure on Agriculture (M ECU)

		1976	1977	1980
Training:	France	n.a	257.8	72.5
	Germany	n.a	2.4	5.4
	UK	n.a	4.9	17.3
Information & Advice:	France	54.2	59.4	111.4
	Germany	5.5	7.3	6.9
	UK	58.3	78.8	126.5

Source: ASC, 1977, 1978, 1980, 1986.

France, in particular, recognized the problems resulting from poorly trained farmers and expanded training programs for existing farmers during the 1970s. At the same time, the three north European governments expanded their extension programs to inform farmers of new, more efficient farm practices. (Table 2.20) The combination of greater training for starting farmers, retirement of older farmers, and the greater provision of extension services accelerated the adoption of new technologies and methods of production.

Biotechnical Advances

The wheat seed, the critical factor in the production of wheat, was domesticated as early as 6000 B.C. but changed little until this past century. Major seed developments in the early 1900s spread wheat production into many new areas and radically transformed the world wheat industry. Then, in 1973, the breakthrough of recombinant DNA (gene splicing) accelerated seed advancement further. New strains have been developed that shorten the period to maturity, resist fungal and bacteriological diseases (e.g., rust), give a desired protein level (either high for bread flour or low for feeds), and enhance yields.

The major breakthrough in wheat seed development in the post war period was made by the Centro Internacional de Mejoramiento de Maiz y Trigo (CIMMYT) in Los Banos, Mexico, where beginning in 1960 scientists released a succession of new wheat breeds suitable for moist growing areas, as found in India, Brazil, and Mexico. With the application of proper amounts of fertilizers and irrigation, these new varieties provided a high yield of medium protein wheat.[44] Traditional varieties, characterized by tall and thin straw, often fell over when farmers applied large quantities of fertilizer; the new varieties had short, stiff straw which allowed yields to continue to rise even when fertilizer applications were tripled.[45] That seed spread rapidly through the developing world and provided the foundation for the 'Green Revolution.'

Since then there has been a proliferation of wheat varieties. In the US, for example, in 1977 only 11 varieties represented the vast majority of all wheat planted in Kansas; during the 1986 crop year, 43 varieties were planted. During the same period, wheat varieties representing 85% of the acreage planted in Kansas in 1986 did not even exist in 1977. Put the other way, the 1977 wheat varieties only represented 15% of the acreage planted in 1986.[46] The transformation was even greater in Europe. In the UK only one winter wheat variety used in 1975 (Maris Huntsman) was still used in 1987 and it was only planted on about 0.1% of the wheat acreage.[47]

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44. Morgan (1979), p. 315.
45. Brown & Eckholm (1974), p. 134.
46. Canadian Wheat Board, Grain Matters (Sept-Oct 88), p. 4.
47. Home-Grown Cereals Authority, Cereals Statistics (London, various).

Hybrids of the 'green revolution' strain of high yield and medium protein wheat arrived in Europe in the mid-1970s as enterprising farmers took advantage of the CAP wheat regime. In 1976-77, the Commission proposed and the Council accepted that the guaranteed price structure be modified to allow for a higher reference price to be paid for wheat of bread-making quality. The reference price for bread wheat, eventually supported by intervention buying, was set about 13.5% above the intervention price, halfway between the proposed intervention and target prices for wheat. Although wheat had to satisfy higher quality standards to earn the higher reference price, Debatisse noted that "the differentiation techniques between feed wheat and bread wheat has led to almost all wheat being considered bread wheat."[48] Because bread-quality premiums were paid to some wheat that was not adequate for milling, farmers were encouraged to shift into those higher yielding, lower quality varieties that just met the minimum standards.

One result of the introduction of new seed varieties into Europe was that production techniques changed permanently. Because each seed variety has characteristics that suit it to specific conditions, farmers now generally purchase their seed annually, much as they buy their other inputs. They no longer use seed from previous harvests. Furthermore, the new, high-yielding varieties require large quantities of inputs—herbicides, pesticides, fungicides, and fertilizers—to grow at all.[49] Consequently, it would not be easy to revert to extensive production methods using the existing seeds. The old, low-input, low-yielding varieties, meanwhile, are no longer readily available, so farmers cannot easily find other seeds to plant.[50]

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48. Debatisse (1981), p. 30.
49. Morgan (1979), p. 314.
50. Body (1984), p. 18.

Research also continues. The national governments are funding research into the agronomics of wheat production with a view to improving yields or reducing costs of production (Table 2.21). In particular, scientific researchers are determining the optimal timing and quantities of fertilizers, pesticides, and herbicides to apply. This activity was stepped up in the later 1970s.

Table 2.21 National Expenditure on Agricultural Research

M ECU	1976	1977	1980
France	98.9	138.8	157.3
Germany	91.7	0.7	164.4
United Kingdom	112.5	72.4	174.7

Source: ASC, 1977, 1978, 1980, 1986

The Bureau Européen de Recherches reported in 1989 that breakthroughs in biotechnology could raise EC crop yields by another 10% within 10 years. Furthermore, introduction of DNA-MAB probes into seeds would allow early detection of diseases, which alone could increase output by 10%. In addition, researchers are seeking ways to increase yields and to improve resistance to disease and weed killers. The managing director for Monsanto Europe SA, a major company in the research field, speculated in 1989 that innovations from plant biotechnology will rise slowly until about 1995, when they will accelerate.[51]

Computers and the Farmer

The development of computing programs and the dissemination of computers both among farmers and in the input and processing industries have significantly tightened the relationship between market changes and shifts in demand. Producers now have the computing power to calcu-

51. The Western Producer, 18-5-89.

late rapidly the relative profitability of differing price structures and input usage.

Debatisse noted, for example, that "the EEC animal feedstuffs industry uses highly sophisticated mathematical techniques of linear programming for optimising animal rations." In effect, "the computer directs purchasing in this sector."[52] Consequently, feed lots and large cattle farms are able to calculate the relative merits of using forage, EC cereals, and commercially mixed feed based on imported cereal substitutes (i.e., manioc, corn glutens).

Other developments in the livestock sector may have a major impact on the cereals sector. A group of Dutch agricultural engineers have extended computer technology to the milking shed.[53] They developed in 1987 a prototype computer-controlled milking and feeding dairy called 'Farm 2000.' When cows enter the milking shed, a computer manipulates a robot arm to do the milking at the same time as it delivers individually tailored meals. The computer reads a sensor on the cow's neck and prepares and presents a balanced meal of forage and concentrated foods. Each cow's measure balances roughage and concentrate to optimize milk yields.

In the cereals industry, computers are already being used to evaluate in-situ the quality and yields of wheat and make automatic adjustments to combining equipment. These, and other applications of computer technologies, will eventually optimize the use of cereals as feed and reduce the amount wasted as seed, feed, and dockage.

Technological Change in Processing

Wheat demand has also been strongly influenced by changes in the processing sector. Bakers and millers

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52. Debatisse (1981), p. 26.
53. The Economist, 23-4-88.

have discovered that they can enrich medium strength European wheat with low-cost imported corn gluten to produce a stronger wheat flour suitable for pan breads. The corn glutens are a by-product of the production of corn syrup for the soda-pop industry.[54] At the same time, commercial feed-lots quickly discovered that corn glutens could be used to extend and enrich feed for dairy and beef cattle. Because the EC agreed to bind the duty rate on such products at zero under the Kennedy Round of GATT negotiations, those products enter the Community tariff-free, which makes them highly competitive with low quality wheats available for feed.

More recently, the baking industry has discovered how to bake lighter-weight, air-pocketed pan bread without using high gluten or gluten enriched wheats. Most wheat produced in Europe does not have enough glutens to produce this style of bread using traditional baking processes. In the past, European millers mixed locally-produced medium strength wheat with imported high gluten wheats (often from North America). In the UK, where consumers overwhelmingly prefer these lighter-weight pan breads, millers and bakers developed the Chorleywood baking process. The dough, enriched with extra yeast, fat, and water, is continuously mixed with intense mechanical action to produce a higher yielding dough that bakes into a reasonable pan bread.[55] Consequently, the European market for higher quality wheats has declined.

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54. When sugar was rationed in the US during the Second World War, corn glucose and fructose were developed as substitute sweeteners for confections. With the boom in consumption of soda-pop in the 1970s, and the high, regulated price for sugar in the US, the industry produced large quantities of corn-glutens, which found a market in the EC.

55. Furtan, et al. (1988), pp. 94-5, note that the new method also reduces the normal bread making time by one-third to one-half, thereby reducing the labour input costs. Therefore, bakers might not be willing to return to their old baking methods even if the EC system ended.

<u>Communications and Information</u>

The wheat trade has also been strongly influenced as the world has become a 'global village' because of the development of quick and inexpensive telecommunications. The development of new technologies to gather and disseminate information has helped make information a true public good. In earlier years, the big five grain trading companies generally had a monopoly on production information because they were the only market participants with informants in each market. They were thereby able to virtually control the market and make large profits.

The Food and Agriculture Organization (FAO) pioneered the notion of free flow of scientific and crop information in the 1950s and 1960s but the practice only became common in the mid-1970s when new technologies had been developed.[56] The LandSat Satellite system, for one, can now scan and record crop progress in every part of the inhabited world. No longer can any country conceal its crop results, such as the USSR did in 1972. Agencies such as the US Department of Agriculture (with the help of the CIA), the Food and Agriculture Organization, and the International Wheat Council now regularly acquire, analyze, and report information on the current crop conditions and future prospects for the world market. This tends to tighten market relationships and ensures 'grain robberies' cannot happen.

The development of modern telecommunications has also spread a global conscience. Famines and chronic starvation have been common since the beginning of mankind, but now that television brings moving pictures of their effect into the living-rooms of the developed world, food aid has been conscientiously applied to the hunger problem.[57] Individuals and groups have responded.

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56. Puchala & Hopkins (1983), p. 80.
57. Keohane & Nye (1977), p. 12.

In 1987, for instance, the Band-Aid concerts and the many national fund-raising efforts of churches and special interest groups helped alleviate the Ethiopian famine and dramatically demonstrated the widespread concern in Europe and North America.

Consumers and Research

At root, the world farming community depends on consumers purchasing their products. In recent years, a number of factors have worked to shift the demand for cereals. At first, significantly higher personal incomes in Europe increased demand for red meats and dampened per capita consumption of cereals products, such as flour, which reduced growth in demand for bread-quality wheats and increased demand for feeds. More recently, medical research into human biology and nutrition has shown linkages between low fibre diets and intestinal and stomach cancer and between red meat consumption and the incidence of high cholesterol, heart disease, and strokes. Consequently, there has been a shift in the diets in most developed countries towards whole-grain and white-meats and away from white bread flours and red meats (Table 2.22).

On balance, the impact of recent research has been to dampen demand for both bread and feed wheats. For example, it takes about 1.33 kg of wheat to produce one kilogram of white flour and only 1.03 kg to produce a kilogram of whole wheat flour.[58] More importantly, it takes only about two kilogram of cereals to produce a kilogram of chicken meat whereas approximately five kilograms of wheat must be fed to a cow to achieve a gain

58. Canada Grains Council (no date), p. 11, states that the extraction rate in North America and Europe ranged from 71% to 78% over the 1972-76 period. The endosperm, used for white flour, makes up about 83% of the whole kernel and the bran, included for whole flour, comprises another 14% of the kernel; the germ makes up 3% of the kernel.

of one kilogram of meat.[59] Based on the conversion factors and the shift in types of meat demanded in Europe between 1980 and 1985, the annual demand for feed wheats in the EC10 has been reduced by about 0.8 Mt (approximately 4% of the feed wheat use in 1985) compared with levels that would have been used based on 1980 tastes.

Table 2.22 Consumption of Basic Foods (kg/capita)

		France	Germany	UK	EC10
Total Wheat	1909-14	203.9	73.8	150.5	n.a
	1960-61	96.0	55.7	n.a	n.a
	1973-74	69.9	46.7	67.3	77.2
	1984-85	70.4	51.1	61.3	71.2
	1986-87	69.6	51.8	63.5	73.4
Soft Wheat	1963-64	82.2	47.6	n.a	n.a
	1973-74	62.3	42.8	66.7	65.5
	1984-85	62.0	48.7	60.4	62.5
	1986-87	61.0	49.0	62.3	62.8
Beef	1973	22	21	22	22
	1980	26	22	23	23
	1984	25	21	22	22
Poultry	1973	14	9	12	12
	1980	17	10	13	14
	1984	18	10	16	15

Note: Wheat is represented by the flour equivalent; total wheat includes durum and common wheat.
Source: ASC, 1987, p. T/164-5.

In the broader sense, consumers also are the ultimate arbiters of how the environment is used. During the 1970s and into the 1980s, scientists confirmed that the new intensive crop and livestock production techniques contributed to the degradation of the European environment. Nitrogen fertilizers used by wheat producers were responsible for the algae bloom and oxygen starvation in many Northern European lakes while the large feed-lots

59. Butler (1986), p. 29.

were causing obvious air, water, and soil pollution. Meanwhile, other researchers demonstrated links between some human illnesses and consumption of food produced using chemicals, herbicides, and hormones. The European Council bowed to pressure from the European Parliament, some national governments, and consumer groups to ban red meat growth hormones effective 1 January 1989, thereby creating a major trade dispute at the half-way point of the Uruguay Round of the GATT. Research on pollution and food chemicals therefore can create vast new pressures for the CAP to adapt.

CONCLUSION

Although the rise in European farm output and the development of exportable surpluses certainly has increased the pressure for farm policy reform in the EC, it is really merely a symptom of the fundamental changes that are pushing the system. The OECD concluded in 1982 that the diverse changes in the underlying power structures have radically altered the farm policy environment. "The increasing integration of agriculture within the economy has taken agricultural policy out of its purely sectoral context and policy formulation has been put within a wider context of general economic, social, and environmental perspectives."[60] The Community has spent the better part of the 1980s coming to grips with the new realities. The following chapters discuss the implications of these changes in the context of both domestic policy reform and international trade negotiation.

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60. OECD (1982), p. 103.

Chapter 3

PRICE POLICY: DIRECTION OF CHANGE

This chapter, and the four following, examine the fixing of wheat prices from 1973 to 1988 to illustrate the role of shifting power structures and changing bargains in directing the proposals, discussion, and decisions respecting wheat. In particular, the analysis shows that the price fixing is no longer primarily directed toward supporting farm incomes. In the first years the target price was based on perceived income requirements for producers in the food deficit region of the EC. The lower intervention prices reflected the transport costs between there and the producing areas. In 1976-77 the target and intervention prices were separated[1] and by 1980 target prices were "derived from the intervention price."[2] Throughout the 1980s the Commission argued that "a realistic policy with regard to pricing must be pursued, with the emphasis on the economic function of prices."[3] Consequently, the debate has concentrated on market rather than social concerns.

In this analysis, the focus is on the three stages of policy development: initiation, consultation, and decision-making. Within the price-fixing, the three stages can be distinguished by focusing on the centres of debate, where in general: the Commission <u>initiates</u>; various pressure groups at the community and national levels as well as the official consultative organs of the Community (advisory groups, Economic and Social Committee, and the European Parliament) <u>debate</u> the Commission's proposals; and the Council <u>decides</u>. Consequently, the analysis follows the reforms beginning with the Commission and working through the European and national policy structures.

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1. <u>COM(75)600</u>, p. 55. Note: all Commission price proposals (COMS) are listed chronologically along with the relevant opinions and decisions in the table on p. 415. All other COMS are listed chronologically in pp. 411-14.
2. <u>Green Europe Newsflash #44</u>, p. 5.
3. <u>ASC 1985</u>, p.74.

REFORM OF THE CAP WHEAT PRICE POLICY

Reform has not come easily. The price fixing became increasingly complex and contentious during the 1970s and in the 1980s the basic farm lobby-Commission-Agricultural Council bargains began to unravel; in earlier periods the policy system could be characterized as a cozy, administrative arrangement between farm groups, the Commission, and Council. The combination of a new world-security structure, increasing economic volatility, and rising domestic production of most products, but especially wheat, caused strains in the system and a corresponding shift in the key bargains. Meanwhile, the Commission developed a number of alternative allies to counterbalance the farm lobby and to support reform.

The shifting power structures and bargains created the conditions for reform of the CAP wheat pricing policy over the 1973-88 period. Since 1973 the guaranteed Community price has been sharply revised. The biggest change was in the role of the target and intervention prices. In the early years of the CAP, the target price was "the linchpin of the market organization" and was set at the beginning of each marketing year to reflect "the farmgate price farmers should receive in consumption areas."[4] As a result, it became the focus for much of the haggling in the Commission and Council. The intervention price, in contrast, was set about 12% to 20% below the target price to reflect the transportation costs between the producing regions in France and the consuming region in Germany. By 1988, the system had been turned upside down, with the intervention price being set both conceptually and practically first; the target price was set largely to reflect Commission and Council concerns with the external market. As a result, in 1988, the Commission proposed and the Council accepted that the target price for common wheat for 1988-89 should fall 2.3% be-

4. Burtin (1987), p. 19.

cause the cost of transport from Ormes to Duisburg fell to 26.90 ECU/t from 32.70 ECU/t in 1987-88. If the original intent for the CAP had remained, the intervention price should have been raised rather than the target price cut.

Table 3.1 Major Changes in the Wheat Price and Intervention Systems

Yr [1]	Common Wheat Interv Price	% Ch	Monthly Increment	Buying Period [2]	% Paid [3]	Protein	Water [4]	cuts for feed [5]	Payment Delays (days) [6]	Co-resp levy [7]	Max super levy [8]	Bread Wheat Price [9]	% Ch [10]
72	126.64	-	-	Au-Jl	100	-	-	-	30	-	-	-	-
73	127.91	1.0	1.29	"	100	-	15%	-	30	-	-	-	-
74[A]	133.02	4.0	1.33	"	100	-	"	-	30	-	-	-	-
74[B]	139.67	5.0	1.33	"	100	-	"	-	30	-	-	-	-
75	152.24	9.0	1.69	"	100	-	"	-	30	-	-	-	-
76	140.24	-7.9	1.72	"	100	-	"	-	30	-	-	158.57	4.0
77	145.15	3.5	1.77	"	100	-	"	-	30	-	-	163.92	3.5
78	146.97	1.3	1.77	"	100	-	"	-	30	-	-	165.58	1.0
79	149.47	1.7	1.79	"	100	-	"	-	30	-	-	168.06	1.5
80	155.88	4.3	1.87	"	100	-	"	-	30	-	-	175.20	4.2
81	165.23	6.0	2.24	"	100	≥10½	"	-	30	-	-	192.72	10.0
82	179.27	8.5	2.44	"	100	"	"	-	30	-	-	209.10	8.5
83	184.58	3.0	2.57	"	100	"	"	-	120	-	-	215.29	3.0
84	182.73	-1.0	2.57	"	100	"	"	-	120	-	-	213.14	-1.0
85‡	179.44	-1.8	2.57	"	100	"	"	-	60/90	-	-	209.30	-1.8
86	179.44	.0	2.45	Oc-Ap	100	≥11½%	14½%	-5%	60/90	3.0%	-	183.03	-12.6
87	179.44	.0	2.00	"	94	"	"	-5%	110	3.0%	-	183.03	.0
88	179.44	.0	1.50	"	94	"	"	-5%	110	3.0%	1.6%	183.03	.0
89	174.06	-3.0	1.31	No-Ap	94	"	"	-5%	110	3.0%	3.0%	177.53	-3.0

Notes: ([1]) marketing years beginning August 1 (July 1 after 1986); ([2]) complete months; in 1987 buying-in was only activated when market prices dropped below the intervention price; in 1988 buying-in reverted to the complete period; ([3]) effective 1987, only 94% of the intervention price is paid to producers; ([4]) for 1987 the moisture level was set at 15.5%; ([5]) maximum cut in wheat payments for sub-standard wheat; ([6]) in December 1983 the maximum payments delay for cereals was extended to 120 days from 30 days; the remainder of the changes came at the beginning of the marketing years; ([7]) deducted from the intervention payment or market price when the product is sold to intervention or industry; ([8]) as for ([7]) except part of the levy is refunded if total EC cereals production is below 164.8 Mt; ([9]) in 1986 the reference price for 11.5% protein wheat was scrapped and a 2% premium (3.59 ECU in 1986-88; 3.48 ECU in 1989) was paid for wheat exceeding 14% protein and meeting the other bread-wheat tests; ([10]) the percentage change for 1976 was from the basic intervention price while that for 1986-89 represented the changes in the new bread wheat price (14% protein); ‡ although the price for cereals was not agreed by Council the Commission implemented the cuts as a protective measure.

Sources: COMs, News reports, official publications, H-GCA.

This change in the system evolved so slowly that it has been little remarked upon. In the early to mid-1970s, the price debate revolved around the price increase needed to sustain farm incomes, with the objective method* providing a yardstick for all participants. Beginning in the mid-1970s the Commission worked to bring the annual adjustments below the general rate of inflation and after 1983 it attempted to cut both nominal and real prices. At that point, the Commission met strong resistance from both farmers and agricultural ministers in the Council. Council completely refused to approve direct price cuts. It proved, however, willing to accept 'camouflaged' and even automatic price cuts, as long as the ministers could return to their domestic constituencies and proclaim that they had not directly caused the price cut.

As a result, the power to direct prices shifted largely to the Commission from the Council. The Commission first tried to establish automatic mechanisms which would direct price cuts based on the underlying economic conditions in the sector. The guarantee threshold system which operated from 1983-84 to 1985-86 forced a 1% cut in the price increase in 1983-84. When the formula indicated a 5% price cut in 1985-86 (because of the record harvest in 1984), the Council rejected the mechanism. (Council discovered that by using a three-year moving average production figure, they had designed a system that would also have triggered 5% price cuts in each of the next two years.[5]) After that failure, the automatic approach to price setting lapsed until 1988, when the Commission proposed and the European Council accepted the stabilizers system. In 1989-90, the first year of full operation of the new system, the intervention price was reduced by 3% because cereals production exceeded the 160 Mt threshold. Between 1983 and 1989, automatic mechan-

* See pp 115-122.

5. Vasey (1985), p. 657.

isms forced a total 5.7% cut in the official intervention price. If the stabilizers system is sustained, the nominal intervention price could drop by a further 8.7% by the end of the 1992-93 crop year.

Although prices were reduced in both nominal and real terms after 1983, that is only part of the story. The Commission, largely with Council approval, changed its approach and used its own powers to effect 'disguised' price cuts. The first real attempt to reduce farm support through the disguised approach came at the beginning of the 1983-84 crop year, when the Commission announced that it would purchase only 3 Mt of bread wheat in the August-October period and would charge a 5 ECU/t security deposit on all intervention offers. Then in December 1983, the Commission announced it would delay intervention payments by four months for cereals producers, effectively cutting producer support by about 4%.

The bulk of the camouflaged changes came in 1986 and beyond. The bread wheat support system (i.e., reference price and corresponding intervention purchases) was replaced that year with a flat 2% premium for wheat that had more than 14% protein content. As a result, the effective support for bread wheat dropped by about 13%. Meanwhile, the quality standards for basic intervention were raised, payments for lower quality common wheat were discounted up to 5%, and the value and number of monthly increments were reduced. In addition, the Council approved a flat 3% co-responsibility levy on all cereals sold off-farm. In 1987 the Commission introduced a new buying-in system and opened intervention buying between November and May only when the average market price dropped below the intervention price. Even then, the Commission only paid farmers 94% of the basic intervention price, delayed by 110 days. In 1988 the Commission and Council adopted a 3% super levy for cereals (refundable if production did not exceed 164.8 Mt) and further reduced the value of monthly increments. In 1989, the Commission proposed a phased reduction of the period of open intervention over the following years and Council accepted for 1989-90 that the buying period be shortened by one month to November through May.

Table 3.2 The impact of market changes on the effective support for producer prices for feed wheat (ECU/t)

Yr	Intervention Price	Buying in Rate	Monthly Increment	Increments Begin	Feed Cuts %	January Buying Price	Impact of pay delays	Co-Resp Levy1	Co-Resp Levy2	January Producer Prices	% Ch
83	184.58	1.00	2.57	Sept	-	197.43	1.92	-	-	195.51	2.1
84	182.73	1.00	2.57	Sept	-	195.58	1.71	-	-	193.87	-0.8
85	179.44	1.00	2.57	Sept	-	192.29	1.68	-	-	190.61	-1.7
86	179.44	1.00	2.45	Aug	5	185.17	4.06	5.38	-	175.73	-7.8
87	179.44	0.94	2.00	Nov	5	165.70	3.57	5.38	-	156.75	-10.8
88	179.44	0.94	1.50	Nov	5	164.20	3.61	5.38	2.87	152.34	-2.6
89	174.06	0.94	1.31	Nov	5	158.85	3.53	5.22	5.22	144.88	-4.9
%ch	-5.7%	-	-	-	-	-19.5%	-	-	-	-25.9%	-

Notes: January buying price equals the basic intervention price, adjusted for the feed wheat quality and buying-in rate, supplemented by the cumulative monthly increment applicable for January 1 of the marketing year (i.e., monthly increment x the number of months of increments). The adjustment for the impact of payments delays was produced by COPA. The second co-responsibility levy for 1988-89 is the actual net payment after the refund and for 1989-90 is the initial rate (subject to refunds if production for 1989 is less than 164.5 Mt).
Sources: Commission of the ECs (1988), Produits Agricoles: Prix et Montants Fixes; COPA.

The intervention system consequently now operates as a safety net rather than an alternate market. By 1989, the higher quality standards, delayed payments, and a shorter buying period (limited to November to April) had reduced support during the critical harvest period. Furthermore, the Commission suggested in 1989 that it was considering changing the operation of intervention so that it becomes even less popular. In particular, the Commission reported it was considering cutting the number of intervention stores and reducing the subsidies to transport grain to the delivery points. Already by 1989, the UK intervention agency had raised the minimum quantities it would purchase to 500t from 100t, making it more difficult for small farmers to offer their grain to intervention rather than the market.

The adjustments in national currencies meanwhile had became less troublesome. In 1984 the Commission and Council implemented a new agri-monetary system that eliminated the pressure for higher ECU prices resulting from the strong DM. As a result, EMS parity changes became less difficult because they were automatically accommodated in the green ECU system. (EMS parity changes, however, still present a major challenge to the Community as it attempts to remove the artificial differences in prices caused by the green rates.)

The changes in the intervention system between 1983 and 1989 allowed market prices to drop below the intervention price. Figures 3.1, 3.2, and 3.3 indicate that wheat producers in France, Germany, and the UK no longer count on the market price lying somewhere between the intervention and target prices. Since 1982-83 average market prices in all three countries have dropped consistently below intervention prices.

Figure 3.1

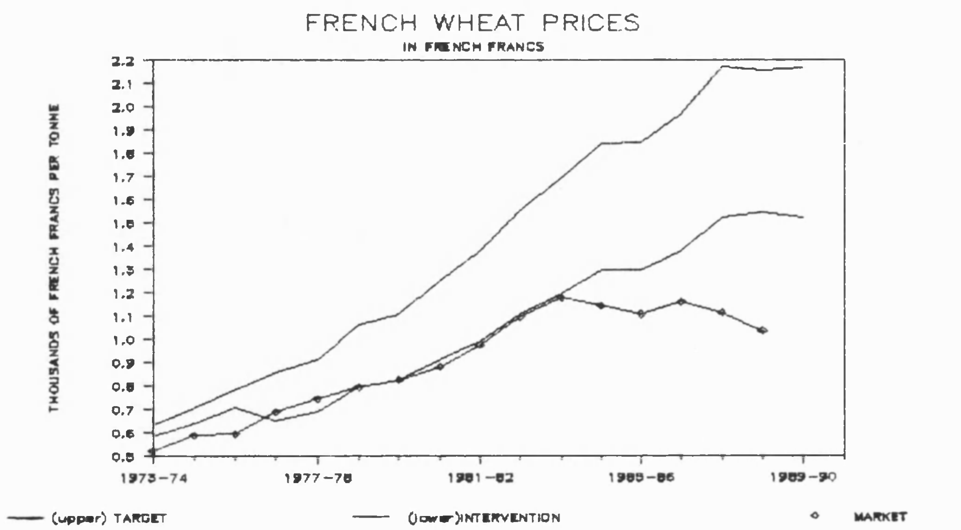


Figure 3.2

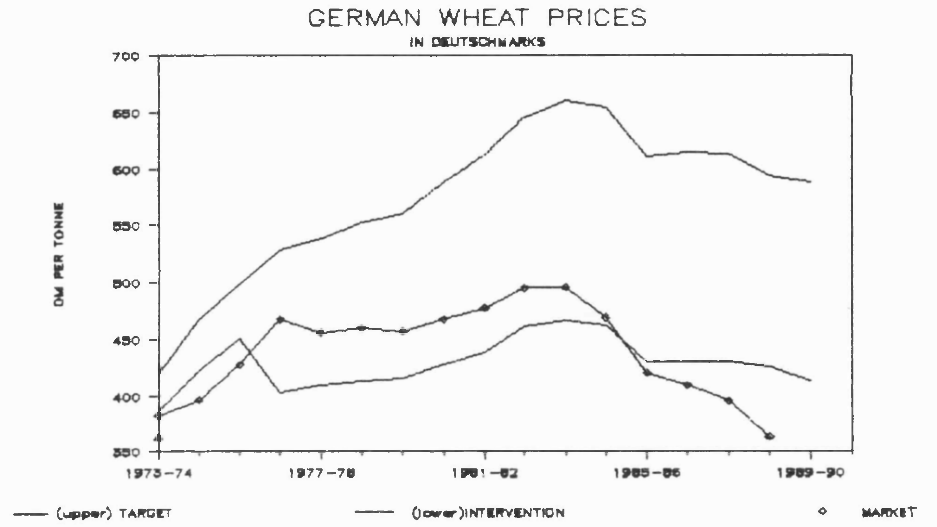
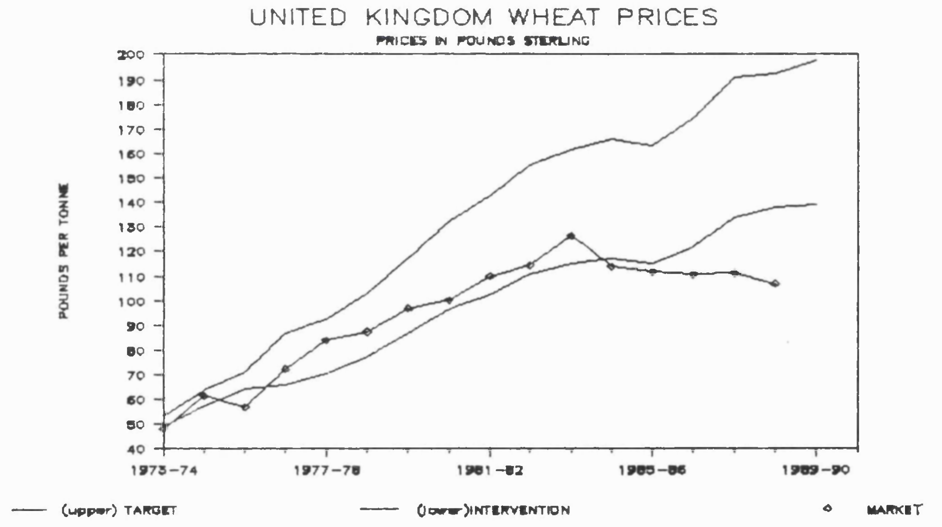


Figure 3.3



A concomitant of this shift in price policy was a reformulation of the CAP policy for improving the economic organization of the farm sector (that set of programs is commonly called 'structural policy'). Marsh and Swanney observed in the early 1980s that EC agricultural structural policy underwent a radical shift in orientation during the late 1970s, coinciding with the period of significant reform in price policy. Structural policy, which was economically directed in the 1960s and into the 1970s, instead became a social safety net for small farmers and disadvantaged regions. This continued throughout the 1980s. In 1983, the Commission announced its "intention that in future greater emphasis be put on long-term structural action, as opposed to market intervention and price support, to alleviate social and income problems in agriculture."[6] In line with this new approach to structural issues, the Commission in 1986 permitted the less-favoured areas (LFA) designation, and the corresponding support programs, to extend to cover 48% of the Community's agricultural land base, up from the 31% allowed under the 1975 program. As a result, 51% of German, 38% of French, and 52.5% of UK agricultural land is covered by the LFA designation. Then, in 1988, the Council approved a program of extensification and direct EC and national income payments to support small farmers suffering declining revenues as a result of the reforms in the price system.

This change in the structures policy fits the evidence presented in this thesis. As price policy became market-oriented, it was quite natural that the "justification of structural policy switched from economic to social criteria."[7] Anything less would have been impossible given the political and economic bargains that support small farmers and disadvantaged regions.

PAST STUDIES OF THE PRICE SYSTEM

Past analyses of the Common Agricultural Policy have not recorded this reversal of the roles of price and structural policy nor the changes in the structures and bargains which precipitated the change. Three recent analyses have concentrated primarily on the price debate. Pearce examined the chronology and issues surrounding the

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6. Bull. EC 9/83, p. 27.
7. Marsh & Swanney (1983), p. 58.

1981 price review and concluded that the CAP "has provided an opportunity for some groups to pursue their claims with even greater effect than might have been possible at the national level."[8] Hence the title of her article: "The Common Agricultural Policy: The Accumulation of Special Interests." Harris and Swinbank's analysis of the 1978-79 price fixing focused on the give and take between the Commission and Council to the exclusion of other actors and influences in the system. They concluded that the "annual review, within which the divergent national interests can find expression, helps ensure the survival of the CAP."[9] Finally, Vasey examined the Commission-Council negotiations in the relatively recent 1985 farm price review and provided insights into the complications involved in such high level debate. At the root of each analysis, however, each researcher sees price fixing as an administrative exercise to establish a set of guaranteed agricultural product prices that meet producer wishes. This view looks increasingly elementary. Other political and economic forces have intruded in the process in recent years, to the point where the earlier bi-polar debate between the Commission and farmers (represented by either their organizations or their national governments) has fragmented.

Each study failed for the same reason to give a full picture of the issues and debate. By attempting to draw conclusions about the process from single price reviews, they missed the important influence of the power structures. In short-term, partial analyses, power structures appear to establish an unchanging array of opportunities and constraints. But, as demonstrated in Chapter 2, the power structures shifted greatly over the past 20 years and changed the way farm policy is set.

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8. Pearce (1983), p. 172.
9. Harris & Swinbank (1978), p. 267.

Neville-Rolfe, in contrast, examined the CAP price reviews over an extended period, but his work is more a discussion of the history and politics of the CAP than an analysis of the political economy of the system. By attempting to cover all product regimes[10], the role of power structures and bargains became lost in the profusion of detail. In the 1987-88 marketing year, the CAP included separate support measures and marketing systems for: durum, common wheat, barley, rye, maize, and rice; sugar and isoglucose; olive oil and oilseeds; dried fodder; cotton, flax, hemp, and their related seeds; wine; hops; leaf tobacco; fruit, vegetables, and related processed products; milk products; beef, veal, and pigmeat; eggs and poultrymeat; silkworms; peas and beans; and sheep and goatmeat. It requires hundreds of pages just to codify the various types of support offered to these producers. Neville-Rolfe's study demonstrates that looking at all commodities blurs the focus.

THE KEY BARGAINS

Chapters 4, 5, 6, and 7 examine how the changing power structures discussed in Chapter 2 transformed the fundamental bargains in the system. Although the annual spring pricing fixing is often cluttered with a myriad of unresolved issues that ultimately form part of an omnibus package of measures, the single most important issue is always the level of the guaranteed prices for the coming production year.

The founding bargain between the German and French government set the tone for the early price reviews. The respective national farm organizations coordinated their actions in COPA, so that it was able to present to the Commission a strong and united position on the direction

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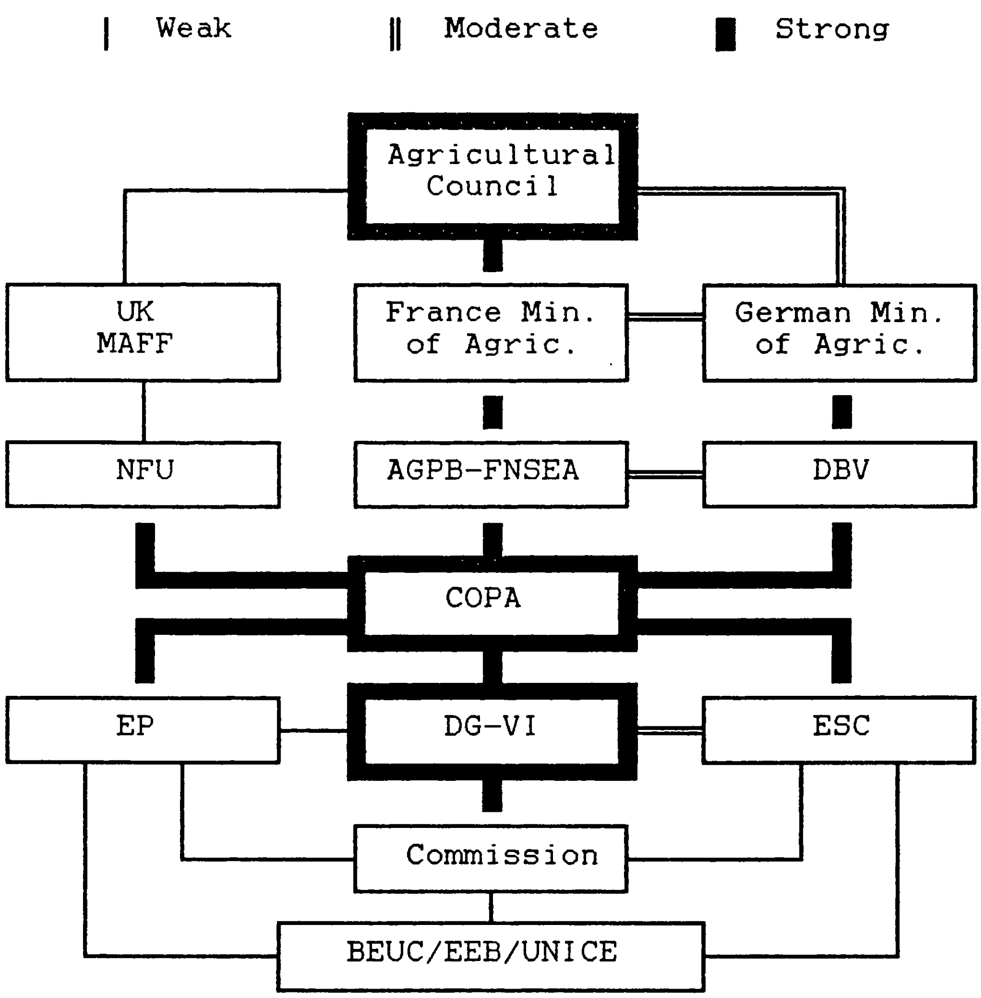
[10]. The term `regimes' refers here to the technical measures used to support a product market and should not be confused with the regimes studied by Krasner (1983).

for price proposals. Consensus at the national and international levels had a powerful impact on Commission and Council actions and dominated the debate.

In the early years of the CAP, and up to around 1979, the key bargains outlined in Figure 3.4 largely determined the scope and direction of policy.

Figure 3.4

KEY BARGAINS AFFECTING THE WHEAT PRICE POLICY*
1970-79



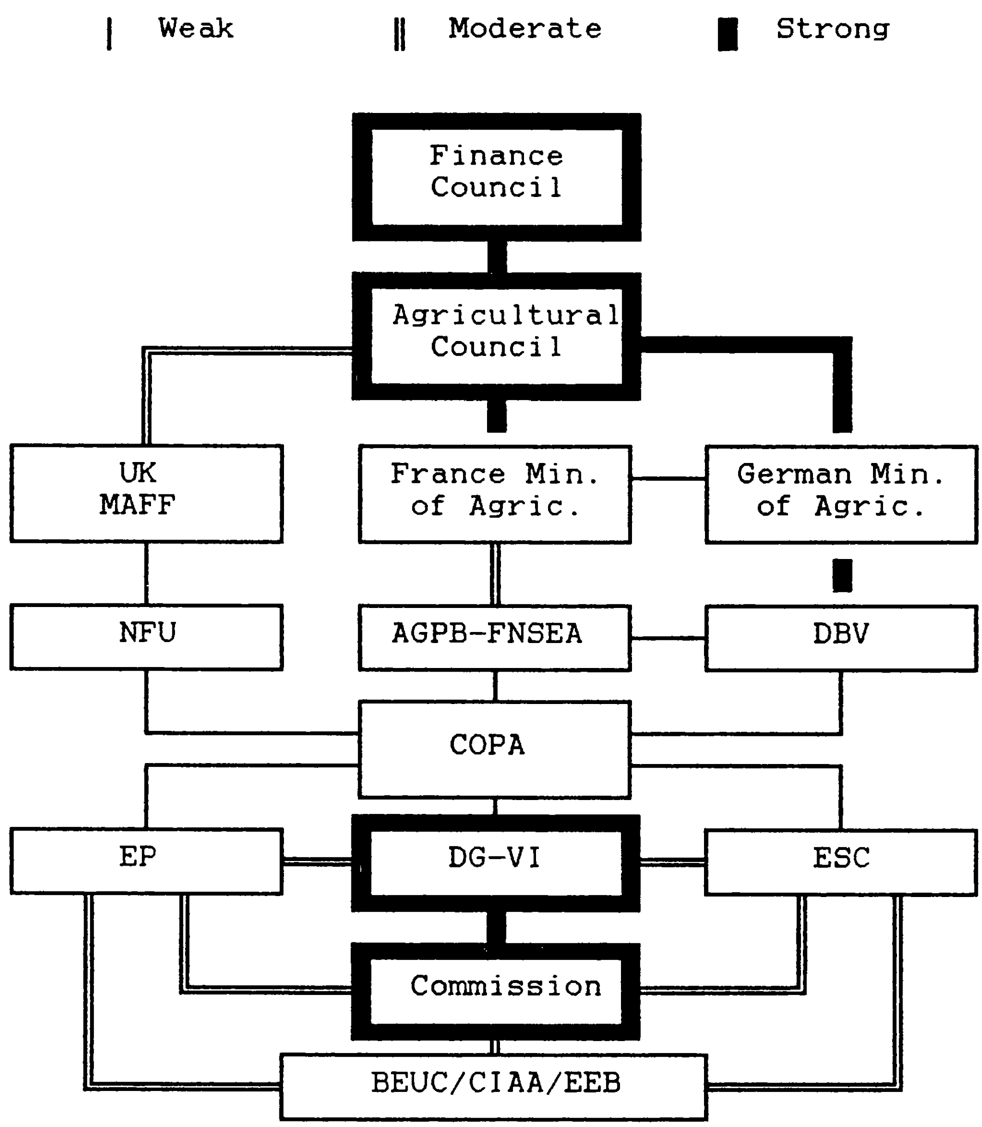
As the rate of structural change accelerated during the 1970s, the critical bargains underlying the annual price review were strained. Some fundamental bargains strengthened: for example, the German Ministry of Agri-

*All abbreviations are listed on pp. 5-6.

culture and the Deutscher Bauernverband (DBV) farm organization tightened their alliance. Other bargains (outlined in Figure 3.5) weakened: farm organizations had greater difficulty building a common position, to the extent that the price recommendations of COPA became increasingly general and lacking in focus. Completely new bargains were also developed. The Commission, for example, developed new consumer and environmental lobbies to counter the farmers.

Figure 3.5

KEY BARGAINS AFFECTING THE WHEAT PRICE POLICY 1979-88



In 1988, a new factor entered the price review. The European Council in February 1988 reformed the farm budget so that it now incorporates all farm outlays, including depreciation allowances for intervention stores. As a result, farm ministers can no longer hide the true cost of farm support in off-budget areas. The flip-side of these changes is that the Commission now has the authority to transfer Agricultural Council price decisions which appear likely to exceed budgetary guidelines to a special joint Council of Finance and Agricultural Ministers. The committee will then review and revise the prices to limit budget costs. If the system works, it would significantly open the decision process to non-farm influence at the highest level.

Chapter 4

PRICE POLICY: PROPOSALS

The process for preparing wheat price proposals changed significantly during 1973-88. When the system began in 1967, Sicco Mansholt, the first Agricultural Commissioner, wanted prices to regulate production and structural policies to support small farmers. But the Farm Council never accepted his proposals. After pan-European farm riots in spring 1972, the new Commission found it had lost influence both with the farmers and the Farm Council. DG-VI quickly recognized the benefits of strengthening its central role in the policy process and repaired its relationship with the farm policy community. In order to do so, it developed the price system to support farm incomes.

The Agricultural Directorate had great leeway to manage farm issues during the next 15 years because the president of the Commission was relatively weak, as he was replaced frequently and his power proscribed by the Council. The Luxembourg Accord, meanwhile, forced consensual decision-making in the Council and encouraged DG-VI to develop the expertise and contacts necessary to finesse proposals through the system. DG-VI, in collusion with COPA, thereby enjoyed unmatched power during the 1970s. This period of administrative legerdemain reached its peak in the mid-1970s with the operation of the 'objective method.' Farmers never got everything they requested but they did get healthy price increases and were viewed jealously by other European lobbies as the most influential special interest group at the Community level.

Shifts in the power structures in the 1970s, however, undermined the basis for the Commission's power. As early as 1968, changed production patterns began to make the price system less satisfactory, as output rose much faster than domestic demand. New technologies threatened to exacerbate the problems facing both the intervention system and the Community budget. Meanwhile, international competition intensified and financial markets became more unstable, which created additional impetus for reform, as both farmers and the Community faced budgetary dilemmas.

Table 4.1 Objectives and goals of the wheat price review—rank order of priority (1 = most important; 5 = least important; X = rejected as valid issue; - = not mentioned)

Date	COM #	Title	Farm Income	Food Prices	EC Budget	MCAs	EC Supply
21-03-73	na	Proposals on Fixing Prices for 1973-74	1	-	-	-	-
05-11-73	(73) 1850	Memorandum: Agriculture 1973-78	1	-	3	-	2
16-01-74	(74) 30	Proposals on Fixing Prices for 1974-75 (A)	2	-	-	-	1
29-09-74	(74) 1446	Proposals on Fixing Prices for 1974-75 (B)	1	-	-	-	-
27-11-74	(74) 2001	Proposals on Fixing Prices for 1975-76	1	-	-	-	X
04-03-75	(75) 100	Stocktaking of the CAP	1	X	-	-	X
10-12-75	(75) 600	Proposals on Fixing Prices for 1976-77	1	-	-	-	X
28-02-77	(77) 100	Proposals on Fixing Prices for 1977-78	1	1	-	-	X
08-12-77	(77) 525	Proposals on Fixing Prices for 1978-79	4	3	-	2	1
05-02-79	(79) 10	Proposals on Fixing Prices for 1979-80	2	-	-	-	1
07-02-80	(80) 10	Proposals on Fixing Prices for 1980-81	2	-	4	1	3
05-12-80	(80) 800	Reflections on the CAP	-	-	3	1	2
20-02-81	(81) 50	Proposals on Fixing Prices for 1981-82	1	-	3	-	1
24-06-81	(81) 300	Report on the Mandate of 30 May 1980	1	-	-	-	1
23-10-81	(81) 608	Mandate of 30 May 1980: Guidelines	2	-	-	-	1
27-01-82	(82) 10	Proposals on Fixing Prices for 1982-83	1	-	4	3	2
21-12-82	(82) 650	Proposals on Fixing Prices for 1983-84	2	X	-	3	1
20-06-83	(83) 380	Guidelines for Development of the CAP	-	-	3	2	1
28-07-83	(83) 500	CAP Proposals of the Commission	4	-	3	2	1
20-01-84	(84) 20	Proposals on Fixing Prices for 1984-85	-	-	-	2	1
30-01-85	(85) 50	Proposals on Fixing Prices for 1985-86	-	-	2	3	1
15-07-85	(85) 333	Perspectives for the CAP (Green Paper)	X	-	2	-	1
14-11-85	(85) 700	Memo on Adjustment of the Cereal Market	-	-	2	-	1
18-12-85	(85) 750	Future for Community Agriculture	-	-	2	-	1
13-02-86	(86) 20	Proposals on Fixing Prices for 1986-87	-	-	2	-	1
16-03-87	(87) 1	Proposals on Fixing Prices for 1987-88	-	-	2	3	1
01-10-87	(87) 452	Implementation of Ag Stabilizers (Cereals)	-	-	1	-	1
23-03-88	(88) 120	Proposals on Fixing Prices for 1988-89	-	-	1	3	1

Source: COMS from the Commission of the EC (as indicated) and Bulletins of the ECs (various).

Table 4.1 illustrates the gradual shift in Commission objectives. By 1980, the Commission accepted the challenge to reform the domestic price system. First, it ended the objective method and then pushed for the domestic wheat price to respond to market imperatives rather than non-market concerns.

THE PRICE FIXING PROCESS

The Treaty of Rome gives the Commission primacy in the area of policy formulation by granting it two levers. First, 'no proposal means no policy' because Article 155 states that "in order to ensure the proper functioning and development of the common market, the Commission shall ... formulate recommendations or deliver opinions on matters dealt with in this treaty, if it expressly so provides or if the Commission considers it necessary." Second, Article 149 requires that the Council act unanimously to change any proposal without Commission approval.

Although the Commission has significant power to initiate, the decision process in Council ensures that it does not develop proposals in a vacuum. Between 1966 (the Luxembourg Accords) and the early 1980s the Agricultural Council set policy on the basis of consensus, taking "full account of the interests of all member states in drawing up its proposals from the very beginning, and negotiate[d] first with them (in addition to consulting the technical bodies concerned), and later with the Committee of Permanent Representatives, so as to give its proposals some chance of being adopted by the Council."[1] The Commission also co-operated with COPA, the EP, and the ESC to ensure maximum support for Commission proposals before they reached the Council. After the Agricultural Council re-introduced majority voting in 1982, however, the Commission found that it had more leeway to set the agenda and less need to finesse its proposals.

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1. Bieber & Palmer (1975), p. 311.

The price review[2] is always preceded by extensive consultations beginning in early autumn, led by the Agricultural Directorate (DG-VI) of the Commission. DG-VI first reviews market conditions in the CAP sectors—based partly on a review of the general economic outlook for the Community and world markets provided by DG-II (Economic and Financial Affairs). It presents this analysis in November to the advisory committees and to the permanent representatives of the member states on the Special Committee on Agriculture (SCA).

Meanwhile, a working group of experts from the Committee of Professional Agricultural Organizations (COPA) reviews the market situation and prepares its request for price increases. This report is usually submitted to the Commission in November during one of the regular meetings between the Commission President, the Agriculture Commissioner, senior officials from DG-VI, and the Presidium of COPA (composed of representatives of each of the member national farm organizations). COPA, the Committee of Agricultural Co-operation in the EEC (COGECA), the food-processing industry, consumers, and farm workers also have input through the 16 product advisory committees.[3]

Near year-end, the Agricultural Commissioner submits DG-VI's price proposals to the full Commission. Until the early 1980s, COPA also was given a preview of the proposals before they were transmitted to the Council.[4] Most years the Commission formally transmits the proposals (in a communication (COM)) to the Council of Agricul-

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2. See Neville-Rolfe (1984), Appendix 5, esp. pp. 517-21 for anecdotal view of process.

3. Each committee has 50% of its members from COPA or COGECA, 25% from selected trade and processing firms, and 25% representing consumers and farm workers.

4. <u>International Herald Tribune</u>, 22-4-84, quotes Brian Gardner of Agra Europe as saying "until very recently" COPA was shown the price proposals before they were submitted to member countries.

tural Ministers between early December and the end of February. The price package should be accepted by the Council before April 1, the beginning of the marketing year for most products.

In spite of frequent high-level consultations between DG-VI and farmers, consumers, and national governments, the official price proposals transmitted to the Council unquestionably reflect Commission concerns and goals.

THE KEY BARGAINS AT THE POLICY INITIATION STAGE

The 'tenet of faith' in European unification created a bond among the original members of the Commission that lasted into the 1970s. In earlier years, leaders such as Sicco Mansholt, the first Agricultural Commissioner, and Walter Hallstein, the first President of the Commission, commanded great respect, which enabled them to override much opposition on the specifics of policy. In practical terms, the cadre of committed idealists[5] ensured that the proposals from DG-VI were universally acceptable within the Commission. Furthermore, French civil servants were always appointed to the key bureaucratic jobs within DG-VI that controlled cereals policy (i.e., the Director General and the head of the cereals division of DG-VI). As France generally set the standards for good Community relations, the cereals policy was generally regarded as a touchstone of Community spirit. In practice, this allowed DG-VI to prepare proposals and manage the agricultural system without input from the rest of the Commission.

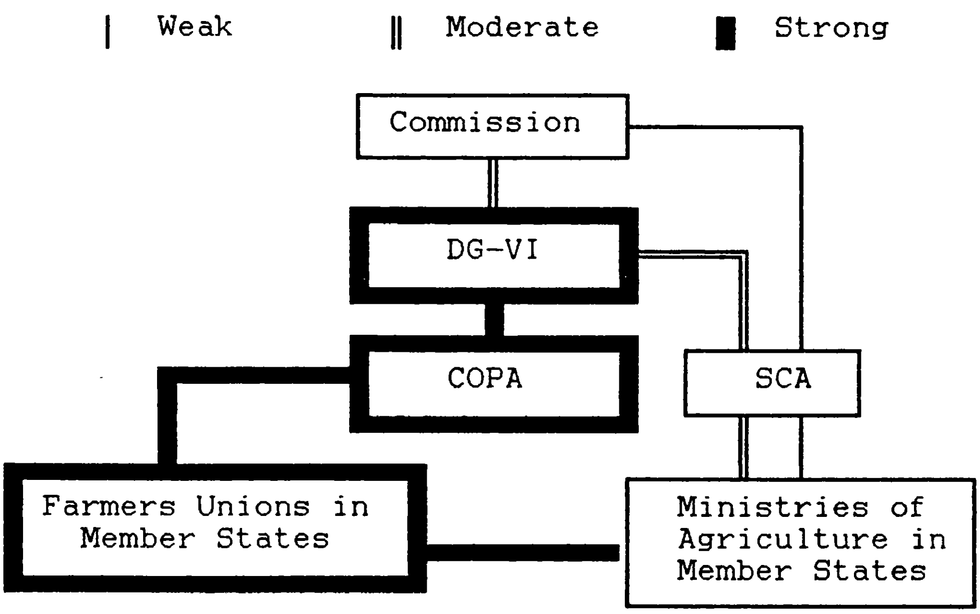
Non-agricultural directorates have never had much influence on farm policy. In the 1975 Stocktaking an "inter-service group" of officials from a variety of directorates, chaired by the secretary-general of the Commission, recommended expansion of the "horizontal di-

5. Poullet & Deprez (1977), pp. 138-39.

mension" of agricultural policy formulation. In particular, they suggested that DGs I (External Relations), II (Economic Affairs), and XIX (Budget) should provide opinions on DG-VI price proposals and that the final price package should be approved both by the Economic Policy Committee of senior treasury civil servants and the Finance Council.[6] Neither proposal surfaced in the report on the Stocktaking (which was prepared by DG-VI). Farm policy therefore remained largely a monopoly preserve of DG-VI and the Agricultural Council until 1988, when the European Council agreed that the Commission could refer Agricultural Council price decisions that exceed budgetary guidelines to a special Council of Finance and Agriculture Ministers for review and revision.

Figure 4.1

KEY BARGAINS AFFECTING THE FORMULATION OF WHEAT PRICE PROPOSALS 1970-79



During the 1960s and 1970s DG-VI worked to bolster its position in the policy system by carefully cultivating relationships with farmers, the national farm organi-

6. Neville-Rolfe (1984), p. 247 & 346.

zations, and COPA. Farmers had long been convinced of the value of a common market in agriculture: French and German farm delegations to the 1950 annual meeting of the International Federation of Agricultural Producers had called for a common agricultural market. So, shortly after the Treaty of Rome was signed in 1958, the new European Commission involved farmers in the development of the new market system. National delegations of farmers, food industry representatives, and government leaders from Germany, Belgium, France, and the Netherlands attended the Stresa Conference in July 1958 (convened under Article 43 of the Treaty) and established the basic objectives of what was to become the CAP. Mansholt then assisted farmers to establish pan-European lobby organizations (COPA and COGECA).

The set of actors increased sharply during the late 1970s. Most important, perhaps, were the changes inside the Commission. As the Community expanded and policy became more complex, the Commission civil service grew quickly, so that by 1976 there were seven times more bureaucrats than in 1958. The Commission also employed more specialists in a greater number of horizontal units. The European Commission inevitably became "bureaucratized"[7] as the number of staff increased and the influence of the original, ideologically-committed Eurocrats waned (especially when many of them retired in the 1970s). As a result, informal cross-directorate contacts declined and the technocrats who came to run farm policy often saw the Community as simply another job.

As the Community grew, the number of Commissioners also expanded, from nine in 1970-73 to 13 in 1973-79, to 14 in 1980, and finally to 17 in 1986. New competing directorates (such as DG-XIX responsible for the Community budget) also were created. Table 4.2 shows that as

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7. Poullet & Deprez (1977), pp. 138-39.

the Commission expanded and the issues became more technical, consensus in the Commission began to break down. Although the sample is small (deliberations within DG-VI and among the Commissioners are supposed to be confidential), the fact that disagreements have become public suggests the bureaucratization of the Commission has not contributed to agreement.

Table 4.2 Disagreements in the Commission and DG-VI at the Initiation Stage, 1973-88

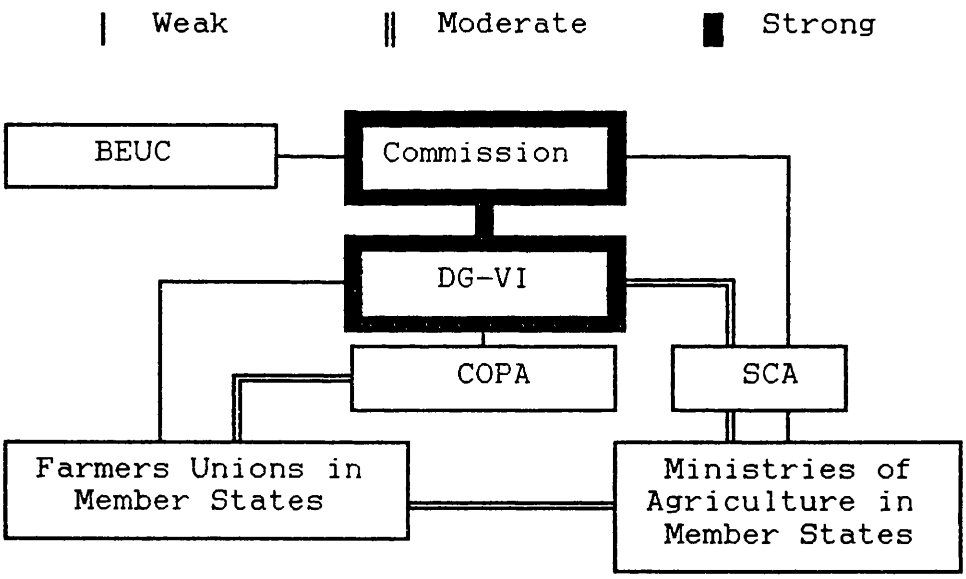
Date	Issues/Degree of Split	Source
Lardinois		
28-03-73	2 UK & 1 It. Commissioners opposed the DG-VI price proposals	Agra Europe, 513
Gundelach		
25-01-79	Rumours of split in Commission; France and FRG Commissioners sought to replace the proposed price freeze with a 2% rise	Guardian
Dalsager		
15-01-81	DG-VI proposed 5-6%; criticized; Commission proposed 8%	Financial Times
13-02-81	UK Commissioner (Budgets) unhappy with price increases	Agra Europe, 915
16-12-82	DG-VI proposed 5.5%; Commission changed to 4.3%	Guardian
03-03-83	UK Commissioner (Budgets) criticized price rises	Financial Times
30-07-83	2 UK, 1 FRG & Irish Commissioners voted against COM(83)500	The Times
Andriessen		
26-01-85	DG-VI proposed 3.1% cut in cereals prices; Andriessen changed to -3.6%	Financial Times
16-06-85	FRG Commissioner voted against the Green Paper	Financial Times
05-07-85	DG-VI split; traders wanted price cut; majority wanted quotas and other options; Italian Commissioner publicly criticized the Green Paper	Agra Europe, 1140
11-02-87	Commissioners failed twice to agree on green rates and oils tax	Financial Times
08-01-88	Commissioners split on set-asides	Financial Times

COPA also came under increased pressure to accommodate an increasing number of views and interests. Changes in the production and finance structures caused the interests of farmers to diverge, so that economic events had widely varying impacts on different farmers. Meanwhile, the expanded Community added groups of farmers with new interests. As a result, COPA increasingly failed to develop specific policy proposals in time to have any chance of influencing the Commission proposals and thus forfeited any substantive role in the policy initiation stage.

The changing power structures and widening gaps among farmers and between COPA and DG-VI led the Commission to look to new areas for support. Some of the changes, such as a greater role for the SCA, were imposed by the Council, while others, such as expanded contacts with farm organizations at the national level and with consumers and environmentalists, were deliberate attempts to strengthen the position of both DG-VI and the Commission in the policy community.

Figure 4.2

KEY BARGAINS AFFECTING THE FORMULATION OF WHEAT PRICE PROPOSALS 1979-89



In the 1980s, those in DG-VI who wished to continue using prices to support incomes lost the ability to completely control the debate. Disagreements developed within the Directorate. The traders in DG-VI, who recognized the potential for wheat exports, sided with other Directorates (especially DG-I) and with the French government in an effort to optimize the commercial potential of wheat exports. This created significant friction, as commercial concerns conflicted with social interests.

The remainder of this chapter examines the Commission price proposals for 1973-88—and their focus on income support, agri-monetary issues, the budget, and surplus production—to demonstrate how and why these bargains have changed, and ultimately to show the impact on the operation of the policy and price system.

THE OBJECTIVE METHOD AND PRICES AS INCOME SUPPORT

Wheat price proposals since the early 1970s highlight the growing importance of market variables in operation of the CAP. Although Sicco Mansholt wanted to use prices to regulate production, the Commission was eventually forced to use them to support farm incomes when the Council failed to adopt the 1968 structural adjustment plan.[8] It transpired, however, that using prices to support incomes was generally consistent with the underlying security, production, finance, and knowledge structures of the 1970s. As discussed in chapter 2, high domestic wheat prices encouraged farmers to adopt new technologies, consolidate their operations, and, thereby, to increase both output and farm incomes.

Mansholt nevertheless was unwilling to preside over that change. During his tenure as Agricultural Commissioner, the Commission proposed to freeze or marginally reduce guaranteed wheat prices in each price review. Consequently, prices in 1971, his last price review, were virtually unchanged from the levels set in 1965. But inflation, which accelerated after 1970 because of shifts in the financial structures, cut sharply into the real (inflation-adjusted) purchasing power of wheat. This change in the real wheat price galvanised the EC farm

8. Pearce (1981), pp. 10-11.

lobby into action. Farmers agitated for higher prices in spring 1971 but were too late to influence the Commission proposals. Council responded, however, with a modest 2% increase for wheat and thereby set the stage for rapid price gains over the next decade.

Table 4.3 **Early Commission Proposals & Council Decisions for Common Wheat Prices (ua/t)**

	Proposal	Decision	Target Prices
1967-68	-	-	106.25
1968-69	.0%	.0%	106.25
1969-70	-1.0%	.0%	106.25
1970-71	-1.0%	.0%	106.25
1971-72	.0%	2.0%	109.44

Sources: Neville-Rolfe (1984), p. 250; Newsletter on the CAP, Feb. 1975, p.3.

The Commission could no longer ignore the pressure from farmers and the member state governments. Petrus Lardinois, the new Agricultural Commissioner, responded and introduced the objective method to establish the Commission's annual price proposals. The Commission's Memorandum: Agriculture 1973-78 stated that:

> The Commission intends to formulate its future proposals more and more in the light of trends in the general level of prices on modern farms: these are the farms which, under the general farm price policy, should be ensured[9] an income comparable to that received from non-agricultural work, account being taken, on the one hand, of a satisfactory return on invested capital, and, on the other hand, of trends in prices of the means of production and in productivity. However, as regards the prices of individual products, the Commission will, in its proposals, take account of the supply and

[9]. COM(74)2001, p. 2, stated that stated that prices should "guarantee" modern holdings with an income comparable to non-agricultural earned income.

demand situation on each of the markets concerned.[10]

This parity-pricing formula had substantial intellectual support from past work done by the Food and Agricultural Organization (FAO).[11] Although the Council never responded to either the Memorandum or to a draft regulation, the Commission began to use the method with the 1972-73 price review.

In short, the method entailed calculating the percentage increase in guaranteed prices necessary to keep incomes of 'modern' farms in line with non-farm incomes. On the cost side, national currency increases in the cost of farm inputs were calculated for each of the member states over the preceding few years and aggregated to provide a Community average. The reference or target income for the farm sector was then calculated based on the rise in the average compensation for non-farm wage labour. From the calculated cost base and target income, the Commission derived the theoretical price increase required to offset the cost increases of the past two or three years and to maintain the ratio between farm and non-farm incomes. The Commission deducted first 1.5% to compensate for the average annual productivity increase attributed to state investment and support for research and development[12] and then the value of past price increases granted through both official price reviews and via changes in the representative exchange rates. The remainder was the indicated Community average price increase.[13]

The objective method quickly became the focal point in the price fixing system, as both farm organizations

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10. Newsletter on the CAP, Special Issue, Nov. 1973, p. 11.
11. Veer (1979), pp. 280-81 & 283.
12. Veer (1979), p. 291.
13. See COM(77)100, 28-2-87, for further detail.

and DG-VI saw its potential. The formula initially brought the Commission and COPA closer together as they worked to make the system operate effectively. Before 1974, relatively low rates of inflation in wage and input costs (averaged over three years) ensured that the relationship between farm and non-farm incomes did not diverge. Then in 1974 inflation and interest rates rose precipitously (at least partly due to changes in the underlying financial power structure), economic growth slowed, and unemployment climbed. Farmers believed that they were bearing too large a share of the burden because European farm prices rose more slowly than either input costs or world prices (which soared due to the "great grain robbery" by the USSR).

In spite of the price increases approved by the Council for 1974-75, COPA and its member organizations pressed the Commission and national governments for more. COPA used the objective method to demonstrate that the accelerating wage and cost inflation warranted an additional price increase of at least 4%. This was perhaps the high point of the influence of COPA. Although there was no provision in the rules for interim price increases, COPA successfully organized a series of protests—starting in France in early July and escalating throughout France, Germany, and the Netherlands—that forced the Commission to accept the results of the objective method and present an interim price increase for 1974.

The interim price rise was approved in September 1974 only after the Commission and Council agreed to Germany's demand for a Stocktaking of the CAP. The resulting Commission memorandum proposed that the objective method should be changed to better reflect market realities. The Commission wrote that the purpose of the policy should be "to provide a decent income—taking the average of a number of years—for those persons (farmers and farm labourers) who work on agricultural holdings which are run on a rational basis and which are economically viable."[14] As a result, the Commission decided to use target farms (as defined in Dir 159/72/EEC) rather than 'modern' farms (which included a wide range of small and uncompetitive farms in the calculation), to disaggregate costs further to increase precision of estimates, to set new weights for the member states, and henceforward to use a movable 36-month period for calculations.[15] The Commission then warned that the method only "yields a general indicator, which the Commission uses in combination with other indicators (e.g., market situation, economic trend) to arrive at its proposals for increases in the general level of agricultural prices consistent with the efforts being made to ensure market equilibrium."[16] Over the following years, it increasingly manipulated the method to support its priorities.

Swinbank noted that the experience over the 1973-78 period "shows the ease with which the calculations can be manipulated behind a wall of secrecy" and added "it also demonstrates that the final calculated figure is critically dependent upon a series of arbitrary decisions taken with respect to the method of calculation."[17] The best example of this was the 1977-78 price review. The NFU learned that the Commission proposed to use single-week exchange rate averages from the beginning and end of the three-year review period (i.e., first week of 1973 and last week of 1976), which indicated prices should decline in 1977-78. After lobbying, the Commission decided to use two-month averages at the beginning and end of the period, which indicated a 0.1% price increase. If the average exchange rates for 1973 and 1976 were used, as requested by the NFU, the objective method would have indicated the need for a 6% increase.

14. Veer (1979), p. 284.
15. Veer (1979), p. 292.
16. COM(75)100, p. 43.
17. Swinbank (1979), p. 308.

Table 4.4 The History of the Objective Criterion Method for Setting Prices

Year	Objective Method	Modified Value	Changes to Criteria	COM Proposals All Prods	Common Wheat	Bread Wheat
1972A	2-3.0%	-	-	2-3.0%	2.3%	-
1972B	5.0%	-	-	6.5%	4.6%	-
1973	3.0%	-	-	2.8%	2.8%	-
1974A	7.2%	-	-	7.2%	.0%	-
1974B	4.0%	-	-	4.0%	4.0%	-
1975	12.4%	6.5%	Excl Italy	9.2%	9.0%	-
1976	4.6%	9.1%	Excl Italy	7.5%	-5.8%	6.9%
1977	0.1%	5.1%	Snake Only	3.0%	3.0%	3.1%
1978	4.2%	-	-	2.0%	1.3%	3.1%
1979	n.p.	-	-	.0%	.0%	.0%
1980	n.a.	-	-	2.5%	1.8%	1.7%
1981	n.a.	-	-	7.8%	6.0%	4.0%
1982	9.0%	-	cf Table 4.5	8.4%	6.6%	6.6%

Notes: Marketing years beginning with date given; n.p. = figure calculated but not published; n.a. = either not calculated or kept confidential; 1972A was withdrawn; the figure for the reference price for wheat of bread-making quality (bread wheat above) for 1976 is the percent increase between the reference price in 1976 and the intervention price for common wheat for 1975.
Sources: Swinbank (1979), p. 305. COMS of the EC.

The Commission also made ad hoc modifications so that the method indicated price increases that fit with their other concerns. In 1975 and 1976 Italy was excluded from the calculations (on the grounds that the lira was fluctuating widely in both years), which lowered the indicated increase for 1975-76 and raised it for 1976-77. In both years, the Commission proposed a compromise between the formal results and their modified results, so that they appeared to be providing generous income support relative to the required support. Then in 1977-78, the Commission recalculated the formula excluding all but those member states involved in the exchange 'Snake,' which yielded a higher rate and justified a higher increase. In 1978-79, the Commission proposed that prices rise only 2% rather than the indicated 4.2%, on the basis that as a moving average the formula overestimated need. Finally, in 1979-80 the Commission calculated but did not publish the indicated value. It simply stated that the general farm income situation would allow a price freeze, and that "the results of the objective method corroborate this conclusion."[18] In short, history demonstrates that the objective method was seldom objective.

DG-VI then ceased using the objective method until 1982, when it presented a complete set of calculations, with indicated price increases ranging from 4% to 15%. Even then, the proposed 8.4% price rise was lower than the declared average. The level was chosen largely to facilitate green rate changes and to buy acceptance of the new co-responsibility measure that would set future prices based on market conditions. When Council approved the Commission's proposed guarantee threshold system, the income-supporting role for prices effectively ended.

Table 4.5 **The Objective Criterion Method calculations for 1982-83 (using different periods and methods of calculating the exchange rates)**

	1980	1980-81	1979-81	1973-81
Point to Point Changes	7.0%	9.0%	13.0%	6.0%
Annual Averages	9.0%	10.0%	15.0%	7.0%
Actual Green Changes	8.0%	7.5%	4.0%	5.0%

Source: COM(82)10/1, p. 21.

Changes in the security, production, finance, and knowledge structures had combined to shorten the period of fixing prices using the objective method. As early as 1969 volatile international exchange rates forced their way onto the price fixing agenda. Then in the late 1970s

18. COM(79)10, p. 18.

the farm budget swelled as surplus production developed. Finally, in the early 1980s the Community discovered that surplus production was not simply a budget problem. The Community had become a major exporter and would need to adjust its domestic policies to ensure it made the most of its new opportunities. Volatile exchange rates, tight budgets, and rising surpluses, which increasingly influenced the Commission's price fixing proposals, did not fit within the objective method.

EXCHANGE RATES AND THE PRICE REVIEW

The agri-monetary system, developed in 1969 provided for fixed 'representative' exchange rates to be set during the annual price review and then to be left unchanged during the marketing year, regardless of international exchange rate movements. The Commission initially extracted agreement that the gaps between the green rates and market exchange rates would be reduced at the time of the annual price fix (or, in exceptional cases, during the year at the request of a national government). Although green rates were initially expected to be short-term aberrations, the end of the Bretton Woods system

Figure 4.3

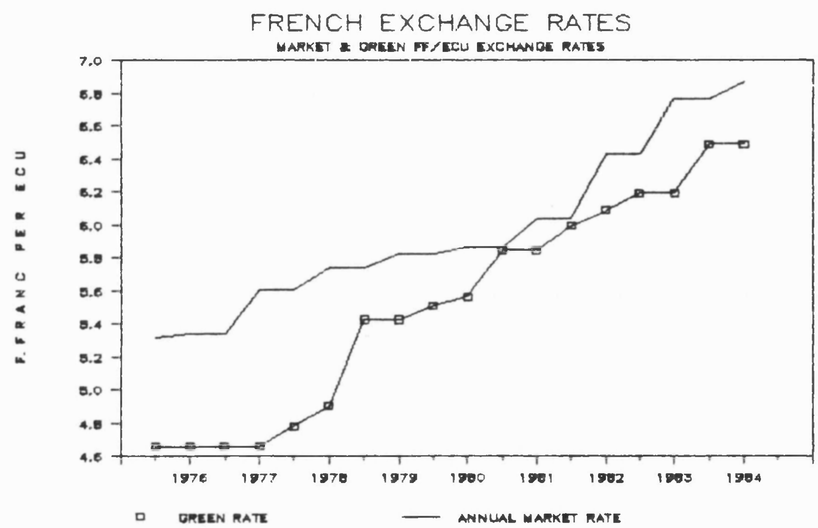
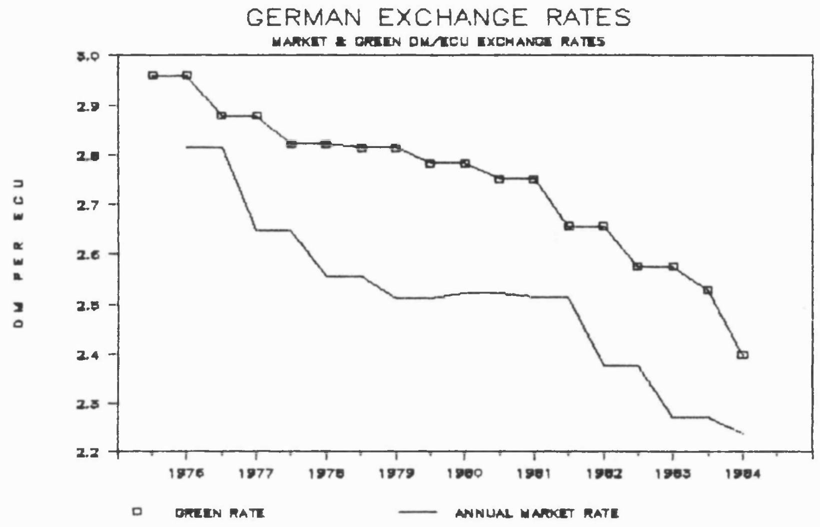
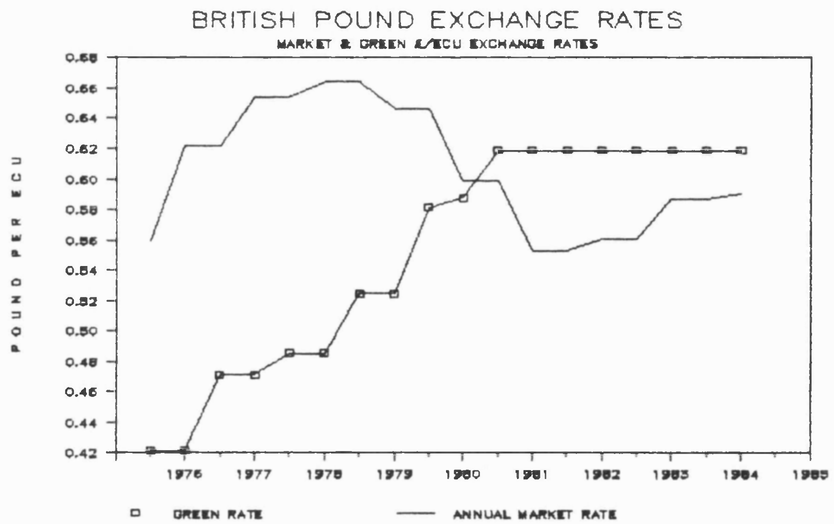


Figure 4.4



caused wide fluctuations in exchange rates, so that few countries ever closed their gaps for long. Green rates became essential in order to maintain the common price system.

Figure 4.5



The Commission, however, was unwilling to accept the massive derogations from common prices that developed: at times ECU prices received in Germany and the UK differed by as much as 50%. The Commission therefore worked during the 1973-88 period to eliminate the monetary gaps. Occasionally agri-monetary reform overshadowed other issues at the price fixing and, at times, virtually determined the magnitude of the proposed price increases.

COPA did not benefit from this new orientation because it had extreme difficulty reconciling national concerns. Agri-monetary changes did not fit easily into the formula-based approach embodied in the objective method favoured by COPA. With an expanding membership and majority voting rules, any position accepted by COPA had to be very general. National farm organizations frequently found that they were in direct opposition to other member organizations. For example, French farmers throughout the 1970s and 1980s pressed for the end to German positive MCAs (which provided German farmers with higher real prices and export subsidies to compete in Europe) because they believed that these subsidies hurt French commercial interests.

The only successful farm lobbies were bilateral. In 1979, for example, the Fédération Nationale des Syndicats d'Exploitants Agricoles (FNSEA) and the Deutscher Bauernverband (DBV) provided a resolution to the impasse over the introduction of the EMS when they agreed jointly that MCAs could be eliminated, provided guaranteed prices increase sufficiently to ensure German farmers steady operating revenues. Mostly, however, national farm organizations lobbied their national governments. In weak currency countries, farmers lobbied for rapid devaluation of their green rates while in strong currency countries (i.e, Germany), farmers protested against changes that would cut farm-gate prices.

COPA was generally unable to build a common European position upon these arrangements. At best it mustered only support in principle for the elimination of monetary gaps (1978) and agreement that changes in positive MCAs should not cause prices to fall in any country (1979). As a consequence, DG-VI tended to consult directly with the national farm ministry and farm organizations (especially in Germany) to develop specific green rate proposals.

Table 4.6 Impact of Green Rate Proposals on Bread Wheat Prices (% change in prices)

	ECU	National Currency Price Proposals:		
	Price	France	Germany	UK
1975-76	9.0%	12.6%	3.1%	n.a.
1976-77	6.9%	6.9%	2.8%	6.9%
1977-78	3.1%	5.8%	.0%	9.6%
1978-79	3.1%	5.7%	1.9%	6.5%
1979-80	.0%	5.3%	.0%	5.3%
1980-81	1.7%	5.4%	0.6%	1.7%
1981-82	4.0%	1.4%	-1.5%	-2.1%
1982-83	6.6%	4.7%	1.6%	2.1%
1983-84	3.0%	5.9%	-0.1%	0.5%
1984-85	.0%	2.9%	-6.3%	-4.0%
1985-86	-3.6%	-1.5%	-4.1%	-3.6%
1986-87	-12.6%	-11.2%	-12.6%	-12.6%
1987-88A	-2.0%	2.6%	-2.0%	1.1%
1987-88B	.0%	4.7%	-2.4%	3.1%
1988-89	.0%	.0%	-1.0%	.0%

Note: Price is for common wheat for 1975-76, for bread wheat reference price for 1976-77 to 1985-86, and for premium wheat price for 1986-87 to 1988-89. Co-responsibility levies are deducted for 1983-84 and 1985-86 but not for 1986-87 to 1988-89; 1987-88A was withdrawn and replaced with 1987-88B.
Source: Appendix A.

As monetary gaps developed during the 1970s due to appreciation of the DM and depreciation of other currencies, the Commission adopted two broad approaches to management of the system. First, the Commission worked to develop a more stable set of exchange rates in the Community. In 1972, the Community created the 'Snake' but was still unable to offset wide swings in exchange rates (see Chapter 2). Meanwhile, the Commission sought adjustments to representative rates to close the monetary gaps at each price review. In the Stocktaking in 1975, the Commission stated its strong opposition to the continued use of green rates to circumvent the common price system. It argued that green rates, and the resulting MCAs, distorted production and worked against the goals of the Treaty of Rome: "Production must be allocated according to the principle of the optimum allocation of resources and the need for specialization foreseen in Article 43 of the Treaty."[19] The Commission suggested that the Commission and Council should adopt formal rules and procedures to help set and dismantle green rates.[20] Lardinois in 1976 proposed that green rates be regularly revised every six months to reduce the positive and negative monetary gaps.[21]

In the absence of Council action, the Commission proposed price increases for 1976-77 and 1977-78 that would allow the maximum dismantling of positive MCAs. In 1976-77, the Commission proposals exceeded the amount indicated by the objective method by an average of almost 3% for all products and about 2.3% for wheat in order to provide room to revalue the green DM. Again in 1977-78 the Commission proposed that wheat prices rise 3.1%, more than indicated by the objective method (0.1%), so that the DM could be revalued by a full 3%. Then in 1978, the Commission proposed a seven-year schedule for elimination of MCAs and alignment of green rates with market rates.[22] Each year one-seventh of the gap would be eliminated; the current year's share would be a 1.1% revaluation for the green DM and devaluations of 1.9% and 3.2% for the franc and pound respectively. With the proposed 3.1% increase for wheat, even German wheat farmers would receive a price rise. Shortly thereafter, the Commission warned

19. Newsletter on the CAP, 3 (March 1975), p. 11.
20. Ibid, p. 53.
21. Neville-Rolfe (1984), p. 275.
22. COM(77)482.

that the agri-monetary system's "link with the 'snake' draws common prices upwards and strengthens guarantees to producers."[23]

Beginning in 1977, the new Commission, with Roy Jenkins as President, began preparations to replace the ineffective 'Snake' with a European Monetary System (EMS). The EMS was supposed to produce stable exchange rates and to reduce development of future monetary gaps but it almost failed to be implemented because of concern over existing MCAs. France insisted that the Council adopt an automatic timetable to eliminate Germany's positive MCAs before it would accept the EMS. When Germany refused, the EMS was not introduced as scheduled on 1 January 1979. The impasse was finally resolved in March 1979 when the Council agreed that new MCAs could be eliminated over two years provided changes in green rates did not cause nominal prices to fall in any member state (known as the 'gentlemen's agreement'). Even though intra-EC exchange rates began to move less in the EMS, green rates persisted because the UK remained outside the system, Italy benefited from a wider band within the EMS (6% cf. 2.25% for the rest of the members of the EMS), and national rates of inflation continued to diverge.

The 'gentlemen's agreement' limited Commission proposals over the next several years. The 1979 price proposals did not include any revaluation of strong currency green rates because the Commission did not plan to raise ECU prices. In 1980, with the EMS in operation for over a year, the maximum disparity in monetary gaps had been reduced to as low as 15% from more than 43% in February 1979. The Commission therefore decided to reduce the remaining positive monetary gaps. It offered to increase wheat prices 1.7%, in spite of market and budget pres-

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23. COM(78)20, p. 198.

sures for lower prices, in order for the green DM to be devalued by 1.1%.[24]

In December 1980, the Commission warned that the agri-monetary system was a "sickness" which threatened the common agricultural market because green rate revaluation created a very real pressure for higher ECU prices.[25] Fresh from recent consultations with farmers and the member states, the Commission in February 1981 proposed common wheat intervention prices rise 6% in ECU terms (4% for bread-wheat) to allow for a 5.3% revaluation of the DM and a 5.8% rise in the green pound. But Germany calculated that the revaluation would cause farm-gate prices to drop, which violated the 'gentlemen's agreement.' As shown in Chapter 7, Council rejected the Commission package.

In January 1982, the Commission hoped for greater success when it resubmitted most of its proposals from 1981 because the economic situation was better: producers had received large nominal price increases in 1981-82 and the world wheat price in ECUs was rising, thereby cutting the budgetary cost for cereals support. The Commission therefore proposed a 6.6% rise in the ECU wheat reference price (in line with the obviously-manipulated objective method) to provide room to revalue the green DM by 4.7% and the green pound by 4.2%. Even though farm-gate prices would have risen with this package, the Council rejected the proposed green rate changes.

After the serious disputes in Council during the 1982-83 price review, the Commission proposed for 1983-84 a package of price increases and revaluations of green rates that represented "a minimum dismantling" of the agri-monetary system: a 3% increase in the ECU reference

24. COM(80)10, p. 3.
25. COM(80)800, p. 2.

price for wheat was matched by revaluations of 3% for the DM and 2.3% for the pound. But again the Council revised the proposal. Shortly after (in response to the Stuttgart Summit), the Commission declared that "the 'gentlemen's agreement' which attempted to define conditions for the gradual phasing out of monetary compensatory amounts has proved unsatisfactory."[26] The Commission first considered creation of a green ECU with negative monetary gaps for all countries except the strongest currency (i.e., the DM) but in the end proposed an alternative system for dismantling the monetary gaps. New gaps would be closed automatically 1/3 at the time of the exchange rate change and 1/3 at the beginning of the next two marketing years; existing MCAs would be reduced as conditions permitted. Germany, and other countries revaluing green rates, would be permitted to compensate their farmers.[27] The Commission warned, however, that "common prices expressed in ECU may be frozen or even reduced; and consequently that the Community support prices expressed in national currency may be reduced in nominal terms."[28]

DG-VI then proposed for 1984-85 a freeze in the ECU wheat reference price and revaluations of 6.3% in the green DM and 4% in the green pound. Council, swayed by German and UK protests, instead approved a package that cut the ECU prices for wheat by 1% and held the green DM steady. DG-VI then lost control as the debate moved to the Fontainebleau Summit, where the French President of the Council negotiated a resolution to the UK budget issue and an agreement to introduce a green ECU system. The new system holds German farm-gate prices steady when the DM appreciates by setting the agricultural unit of account (AUA) equal to the real ECU multiplied by a "cor-

26. COM(83)380, pp. 4-5.
27. COM(83)500, p. 38.
28. COM(83)500, p. 10.

recting factor." All other countries receive increases equal to the appreciation of the green ECU over the real ECU. The Commission proposed and Council agreed that existing positive monetary gaps for Germany and the Netherlands would be eliminated by the beginning of the 1987-88 marketing year.[29] At the beginning of 1984-85, the new green ECU was set 3.4% above the real ECU to reduce the positive monetary gap for the DM. In practice, this system eliminated future positive monetary gaps and thereby reduced the pressure for higher ECU guaranteed prices.

Although the green ECU was not the Commission's preferred solution, it accepted the system proposed by the German and French ministers as a reasonable compromise. The Commission acknowledged that "it is politically impossible" to expect national governments to allow currency changes to cut domestic prices, as normally happens with other traded goods in the EC.[30] They decided to support the creation of the new system because:

> The conventional system does not involve any automatic mechanism such as the alteration of the correcting factor. The increase in the common price is, under the conventional system, the result of a Council decision adopted on the basis, and in the context of, a set of political guidelines given annually through the price review. Under the green ECU system, this discretionary component of a political decision has disappeared.[31]

After prices were fixed for the 1984-85 marketing year and the new green ECU system was introduced, the Commission moved quickly to reduce the existing DM positive monetary gap. In July 1984 it proposed a further five point reduction in the German monetary gap effective 1 January 1985, with German farmers compensated with VAT

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29. Reg.(EEC) 855/84.
30. <u>COM(87)64</u>, p. 3.
31. <u>COM(87)64</u>, p. 10.

refunds for resulting losses in farm income.

In 1985-86 the Commission proposed a 0.5% revaluation of the green DM on top of the proposed 3.6% drop in wheat ECU prices. When Germany vetoed the cereals proposals, the Commission decided to forgo further agri-monetary changes until 1987-88. In the 1987-88 package of price measures, DG-VI initially published proposals to cut ECU wheat prices 2% and to hold the green DM steady, but the Commission responded to German protests and revised the proposal to include a freeze in ECU prices and a complete revaluation of the remaining 2.4% positive DM monetary gap. Council refused to immediately revaluate the DM, but it did agree to eliminate effective 1 July 1988 the remaining positive monetary gap (less the neutral margin). Although there were further delays, the remaining gap (except the neutral margin) was finally eliminated 1 January 1989.

Once the Commission and Council agreed on this system of managing positive monetary gaps, the price proposals focused less on setting prices to accommodate exchange rate changes. DG-VI found the green ECU system reduced the upward pressure on ECU prices resulting from the positive DM monetary gap. (Between 1984 and June 1989 four realignments of the EMS boosted the correcting factor to 1.137282; without the green ECU, these realignments would have created significant pressures to raise ECU prices.) Consequently, the Commission was able to focus on the two other problems looming on the horizon: budgetary costs of the CAP and surplus disposal.

BUDGET PRESSURES

Large price increases, application of financial capital, and a proliferation of new, high-yielding crop and livestock varieties caused the sustained rise in production beginning in the 1970s. Increasing surpluses of wheat, at a time when world markets were becoming more competitive, compounded the costs of the CAP, thereby forcing budget concerns into the farm debates. Furthermore, the budget became the focus of UK efforts to reform the CAP, so that many subsequent reforms of the wheat system were couched in budgetary terms to satisfy the UK. The budget, however, seldom directed Commission proposals. The non-farm directorates certainly attempted to force the CAP to live within budgetary limits, but DG-VI was generally unwilling to prepare its price proposals solely in the context of real or notional budget limits. Instead, DG-VI attempted to use the budget as a bargaining lever to get the Farm Council to adopt its desired policy orientation.

The link between the budget and CAP reform has been weak for a number of reasons. First, the budget ceiling is artificial because maximum revenues are set at an arbitrary percent of the tax base. The Community demonstrated that the ceiling is flexible when it adjusted it in both 1984 and 1988. Second, the budget is out of step with the agricultural marketing year. The annual budget is drafted and usually adopted before the start of the calendar year while prices for the marketing year are seldom set before March. Consequently, each budget covers six months (January-June) when wheat prices are known and six months (July-December) for which wheat prices have yet to be set. Third, budgetary rules require all outlays related to provisions of the Treaty of Rome—"compulsory" spending, which includes EAGGF Guarantee Fund expenditures—be accommodated. Finally, the budget procedure which evolved during the 1970s allows Parliament final approval for the budget and all non-compulsory spending but does not provide it with the power to change compulsory spending. The unrelated timing of the price fixing and budget and limited Parliamentary control of compulsory spending consequently reduces budgetary control over CAP. Generally, the budget had an impact only when Parliament rejected the entire budget and forced the Community to operate under the 'provisional twelfths' rule.[32] When that happened, the Commission made ad hoc adjustments to prices and intervention rules to balance the accounts in the short-run.

Table 4.7 EC Budget Expenditures (M UA 1972-78; M EUA 1978-80; M ECU 1981-89)

year	Cereals Total	Guarantee Total (a)	EAGGF Total (b)	Total EC Budget (c)	cereals % of (a)	(a) as % of (b)	(a) as % of (c)	(c) as % of VAT*
1972	908	2 258	--	3 075	40.2%	--	73.4%	n.a.
1973	1 030	3 815	--	4 641	27.0%	--	82.2%	n.a.
1974	400	3 098	--	5 038	12.9%	--	61.5%	n.a.
1975	621	4 727	--	6 214	13.1%	--	76.1%	n.a.
1976	610	5 570	--	7 953	10.9%	--	70.0%	n.a.
1977	630	6 830	--	8 483	9.2%	--	80.5%	n.a.
1978	1 113	8 673	9 552	11 884	12.8%	90.8%	73.0%	n.a.
1979	1 564	10 441	10 765	14 603	15.0%	97.0%	71.5%	n.a.
1980	1 669	11 315	11 895	16 290	14.8%	95.1%	69.5%	<1.000
1981	1 921	11 141	11 443	18 546	17.2%	97.4%	60.1%	<1.000
1982	1 825	12 406	12 792	21 427	14.7%	97.0%	57.9%	<1.000
1983	2 441	15 812	16 540	24 807	15.2%	97.5%	64.3%	<1.000
1984	1 650	18 347	19 023	27 209	9.0%	96.8%	70.3%	1.000
1985	2 310	19 744	20 464	28 085	11.7%	96.5%	70.3%	1.000
1986	3 391	22 137	22 911	35 174	15.3%	96.6%	62.9%	1.150
1987	4 224	22 968	23 876	37 783	18.4%	96.2%	60.8%	1.237
1988F	4 506	28 795	29 998	43 820	15.6%	96.0%	65.7%	1.196
1989F	4 133	28 323	29 758	45 030	14.6%	95.2%	62.9%	1.278

Notes: F means budget forecast; * as a percentage of GDP in 1989F.
Source: Agricultural Situation in the Community (various); EC Budgets in OJ.

Nevertheless, budget concerns certainly encouraged DG-VI and the Commission to look to other ways to support farmers. Shifts in the production, technology, and finance structures during the 1970s caused a sharp decline in the efficiency of using prices to support farm income.

[32]. If the budget is not passed before the beginning of the financial year, Art. 204 of the Treaty of Rome provides for outlays equal to "provisional twelfths" of the previous year's budget.

Table 4.8 shows that the average effectiveness of the price system—transferring funds to producers from consumers via both higher food prices and general tax levies —declined to about 50% in 1985 from more than 70% in 1976 because disposal of surpluses increased the deadweight losses of the policy.[33] This was particularly true for wheat, as the Community moved from approximate self-sufficiency in the 1960s and 1970s to a position as one of the largest exporters in the 1980s. Marginal increases in prices were even less efficient. Harvey estimated that price increases in 1980 raised farm incomes only by 56 ECUs for every 100 ECUs expended (67% efficiency for the whole price system).

Table 4.8 The Budgetary Efficiency of the CAP (EC9)

Average for Policy:	Year	Costs to Benefits	% Reaching Farmers
Bale & Lutz	1976	1.39	71.8%
Morris	1978	1.32	75.8%
Harvey et al	1980	1.50	66.6%
Thomson & Harvey	1980	1.77	56.0%
BAE	1983	1.16	85.6%
Tyers & Anderson	1985	1.88	53.1%
10% price rise (Harvey):	1980	1.79	55.9%

The cost-benefit ratio shows the number of ECUs taxpayers and consumers surrender to increase farm incomes by an additional ECU; conversely % reaching farmers shows the proportion of money foregone which increases farm income. Sources: Table 1.4; Harvey (1982), pp. 177-78.

[33]. Earlier estimates would show that efficiency of the income-support role of prices was higher than in 1976 while more recent studies would likely show efficiency dropped below 50% in 1986-88 as the costs of exporting surpluses rose sharply due to both the price war between the US and the EC and the appreciating ECU. The BAE estimate shows the CAP policy was more efficient in 1983 because that year world prices in ECU terms were strong and EC cereals output was down.

The Commission first became concerned about the cost of the CAP in the late 1970s. Before 1979, the budget was not a serious problem because costs of the cereals regime ranged from less than 400 M UA to 1.1 B UA and total outlays for all EC programs remained well below the available resources. By then, however, the underlying structures had changed. Capital investments, new technologies, and farm consolidation throughout the 1970s boosted farm productivity and caused rapid production gains. The Commission recognized that these shifts would soon increase the cost of the CAP, thereby using resources that could be directed both to non-farm rural and urban concerns. The CAP, which used an average 75% of the Community budget, severely limited opportunities to develop new programs. As a first step to control CAP budgetary outlays, the Commission in 1977 appointed a Budget Commissioner, who quickly became a powerful focus for discontent with the CAP.

In 1979, three factors caused the Commission to focus seriously on the budgetary aspects of the CAP. First, the 'own resources' system was finally put into effect. Before then, the Community depended on a combination of own resources and national contributions, which seriously limited the Commission's ability to develop new programs. With the new resources available after 1979, the Commission wanted to redirect its spending, but CAP outlays expanded sharply, leaving little for the other directorates. Second, in 1979-80 the UK, Denmark, and Ireland bore for the first time the full costs and benefits of the CAP. The new Conservative government in the UK also began in 1979 a five-year campaign to reduce its net expenditures; for tactical reasons it chose to link its EC budget demands with CAP reform. Third, the European Parliament was elected in 1979 for the first time and immediately sought to change the budget to suit its priorities. While the farm lobby remained important in the first Parliament, the expanded group of MEPs with non-farm interests wanted the Community to develop new programs in areas which were under its control (farm spending, because it was compulsory, was not truly controlled by the EP).

In December 1979, the Council overturned the EP's revisions to the 1980 budget and the EP rejected the entire budget, forcing the Commission to propose prices that would not increase EAGGF outlays beyond the resources available within the provisional twelfths rule. The budget limits, however, did not effectively bind that year. Rising world prices following the US grain embargo of the USSR in 1979 combined with the rapidly appreciating US dollar to reduce EC export restitutions, so that the absolute budget limits were inconsequential. DG-VI had enough fiscal room to propose price rises and still keep EAGGF within the budget limit.

Even though the budget pressure did not seriously bind again until 1984, the Commission sought to limit the cost of agricultural programs. It believed that "the community budget must also serve the development of new policies, the lack of which is often harmful to European agriculture."[34] The Agricultural Council, however, did not enthusiastically support efforts to limit the cost of CAP programs. Nor was it pressed to do so, because between 1980 and 1983 the appreciating US dollar caused world wheat price in ECUs to rise, so that the Community budget was not strained by the increased volume of cereals exported.

Nevertheless, DG-VI framed its next several price proposals in an effort to gradually change the incentives to over-production, which would go a long way to reducing growth in EAGGF outlays. To that end, the Commission promoted producer co-responsibility as a solution to both

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34. ASC 1980, p. 21.

the budgetary and production problems. In 1981 it formally proposed producers assume greater financial responsibility for disposal of production in excess of agreed quantities, which would thus "set a limit on EAGGF financial commitments."[35] By 1983, the Commission realized that the guarantee threshold system was not really restrictive. Table 4.10 shows that in 1983, the new mechanism barely affected the price proposals, because, first, the formula used three-year average production figures and, second, the Council could simply offset the triggered price cut at that or following price reviews. After the 1983 price review, the Commission therefore tried to get the farm ministers to agree to limit growth in CAP outlays to less than the growth in 'own resources.'[36] DG-VI surely saw that this would give them significant power to control future Council decisions, because the Commission would be responsible for calculating the growth of own resources.[37] Through that means it hoped to get the farm ministers to accept the prudent price policy, to strengthen co-responsibility, to gradually eliminate MCAs, and to review the external protection system.[38] DG-VI by then had decided that realigning prices to market conditions was in its best interests, so the budget lever suited its goals. The Agricultural Council, however, accepted neither budgetary restraint nor fundamental reform of the CAP.

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35. COM(81)50, p. 24.
36. Own resources were defined by a 1971 agreement between the Commission, Council, and the EP to include EC tariff revenues, agricultural import levies and miscellaneous charges.
37. H. Wallace, "The Best is the Enemy of the 'Could': Bargaining in the EC," in Tarditi, et al. (1989), p. 197, argues that the Commission would benefit because "the Commission's propositions set the parameters, condition the climate, and define the timing of crucial phases of budgetary negotiations."
38. COM(83)380, p. 2.

At the end of 1983, the budget situation became serious. To conserve resources and to prod the Council into further reform, the Commission unilaterally announced in December that intervention payments to cereals farmers would be delayed by four months. The Commission then proposed to freeze common wheat prices and severely limit other price increases for 1984-85 because the budget for 1984 already equalled 0.997% of the adjusted VAT base (the limit was 1%). The Commission went to the European Council in March and got agreement that the Finance Council should intercede in Farm Council price decisions if they were likely to exceed expenditures under Commission proposals. The price package for that year, however, was resolved without resort to such measures.

The Fontainebleau Summit in June 1984 then appeared to take the pressure off farm policy and to allow farm ministers to delay reform. The Heads of State reached a compromise on the UK budgetary problem and cleared the way to raise the EC spending limit to 1.4% of VAT beginning in 1986, with supplementary support from member states in 1984 and 1985.

Then, in December 1984, the EP rejected the 1985 budget by an overwhelming vote, forcing the Commission and Council to limit price rises. The Commission took the opportunity to propose a 3.6% cut in the wheat price (+1.5% less 5% co-responsibility triggered by the guarantee threshold system). The Council failed to reach agreement because Germany invoked the Luxembourg Compromise and vetoed the price proposal. The Commission implemented a "precautionary" 1.8% price cut but realized that it would need to develop a new approach to reform the CAP wheat price.

Later in 1985, the Commission's <u>Green Paper</u> firmly shifted the debate away from budgetary concerns toward a complete re-evaluation of the price system. Budget pressure continued, however, because accession of Spain and Portugal quickly filled the fiscal room provided by the 1984 Fontainebleau Summit. The Commission therefore became more determined to reduce the support for farm prices. It withheld budgetary fixes to the CAP in an effort to coerce the farm ministers to implement its reforms to the intervention system. Without reform of the CAP, there was little potential for the budget being fixed, or for new programs to capitalize on the Single Market.

After the CAP mechanisms were changed, the Commission returned to the issue of the budget. It decided that the time was right to press for permanent limits on the EAGGF outlays. It thus proposed an additional stabilizer levy to limit growth in net CAP expenditures. When the European Council failed to reach agreement in December 1987, all the outstanding issues, including new limits on own resources, were referred to a special Summit in Brussels in February 1988. The Commission pressed the Heads of State to adopt stabilizer levies and automatic (but non-cumulative) price cuts for cereals as well as to limit EAGGF Guarantee expenditures (including provisions for depreciation of both old and new stocks) to grow no faster than the annual growth rate of the Community GDP. The Summit ministers went even further than requested and approved both cumulative price cuts and a lower growth limit on outlays (80% of GDP growth, excluding depreciation of old stocks, which effectively equalled 74% after accounting for depreciation of new stocks and for the set-aside program). Perhaps most important, the Summit agreed that "if the Commission considers that the outcome of the Council's discussions on these price proposals is likely to exceed the costs put forward in its original proposal, the final decision shall be referred to a special meeting of the Council attended by the Ministers for Finance and the Ministers for Agriculture which shall have the sole power to adopt a decision."[39] This provision provided the Commission with a powerful negotiating lever for future price reviews as it could threaten to take the decision out of the hands of the farm ministers. (The Commission certainly will prefer to threaten rather than act, because there is significant doubt that the special Council could resolve the debate.)

In summary, the Commission used the budget as a bargaining lever during the 1980s. Cottrell argues that the Commission seldom accepted that CAP spending was a burden; rather it usually talked in terms of a "shortfall in resources."[40] DG-VI, in particular, believed that the agricultural budget was small relative to both national budgets and the gross output of the sector.[41] During the 1980s, DG-VI and the Commission therefore employed the budget to support its other policy priorities. In a sense, that action was analogous to use in the 1970s of the objective method to justify price increases. After 1985, however, the Commission as a whole genuinely attempted to set limits on agricultural spending. The other DGs saw budget limits as the only way they could develop programs to complete the Single Market; DG-VI accepted this because it supported its own reform goals.

THE RISE OF SURPLUS PRODUCTION AND PRICES

The most important change at the Commission level in the 1980s is the enhanced market role for prices. The Commission was forced to examine alternatives to using

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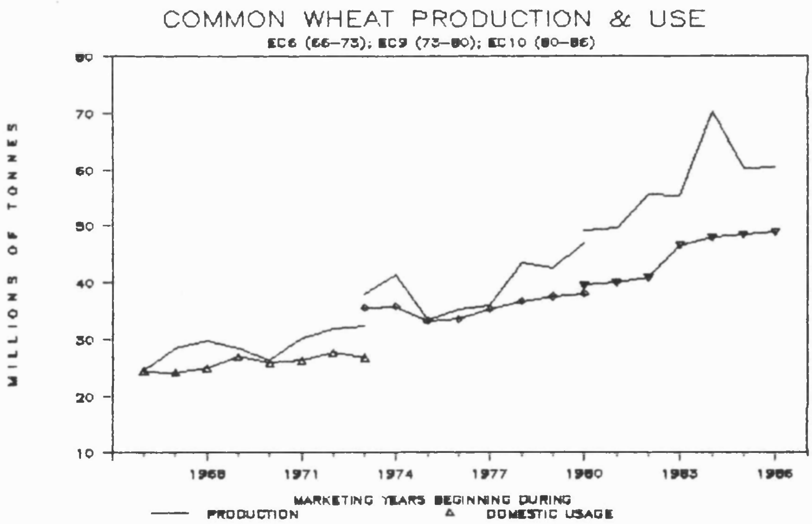
39. Bull. EC 2-1988, p. 9.
40. Cottrell (1987), pp. 172-73.
41. Burtin (1987), pp. 52-53, stated that "the common agricultural policy cost each European citizen about 5 ECU per month." That amount should be seen as an "insurance premium guaranteeing secure supplies" As such, "it does not appear excessive." In a wider economic context, net EAGGF expenditure "may be regarded as very modest ... [because] it represents half of 1% of the Community's gross 'national' product ... and less than 3% of consumer expenditure on food."

prices to support incomes because of the surge in farm output after 1970. Productivity increased, in response to greater capital investment, farm consolidation, new agronomic practices, and new high yielding wheat strains, to such a level that it was virtually impossible for the Commission to slow the growth of production simply through minor price adjustments. DG-VI had three alternatives. In order of administrative difficulty, it could implement production quotas and maintain price and intervention guarantees, cut purchase prices but maintain explicit intervention guarantees, or reform the guarantee system. After a clash with Council in 1985, the preferred middle option was rejected. Internally, DG-VI split into two opposing camps: the traders wanted a market approach while others wished to maintain administrative control over the farm sector. The market approach prevailed as the commercial components of the farm policy community (in DG-VI, France, and the farm organizations) finessed the necessary changes.

Figure 4.6



Between 1972 and 1979, the Commission disregarded Sicco Mansholt's warnings that high prices would encourage surplus production. The Commission also apparently ignored the early indications that EC wheat production would soon rise significantly higher than demand. The Community had recorded modest wheat surpluses since the start of the cereals regime and by 1973 EC6 production exceeded total domestic use by 4.7 Mt and surpluses were rising by more than 1 Mt each year. About that time, academic researchers showed that the EC9 would soon become one of the world's largest wheat exporters, a dramatic change from the prevailing position as a large market for wheat imports.[42]

During the 1970s, the threat of world shortages and the need for a stable system to allow farmers to adapt to new pressures forced the Commission to continue to use prices solely to support farm incomes. Although the Commission in 1973 publicly acknowledged that it would adjust the prices indicated by the objective method if market conditions warranted, it only once tried to do so. World wheat prices soared following the "great grain robbery" of 1972 and world opinion on the prospects for wheat radically changed. A flood of reports and conferences in 1974 and 1975 forecast world food shortages would continue for the foreseeable future. With world wheat prices above the EC target price in 1973, shortages rather than surpluses seemed much more likely. Meanwhile, both the Commission and wheat producers in the original six member states looked forward to a larger domestic market for wheat after admission in 1973 of the United Kingdom, Denmark, and Ireland. The UK was at that time one of the single largest wheat importers in the world.

During the 1975-76 price fixing, DG-VI accepted the prevailing view that "the tight situation on the world [cereals] market will probably not disappear in the near

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42. Schmitz & Bawden (1973), p. 63 & Appendix E.

future."[43] In this context, the Commission believed that "further incentives should be given to producers of certain products for which there are acute supply difficulties [i.e., cereals]."[44] This fitted nicely with the desire of the Commission to grant large price increases to forestall a repeat of the farm protests of 1974.

The Stocktaking did not even raise the issue of possible wheat surpluses, except to suggest that the Community should examine options for developing a "rational trade policy." But, at the same time, the uncertain security structure encouraged the Commission to recommend greater domestic production of feed cereals to reduce the Community's dependence on imports. (The Community had been hurt by a US embargo on soya exports in 1973 and feared other supply disruptions.) With production shortfalls in both the domestic and world wheat markets, concerns over surpluses were generally regarded as academic.

That view prevailed through 1976-77 and 1977-78. The Commission proposed in 1976-77 that the Council realign incentives in the cereals market to encourage production of higher quality wheat suitable for milling and baking and to make lower quality wheats more competitive with both domestic and imported feeds. DG-VI was largely concerned with the distribution of production between grades of wheat, and not at all about the absolute quantities produced. Then drought in 1976 cut EC wheat production, so in 1977-78 the Commission did not have to worry about wheat surpluses. The 'prudent' price policy introduced that year was explicitly targeted on sectors with structural surpluses, which did not include wheat.

During the next two years, the Commission accepted that the situation was changing. In 1978, it noted that

43. COM(74)2001, p. 39.
44. COM(74)2001, p. 4.

cereals might be moving into surplus and consequently proposed that wheat prices rise less than indicated by the objective method. By 1979 the Commission accepted that the Community was self-sufficient in cereals and forecast that by 1985 the Community would produce 9 Mt more cereals than needed for domestic use (including 5-7 Mt of wheat). For the first time, the price proposals were directed toward limiting structural surpluses: the Commission proposed ECU guaranteed prices be held steady at the previous year's levels.

Table 4.9 Commission Forecasts of Cereals Production and Surpluses (excluding Durum)

Year		Forecast Year	Domestic Supply	Domestic Demand	Exports/ Surplus
1975-76	(EC9)	na	"acute supply difficulties"		
1976-77	(EC9)	na	food aid/crisis conferences		
1977-78	(EC9)	na	drought in 1976/no surpluses		
1978-79	(EC9)	na	cereals moving to surplus		
1979-80	(EC9)	1985	--	--	9
1980-81	(EC9)	na	US embargo of USSR cereal imports		
1981-82	(EC9)	na	cost of surpluses rising		
1982-83	(EC10)	1988	135	122	13
1983-84	(EC10)	1988	137	112-17	20-25
1984-85	(EC10)	1989	137	114	23
1985-86	(EC10)	1991	148	115	33
1986-87	(EC10)	1991	159	119	40
1986-87	(EC12)	1991	180	--	--
1987-88	(EC12)	1992	187	137-42	45-50
1989-90	(EC12)	1993	192	142	50

Source: COMS of the Commission of the ECs.

The Commission did not follow through with that policy in the following two years largely because the US export embargo of the Soviet Union in 1979 re-kindled fears of world-wide shortages. Proponents of self-sufficiency were pleased to note that the Community was not hurt by the surge in world wheat prices to near-record levels in 1980. Meanwhile, higher world market prices lowered the EC budget for cereals exports while the US embargo opened the Soviet market for expanded exports of European surpluses. In March 1980, the Commission therefore decided that "other sectors may exhibit some of the features of surplus production from time to time but none present a need for changes in policy in the same way that the milk, sugar and wine sectors do."[45] In this context, the Commission proposed to raise wheat prices for 1980-81 by 1.7% in ECU terms which, adjusted for green rate changes, would provide increases above 5% for both France and the UK and about 1% for Germany. But the Commission cautioned that in future "the prices policy cannot on its own overcome the problems arising from the market situation and the need to maintain agricultural incomes, particularly those of the poorest farmers."[46] The Council on May 30 approved a compromise price package for 1980-81 and requested the Commission prepare proposals to adapt the CAP (the 'Mandate').

The Commission's Reflections on the CAP in December 1980 presented two sides of the production argument. DG-VI noted that the FAO had forecast food shortages would continue in the foreseeable future so that the Community should have assured outlets for excess production. Nevertheless, it accepted that something would have to be done to control the expansion of both production and budget costs; if the farm policy community proved unable to resolve the problems, finance ministers and the non-farm directorates were ready to do the job for them. Furthermore, DG-VI and the Commission were frustrated with the political imperatives of elections and pressure group politics that usually drove Council decisions.[47] By establishing rules and parameters for prices, the Commission sought to wrestle power from the Council. The market-

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45. Green Europe #170, March 1980, p. 22.
46. COM(80)10, p. 4.
47. Club de Bruxelles (1988), p. 1.23.

based approach appeared to offer the greatest freedom from Council interference.

DG-VI concluded that open-ended price guarantees were unworkable in the long term because "at the present state of agricultural technology it is neither economically sound nor financially feasible to guarantee price or aid levels for unlimited quantities."[48] The Commission preferred "producer co-responsibility above a certain level of production" as a permanent feature of the cereals market. Optimally this would be implemented via price cuts rather than levies because lower guaranteed prices would help common wheat and other feed grains compete with imported cereal substitutes.[49] The Commission hinted that if cuts in guaranteed prices proved impossible, similar reductions in farm-gate prices could be managed by the Commission unilaterally raising the quality criteria for intervention, limiting intervention buying to certain months, or reducing the intervention price for lower quality wheats.

The first full-scale assault on guaranteed prices came in the 1981-82 price review. Although the Commission did not publish a wheat forecast, it stressed that the sector faced both rising surpluses and costs. The Commission proposed as a new "fourth principle" for the CAP—in addition to common prices, common financing, and Community preference—that producers should be responsible for the cost of disposing of production in excess of agreed quantities.[50] It argued that "farmers should not be separated too far from market realities by guarantees that do not adequately reflect market realities."[51] DG-VI wished to set separate basic quantities for durum, common wheat, and all other cereals based on a three-year

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48. COM(80)800, p. 17.
49. COM(80)800, p. 20.
50. COM(81)50, p. 2.
51. COM(81)50, p. 11.

moving average of past production. Farmers would receive an initial payment when grain was sold into the market and any final payment would be adjusted to reflect the actual production for the year.[52] If production exceeded the basic quantities (proposed at a total of 121.2 Mt) by more than 0.5% in any year, guaranteed prices would be cut 0.1% for each 0.1% of excess production, up to a maximum of 5%. The Agricultural Council was willing to consider co-responsibility but disagreement about the proposed cuts in cereal prices in Germany and the UK (and the link with the UK budget debate) delayed the new system.

The Commission issued in June 1981 a final report on the Mandate of 30 May 1980 which argued that farm income considerations, though important, could no longer be the sole reference point for fixing prices. The Community could not afford unlimited guarantees for surplus commodities. The Commission concluded that "prices must reflect market realities more than they have in the past."[53] Later in 1981 the Commission's Guidelines for European Agriculture marked the beginning of market-based planning for the cereals market. The Commission declared that "decisions based on a horizon of one or two years are often inadequate."[54] Thus, for the first time the Commission produced and published a detailed five-year outlook for cereals production, consumption and market opportunities, which showed the EC would have about 13 Mt of exportable cereals by 1988. It concluded that the Community needed a "programme of progressive reduction of cereals prices in real terms" to reduce EC cereals prices to about the support level under the 1980 US Farm Bill (Food Security Act, 1980).[55] With strengthening world

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52. This would work similar to the Canadian Wheat Board pooling price system.
53. COM(81)300, p. 13.
54. COM(81)608, p. 6.
55. COM(81)608, p. 24.

cereals prices, the gap between EC and US support prices was only about 20% and price equality appeared attainable (see Figure 9.1). The Commission, however, categorically rejected using world market prices as a reference and cautioned that "to avoid unacceptable consequences for production and incomes, such a programme must be gradual: one could not envisage a reduction in nominal terms."[56] Furthermore, DG-VI was also not willing for the Community to reduce its share of the world export market: the 1988 production target (130 Mt) was based on maintaining the export volume of 1981.

The 1982-83 price review marked the end of the objective method system of setting prices and the beginning of market-based rules. The revised economic forecast showed exportable quantities would rise to between 20 and 25 Mt in 1988 (compared with an earlier forecast of only 13 Mt). The Commission prepared a detailed set of objective method calculations to justify an average 9% price increase. Combined with modest green rate revaluations for Germany and the UK, the package provided price increases of at least 2% for wheat producers. In exchange for the price increases, the Commission wanted Council to accept a 'guarantee threshold' system for cereals that would cut price proposals in future years if the cereals crop (excluding durum) exceeded 119.5 Mt. For every full 1 Mt of production over 119.5 Mt, the price proposal for 1983-84 would be cut by 1%, up to a maximum of 5%. The Commission had bowed to pressure and revised its original proposal: prices under the new system would only be cut in a year following excess production, and then only from a notional increase rather than in absolute terms.

When the Commission considered the 1983-84 marketing year, it was faced with a guaranteed threshold system

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56. COM(81)608, p. 24.

even weaker than it had proposed. The system accepted by the Council compared the average production over the previous three years (rather than latest annual crop) with the threshold. The guarantee threshold also was raised by any amount of imported cereals substitutes over 15 Mt. Table 4.10 shows the impact of these change in 1983-84. If the Commission's threshold system had been accepted by Council, the 1983-84 wheat price proposals would have been reduced by 5% rather than the 1% they were cut. Combined with the recommended 4% increase in the reference price for wheat, this left a 3% ECU price rise, which the Commission proposed to fully offset with revaluation of the green DM and mostly offset by revaluation of the pound. Taken together, the changes did little to realign EC prices to US levels. Nevertheless, the Commission still hoped to reduce the 20% gap between the US target price and EC support prices. The target still appeared attainable as the depreciating ECU was narrowing the US dollar-ECU price gap.

Table 4.10 The Guarantee Threshold System in 1983-84

(Mt)	Proposed System	Actual System
Guarantee Threshold Level	119.5	119.5
Actual Production - 1982	124.9	--
- 1980-82	--	120.9
Over Production	5.4	1.4
Indicated Price Cut (max 5%)	5.0%	1.0%

Later in 1983 the Commission announced that it could no longer honour its 1981 commitment to not cut nominal prices. It cautioned that "the common prices expressed in ECU may be frozen or even reduced; and consequently that the community support prices expressed in national currency may be reduced in nominal terms."[57] The Commission proposed "that the speeding-up of the narrowing of

57. COM(83)500, p. 10.

the gap between its prices and those applied by its main competitors should be an objective in its future proposals for common prices for cereals."[58] The Commission also hinted that "if this objective is not attained by the prices policy, the Community will then have to consider, in spite of the administrative difficulties which such a solution would create, imposing a levy on cereals to cover all or part of the cost of exports."[59]

When the Commission came to prepare the price proposals for 1984-85, it had little room to manoeuver. Real farm incomes had fallen in 1983 in all member states except Belgium and budget costs were forecast to jump sharply because both volumes and the per-tonne refund cost of exports were rising (US-dollar export prices were falling faster than the ECU was depreciating). The Commission proposed to freeze wheat ECU prices and to revalue the green DM and pound, which would effectively cut wheat prices by 4% in the UK and 6.3% in Germany. At the same time it proposed higher quality standards to reduce intervention buying of low-quality wheat. Although Council rejected much of the Commission's package, it did agree to cut guaranteed ECU prices for the first time ever.

The Commission reciprocated in 1985 with its first proposal to cut ECU prices since 1970. The 1984 record cereals crop triggered a 5% cut under the guarantee threshold system. With exportable production of cereals (excluding durum wheat) forecast to reach 33 Mt by 1991, the new Commission decided to try to get as large a cut as possible in 1985. Frans Andriessen therefore reduced DG-VI's proposed 2% notional price rise to 1.5%, which, combined with the 5% co-responsibility cut, would cause prices to fall 3.6%. Germany, which also faced a propos-

58. COM(83)500, p. 24.
59. COM(83)500, p. 24.

ed 0.5% revaluation of the green DM, invoked the Luxembourg Compromise in Council and killed the proposal. With stalemate in the Council, the Commission implemented an interim set of intervention and reference prices cuts.

Table 4.11 Comparison of Wheat Prices (adjusted for green rates & yields) and Inflation

	ECUs #	France	Germany	UK
ECU Prices/t *				
- 1975-76	152.24	152.24	152.24	152.24
- 1985-86	209.30	209.30	209.30	209.30
- % Change	+37.5%	+37.5%	+37.5%	+37.5%
Green Rates (NC/ECU)				
- 1975-76	n.a.	4.66	2.96	0.42
- 1985-86	n.a.	7.00	2.40	0.62
- % Change	n.a.	+50.2%	-19.0%	+46.7%
Green ECU Correcting Factor				
- 1975-76	1.0	1.0	1.0	1.0
- 1985-86	1.0	1.08	1.0	1.08
- % Change	.0%	8.4%	.0%	8.4%
National Currency Price/t				
- 1975-76	n.a.	790.38	450.67	64.19
- 1985-86	n.a.	1587.91	501.88	140.32
- % Change	n.a.	+100.9%	+11.4%	+118.6%
Yield (t/ha)				
- avg 1973-75	4.22	4.63	4.44	4.52
- avg 1983-85	5.63	5.66	5.72	6.76
Gross Value/ha (NC Price x Yield)				
- 1975-76	642.5	3282.3	2001.0	290.3
- 1985-86	1178.4	8987.6	2870.8	948.6
- % Change	+83.4%	+173.8%	+43.4%	+226.8%
Change in GDP Price Deflator				
- 1985-1975	n.a.	+154.3%	+42.8%	+177.5%

* intervention prices; # Community average yields.
Source: Author's Calculations. Data from ASC, Eurostat.

The impasse in Council during the 1985-86 price fixing highlighted the political problems associated with the middle approach of cutting prices to slow growth in wheat production. The calculations in Table 4.11 show the economic reasons for the failure of this approach.

Although the Commission cut real ECU prices for wheat between 1975-76 and 1985-86, the production incentive continued. The ECU reference price for wheat of bread-making quality rose only 37.5% between 1975-76 and 1985-86, resulting in a real decline in ECU prices. Even after adjusting for exchange rate changes over the period, price increases per tonne in national currencies were much less than inflation. But wheat yields rose about 3% per annum, so that the gross value of wheat output per hectare rose at about the rate of inflation in Germany and exceeded inflation by about 8% in France and 18% in the UK. Both German and French cereals producers also received significant direct income support during a number of those years, compensating them for the smaller price increases. Thus, for all the attempted restraint on the part of the Commission, the real returns from wheat were higher than in 1975-76.

In the summer and autumn of 1985, the Commission concentrated on two priorities: the white paper on completing the internal market and farm policy reform. As discussed in chapter 2, the two were inseparably linked in the eyes of the new Commission.[60] Although there was general agreement on the Single Market, different groups within DG-VI and the Commission disagreed over how to proceed with farm policy reform. The traders wanted to force the Council to cut prices while other divisions in DG-VI wanted to offer a selection of soft options to supplement price cuts. An early draft of DG-VI's Green Paper was regarded as brutal by at least four Commissioners and was significantly rewritten.[61] The final draft, which offered a wide variety of soft options was still unacceptable to a German Commissioner because he rejected the central premise that Community prices must be brought into line with world prices.

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60. ASC 1985, p. 26.
61. Financial Times, 11-6-85 & 16-6-85.

The Commission argued in the Green Paper that unless the Community gives "market prices a greater role in guiding supply and demand within the agricultural policy, it will be drawn more and more into a labyrinth of administrative measures for the quantitative regulation of production."[62] After consultations, the Commission concluded that it would not be feasible to rely simply on price cuts. It therefore proposed to continue the restrictive price policy, to reduce the intervention price for feed wheats, and to assess a co-responsibility levy. The levy would be adjusted annually so that it paid a specified share of the cost of surplus exports. The Commission cautioned that "if the levy is to be effective as a guide to farmers, it must not be offset by artificial increases in institutional prices, as has sometimes happened in the past for milk products."[63] Although the changes were widely accepted, the Commission was not united: the Italian Commissioner publicly rejected the new levy because it would hurt Italy as a deficit producer.

The 1986-87 price fixing proposals attempted to implement the conclusions of the Green Paper. The new forecast for production and consumption for 1991-92 showed net exportable cereals from the EC10 would be about 40 Mt. DG-VI proposed to freeze ECU prices for wheat, to replace the special reference price for wheat of bread-making quality with a flat 2% premium for wheat exceeding 14% protein, to cut by 5% the intervention price for common wheat failing the old bread-wheat quality standards, to reduce the maximum moisture content for wheat, and to end intervention buying until after the harvest. This package was expected to cut the effective market price sharply because the reference price for bread wheat had generally acted as the floor price for

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62. COM(85)333, p. IV.
63. COM(85)700, p. 6.

the Community wheat market. The Commission also proposed a co-responsibility levy that would be triggered whenever total cereals production in the expanded Community of 12 exceeded 149 Mt; production was forecast to reach 161 Mt in 1986-87. The Commission proposed a levy of 3% for 1986-87, which represented about one half the cost of disposing of the expected 12 Mt surplus. The first 25 tonnes each farmer delivered to the market or to intervention would be levy-free. The Commission announced the levy would need to be raised to 6% in 1987-88 to cover the full cost of exports. As compensation, the Commission changed the marketing year to July 1-June 30 from August 1-July 31, which brought forward the first monthly increment to August 1 (worth 2.45 ECU/t), and offered to raise the target price for wheat (thereby tightening Community preference) and to devalue the franc to provide French wheat farmers with a small price increase. It also decided not to request the green DM be revalued.

In 1987, the Commission attempted to complete the reforms it started in 1986. The forecast for exportable production for 1992-93 for the EC12 was raised to a range of 45 to 50 Mt, which increased the sense of urgency in the Commission. DG-VI first proposed to cut the intervention price by 2% in ECU terms, but, in a quick reversal, the Commission withdrew that proposal and recommended holding ECU prices constant while revaluing the green DM by 2.4%. The new approach would lower German prices slightly more, but would allow Germany to compensate its producers for the lower prices. Instead of doubling the co-responsibility levy to 6% as suggested in 1986, the Commission proposed to limit intervention buying to the February to May period and to restrict the monthly increments to the period of intervention. The changes to intervention, the most significant reforms for the wheat price system ever proposed, were designed to appeal to Germany. German farmers, who usually sell most of their crop during the harvest (July-September) because they do not have adequate on-farm storage, were not seriously concerned about reduced monthly increments after the harvest. The Council rejected that reform, however, and preferred the Commission's alternate proposal (offered during the Council negotiations) to reduce the buying-in price by 6%.

The Commission, however, was not yet satisfied. DG-VI reviewed progress in the late summer of 1987 and decided that although budget savings had been made and real prices cut, both the EAGGF budget and cereals production were continuing to rise. The Commission judged that the situation was ripe to complete its reforms because in spite of price restraint, real farm incomes were 6.5% higher in 1986 than in 1980. DG-VI therefore proposed to further tighten the cereals system. The Commission formally transmitted to the Council in October 1987 its so-called stabilizers package. Specifically, DG-VI proposed a new co-responsibility levy to cut the intervention price by up to 5% in 1988-89 and 7.5% in 1989-90: if production exceeded a proposed 155 Mt threshold by more than 1.55 Mt (1%), then a proportionate levy would be assessed when intervention opened on November 1. It also warned that if the reforms failed to stem the rise of production, it would have to impose either land set-asides or quotas, which were not universally popular in the farm community.[64]

After hard bargaining at the Brussels European Council meeting in February 1988, most of the important measures proposed by the Commission were adopted (see Chapters 3 and 7). At least until 1992-93, prices would be set automatically, based on market conditions. Shortly after, the Commission proposed and the Council approved a new Community program of direct income support payments, which would be payments by member states. The

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64. COM(87)410, p. 19.

Community also implemented a related set of programs to encourage land set-asides and extensification of production. The structures policy was therefore redirected to support small and disadvantaged farms. With those changes, the price and structures policies had come full circle, back to where Sicco Mansholt had wanted them in the first place.

CONCLUSIONS

In February 1988, the new market regime for cereals was virtually complete. Over the preceding 15 years, the Commission had cajoled, prodded, threatened, and bribed the Council into converting the price review from an administrative exercise into a market-based, semi-automatic process. When the language and logic supporting the price proposals in the 1970s is compared with that of the late 1980s, the difference is startling. Pearce noted that the founders of the CAP decided that "the policy's chief object would be to maintain farm income, and ... its principal instrument would be price support."[65] That no longer holds. The Commission's latest price reviews have barely mentioned farm incomes.

This transformation could not have occurred without the fundamental changes in the security, production, finance, and knowledge structures. DG-VI and the Commission recognized that these fundamental shifts required changes in the basic operation of the CAP system for wheat and, furthermore, that these changes could enhance its position and authority within the Community.[66] Consequently, it used its initiative power to focus the debate on issues and solutions that bolstered its position and interests. If it had ignored the inexorable change in the power structures, DG-VI, and probably the whole Commission, would have remained masters of the CAP, but would

65. Pearce (1983), p. 147.
66. Petit, et al. (1987), p. 115.

thereby have become increasingly irrelevant for the majority of the Community.

The reforms in the price system also changed the map of interlocking bargains the Commission requires to operate effectively. Perhaps most importantly, DG-VI lost significant power to influence farm policy and farmers' livelihoods as it substituted automatic formulae (green ECUs, quantitative guarantees, stabilizer levies, and stabilizer price cuts) for purely administrative adjustments (objective method, green rates, basic co-responsibility). In exchange, DG-VI developed two new and potentially more important relationships. First, throughout the 1980s DG-VI reoriented the cereals price system so that the EC could develop commercially based export markets. As a result, by the late 1980s, it had positioned itself at the centre of the most vibrant part of the farm policy community. Then, after the price system was reformed, DG-VI recognized that it would need to expand its offerings to the less advantaged parts of the rural sector. Therefore, in 1989, it began to re-deploy resources to develop the rural economy, in an effort to attract the interest and attention of the increasingly important non-farm rural sector.

Chapter 5
PRICE POLICY: DEBATE

The official consultative bodies and miscellaneous pressure groups interested in European wheat policy were forced to adjust both their approach to the price review and their positions on farm policy in the 1980s as many of the traditional bargains in the Community changed. Before 1979, farmers dominated farm and food policy by controlling the debate and proscribing possible outcomes. Individual farmers supported the farmer-based policy 'cartel' because the financial and power gains were significantly greater than the lost freedom of action.

Even as COPA reached its zenith of influence, fundamental shifts in the underlying power structures were undercutting the farm power base, thereby weakening the policy cartel. The diminished role of food in assuring national security, combined with the rising diversity of farm interests, made it increasingly difficult for COPA, the EP, and ESC to develop compromises for the farm lobby. The Commission and the official consultative agencies took the opportunity to develop new relationships with non-farm interests. Meanwhile, the Commission developed new strategies for bargaining with the Council which effectively excluded the consultative bodies from the actual decision-making process. As a result, farmers increasingly were forced to turn to their national capitals to influence price decisions.

THE DISCUSSION PROCESS

Formal consultation begins when the Commission transmits its proposals to the Council. The Economic and Social Committee, the European Parliament, and a collection of Community interest groups—including the official lobbies for farmers, industry, consumers, and the environment—then prepare and present critical opinions in an effort to influence the direction and scope of the decisions.

The period for discussion varies depending on when the initial proposals were submitted. Community legislation provides that Council should approve CAP prices before the start of the marketing year, which begins April 1 for products such as milk and beef and July 1 for wheat and other field crops (August 1 before 1986). In practice, the Commission usually presents its proposals by the end of February, which leaves about one and a half to two months for debate and deliberation.

Table 5.1 Length of Price Fixing Debates

	Proposal Date	Decision Date	Before Apr 1	Days of Debate
1967-68	4-3-66	26-7-66	Y	144
1968-69	16-6-67	27-10-67	Y	133
1969-70	18-12-68	22-4-69	N	125
1970-71	10-6-69	8-6-70	N	363
1971-72	15-2-71	25-3-71	Y	38
1972-73 A	16-6-71	withdrawn	-	--
1972-73 B	2-2-72	25-3-72	Y	52
1973-74	21-3-73	1-5-73	N	41
1974-75 A	16-1-74	23-3-74	Y	66
1974-75 B	29-8-74	2-10-74	Y	34
1975-76	27-11-74	13-2-75	Y	78
1976-77	10-12-75	6-3-76	Y	87
1977-78	11-2-77	25-4-77	N	73
1978-79	8-12-77	12-5-78	N	155
1979-80	31-1-79	21-6-79	N	141
1980-81	6-2-80	30-5-80	N	114
1981-82	20-2-81	2-4-81	N	41
1982-83	23-1-82	18-5-82	N	115
1983-84	22-12-82	17-5-83	N	146
1984-85	17-1-84	31-3-84	Y	74
1985-86	30-1-85	*	N	--
1986-87	5-2-86	25-4-86	N	79
1987-88 A	24-2-87	withdrawn	-	--
1987-88 B	16-3-87	30-6-87	N	106
1988-89 Stabs.	29-9-87	13-2-88	-	137
1988-89 Prices	23-3-88	14-7-88	N	113

* Council failed to agree on cereal prices in 1985-86 and the Commission implemented an interim set.
Sources: Neville-Rolfe (1984), p. 248; Swinbank (1979), p. 312; Commission and Council reports.

Table 5.1 shows that the length of debate varies considerably. In the early years, when the market structures were being set, the debate averaged about 134 days (four and a half months). After 1970-71, the debates shortened. While the objective method was used by the Commission to set the price proposals, only about two months were allowed, except for 1978-79, when the Commission outlined the new market-directed price policy it wished to adopt. Since then the issues have been more complex and the scope of the proposals has been greater but the consultative bodies have had an average 100 days (more than three months) to deliberate.

The length of time between proposal and decision is important. As the debate shortens it becomes difficult for the consultative bodies to reach genuine compromises. Opinions tend to be strongly influenced by those with most to gain or lose while those indirectly affected have seldom completed their preparatory work, so their opinions are often unheeded. In contrast, as the timespan lengthens, interest groups have more opportunity to organize protests to halt undesired proposals or to reform the existing proposal.

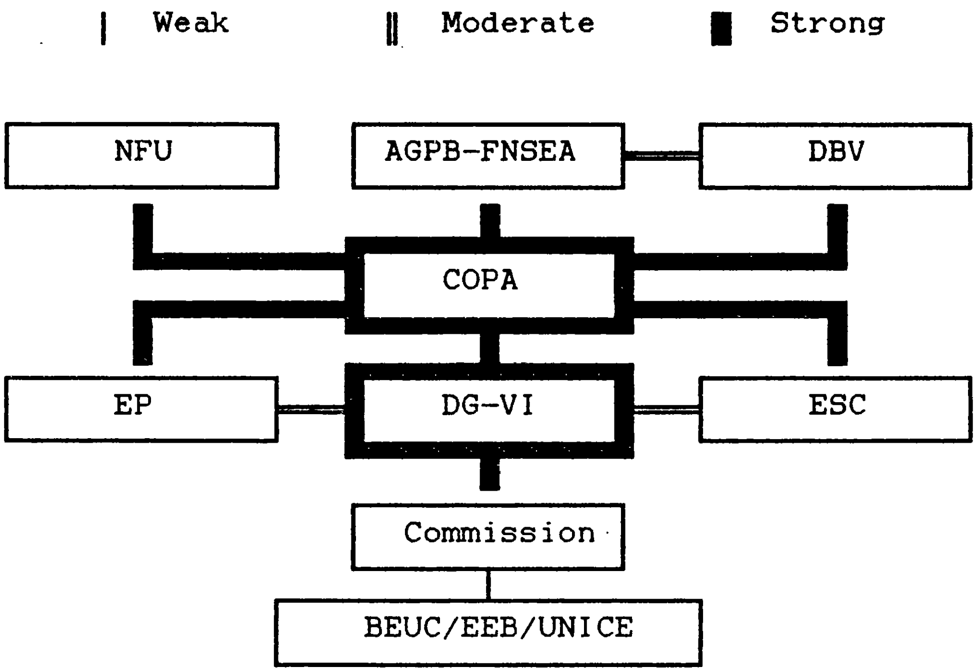
KEY BARGAINS IN THE SYSTEM

Before 1979, the farm lobby dominated the system. Farmers through COPA largely defined the scope and timing of the debate and created the greatest pressures for change. The national farmer organizations supported the system because they gained from a strong pan-European pressure in Brussels. Consequently, the Commission, EP, and ESC all focused their consultative efforts on COPA.

Non-farm interest groups had virtually no part in the policy process. Consumers were not regularly represented at the European level until the Bureau Européen des Unions des Consommateurs (BEUC) established a permanent office in Brussels in 1973; environmentalists only got representation in 1974 when the European Environmental Bureau (EEB) was established; and the industrial lobbies remained on the sidelines through much of the early period of the CAP.

Figure 5.1

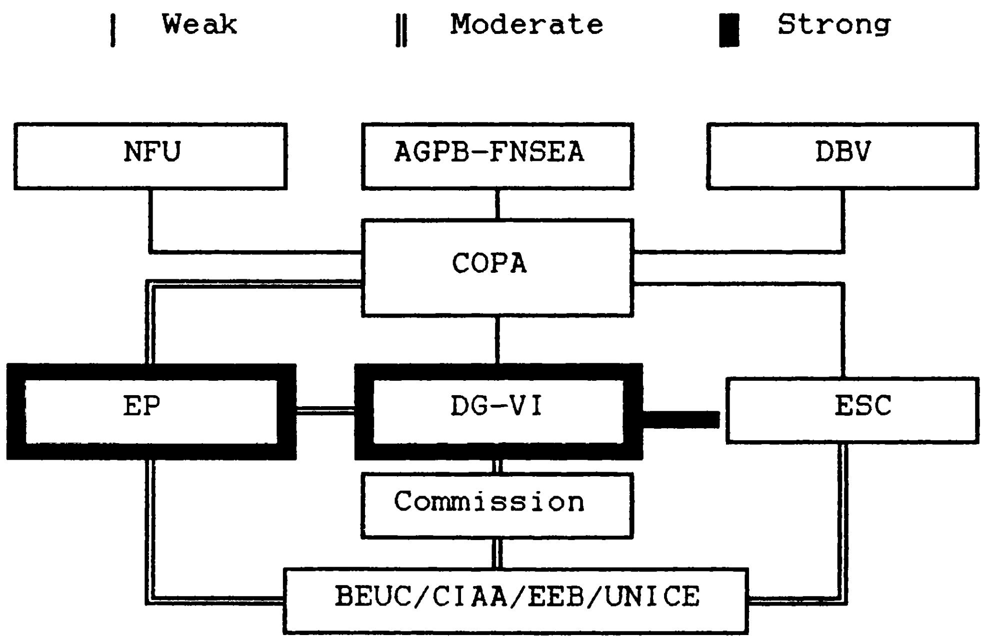
KEY BARGAINS AFFECTING DEBATE OF THE WHEAT PRICE PROPOSALS 1970-79



Beginning in the mid-1970s, COPA lost cohesion and by the 1980s was no longer at the centre of the policy process. When the Commission dropped the objective method and began to address more divisive issues, COPA faced dissension within its ranks as individual commodity groups and national organizations clashed over their demands from the Community. The needs of individual members of COPA diverged and in some instances conflicted. The national farm organizations moved into the vacuum with greater consultation with their national governments in an effort to maintain control of the farm policy. Consequently COPA was pushed to the margins of the European debate. Taylor noted that by 1983 COPA simply provided "a forum for exchanging information and help[ing] national groups define positions to follow in relations with national governments or national representatives in Brussels."[1]

Figure 5.2

KEY BARGAINS AFFECTING DEBATE OF THE WHEAT PRICE PROPOSALS 1979-88



The non-agricultural directorates in the Commission expanded contacts with the industry, consumer, and environmental lobbies to increase their power and in effect to break the farm lobby's exclusive control of the price review. The EP and ESC followed suit, opening their processes to the concerns and interests of these other groups. The EP, especially after the 1979 election, sought to gain public favour and votes by courting consumer and environmental interests.

The Commission successfully managed the reform of the domestic price system in the 1980s only because it

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[1] Taylor (1983), pp. 40-41.

had broken the farmer-based policy cartel. The following sections demonstrate how the shifting economic and political environment and Commission efforts affected the official consultative agencies and the special interest lobbies.

ECONOMIC AND SOCIAL COMMITTEE (ESC)

The ESC was established in 1958 as a forum for elite accommodation among the leaders of labour, industry, farming, and other interest groups. During the 1960s and early 1970s farmers used the ESC to bolster their case for farm price increases. But the elite-dominated view of Community development rapidly lost favour. Consequently, by the mid-1970s, COPA devoted only about 10% of its lobbying efforts to the ESC.[2] In 1979, the election of the EP changed relationships significantly. COPA shifted most of its focus to Strasbourg and left the lobbying of the ESC to its members on the Committee while the Commission redirected the bulk of its consultations to the EP. The ESC therefore was forced to find a new role in farm debates or lose relevance. Gradually after 1982, the ESC developed as a forum for discussing the soft options for reform; accommodations over prices were largely left to others. A concomitant of this shift was that the ESC found itself more closely allied to the Commission in discussions concerning the reform of the price system.

The ESC began in 1958 with what looked to be a strong position in farm policy debates. Article 43 of the Treaty of Rome requires that the Commission "consult" with the ESC on all proposals implementing the CAP. Article 47 specifies that the ESC create an agriculture section which is to "hold itself at the disposal of the Commission to prepare ... the deliberations of the Committee." Its internal procedure in the early years allowed

[2]. Kirchner (1980), p. 111.

the farm lobby to dominate policy debates, which ensured that COPA targeted it for lobbying. In particular, the agriculture section prepares the draft opinion, which is then presented to a quarterly plenary session of the ESC. Between 1975 and 1988, the agriculture section had at least one month to deliberate and prepare the draft opinion (except in 1977) while the whole Committee had to debate, amend, and approve the opinion during a two or three day plenary session which always had a full agenda. Because there was generally little time for discussion, the agriculture section draft was often accepted unamended by the Committee. As a result, from the early years and well into the 1970s, the ESC strongly supported farmer demands for higher prices to sustain and increase farm incomes.

A number of factors conspired to reduce farm lobbying in the ESC. After the farm lobby scuttled Mansholt's structural policy proposals in 1971, the Commission increased its direct links with COPA to improve its relations with the farm movement. Then, the objective method reduced the need for discussion and compromise: price packages were developed by technicians based on the objective criteria. As a result, COPA found that there was less to be gained by working through the ESC.[3] During the 1980s, when the Commission began to consult more frequently with the national farm ministries, COPA withdrew from directly lobbying the ESC and left the job to its members who were appointed to the Committee.[2] Instead, COPA concentrated its lobbying efforts on the elected members in the EP.

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3. Lodge & Herman (1980), p. 282.
2. Art. 194 of the Treaty of Rome specifies that ESC members must serve in a personal capacity in the ESC and "may not be bound by any mandatory instructions." But farm organizations have always relied upon their members (who, after all, were appointed because they represent the farm sector) to work within the Committee to get an opinion which supports the COPA position.

The evolving membership of the ESC also weakened the farm voice inside the Committee. The number of farm representatives in the Committee held relatively steady over 1970-88, but, as the total ESC membership increased with the admission of the UK, Ireland, and Denmark in 1973, Greece in 1980, and Spain and Portugal in 1986, the percentage of farm representatives in the total membership declined, to 10.6% in 1986 from 17.6% in 1970.

Furthermore, recent ESC appointees who joined the farm lobby (both from the original member states and from the new members) have been generally concerned with the interests of smaller farms and the problems surrounding Mediterranean products. Consequently, the farm group in the ESC was no longer dominated by Northern European members concerned with the problems of large, commercial enterprises.

Table 5.2 Membership in the ESC

Also members of:	1970	1974	1978	1982	1986
COPA/COGECA	18	17	18	18	20
BEUC	3	5	6	7	10
EEB	0	0	0	1	0
Total ESC	102	144	144	156	189
% total ESC:					
COPA/COGECA	17.6%	11.8%	12.5%	11.5%	10.6%
BEUC	2.9%	3.5%	4.2%	4.5%	5.3%
EEB	.0%	.0%	.0%	0.6%	.0%

Source: ESC Bulletins, Various.

Meanwhile, the environmental and consumer lobbies strengthened their position in the Committee, providing a counterweight to the farm lobby. Ten members (or 5% of the ESC) in 1986 represented consumer interests, up from only three in 1970. Although there were no official representatives of the environmental lobby in the ESC after 1986, their voice was certainly heard because many of the consumer representatives were also interested in environmental issues.

Table 5.3 Commission Agricultural Price Proposals and ESC Opinions

	Commission Average For All CAP Products	Agriculture Committee Opinion	ESC Plenary Session Opinion	Vote (F/A/N)	ESC Minority Opinion
1968-69	.0%	n.a.	n.a.		--
1969-70	.0%	n.a.	agreed; but no cuts		--
1970-71	.0%	n.a.	agreed; only wheat cuts		--
1971-72	>.0%	n.a.	agreed		--
1972-73 A	2.3%	n.a.	9.5%-10.5% spread over 2 yrs		--
1972-73 B	6.5%	n.a.	9.5%-10.5% spread over 2 yrs		--
1973-74	2.8%	n.a.	no opinion; too little time		--
1974-75 A	7.2%	n.a.	7.2% not enough		--
1974-75 B	4.0%	no opinion	no opinion		--
1975-76	9.2%	n.a.	9.2% inadequate	(41/22/5)	--
1976-77	7.5%	9.1%	accepts compromise	(30/23/20)	--
1977-78	3.0%	need "upward adjustment"	0.1% (objective method)	(66/17/16)	--
1978-79	2.0%	+4.7%	4.2% (objective method)	(48/42/6)	--
1979-80	.0%	3% increase	standstill for surplus products but reasonable rises for rest	(47/23/13)	--
1980-81	2.5%	n.a.	need higher prices; should use objective method	(55/14/13)	--
1981-82	7.8%	n.a.	7.8% quite inadequate	(47/27/11)	--
1982-83	8.4%	closer to 9%	8.4%	(60/50/9)	16.3% (20 members)
1983-84	4.2%	n.a.	4.2%	(53/25/39)	min. 7%; reject cereals co-resp.
1984-85	.8%	accept	limited rise	(70/21/19)	--
1985-86	0.3%	reject cereal price cut	rejected ag. section opinion; unable to reach an opinion	(42/52/9)	--
1986-87	.0%	n.a.	price freeze must be matched by structural policy	(84/10/15)	--
1987-88	-0.5%	accepted; for oils tax	accepted prices and green rate changes; no to oils tax	(94/53/12)	supported oils tax
1988	Stabilizers	ok for 1989	only for 1989; want set-asides		

Sources: Neville-Rolfe (1984), pp. 248-51; EP Opinions in the OJ.

ESC opinions have evolved in line with the changing position of farmers in the Committee. Even when the ESC agreed with COPA that prices should be used to support farm incomes, the formal opinions never fully mirrored farm demands. Although the agriculture section was dominated by COPA members, it never asked for prices to rise as high as demanded by COPA. Only when the Committee allowed minority opinions in the 1980s was there a direct one-to-one relationship between COPA demands and the views of the "agriculturalists" on the Committee.

The Committee strongly backed the income-supporting role for prices adopted by the Commission in 1972. In 1974, the ESC noted that it:

> has repeatedly stressed the dangers of the method used by the Council to fix agricultural prices, a method based essentially on a search for a political compromise. Reference to objective criteria is provided for in the Treaty of Rome, but a political compromise cannot, by definition, take account of such criteria. The Committee must therefore endorse the Commission's assessment that 'the Council's annual decisions ought to be based more fully on objective criteria.' Moreover, it should be possible for all the social and occupational groups concerned to make a joint examination of these criteria, in an appropriate body.[3]

In both 1974-75 and 1975-76 the agriculture section was unhappy with the Commission proposals; both opinions, which were accepted by the plenary session, recommended that prices should be higher, with the objective method figure as the minimum. The Section also examined the objective method calculations and in 1975-76 outlined a number of changes—expanding the sample of farms, extending the production cost data to two years, and eliminating the 1.5% productivity deduction[4]—which would work to increase the indicated price rise.

The 1976-77 price debate for the first time revealed "deep divisions amongst members of the Committee."[5] After three years when agriculture section drafts were

3. OJ No. C 115, 28-9-74, p. 26.
4. OJ No. C 47, 27-2-75, p. 29.
5. ESC Bulletin, 1 (Feb. 1976), p. 2.

accepted (at least partly because of the short time available for debate), the Committee had more than a month and a half to frame an opinion. The agriculture section asked for prices to rise 9.1% (what the method yielded if Italy was excluded) but the plenary session narrowly overturned the agriculture section draft and proposed prices rise 7.5% to 8% (approximately what the Commission proposed). The opinion further recommended that the Commission set production targets, provide greater support for Mediterranean products, and begin direct income payments for small farmers. A minority of members attempted to amend the opinion to call for a price freeze but failed by a vote of 25 to 42 (27 abstained).

The ESC plenary session then rejected the agriculture section draft opinions in each of the next three years. In 1977-78 the session voted by a large margin for the Commission to stick to the objective method, which indicated a 0.1% price rise for the year. The agriculture section wanted a price rise exceeding the 3% offered by the Commission. In 1978-79, when the Commission proposed an average 2% price increase, the agriculture section asked for more than 4.7% (as indicated by the old objective method formula) but the plenary session settled by a narrow margin for 4.2% (as indicated by a revised form of the objective method). The farm lobby narrowly defeated an attempted to amend the opinion to support the Commission's restrained price proposal (2%). Then in 1979-80, the Commission proposed a price freeze to slow the rise in surplus production. The agriculture section drafted an opinion that called for price increases exceeding 3% but the plenary session rejected that by a large majority and instead, after a presentation by Agriculture Commissioner Finn Gundelach and a "delicate but orderly debate," accepted that prices of products in surplus should be frozen while other products should receive "reasonable price increases." The Committee also accepted the Commission's agri-monetary proposals but suggested that drops in farm income resulting from reduced positive monetary gaps should be supplemented with other measures "to cancel out the adverse effects."[6] Once again a group of consumers, trade unionists, and industrialists attempted but failed to get a price freeze.

Following three years of defeat, the farm lobby triumphed in 1980 and the ESC opinion rejected many of the Commission's suggested reforms; it instead requested a large price increase. The resulting opinion also criticized the Commission for no longer using the objective method:

> The Committee notes that this year, the Commission did not adopt the direct use of the figures obtained by the objective method. The Committee considers this a serious matter which could be construed as calling into question the common agricultural policy as it has been conceived to date if it turns out that the Commission has permanently abandoned the objective method—which the ESC has always supported—for its calculation in connection with the proposals for farm prices in the Community.[7]

The Committee further rejected the budget argument because it was "not in itself sufficient reason for not implementing economically and socially justified farm price increases."[8]

The agriculture section prevailed in the 1981-82 for the last time. A month after the Commission proposed a 7.8% increase in prices and co-responsibility to dampen surplus cereals production, the Committee adopted an opinion calling for higher prices but agreed "that producers should share in the cost of reducing surpluses so as to establish a balance between supply and demand."[9]

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6. OJ No. C 171, 9-7-79, p. 4-5.
7. OJ No. C 182, 21-7-80, p. 35.
8. OJ No. C 182, 21-7-80, p. 35.
9. OJ No. C 159, 29-6-81, p. 29.

Before the next price review and while the Commission was examining the Mandate of May 30, the ESC prepared and released an own-initiative opinion on CAP reform that concluded that "a general policy principle [for prices] must be that of structural balance in the market."[10] The Committee expressed support for the Commission's attempt to develop a long-term strategy for production, prices, and trade in an effort to control surpluses. As well, the opinion suggested that the Community should expand support for Mediterranean products and develop forestry policies.

In 1982 the ESC was expanded and new members nominated. About the same time it also instituted monthly consultations with the Commission (giving it advance warning of proposals), which allowed it to produce more timely opinions.[11] This change worked to dilute the power and influence of the agriculture section, however, because the non-farm interests had more opportunity to respond to the farm price proposals. In 1982-83, the agriculture section called for a 9% price increase, but the plenary session instead approved the Commission's proposed 6.6% price rise and the related package of measures, which included strengthened co-responsibility (provided the guarantee threshold system incorporated limits on imported cereal substitutes). The opinion also called for "a comprehensive policy for regulating the volume of production and consumption" to restore market equilibrium.[12] A group of 20 'agriculturalists' in the ESC rejected this decision and issued a minority opinion, calling for an average 16.3% price increase ("in accordance with the 'objective method'" and equal to COPA's demands) to offset the drop in farm incomes over the past few years. The minority said they "categorically reject

10. OJ No. C 348, 31-12-81, p. 30.
11. ESC Annual Report 1983, p. 9.
12. OJ No. C 114, 6-5-82, p. 4.

the Commission proposals" for prices and co-responsibility. They instead called for strict Community preference, strengthened producer guarantees, and "immediate implementation of a genuine, dynamic and on-going export policy for food and other agricultural products."[13]

The 1983-84 debate was a carbon copy of 1982-83, except that the farm lobby lost further support. The ESC plenary session accepted the Commission's price proposal but cautioned that the co-responsibility levy for cereals should be based on production and therefore should not be permanently factored into the price. Once again, 19 'agriculturalists' issued a minority opinion calling for a minimum 7% price increase (again the COPA position), rejected the introduction of cereals co-responsibility, and demanded limits on imports of cereal substitutes.

In 1984, Dalsager attended the plenary session to present the Commission's case for a low price increase and the ESC plenary session responded with an opinion that essentially supported the Commission proposals (and for the first time in several years, the agriculturalists did not present a minority opinion). The ESC, however, deviated from past practice and spent some time examining a number of 'soft' options for the Commission to consider, including expansion of bio-energy and forestry to reduce surplus production and direct income payments to help small producers hurt by measures designed to bring structural surpluses under control. The ESC Annual Report that year noted that the agriculture section "has unquestionably enhanced the ESC's prestige in the eyes of the Commission."[14] This approach proved to be a means for it to build a new role in farm affairs.

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13. Ibid., p. 7.
14. ESC Annual Report 1984, p. 11.

In 1985 the ESC demonstrated that it no longer had any ability to resolve differences surrounding price negotiations. In March the Committee reached a stalemate when it attempted to resolve differences over the proposed 3.6% cereals price cut. The draft opinion from the agriculture section rejected the price cut but the plenary session voted against it and the Chairman declared that "this year, the Committee has been unable to take up a position on farm prices."[15] After 1985 it was imperative that the Committee find a niche where it could do some useful work, or it would become totally irrelevant.

Later that year the ESC found that role when it examined the Commission's Green Paper. Their opinion showed great insight into the divergence of views in the Community:

> At the heart of the problem the CAP now faces, is the failure of the attempt to use prices at one and the same time economically, in order to balance supply and demand, and socially, in order to provide a fair standard of living for the entire agricultural community. This failure is evidenced by the existence side by side of increasing surpluses and of farm incomes which have not increased in real terms in most Member States in the last decade, and have actually fallen in some, and also by an increasing inequality of incomes within agriculture. A choice now has to be made. If prices are used economically, some other means must be found of giving those in agriculture an income society accepts as fair, of which direct income payments to the poorest farmers and part-time employment outside agriculture would be most effective.[16]

The Committee concluded that a cautious price policy for cereals was necessary but that it could not, "in isolation, improve the market balance without entailing unacceptable social and political risks."[17] The ESC,

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15. ESC Bulletin, 1985(3).
16. OJ No. C 330, 20-2-85, p. 14.
17. OJ No. C 330, 20-2-85, p. 17.

prompted by the environmental and consumer lobbies, called for the Commission to tighten the intervention system, expand domestic uses (e.g., starch and bio-ethanol), develop new international markets (e.g., food aid), diversify farm holdings into forestry and tourism, encourage organic farming, and use land set-asides for conservation purposes. The Committee also agreed that farm incomes should be supplemented to compensate for losses due to reforms of the CAP (taking into account total family income) provided they do not offset the efforts to reduce production.

The ESC in 1986, 1987, and 1988 generally accepted the Commission's proposals to freeze guaranteed prices and reduce intervention support. Although the farm lobby attempted a number of times to get the ESC to withdraw support for cereals co-responsibility, it was defeated each time. The new members in the ESC (nominated in 1986) generally showed more interest in supporting small and Mediterranean farmers than in helping Northern European farmers. Over that period the ESC, and the agriculture section in particular, worked to develop a new role as champion for the soft-options. The opinions only obliquely referred to the price proposals (usually to accept the scope and direction of the recommendations). Instead, the Committee examined a variety of options and developed a set of non-price measures to reform the system, including expanded food exports, direct income aid to farmers hurt by reform, new uses for surplus stocks, and land set-asides.[18]

In summary, after 1975, the ESC opinions on prices increasingly supported the Commission, often at the expense of farm interests. The farm lobby became isolated within the Committee as new members with new concerns entered; eventually farmers had to resort to minority statements to

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18. ESC Annual Report 1988, p. 14.

communicate their opinions. But the agriculture section built itself a fresh role as a forum for new ideas and as a proponent for alternative soft-options for agriculture. Farmers, consumers, and environmentalists discovered they could collaborate both in the section and in plenary sessions to develop proposals to provide new opportunities for farmers.

THE EUROPEAN PARLIAMENT (EP)

The decision to elect the members of the European Parliament, beginning in 1979, caused a fundamental change in how the EP dealt with farm issues. Before 1979, the EP, run by elites appointed by the member states, had an outlook similar to the ESC. Its views also evolved in the same direction as ESC opinions as it sought to be the Commission's "ally and partner."[19] As a result, farmers were slowly losing support to non-agricultural members. Then in 1979 the Assembly was expanded and elected. Tugendhat argues that "in modern Europe, only the ballot box can confer political legitimacy and all that goes with it; nothing else can."[20] Farmers recognized that, and in the succeeding years increased their efforts to influence the EP. But, like most other legislatures, the EP balances farm sector demands with the concerns and needs of other groups in society. As a result, the EP has a relatively fluid opinion on farm matters, at times siding with farmers while at other periods rejecting farm demands and looking at the larger picture.

The EP is part of the policy process because Article 43 of the Treaty of Rome stipulates that the Council can act only "on a proposal from the Commission and after consulting the Assembly." Although the EP does not have a block over Community price policy, its opinion has

19. Fitzmaurice (1985), p. 17.
20. Tugendhat (1986), p. 146.

gradually become important. Commissioners frequently state that their negotiating position with Council can be undercut if the EP votes for higher prices than proposed.[21] Furthermore, the EP has important budgetary powers which provide it with additional leverage. Article 203 authorizes the EP to amend the draft budget and, acting by a majority of its members and two-thirds of the votes cast, ultimately to reject the entire budget. If that happens, Article 204 provides the Community with interim resources equal to 'provisional twelfths' of the previous years budget, which potentially disrupts all Community programs. Consequently most years the president-in-office of the Council attends EP plenary sessions on the budget while the president of the Farm Council usually attends both the agriculture committee meeting and plenary session debate on the price proposals.

Before the election in 1979, the farm lobby controlled both the agriculture section meetings (where farm and rural members formed the majority) and the subsequent plenary session debates because participation was usually uneven. The agriculture section during the 1970s had fewer than 20 members, which made it relatively easy for the well organized farm lobby to dominate. After the 1979 election, farmers represented a smaller percentage of the total MEPs but they maintained significant influence for quite a few years because only about 100 MEPs actively participated in the work of the EP and as few as 200 voted on average. The UK National Consumer Council believes low participation and the need to develop a new majority for each vote tended to benefit farmers because "those who have a clear 'brief,' such as agriculture, can be well informed and concentrate on single issues, where-

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21. The Daily Telegraph, 16-2-76; Financial Times, 1-4-81.

as someone who attempts to deal with broader areas could have difficulty."[22]

Table 5.4 Membership in the European Parliament

	1979	1982	1984
Members who are:			
Farmers	32	35	33
Consumer Activists	1	1	5
Environmentalists	4	4	10*
Total EP	410	434	434
Percentage of total EP membership:			
Farmers	7.8%	8.1%	7.6%
Consumer Activists	0.2%	0.2%	1.2%
Environmentalists	1.0%	0.9%	2.3%

* A Rainbow Coalition of Ecologists, Danish Anti-Marketeers and others includes 20 MEPs in the post-1984 EP.
Source: Official Handbook of the EP (1979, 1984).

Farmers began to lose control of farm policy especially during the 1984-89 session of the EP. As the number of MEPs increased, the membership of the agriculture section expanded, rising to more than 50 members by 1988. Consequently, farmers found that the committee which they had come to view as their monopoly preserve included many members with divergent viewpoints. Furthermore, all elected MEPs, including farmers, faced a greater variety of pressures which forced them to consider a wider array of interests and concerns during the plenary sessions in Strasbourg.[23] Then in 1987, the Single Market project revived interest in the Assembly because the EP was granted final say on all 1992 decisions. As a result, beginning in mid-1987 attendance at EP sessions rose sharply, so that more than 300 of the 518 MEPs regularly

22. National Consumers Council (1988), pp. 92-93.
23. For example, Lord Plumb, who was the President of both the NFU and COPA in the 1970s, became a strong advocate in the EP for reform of the CAP in the 1980s.

attended in 1987, which bolstered the non-farm contingent and further diluted the influence of farmer members.[24]

The EP agriculture working group, which prepares the draft opinions for the plenary session, largely determined the EP position on prices in the early years of the CAP. During the 1970s, it consistently proposed, and the EP approved, price demands greater than recommended by the Commission. The farm MEPs accepted the objective method as a way of setting prices because it provided a mechanistic means to establish a specific price demand that impressed non-farm MEPs. This method also was particularly useful in arbitration between different farm demands in the committee stage.

The pre-eminence of the agriculture committee was first challenged in the mid-1970s, when the EP restructured its committee system and created two additional committees to review and comment on the price packages. Although the agriculture committee continued to be responsible for drafting the opinion for the plenary session, the budget committee and the committee on the environment, public health, and consumer protection (consumer committee hereafter) were given an opportunity to comment on the proposals.

Beginning in 1977, the agriculture committee was held in check by the new budget committee for two years. The agriculture committee drafted an opinion that labelled as "manifestly insufficient" the proposed 3% price increase for 1977-78 and called for prices to rise at least 5% and for greater green rate adjustments to aid farmers in high inflation countries. Although the EP plenary session agreed with the sentiments of the agriculture committee, the budget committee prevailed and the final opinion only stated that the 3% proposal was too

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24. The Economist, 11-2-89.

low. In 1978, the agriculture committee again called for an average 5% price increase but accepted the "cautious price policy" for cereals. The budget committee rejected that view and supported the Commission proposals, provided prices for surplus products are frozen, while the consumer committee thought surplus products should receive a price increase in conjunction with more effective co-responsibility and limits to the market guarantees. The budget committee prevailed and the final opinion called for guaranteed prices to rise 2% except for those products in surplus. But the farm lobby got the EP to agree that farmers in revaluing countries should be compensated if their green rates were revalued.

In 1979, the EP reviewed and commented on the 1979-80 price proposals before going to the polls in June. The agriculture committee called for prices to rise faster than proposed so that the agri-monetary gaps could be significantly reduced. The Commission had not proposed any change in the positive monetary gaps. Although both the budget and consumer committees supported the Commission proposals, the MEPs compromised (at least partly because the election was just months away) and requested a 3% increase except for those products in structural surplus.[25]

Relations in the EP changed significantly after the election. During the first elected European Parliament (1979-84), the expanded group of electorally-minded MEPs were anxious not to alienate potential farm voters. Consequently, they generally accepted the agriculture section opinions and concentrated on non-farm issues.

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25. Financial Times, 16-3-79, noted that the EP was confused about the price proposals given uncertainty over the introduction of the EMS. As well as accepting a general price rise and freeze for surplus products, the EP also voted to use "European Units of Accounts" (which do not exist); if prices were denominated in ECUs, the average price level would have dropped 17%.

Table 5.5 Commission Agricultural Price Proposals and European Parliament Opinions

	Commission Average for All CAP Products	EP Agriculture Committee Opinion	EP Budget Committee Opinion	Environment, Public Health & Consumers	EP Plenary Session Opinion
1968-69	.0%	n.a.	--	--	agreed; except butter
1969-70	.0%	n.a.	--	--	some increases; no cuts
1970-71	.0%	n.a.	--	--	increases for beef & cereals
1971-72	>.0%	n.a.	--	--	5.0%
1972-73 A	2.3%	"insuffisante"	--	--	withdrawn before opinion set
1972-73 B	6.5%	--	--	--	8.0%
1973-74	2.8%	4.0%	--	--	2.76%
1974-75 A	7.2%	"increase"	--	--	"substantial increase"
1974-75 B	4.0%	6.0%	--	--	6.0%
1975-76	9.2%	inadequate	--	--	"patently inadequate"
1976-77	7.5%	9.5%	satisfactory but inefficient	--	9.5%
1977-78	3.0%	at least 5%	3%; none for surplus prods	n.a.	3% is too low
1978-79	2.0%	5.0%	2%; none for surplus prods	2%	2%; no increase for surplus products
1979-80	.0%	at least 3%	0%	0%	3.0% except for surplus products
1980-81	2.5%	at least 7.9%	2.4%	2.4%	"stringent" ok but 2.4% not unacceptable
1981-82	7.8%	12.0%	7.8%	too high	12.0%
1982-83	8.4%	14%	8.4%	n.a.	14.0%, no production limits
1983-84	4.2%	at least 7%	acceptable	0%	no less than 7.0%
1984-85	0.8%	unacceptable	accept	0.8%	"noted" proposal; no figure
1985-86	0.3%	4.5%	accept	"noted"	3.5% in real terms
1986-87	.0%	no cereal price freeze	need direct income aids	unsatisfactory	no price figure set
1987-88	-0.5%	no cereals price cuts	endorses cuts	emphasis on quality	accepts price cuts and MCA changes
1988-89 Stabs	-	reject	accept	n.a.	accept stabilizers

Sources: Neville-Rolfe (1984), pp. 248-51; Opinions of the EP in the OJ.

Cottrell dubbed the EP the "obedient servant to the farm lobby" for its strong support of farmers during this period.[26] The agriculture section regularly requested price increases well above what the Commission proposed

[26]. Cottrell (1987), p. 28.

and the EP accepted without amendment almost all of those draft opinions.

In 1980, the agriculture committee calculated that the objective method indicated that a price rise of 7% was justified; the Commission's 2.4% proposal was "unacceptable." The committee called for prices to be raised at least 7.9% (COPA's position), recommended that monetary gaps should be further reduced (but not if domestic prices would fall), and suggested the Commission should manage the wheat market to avoid creating surpluses. Although the budget committee was preoccupied that year with the battle over the 1980 budget (which the new MEPs had rejected as one of their first acts), it issued an opinion supporting the Commission; the consumer committee agreed. The plenary session eventually supported a "stringent agricultural prices policy" but agreed that the Commission proposal was "unacceptable." Although the opinion did not state a preference, the implication was that prices should rise by significantly more than 2.4%. Part of the reason for the lack of an alternative proposal was that the new MEPs could not reach a consensus. MEPs proposed a variety of unsuccessful amendments to set prices equal to: an average 1% cut (0% for non-surplus commodities; cuts greater than 1% for surplus products); 0% for all surplus products (not cereals); the Commission proposals; at least 5%; the objective method; 7.9% except surplus products; and a rate of +13% for France. The easiest option was to leave the actual figure open to interpretation.

In 1981 the agriculture committee requested a 12% increase, called for the end of monetary gaps within two years and rejected outright the Commission's proposal to make co-responsibility a principle of CAP because it was "simply a system for containing agricultural expenditure." A significant minority of the agriculture section tried unsuccessfully to get the committee to adopt COPA's position (a 15.3% price increase and no co-responsibility). The budget committee accepted the Commission proposals completely while the consumer committee rejected the price increases because they would add 2.5% to the cost of food in the Community. Nevertheless, the plenary session agreed with the agriculture section and strongly supported the use of the objective method to set prices.

The EP then missed a golden opportunity in the Mandate of 30 May 1980 to resolve some of its internal conflicts. MEPs worked on and debated the issues raised by the Commission but failed to reach an opinion before the November 1981 Council meeting where the Mandate was resolved. The EP thereby forfeited any real influence over the outcome.[27]

In 1982, the agriculture committee again called for a price rise based on the objective method. They reasoned that "the objective method of determining agricultural prices is absolutely defendable."[28] Consequently, they rejected "totally the idea that the community can commit itself definitively in regard to its agricultural price level by proposing a once and for all alignment of European prices on production prices in other major producer countries (USA), deliberately ignoring their production conditions and taking no account of any possible changes in parity between the dollar and European currencies."[29] The farm committee therefore requested prices rise 14% but did not reach any view on the agri-monetary proposals. The committee also rejected extending co-responsibility to cereals; instead, they proposed the relative prices for different cereals be adjusted and imports of cereals substitutes be limited to reduce the cost of surplus production. Although the budget and consumer com-

27. Cottrell (1987), p. 151.
28. EP Doc 1-30/82/A, p. 7.
29. EP Doc 1-30/82/A, p. 9.

mittees again sided with the Commission, the plenary session generally accepted the committee's draft.

Later that year the Presidents of the EP, the Commission, and the Council clarified the budgetary practice related to compulsory and non-compulsory spending and largely removed the budget weapon from the European Parliament in future farm price debates. They agreed that EAGGF Guarantee outlays are "compulsory;" as such, the EP can amend them only on first reading. If the Council rejects the amendments, the EP cannot amend them on second or subsequent readings. In exchange, the Presidents agreed that the EP can sustain amendments to all "non-compulsory" outlays. The EP therefore lost some of its limited budgetary power over the prices but gained ultimate control over non-compulsory outlays. After 1982, however, EAGGF Guarantee outlays rose rapidly so that there was little fiscal room to expand programs in areas the EP could influence. As a result, the non-farm lobbies made greater efforts to reduce agricultural outlays, which created increased friction between the farm and non-farm lobbies in the Assembly during the price debates.

In November 1982 the agriculture committee restated its earlier views on prices, co-responsibility, and imports of cereals substitutes. When the 1983-84 price proposals were released, the committee announced that they were "totally inadequate" and said prices should increase "no less than 7%" (COPA's position), called for positive monetary gaps to be largely dismantled, and rejected co-responsibility on cereals. The budget committee, as usual, supported the Commission proposals while the consumer committee called for a price freeze. The plenary session went ahead, however, and accepted unamended the agriculture section's (and COPA's) request.

In 1984, well after the Commission had decided that prices should not be used solely to support farm incomes, the agriculture section of the EP stated that "the price policy must continue to be the principal means of ensuring a fair standard of living for the agricultural community."[30] But, the section acknowledged that "in view of the limited financial reserves, there is at the moment no possibility of an overall price adjustment."[31] The committee argued, however, that there was room within the budget for the Community to eliminate MCAs, to develop long-term export contracts for cereals, and to negotiate export restraint agreements with foreign suppliers of cereal substitutes. Both the budget and consumer committees accepted the Commission's proposals. Given that the budget was at the legal limit of 1% VAT, the plenary session decided to note the Commission proposal without stating an alternative price figure. Thus, the budget committee prevailed, but only because the budget was already totally allocated.

The MEPs then went to the polls. The new EP included two fewer farmers and a much stronger contingent of consumer advocates and environmentalists. As a consequence, there was more interest in non-farm affairs. Kirchner demonstrated in his 1984 study of the EP that, even during the 1979-84 session, only about 10% of MEPs' time was devoted to agricultural and fisheries matters. In contrast, the EP spent 23% of its time on political affairs, 21% on economic and monetary affairs, 21% on environmental, social, regional and cultural affairs, and 17% on budgetary, institutional and legal affairs.[32] Farm programs, nevertheless, continued to consume the vast majority of the Community budget. Because MEPs could only expand non-farm programs (over which it has

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30. <u>EP Doc 1-1508/83</u>, p. 6.
31. <u>EP Doc 1-1508/83</u>, p. 8.
32. Kirchner (1984), p. 119.

influence and control) if farm spending could be slowed, the new MEPs were less disposed to accept agriculture section draft opinions that requested strong price gains.

Meanwhile, the relationship between MEPs and the national governments and parties in their home countries changed. Increasingly after 1979, national governments supplied their MEPs—both government and opposition party members—with information explaining their national policy positions.[33] Moreover, the new MEPs belonged to political parties which had to reconcile support for farming with the need to appeal to a largely urban electorate. This competition for MEPs' support helped to balance the needs and concerns of farmers and the demands of other parts of the Community. Although the farm lobby remained strong after 1984, it no longer could dominate proceedings.

In 1985, after the EP general election, the new agriculture committee again got most of what it requested. It reiterated the importance of guaranteeing the level of farm incomes "in the interests of the smooth course of political life and social peace."[34] The committee disagreed with the European Council decisions in 1984 and stated that "the price decision for the 1985-86 year should contribute to rectifying this imbalance."[35] Consequently, the committee rejected "the whole of the Commission's price proposals package," including the proposed 3.6% cut in cereals prices, and instead recommended that prices rise by 4.5%, aid to small producers be doubled, and intervention payment delays cease.[36] The budget committee supported the Commission's proposed cereal price cuts (triggered by the guarantee threshold system). The plenary session took the middle road and

33. Jowett (1984), p. 7.
34. EP Doc 2-1770/84, p. 10.
35. EP Doc 2-1770/84, p. 12.
36. EP Doc 2-1770/84, p. 16.

proposed a 3.5% price rise (in real terms) to allow positive monetary gaps to be dismantled without compensation.

But the EP did not avoid the repercussions of the stalemate in the Council over the 1985 price package. When it attempted to develop a new position on CAP reform in response to the Commission's <u>Green Paper</u>, it reached an impasse of its own. The Tolman report produced by the agriculture committee recommended the Community end unlimited price guarantees rather than implement "drastic price cuts." The report also proposed an active export policy and limits on duty free imports of cereal substitutes. The budget committee disagreed, calling for support prices to be fixed "at a level close to international prices." Three other committees made comments on the proposals. The committee on economic and monetary affairs and industrial policy called for a series of measures to reduce the cost of the CAP, including the end of the agri-monetary system, greater promotion of deficit products (i.e. oilseeds), and new efforts to negotiate to end the GATT zero-bound duty on cereal substitutes. The committee on external economic relations concluded that maximum guarantee levels should be set and co-responsibility applied to production in excess of those levels; on no account should Community Preference be increased. Finally, the consumer committee endorsed the Commission proposal to use market prices to guide supply and demand, but questioned co-responsibility. In January 1986, the plenary session was faced with a vast array of conflicting views to reconcile and by the end of the debate the Tolman report had been amended almost 200 times. Even then, the plenary session rejected the opinion (114/168/56) because it was "over influenced" by the farm lobby.[37]

Soon after that failure, the EP was presented with the 1986-87 price proposals, which included greater co-

37. <u>The Times</u>, 17-1-86.

responsibility and a price freeze. The agriculture section maintained that "the market and price policy must remain the cornerstone for guaranteeing agricultural incomes in the future" and therefore rejected the cereals price freeze and the "feeble, emaciated, one-legged creature" of co-responsibility. Meanwhile, the budget committee requested multi-year planning for CAP prices, the committee on economic and external relations questioned whether the co-responsibility levy would dampen growth of cereal surpluses, and the consumer committee rejected the price proposals as unsatisfactory unless accompanied by direct income payments. The plenary session had difficulty reaching a compromise opinion: once again, no single lobby dominated. The session finally called for a pluri-annual price review but did not declare any preferred price figure. The new members from Spain and Portugal helped swing the vote because they were concerned that higher prices might exhaust the budget and thereby reduce resources for regional and social programs.[38]

In 1987, the Commission's price package and later the proposed stabilizers dissatisfied the farm lobby in the EP. The agriculture committee for the first time since the early 1970s did not use the objective method to set its opinion (although COPA did); the section decided that the method had nothing to contribute to the new concerns over the market situation, food quality, or the budget. The committee instead examined the specifics of the Commission package—payment delays, tightened quality standards, limits to buying-in, and co-responsibility levies—and rejected them because they might cut prices by as much as 15%. The committee preferred a price freeze, combined with higher direct income support, set-asides, co-responsibility and the dismantling of the green ECU system. The other committees endorsed the

[38]. International Herald Tribune, 21-4-86.

Commission price proposals. The plenary session once again declined to set a definite price and instead accepted the Commission prices. Later in the year, the EP allowed that stabilizers would be necessary to slow growth in production and to limit budgetary outlays, but said that they should be part of a larger package, which would include land set-asides, extensification, diversification, and assistance for feed incorporation.[39]

By 1988, the changed composition and rules in the EP, combined with the renewed interest which flowed from the Single Market exercise, had forced a radical adjustment in farm debates in the Assembly. The agricultural committee, in particular, accepted that the CAP was only one of many Community policies and therefore had to change: prices could no longer be the sole means of farm support. The committee after 1985 developed two new strategies to resolve its internal disagreements. Urged by the MEPs from the Northern European countries, it became a strong supporter of the commercial farm sector and a major proponent of an active export policy for wheat and other products in surplus supply. Meanwhile, the Southern MEPs forced the committee to review support for small and disadvantaged farmers, with the result that it came to promote the social dimension for the CAP, including a new structures policy, land set-asides, and direct income payments. As a result, the EP was able to resolve the conflict between farm and non-farm interests and develop a united approach in the late 1980s.

THE PRESSURE GROUPS

More than 500 European interest groups attempt to influence the development or operation of Community policy. Fennell in 1979 identified 152 different European organizations that had an interest in the farm policy in 1973, including:

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39. OJ No. C 156, 15-6-87, pp. 127-28.

- 15 producer organizations (e.g., COPA);
- 66 processing lobbies (e.g., UNICE and CIAA);
- 42 groups of agriculture and food traders;
- 9 co-operatives associations (e.g., COGECA);
- 2 groups of farm and food industry workers;
- 3 consumer associations (e.g., BEUC); and
- 15 others (e.g., EEB).

COPA certainly is the senior and most influential organization operating in the agricultural field at the Community level. The industrial lobbies have great potential influence but have remained largely neutral because they do not have either united policy positions or any relevant access to the farm policy system. Meanwhile, consumers and environmentalists developed bargains with the EP, the ESC, the non-farm Commission directorates, and some of the Councils, thereby creating a nascent role in the debate over the structure of farm policy in the 1980s and 1990s.

<u>Committee of Professional Agricultural Organizations</u>

Sicco Mansholt, the first Farm Commissioner and the 'architect of the CAP,' encouraged the national farm organizations to establish COPA in October 1958. He believed that if farmers had a focus for European action, they would support further integration of agriculture and become a strong ally of the Commission. COPA did just that during the following decade. Farmers developed strong European ties through their Brussels office and found they could largely control the scope of farm debate. But as the power structures shifted and farm interests diverged during the 1970s and 1980s, the Commission decided to negotiate directly with the national governments, which forced much of the farm lobbying effort back to the national level. As a result of both the economic and political changes, the farm lobby became less united and many farmers began to look more for support to special commodity groups and their national governments. Consequently, the underlying bargain between COPA and its member organizations weakened and COPA lost power in

Europe. The Council, Commission, ESC, and EP no longer wait expectantly for COPA decisions.

In 1989, COPA was composed of 30 national farmer organizations from the 12 EC countries, including the Deutscher Bauernverband (DBV) from Germany, four large farm movements from France (including FNSEA), and the three National Farmers' Unions (NFU) from the UK. Although all farm interests are theoretically represented in COPA, the members of the Presidium have almost always been large (often cereals) producers because those individuals have been more able to find the time and money to be away from their farms. In 1976, most members of the Presidium operated farms that had more than 100 ha of land under cultivation and little had changed by the late 1980s.[40] This ensured that the interests of the commercial farmers were well-represented at the expense of the small, less-advantaged producer.

The Commission provides the key to both the development and to the survival of COPA. From the beginning it decided to meet and to work only with pan-European, multi-product farm lobbies. Consequently, farmers had to work through COPA to have any influence on the development of farm policy at the European level. During the 1960s COPA built upon this and developed three key services for its members. It established itself as a central meeting place to prepare detailed European positions that reflected the common needs of all farmers in the Community, as a central agency to organize lobbies or protests in support of common positions, and as a set of eyes and ears in Brussels to inform national farm groups of developments and issues.

During the price review COPA works on a variety of levels. During the 1970s, COPA had good working rela-

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40. Averyt (1977), p. 75.

tions with the bureaucrats in DG-VI (both through the advisory groups and via direct contacts), which ensured that COPA views were well understood and that the analysis that preceded the price review recognized farmer concerns. COPA used these contacts to gather information to review market conditions and to recommend an average price increase (and individual product increases before 1976) for the Commission to include in the price proposals. COPA was also given a preview of the Commission proposals before they were sent to the Council, which allowed it to mobilize its support or opposition to the proposals. During the consultation phase, COPA completed its request for price increases in light of the Commission package and lobbied the Commission, ESC, EP, and Council to explain, defend, and promote its position. Kirchner estimated that COPA in 1973-78 devoted 35% of its effort in the price review to lobby the Commission, 10% on the ESC, 27% on the EP, and 28% on the Council.[41]

COPA's role in the price review changed in the 1980s. The critical negotiations were often conducted between bureaucrats from DG-VI and the SCA, and between the Farm Commissioner and the Council of Farm Ministers; COPA could not easily influence either forum. COPA therefore decided to act as the eyes and ears of the national organizations. It now monitors both the Council and the SCA and meets regularly with Commission officials in order to provide member organizations with information to be used in the national capitals.[42] When it learns of an important meeting, it briefs representatives of the national farm organizations, who then make direct representations to their national farm ministries. During the 1980s, COPA also reduced its contacts with the civil servants in DG-VI and concentrated its lobbying efforts on the political level in the Commission (especially the

41. Kirchner (1980), p. 111.
42. Philip (1985), p. 56.

Farm Commissioner and members of his cabinet). The civil servants in DG-VI therefore became less certain of the farm lobby's specific concerns, which reinforced their need to consult with the national representatives in the SCA. Also during the early 1980s, the Commission stopped giving COPA a preview of its price packages. The combination of events forced COPA to become more reactive and less influential in the price review.

COPA had its two greatest successes before 1973. Their biggest achievement, by far, was their defeat of Mansholt's proposed structural policy, which was designed to rationalize and modernize the European farm industry. As a result of their efforts, "the structural aspect of the proposals was de-emphasized in favour of attaching greater importance to price measures."[43] Then, when inflation accelerated in 1971 and began to reduce the real value of guaranteed prices, the farmers were again successful in lobbying the Council to raise prices and ultimately convinced the Commission to recognize that prices should be used to support farm incomes.

Two important events in 1973 changed the direction of farm politics. First, the UK, Denmark, and Ireland formally entered the European Community and their respective farmer organizations joined COPA, which widened the interests and views of the organization. This, in turn, caused COPA in 1973 to provide for qualified majority voting on all decisions by the Presidium; up to that point, all decisions had been unanimous. COPA had little alternative to this change, but as a result it no longer spoke for all farmers when it dealt with the Commission or Council; majority positions could be and frequently were contested by dissenting COPA members.

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43. Rosenthal (1975), p. 129.

When Lardinois introduced the objective method for setting the Commission's price proposals in 1973, COPA rapidly adopted it. At first it looked to be an ideal approach for setting farm prices. The method would allow technocrats in DG-VI and COPA jointly to develop the price proposals based on objective criteria, which had the potential of reducing the role for politicians. The Council, in COPA's view, had not been a strong ally of the farmers in the early years.

During the 1970s, the objective method dovetailed with both the general inflationary psychology and the internal politics of COPA. As Averyt noted, when "inflation hit farm markets in the 1970s, agreement seemed to become easier: even if a national group desired only 5 percent increase, why not agree with other groups in COPA that are pressing for a 10 percent increase." As he said, it "was a painless form of agreement."[44] The objective method provided COPA with a convenient mechanism to justify its demands for higher prices to support farm incomes. At the same time, it created a European focus for the farm lobby, which was viewed as necessary to solidify the influence of COPA. COPA realized that it would become increasingly difficult to retain the old consensus style used to set its price requests because the concerns of its increased membership had diverged. Before the objective method was adopted, COPA relied entirely on reports and comments from its member organizations to arrive at a set of price proposals. This process provided the Commission with a differentiated set of price demands: some sectors expressed willingness to accept below-average price increases while others demanded above-average rises. The Presidium continued to prepare detailed price requests for the major commodities until 1976, but the focus rapidly shifted toward the average price rise. COPA feared that without a formula-

44. Averyt (1977), pp. 93-94.

based price system (i.e., the objective method), farmers would fight among themselves. Renationalization was judged to be the main threat to the farm movement in the Community.[45] The formula therefore appeared to be a powerful tool for COPA.

Table 5.6 COPA Price Proposals

	Commission Proposals	COPA Price Position on: All Products	Wheat	Objective Method
1968-69	.0%	5.0%	n.a.	n.a.
1969-70	.0%	4-5.0%	n.a.	n.a.
1970-71	.0%	general +	n.a.	n.a.
1971-72	n.a.	5-10.0%	n.a.	n.a.
1972-73 A	2-3.0%	11-12.0%	n.a.	n.a.
1972-73 B	6.5%	11-12.0%	n.a.	5.0%
1973-74	2.8%	7.5%	n.a.	3.0%
1974-75 A	7.2%	16-17.0%	+8.0%	7.2%
1974-75 B	4.0%	8.0%	n.a.	4.0%
1975-76	9.2%	17.5%	15.0%	12.4%
1976-77	7.5%	10.6%	n.a.	4.6%
1977-78	3.0%	7.4%	--	0.1%
1978-79	2.0%	5.0%	--	4.2%
1979-80	.0%	4.0%	--	n.p.
1980-81	2.5%	7.9%	--	7.0%
1981-82	7.8%	15.3%	--	n.a.
1982-83	8.4%	16.3%	--	9.0%
1983-84	4.2%	7.0%	--	7.0%
1984-85	0.8%	3.9%	--	3.9%
1985-86	0.3%	4-5.0%	--	7.8%
1986-87	.0%	4.7%	--	4.7%
1987-88	-0.5%	n.a.	--	n.a.

Notes: -- = not calculated; n.a. = not available; after 1982-83, the objective method numbers were from COPA, not the Commission.
Sources: Neville-Rolfe (1984), p. 248; Financial Times, various.

Throughout the 1970s, COPA cooperated with the Commission to develop the objective method system. It worked well for a while, but problems soon developed. Beginning in 1975, the Commission began to manipulate the for-

45. Averyt (1977), p. 95.

mula to provide a result that conformed to its preconceived views (see chapter 4). Then, in 1979, the Commission ceased using the objective method because the formula could not adequately accommodate its new concerns about green rate, budgets, and market conditions.

COPA and its member organizations, however, continued to use the objective method to frame their demands. COPA's membership had become increasingly diverse during the 1970s, as the changed financial structures and increased incentive of high prices induced farmers to specialize and commercialize their operations. Northern cereals farmers became highly competitive while southern producers of Mediterranean products remained uncompetitive. Then in 1981 Greek farmers joined COPA and in 1986 Spanish and Portuguese farmers entered. Consequently, COPA found it difficult to wean itself from the objective method. In 1985, COPA was persuaded by the Northern European farm organizations to reject for the first time since 1972 the objective method result when setting its price demands. The method indicated that prices should rise 7.8% but COPA only requested 4-5%. That decision was not universally accepted—farm union members in Italy, Greece, and Ireland regarded it as a mistake[46]—and COPA returned to the objective method in 1986.[47] It ceased publishing the results in 1987, however, because the method indicated that intervention prices should fall. The formula could not reflect the significant changes being made to the intervention system (via changed quality standards, lower monthly increments, reduced buying-in rates, and tighter quality standards). Henceforward, COPA focused on farmers' revenue situation to make case for higher prices.

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46. Financial Times, 8-2-85.
47. Financial Times, 11-2-86.

But problems had been brewing for a number of years. The objective method had simply masked the growing disagreement and animosity between and inside the national farm organizations. The Commission's frequent consultations with the SCA increased the opportunity for national farm organizations to become directly involved in the negotiations, which contributed to the distinctiveness of national groups.[48] As a result, national differences were highlighted and COPA found it increasingly difficult to find a common position among farmers.[49] Thus, when economic pressures increased in the late 1970s, COPA found it was less able to finesse the necessary trade-offs to be influential. As the Commission and Council used the price review to limit growth in production, to hold the line on budgetary outlays, and to reduce the distortions caused by exchange rates, national farm groups began to have sharply different concerns.

The most common argument centred around the operation of the agri-monetary system. French wheat producers, in particular, disliked the agri-monetary system because it allowed real wheat prices in Germany to remain above French prices; French producers wanted Germany to be a large, protected market for French produce, not to compete with them.[50] When inflation was high during the mid-1970s, COPA was able to finesse agreement on incremental changes in the green rates proposed by the Commission because nominal prices did not have to fall in

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48. Averyt (1977), p. 90, reported in 1977 that the Commission consulted directly with national farm organizations. There is no evidence that the Commission during 1970-88 ever negotiated directly with any of the national farm organizations, except through the advisory committees. Rather, the Commission consulted with the SCA, whose members in turn often talked to their national farm organizations. The impact was the same, however, because COPA was still cut out of the process.
49. Taylor (1983), p. 46.
50. Agra Europe, 606, 24-1-75, noted that Italy and France openly disagreed with Germany over MCAs at a COPA meeting.

strong currency countries. But in the low inflation years beginning in 1980, German farmers faced price cuts at the farm-gate whenever the Commission proposed to revalue the green DM. COPA was unable to resolve the differences. Instead it requested the end of the green rate system, temporarily through payment of higher ECU prices (or supplemented with direct compensation for German farmers) and permanently through Economic and Monetary Union.

The issue of price cuts also divided the European farm community. With the largest 25% of farmers receiving about 75% of CAP support, the impact of price cuts would be distributed unevenly.[51] Buckwell estimated that a 5% real price reduction in 1980 would cut absolute incomes on large farms by as much as eight times the amount for small farms (table 5.7). Thus owners and operators of large farms, who are disproportionately represented in the cereals sector and in the national member organizations of COPA, have a strong incentive to fight against such a move. But when the cuts per worker are compared to income per worker, the losses for smaller farms in Germany represent a larger share (about 30%) than for the larger farms (about 20%). In France and the UK, both the smaller and larger farms would suffer in equal proportions. In all three countries, however, the absolute income per farm worker is significantly lower for small rather than large farms, so that even proportionate cuts would tend to hurt small producers more (i.e., it is easier for a high income farmer to cut his cost of living than it is for a low income farmer). Consequently, farm unions with more small farmers (e.g., the DBV in Germany), tend to be the most set against direct price cuts.

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[51]. Stoeckel (1985), p.15.

Table 5.7 Effect of a 5% fall in real farm prices on farm worker incomes by country and farm size category (EUA/annual work unit)

Farm Size Group (# esu):	small (0-2)	medium (2-8)	large (over 8)	average all
France	70	205	595	450
Germany	105	495	900	540
United Kingdom	115	355	790	510
Italy	50	140	280	135
Netherlands	105	495	1440	1080
Belgium/Luxembourg	100	490	1265	1150
Ireland	110	355	810	615
Denmark	100	475	1220	780
EC 9	80	240	710	405

ESU (European Size Unit) is a measure of farm size.
Source: Buckwell, et al. (1982), p. 158.

Although COPA continued to want prices to support incomes, it accepted that something had to be done to align production with demand. It rejected in 1981 the Commission's proposal to align EC prices with world or US prices but grudgingly accepted the guarantee threshold system in 1982. When price cuts proved impossible in 1985, COPA sided with its German members and accepted co-responsibility as the "least worst" alternative, provided it was matched with tighter Community Preference, limits on cereal substitutes, and an active export policy (wanted by French farmers). Income aids would be accepted only if directed to farmers in marginal areas, elderly smallholders, or for young beginning farmers.[52]

The co-responsibility system, because it affects the national farm industries differently, also led to conflicts. In particular, it exacerbated the already diffi-

52. Caspari (1983), pp. 47-48.

cult relations with the National Farmers' Union of England and Wales, which had probably always been the least 'communautaire' of the member farm associations. As early as 1978 the NFU had differed with COPA and accepted that prices should be used to regulate the market and that surplus products should receive lower prices. In 1980, the NFU also considered but rejected a motion at its annual meeting calling for the UK to withdraw from the CAP and to implement national measures.[53] Then in 1984, the NFU issued a position paper (The Way Forward) that explicitly accepted that surplus production must be cut. With the introduction of co-responsibility, the NFU found itself strongly at odds with the other COPA members, because UK farmers paid significantly more than their continental colleagues (see table 6.3).

One consequence of the renationalization of COPA is that it has had great difficulty mobilizing farmers to support their lobbying efforts. Its ability to organize and plan mass protests across the Community peaked in 1974, when it successfully pressed the Commission and Council for an increase in addition to the price rise already approved by the Council. There was no provision in the Community process to provide interim price increases but COPA used the objective method to demonstrate that farmers should receive at least an additional 4% price rise. It then organized a series of protests. They started in France in early July, spread throughout France, Germany, and the Netherlands in August, and culminated when more than one million farmers protested across the Community on September 17. Their efforts secured a new proposal from the Commission and ultimately higher prices from the Council.

Since then, farm protests in Europe have either been small or limited to specific commodity groups or regions.

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53. The Times, 13-2-80.

Table 5.8 Farmer Protests in Europe (1971-88)

Date	Number	Regional/Sectoral Interests
Mar. 71	100,000	All regions & sectors
Feb. 74	80,000	Fr. 4-day rally at EP focus on price review
July 74	30,000	German price protest in Munich
July 74	na	French riots in Provence
Aug. 74	na	French & German farmers block roads
Sep. 74	1,000,000	COPA protests in all countries
Mar. 75	na	Wine war between France & Italy
Feb. 76	100,000	FNSEA rally for higher prices
Mar. 76	na	Wine fight; French vs. Italian
1977-78	--	No significant protests
Apr. 79	6-8,000	French protest in Midi region
1979-80	na	Lamb war between UK & France; French producers destroy UK lamb shipments
Mar. 80	na	Farmers protest at EP in Strasbourg
Apr. 80	100	London rally of Non-UK dairy farmers
Apr. 80	1,000	French farmers burn Mrs. Thatcher in effigy in Boulogne & Strasbourg
Mar. 81	2,000	B. & Fr. 3-day protest in Brussels
Dec. 81	3,000	French protest in Strasbourg
Mar. 82	na	French wine producers demolish wine storage centre in S. France
Mar. 82	100,000	FNSEA peaceful farm rally in Paris
Apr. 83	2,000	Italian farmers protest
Apr. 83	na	French pig farmers riot
Nov. 83	10,000	Italian farmers protest CAP reform; want focus on Med. products
Mar. 84	16,000	Protests in Bavaria and Dortmund, W. Germany over price cuts
Mar. 84	na	French anti-UK nation-wide protest
May 84	35,000	French milk producers protest at Loire Council meeting
Mar. 85	na	Widespread protests in EC
May 85	3-10,000	Protest outside Council meeting
Apr. 86	50,000+	FRG protest for state aid & against CAP
Mar. 87	10,000	Small FRG farmers protest against large producers
Apr. 87	20,000	FRG protest at Bonn Commission meeting
May 87	15,000	Protest in Brussels vs. price cuts

Sources: Financial Times, The Daily Telegraph, The Times, and Le Monde.

Table 5.8 shows that in many cases the protests in one country have been targeted against the interests of farmers in another part of the Community. Open battles raged at times between competing producers in different countries (e.g., Italian and French wine producers in 1975-82 and French and UK sheepmeat producers in 1979-80), between producers of cereals and livestock (e.g., at the 1983 NFU meeting[54]), and between large and small producers (e.g., in Germany in 1987). COPA has not been able to solve the problem of diverging and conflicting demands from its member farmers.

In summary, COPA has been effectively neutralized in much of the farm debate. As issues became more complex after 1975, the Commission consulted and negotiated more with the SCA, which forced more of the lobbying effort back onto the national farm organizations. COPA was unable to hold together the European coalition of farm interests because the changed production and financial structures caused the interests of its members to diverge. It also lost the ability to mobilize farmers to protest for a Community position. As it tried to compensate for its lost power, it developed more as an intelligence gatherer and educator, which was valuable but significantly different from the role envisaged in 1958. COPA therefore was pushed to the periphery of the policy debate in the 1980s.

Industry

The original bargain struck between Germany and its industrialists and France and its farmers has for the most part held firm. The industrial lobbies in Europe have not commented widely on any of the price-fixing packages produced by the Commission. The Union of Industries in the EC (UNICE) has generally been vocal only when the Commission or Council examines reform of the

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54. Financial Times, 9-2-83.

CAP. Then in 1981, the agro-food committee of UNICE became independent as the Confédération des Industries Agro-Elementaires de la CEE (CIAA) and henceforward represented 13,000 firms which employ about 2.2 M workers in the food and drink industries in Europe. By then the changed security and production structures had increased the pressure for reform and the new industry lobby began working with the Commission to reform the CAP and, more recently, to implement the Single Market policy by 1992. But by 1988 this had not had any major impact on the CAP. For the most part, the industry lobby has been "comparatively ineffective" because it represented too many diverse and conflicting members to be able to develop effective bargains with the key agricultural policy-making bodies.[55]

Industry is formally connected in the farm policy area with only with the Economic and Social Committee and the Commission. In the ESC, where one-third of the members are nominated to represent industry, the lobby works through the agriculture and budget sections and in the plenary session to counterbalance the farm lobby. The result, outlined above, is that the ESC has accepted that reform is inevitable. Industry also has contacts with DG-III and the Commissioner for Industry, neither of which has good access to the agricultural forum. Consequently, when industrialists present their views on farm issues, they are almost always ignored.

The industrial sector has been unable to develop any effective bargains in the farm policy community primarily because it does not have any well defined interest in farm matters. The CIAA suffers because its membership ranges from producers of animal feeds to confectionery firms. Its membership therefore is significantly more fragmented than any individual farm group or even COPA.

55. Caspari (1983), p. 48-49.

The rest of industry is even less united in its views on the CAP. There is often a symbiotic relationship between farmers and rural industry. For example, more than half of Germany's wheat farmers have other gainful employment and therefore have significant public sympathy in their quest for supportive public policies. Rural industries depend on these people to work in their enterprises. Especially in industries where variable employment is the norm, employers have come to depend on their workers having the farm to fall back on.

Industries which process farm produce or provide inputs to the farm sector also do not have a clearly defined interest in the debate. Generally, the economics of farming ensures that most if not all sales to and purchases from the farm sector would continue under any of the options proposed by the European Commission. Price cuts and set-asides would tend to hurt larger producers more and are therefore least popular. But most analysts in the industrial sector acknowledge that the highly indebted, commercially-oriented farms which purchase most of the inputs and sell proportionately more into commercial channels would likely react to all other policy changes by increasing production and by farming more intensively. Just after the Commission's stabilizer package was accepted by Council in February 1988, one Suffolk farmer cautioned that: "The only way most people will respond to a 3 per cent price-cut is to produce more."[56] He reasoned that producers plant cereals as a break-crop between potatoes and sugar beet, both of which are on quota, and they do not have the machinery to shift into rapeseed production. As a result, the industrial sector is in a win-win situation.

At the same time, farm co-operatives control a significant portion of the agri-food industry. In France,

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56. Financial Times, 26-2-88.

for example, farmer-owned co-ops controlled 77% of the cereals storage capacity in 1977, owned and operated 30% of the combine harvesters in 1979 and provided 70% of the agricultural credit. With much of the up-stream and down-stream activity related to farming largely owned by farmers, the industrial lobby's opinions on farm policy are often muted.

Large and influential parts of the wholesale and distribution system also have strong reasons to want to maintain parts of the system. The agri-monetary system, for example, introduces arbitrary and speculative elements into intra-Community trade which the larger companies frequently exploit profitably. MCAs are often too high or too low relative to underlying currencies and "the complexity and seeming arbitrariness of the system impose[s] such significant costs on manufacturers and traders attempting to operate the system that they act as a barrier to smaller or traditionally-minded concerns, preventing them from engaging in intra- or extra-Community trade."[57] Josling and Harris observed that "in 1973 the MCA system was so complex that UK importers ceased buying French grain for several months as the risks involved were felt to be too great."[58] Consequently, small actors are pushed out and the market is controlled by large multinational corporations which can afford the risks.[59] Some entrepreneurs also benefit handsomely from over-production and its concomitant problems. Cottrell points out that some of the new agri-millionaires in Europe are those who handle the surplus production. He noted that one Scottish company in the mid-1980s made £0.5 M in one year by storing barley. That was only one of many, as between 1981 and 1986 about 240 intervention stores operated by private owners were

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57. Josling & Harris (1976), p. 67.
58. Josling & Harris (1976), p. 70.
59. Debatisse (1981), p. 2.

created in the UK.[60] Disposal of the mountains of grain and butter and lakes of wine and milk also creates profitable opportunities for private traders as the surpluses are sold and transported to other markets.

Consequently, although the industrial lobby in the EC generally agrees that the CAP should be re-oriented to the market, it seldom speaks with an authoritative voice during the critical stages of the wheat price review.[61] In 1979 the Food and Drink Industries Council encouraged the Community to implement a five-year freeze on cereals prices, but was ignored by the entire farm policy community. After that the lobby refined its position, but still had little success.

During the 1980s, the European industrial lobbies recommended that the Commission should use production forecasts to set prices, that price guarantees and intervention buying should be limited, and that trade policy should be adjusted to the needs of processors. In particular, they sought assistance for value-added exports and more opportunity to import commodities needed by processors but not adequately produced in the Community (e.g., hard bread wheat, durum, and long-grain rice). In short, the CIAA wanted the demand side of the market to drive Community policy.[62] But this package masked major disagreements about the means of achieving the changes. There was no widespread agreement about how price discipline should be implemented or about how the difficult problem of cereal substitute imports can be resolved.

At times, the industrial lobby has certainly helped focus the farm debate on some of the costs of the exist-

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60. Cottrell (1987), p. 66.
61. National Consumers Council (1988), p. 100.
62. Caspari (1983), p. 49.

ing system and towards some savings. But most years it has failed to have any impact because it has neither a well defined objective nor has it developed any significant bargains with any of the policy actors in the European farm system.

Consumers and the CAP

Analysis of food politics cannot be limited to the producer side. Consumers have a major interest in price, volume, and quality of produce. Since 1973 consumers have earned a minor place in the price review by developing contacts across the Community and using them to push for the CAP to be transformed into a comprehensive food policy. Although the consumer lobby has developed a coherent and articulate program of reform, it has been largely ineffective because it does not have access to the critical policy forums.

Although consumers are mentioned in the Article 39.1(e) of the Treaty of Rome, they have never fully participated in the price review. Before 1973 they were shut out completely as proposals were prepared by functionaires in DG-VI assisted by COPA members, vetted by agriculture committees dominated by farmers in the ESC and EP, debated by farmers through COPA, and set by farm ministers in the Agricultural Council. Since then the consumer lobby has expanded considerably its level of contact and access. In 1973 the Commission helped the Community consumer associations open the Bureau Européen des Unions des Consommateurs (BEUC) office in Brussels (it had existed since 1962 without a formal office) and assisted the BEUC to work with other consumer and co-operative organizations through the Consumers' Consultative Committee. The consumer lobby really got launched in 1975 when the Commission developed a consumer program.[63] Since then the BEUC has created close links with DG XI

[63] BEUC (1985), p. 4.

(environment, consumer protection, and nuclear safety), gained a seat on various agricultural advisory committees, developed contacts with the consumer representatives in the ESC (10 in 1986, up from 3 in 1970) and with the consumer committee in the EP, and gained limited access to the Agricultural Council both directly and through the national consumer organizations. The consumer associations in the EC remain relatively powerless, however, because they are excluded from the decision-making process: farm policy decisions are still made almost exclusively by functionaires and ministers of agriculture. The UK is the only member state where the minister for agriculture also has responsibility for food policy.

In addition to poor level of contact, consumer associations suffer from a lack of public support within the Community. The strongest consumer groups in 1979 were located in the UK (750,000 members), the Netherlands (460,000 members), Belgium (395,000 members) and Germany (where the consumer association (AGV) has about eight million indirect members). In contrast, the two French consumer associations combined had only 48,000 members and countries such as Ireland and Denmark had less than 2,000 members each in their organizations.

The weakness of the consumer lobby is often a mirror reflection of public opinion on the CAP. Only about 22% of the general public surveyed in 1987 thought the CAP was too expensive. In the three largest countries, about half of the general population thought that either too little or about the right amount of money was spent on farming.[64] When asked if the CAP was worthwhile, about half of all respondents in France, Germany, and the UK agreed. The general acquiescence among consumers is at least partly the result of steady increases in labour

64. Eurobarometre, 27, Table A.40.

incomes throughout the 1970s and 1980s and the declining portion of disposable incomes needed to purchase food. By 1986, the average European consumer spent only about 17.5% of his income on foodstuffs and another 4.6% on alcoholic and non-alcoholic beverages and tobacco. German consumers spent only 12.7% of their incomes on food while the French spent 16.8% and those in the UK spent 13.6%.[65] In addition, the commercialization of the farm sector dampened the price elasticity of supply, so that increases in the guaranteed prices have only a marginal impact on consumer outlays. The Commission estimated that in 1977 a 10% guaranteed price increase should only cause retail prices to rise by about 1%.[66]

Table 5.9 Public Opinion on the CAP (1988)

Q: All things considered, does the EC spend too much money on agriculture, not enough or about right?

	Too Much	About Right	Not Enough	No Opinion
France	26%	30%	19%	25%
Germany	36%	32%	16%	16%
UK	26%	33%	18%	23%
EC 12	22%	26%	27%	25%

Q: Although there is a lot to criticize and to put right in the EC CAP, on balance it is worthwhile.

	Agree	Disagree	No opinion
France	50%	17%	33%
Germany	48%	22%	30%
UK	48%	22%	30%
EC 12	46%	18%	36%

Source: Eurobarometre Special Issue, Feb. 1988, p. v. Eurobarometre, 27, June 1987, p. A118.

The consumer lobby has partly compensated for its lack of contact and support by developing a coherent critique of the CAP and repeating it in every possible

65. ASC 1988, p. T/161.
66. ASC 1977, p. 102.

forum. The BEUC priority since 1977 has been to reform the CAP so that consumer interests are considered equally with producer interests. Although the consumer lobby agrees food security is essential, it believes that it has already been obtained. Now it wants to prevent permanent surpluses by separating income support from price policy. Since 1973 the BEUC has presented annual opinions expounding price restraint for all commodities and price freezes or cuts for surplus products. Only in 1982, when farm incomes were down sharply, did the organization allow that a price increase would be acceptable.

BEUC has not been overly concerned with the cereals sector, however, because the relationship between the producer support for cereals and the retail price for processed cereal products (e.g., flour and bread) is relatively small. Instead, it has attacked the market regimes for milk and sugar, particularly in 1983 and 1984, because the producer price is a large proportion of the retail price.

During the 1980s, the BEUC recognized the consumers' diminishing concern for prices and consequently shifted its strategy. Medical research into the links between nutrition and disease (esp. cancer and heart ailments) has shown that poor diets and the way many foods are produced contribute to illness. Wealthier consumers, in particular, have become health and quality conscious and increasingly demand organically-grown produce and exotic vegetables and fruit. The BEUC consequently changed its primary focus from prices toward the examination of CAP structures and regimes to ensure that they provide the necessary incentives for farmers to adopt alternative crops or production methods.

After 1986, BEUC also concentrated more on the global issues of farm policy. In October 1986, the Council of Ministers resolved that consumer policy should be integrated with other EC policies and agreed that consumer impact statements should be attached to Commission proposals which affect price, choice, or quality.[67] Although the resolution did not directly include farm policies, BEUC took the opportunity to expand its analysis and criticism of the CAP price system. After the Council resolution, it produced a series of detailed critiques of the CAP and proposed radical changes to the policy. In 1987, it examined food surpluses in the Community in the run-up to the debate over the Commission's stabilizers package. Its "consumers and taxpayers 8-point plan for reform of the CAP" recommended the Community realign EC prices with world prices by 1992 and drastically reduce intervention support, abolish export refunds, and cease destruction of food surpluses. BEUC proposed that co-responsibility levies and quotas (including on imports of cereal substitutes) should be phased out as prices approach world levels. It also suggested that the Community should develop a comprehensive system of direct income payments to producers, with at least 20% of the CAP budget used for that purpose.[68]

The BEUC sought in the late 1980s a more certain role in the farm policy reviews, both through greater representation on the advisory committees (and consumer representation on the product management committees) and through formal acceptance of consumer impact statements into the process. By 1989, however, they had not succeeded with either goal. To compensate, BEUC attempted to build coalitions with other directorates and lobby groups in an effort to direct farm policy from the outside. Domestically, BEUC occasionally worked with the EEB in an effort to build a common position on the environment while at other times it attempted to attract support from the non-farm rural sector with proposals for

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67. BEUC (1987), p. 3.
68. BEUC (1987), pp. 39-40.

the Community to develop a comprehensive rural policy. Meanwhile, BEUC made detailed comments on farm policy and the GATT, in an effort to influence the EC negotiating position, and thereby set limits to the future development of the CAP. In particular, BEUC recommended that the Community should work through the GATT to get international agreement to reduce farm support by 5% in both 1990 and 1991. Furthermore, BEUC supported the US tariffication proposal,[69] knowing that if the EC binds its variable levy and agrees to reduce export subsidies, the Community would be forced to completely revise the farm support system in the EC.

Nevertheless, in 1989 consumer influence remained limited by lack of access to the farm policy community, uneven membership, and general public acceptance of the CAP. With its shift in emphasis from prices to CAP programs, however, it had defied the odds and remained relevant in farm policy debates.

The Environment and the EEB

As the farm sector has become more commercially oriented, Europeans have come to resent the sometimes unpleasant environmental impact of intensive farm practices. The increasing wealth and prosperity in Europe has provided the conditions for the environmental movement to grow and prosper while the new information transmitted from research and environmental establishments has created pressures for change. The European Environmental Bureau was founded at the end of 1974 to press for sound environmental policies and since has worked to develop and expand its access to the policy process. But, like the BEUC, the EEB lacks effective and direct access to farm policy forums and has had to expend much of its energies to adapt to the constantly changing public mood to remain a viable, if peripheral, actor.

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69. BEUC (1989b).

Since 1974, the EEB has developed a working relationship with the Commission through DG-XI and its Commissioner and built links with the environmentally concerned members in the ESC and the EP. Unlike the BEUC, however, the EEB does not have direct access to the Council or to a large body of supporters that can apply pressure to the national ministers. The environmental movement in Europe tends to be highly fragmented, with many single interest or umbrella organizations in each member state. For example, the EEB had 39 member organizations spread across nine countries in 1980, up from only 24 in 1974. In contrast, there were then only 22 (now 30) main farm organizations and 11 (now 17) national consumer lobbies.

Since its inception, the EEB has targeted agriculture.[70] It has consistently argued that the CAP must encourage environmentally-sound extensified farm practices, which would include preservation of hedgerows and wild terrain, reduced use of fertilizers and pesticides, scaled-down livestock operations, regulation of laying batteries, and conservation of energy. The environmental brief gained ground after 1980 as the EEB worked with the ESC and through the Rainbow Group of 20 MEPs in the EP. Together they worked to develop specific proposals that were both environmentally sound and helped to reduce production. By 1988, however, the agricultural community had only agreed to examine some of those options. As with the CIAA and BEUC, the EEB has been unable to sustain its positions because it has failed to crack the agricultural policy 'cartel.'

CONCLUSIONS

Shifting power structures have radically altered the policy debate in European agriculture since 1973. As the production, finance, and knowledge structures created

[70]. ESC (1980), p. 437.

greater diversity in the farm and non-farm economies, the policy agenda expanded to include issues that pitted farmers against farmers and overlapped with non-farming jurisdictions. Consequently, the Committee of Professional Agricultural Organizations lost internal cohesion, which contributed to the erosion of its privileged position in the policy system. The process accelerated when the Commission opened the process to new actors—including consumers, environmentalists, and budget experts—and the ESC and EP debates shifted their focus away from the absolute price level, on which farmers generally spoke with a common voice, toward issues where farmers disagreed among themselves (e.g., green rates and quotas).

Other eurogroups, however, have not filled the gap left by the weakened COPA. They have been unable to develop bargains with the key centres of power in the agricultural policy system—DG-VI and the Agricultural Council. Instead, the profusion of opinions at the European level has left DG-VI and the Agricultural Council with a greater opportunity to listen to national farm organizations and to act on their own concerns. Consequently, eurogroups have increasingly become simply forums for exchange of information and agencies to help national groups to define common positions to follow in relations with national governments or national representatives in Brussels.

Chapter 6

PRICE POLICY: NATIONAL INTERESTS

Margaret Thatcher asserted in 1981 that in the Council "there is no such thing as a separate Community interest; the Community interest is compounded of the national interests of the ten member states."[1] These national interests are determined almost wholly within the national policy frameworks as competing public and private interests use the system to get their preferred outcome. The national interest is not synonymous with the public interest. In the wheat case, the national interest reflects those sets of private and public interests that are promoted by the explicit and implicit bargains that underlie the system. The public interest, in contrast, is the Pareto potential[2] that economists long for.[3]

After 1958, the national interests in Council reflected the private interests of farmers, as they had a virtual monopoly of the policy system. But after 1973, the shifting power structures altered the fundamental bargains that determined the national interests of France, Germany, and the UK in the Council, so that by the 1980s national interests seldom fully mirrored farm interests. These new national interests in many ways,

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1. The Times, 3-2-81.
2. The New Palgrave, V.3 says a Pareto optimal outcome is "if there exist[s] no other productively feasible allocation which ma[kes] all individuals in the economy at least as well-off, and at least one strictly better off, than they were initially."
3. Frankel (1970), p. 39, argues that "foreign policy is generally conceived as being based upon the concept of 'national interest' which is deemed to represent the whole society and not to be a mere compromise between partial interests." But his concept of foreign policy revolves around national security and defence, which are both pure public goods. Commodity trade is not a public good and therefore the national interest in this area cannot necessarily be expected to reflect the public interest.

however, present stronger pressures for reform of the CAP than the public interest of the Community.

KEY BARGAINS IN THE SYSTEM

The effective bargains which influence the national interest in each country depend initially on the balance of five institutional and economic factors: the strength of the national farm and consumer organizations; the relative benefits and costs of farm policy options; the public interest; the electoral system; and the style of government.

Strength of National Farm and Consumer Organizations

Mancur Olson argues that, unless a group is small or there is coercion, "rational, self-interested individuals will not act to achieve their common or group interests."[4] Individuals quickly determine that their action alone has virtually no effect on the provision of public goods and they therefore act as free-riders in the system. In the case of wheat, all farmers would like higher prices, but the action of any single farmer would have no measurable impact on the policy outcome; so rational farmers would withhold active support from any lobby effort. Olson hypothesized that "large organizations that are not able to make membership compulsory must also provide some noncollective goods in order to give potential members an incentive to join."[5] The large farm organizations in France, Germany, and the UK have to varying degrees done just that, offering technical advice, financial, market, and production services, and opportunity for personal political advancement. Farm organizations need an active membership as well as large numbers of members. The German farm lobby is probably the strongest because the DBV membership, which represents 90% of all farmers, is active. In contrast, al-

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4. Olson (1965), p. 2.
5. Olson (1965), p. 16.

though the NFU of England and Wales represents more than three quarters of the farm population, its membership is both numerically small and relatively inactive. France represents a middle case: the FNSEA membership is highly active, which makes up for the fact that it represents only about 44%-65% of French farmers.[6]

Relative Benefits and Costs

The impact of policy options on individual producers, consumers, and taxpayers determines the passions that arise when change is mooted. Table 6.1 shows that at the economy-wide level, consumers and taxpayers in France, Germany, and the UK are paying an increasingly large cost to support farms in those countries. In per-capita terms, consumers pay about 200 ECU in France and the UK and 280 ECU in Germany. But, because UK families have significantly lower disposable incomes, they pay relatively more than in France and about the same as Germany. In contrast, payments per farm holding in 1984 averaged 10,300 ECU in France, 15,400 ECU in Germany and 23,200 ECU in the UK. Farm operators therefore can be expected to fight harder to defend the CAP than the average consumer can be expected to fight for reform. Zietz and Valdés say that "rational complacency" dictates that consumers are less likely to prevail than producers because changing the system is significantly more difficult than it is worth.[7]

The studies in Table 6.1 estimated the impact of all the measures covered by the CAP. But the individual mechanisms also have differential impacts, as illustrated in Table 6.2. Veer demonstrated for 1983 that farmers in Germany would suffer a larger cut in farm income due to a 20% price cut than would farmers in France or the UK. An earlier study by Buckwell, et al. (Table 5.7) also showed

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6. Keeler (1987), p. 265.
7. Zietz & Valdés (1988), p. 20.

Table 6.1 Estimates of the Inter-Sectoral Transfers Caused by the CAP (B ECU)

Ref. Year	Author & Date of Study	Study coverage as in Table 1.1	Base Prices*	Consumer Loss	Producer Gain	Taxpayer Loss
1976	Bale & Lutz	France	C	2.0	2.2	-0.6
	(1981)	Germany	C	3.1	2.0	0.4
		United Kingdom	C	0.9	0.4	0.4
1978	Morris: IFS	France	C	4.8	5.5	1.1
	(1980)	Germany	C	6.9	6.1	1.8
		United Kingdom	C	2.7	1.7	1.1
1980	Buckwell, et al.	France	C	5.4	5.2	2.0
	(1982)	Germany	C	9.0	6.5	2.7
		United Kingdom	C	3.7	2.5	1.4
1984	Harvey & Thompson	France	C	8.2	10.9	3.0
	(1985)	Germany	C	11.8	11.4	5.5
		United Kingdom	C	7.8	6.0	3.8

* c - current year

Sources: Walters (1987), p. 23; Buckwell, et al. (1982), pp. 49, 121, 124 & 130; National Consumer Council (1988), p. 255.

that price cuts caused larger farm income losses in Germany than in France or the UK. His study demonstrated that a 5% cut in real prices would have reduced German farm incomes by an average 540 EUA or about 10% of their 1980 net income. In contrast, the same price cut would have reduced average incomes in France by about 450 EUA (6.5% of net income) and in the UK by 510 EUA (only about 6% of net income). Meanwhile, the agri-monetary system affected farmers even more widely. Veer estimates that French farmers would have increased their incomes by 5% if the agri-monetary system had ended in 1983, while German farmers would have suffered a 15% cut in income. As the pound was stronger at that time, UK farmers would have faced an 11% fall in their incomes; if the pound had been weak, UK farmers would have gained.

Table 6.2 Impact on Farm Incomes of a 20% Price Cut and Termination of the Agri-monetary System (Based on MCAs existing in 1983)

	Cut Prices 20%	End MCAs
France	-23%	+5%
Germany	-24%	-15%
UK	-23%	-11%
Belgium/Luxembourg	-21%	0%
Denmark	-21%	-1%
Greece	-14%	0%
Ireland	-26%	0%
Italy	-14%	0%
Netherlands	-17%	-6%
EC10	-20%	-2%

Source: J. de Veer "National Effects of CAP Trade Liberalization," in Tarditi, et al. (1989), p. 107.

Because price cuts would hurt German farmers relatively more than French or UK farmers, Germany has generally tried to avoid direct price cuts and instead preferred to make changes to the related mechanisms. When Germany was forced to veto the 1985 price package, it decided it would have to seek some way to protect its farmers from the inevitable realignment of prices. The co-responsibility system was the answer. It distributes the cost of price cuts differently because the levy is applied solely on cereals marketed or sold into intervention (i.e. not on cereals consumed on farm) while small farmers receive cash grants equivalent to the levy on the first 25t of cereals marketed. Consequently, farmers planting less than approximately 5 hectares (5ha x 5t/ha = 25t) or feeding a large portion of their cereals to their own animals would be virtually exempt from the levy. Table 6.3 shows that because of those specific rules, only about 23% of German farm holdings (mostly large) had to pay the cereals levy (more than 30% of farmers cultivate less than 5 ha and almost one-third of wheat produced is fed on farms). In contrast, more than 50% of French holdings and about three-quarters of UK holdings had to pay. Germany therefore preferred co-responsibility and stabilizer levies.

Table 6.3 Application of the Co-Responsibility Levy (1985)

	France	Germany	UK	EC8
Production (Mt)	54.3	25.3	22.3	113.9
Subject to levy (Mt)	29.7	4.6	16.8	55.8
Production subject to levy (%)	55%	18%	76%	48%
Holdings subject to levy (%)	51%	23%	73%	41%
Note Items (EC10):				
Avg. cereals ha/farm	13.9	8.6	42.3	8.3
% wheat fed on farm	12%	31%	5%	13%

Source: House of Lords (1986), p. 31.

The Public Interest

The public interest can be viewed as the Pareto optimal set of measures for each country. In the farm case, this usually entails evaluating the costs and benefits of the CAP and summing up the gains and losses for each nation. It is assumed to be in the public interest of a nation to maximize its total economic welfare. This approach, adopted by empirical economists, assumes that a dollar (pound, DM, or franc) lost is worth a dollar gained, regardless of who wins or loses. The studies cited in Table 6.4 demonstrate that it is in the public interest for France, Germany, and the UK to end the CAP price system. On a national basis, the costs of the CAP are levied more heavily on the UK and Germany than on France. The UK gets a small share of the producer benefits because it has a small farm sector so, after the consumer and taxpayer losses are deducted, its net deadweight losses are large. Germany also has a large deadweight loss because its taxpayers pay a large share of the EC budget. France, in contrast, suffers a smaller deadweight loss because its producers get a large portion of the producer benefits. The four studies also suggest that the deadweight losses have risen for each of the countries in the 1980s compared with the 1970s.

Table 6.4 Estimated Cost of Agricultural Support in France, Germany, and the UK (B ECU)

Ref. Year	Study Author & Date of Study	Study coverage as in Table 1.1	Base for Prices	Deadweight Loss	Loss as % of GDP
1976	Bale & Lutz (1981)	France	C	0.5	0.16%
		Germany	C	0.7	0.19%
		United Kingdom	C	0.1	0.04%
1978	Morris: IFS (1980)	France	C	0.4	0.12%
		Germany	C	2.6	0.35%
		United Kingdom	C	2.1	0.81%
1980	Buckwell et al (1982)	France	C	2.2	0.46%
		Germany	C	5.2	0.89%
		United Kingdom	C	2.7	0.69%
1984	Harvey & Thompson (1985)	France	C	0.3	0.05%
		Germany	C	5.9	0.75%
		United Kingdom	C	5.6	0.95%

Sources: As for Table 6.1.

In 1980, Harvey estimated (Table 6.5) that the economic efficiency of the CAP was less in Germany and the UK than either in the Community as a whole or in France. On average, less than half the money given up by consumers and taxpayers in the UK was actually going to the farm sector. The rest was being dissipated through inefficient production and consumption. The policy was little better in Germany. In contrast, France found that more than 70% of its effort reached its target. More disturbing to policy makers, however, was that incremental price increases were an increasingly poor means of supporting farm incomes. Harvey estimated that the UK would have to give up more than £2.25 for each £1 that would be added to farm incomes. Germany and France also showed poor efficiency ratings for incremental price rises. Consequently, as prices continued to rise during the early 1980s, the absolute deadweight losses rose (see Tables 1.1 and 6.4).

Table 6.5 The Economic Efficiency of the CAP (1980)

		Efficiency Ratio	Percent Efficient
Average Efficiency:	France	1.42	70.4%
	Germany	1.80	55.6%
	UK	2.06	48.5%
	EC9	1.50	75.0%
Efficiency of 10% Price Increase:	France	1.61	62.1%
	Germany	2.20	45.5%
	UK	2.25	44.4%
	EC 9	1.79	55.9%

The cost-benefit ratio shows the ECUs taxpayers and consumers surrender to increase farm incomes by an additional ECU; conversely % reaching farmers shows the proportion of money foregone which increases farm incomes.
Source: Harvey (1982), pp. 177-78.

Of course, the operation of the CAP results in financial flows between the member states. Although the flows net to zero for the Community as a whole, flows into or out of individual countries represent significant gains or losses for member states. Koester estimated that France, in particular, gained about 9.2 M UA for each one percentage point increase in common wheat prices in 1975, which certainly provided justification for France pushing for higher common prices during the 1970s. In contrast, the UK was against price rises because every percentage point increase worsened the already critical balance of payments deficit by about 4.7 M UA. The

German economy lost only about 1.2 M UA from each price increase.[8] Higher prices after 1975 enlarged the inter-state transfers, eventually forcing a change in the budgetary rules. By 1985 the UK and Germany endured annual outflows that averaged about £1.8 B while France gained about £300 M annually. After Council agreed to give the UK a rebate, the annual net UK financial loss from the CAP fell to about £500 while France began to experience financial outflows.

Table 6.6 Summary of Estimates of the Inter-State Transfers Resulting from the EC Common Agricultural Policy (£ million)

	Koester *(1977)	Blancus #(1978)	Rollo & Warrick ‡(1979)	Cambridge (1979)	Buckwell et al ^(1982)	HM Treasury (1982)	#1 EC Auditors (1985)	#2 EC Auditors (1985)	UK Govt (leaked) '(1987)
Ref. Year	1975	1976	1978	1979	1980	1981	1985	1985	1987
France	+170	+272	+521	+734	-22	+597	+294	0	-195
Germany	+12	-122	-404	-671	-1041	-1750	-1826	-2061	-2018
UK	-79	-593	-818	-1123	-1150	-1422	-1767	-589	-536
Italy	-85	-736	-786	-646	-558	+778	+707	+471	+341
Netherlands	-50	+91	+628	+631	+1166	+191	+295	+236	+146
Belgium/Lux.	na	-129	-62	+156	+89	+568	+530	+471	+355
Ireland	na	na	+506	+475	+962	+586	+707	+648	+487
Denmark	na	-14	+621	+618	+824	+285	+236	+177	+195
Greece	-	-	-	-	-	-	+825	+766	+766
Portugal	-	-	-	-	-	-	-	-	+146
Spain	-	-	-	-	-	-	-	-	+195

Note: #1 EC Auditors is without the UK rebate and #2 EC Auditors is with the UK rebate. ‡ With net effect on trade account measured using export restitutions. * Converted from units of account at 1 ua = £0.41667. # Converted from US$ at US$1 = £0.55595. ^ Converted from EUA at 1 EUA = £0.598488. ' Converted from ECU at 1 ECU = £0.696027. + Converted from ECU at 1 ECU = £0.588977
Sources: BAE (1985); Buckwell, et al. (1982); Franklin (1988), p. 16; The Economist, 20-6-87.

Even when there was consensus that the CAP cereals price policy needed to change, there was little agreement about which mechanisms to alter. Veer's study of the 1983 systems (Table 6.7) showed that Germany and the UK would benefit most from price cuts while France and the

8. U. Koester in Buckwell, et al. (1982), p. 63.

UK would gain from the end of the MCA system. In contrast, Germany would not benefit from the end of the MCA system. An earlier study, based on 1979-80 MCAs, estimated that Germany would lose about 51 M ECU if the agri-monetary system ended while France would gain about 1.2 B ECU.[9] The UK was estimated to lose more than 1 B ECU for two reasons. First, it had a large positive monetary gap at that time, which meant its farmers would have suffered relatively large price cuts. Second, the end of MCAs would raise the cost of operating the CAP because prices and production would rise in the many member states with large negative monetary gaps and the UK, as paymaster for the CAP, would bear a disproportionate share of those costs without getting the benefits. With UK budget rebates in the 1980s, the net impact on the UK would be less.

Table 6.7 **Impact on National Economies of a 20% Price Cut and Termination of the Agri-monetary System (existing in 1983)**

	Cut Prices 20%	End MCAs
France	+0.26%	+0.04%
Germany	+0.42%	+ .00%
UK	+0.40%	+0.07%
Belgium/Luxembourg	+0.37%	--
Denmark	-0.14%	-0.04%
Greece	+0.71%	--
Ireland	-1.55%	--
Italy	+0.65%	--
Netherlands	+0.08%	-0.13%
EC10	+0.37%	+0.01%

Source: J. de Veer, "National Effects of CAP Trade Liberalization," in Tarditi, et al. (1989), p. 108.

9. L. Mahé & C. Moreddu, "Analysis of CAP Trade Policy Changes," in S. Tarditi, et al. (1989), p. 91.

Kinds of Electoral Systems

Politicians are often willing to support specific sectors even if that harms the nation's public interest, provided the political benefits outweigh the economic costs. In the farm case, farmers gain or lose power to influence the government depending on the type of electoral system in the country. In first-past-the-post, single-member constituency systems (e.g., the UK), groups usually need a significant block of votes to have any serious chance of influencing policy through the electoral system. They must command at least as many votes as the victor's normal plurality during an election. In contrast, proportional representation often dilutes single interest voters' influence unless the group represents a large portion of the vote (e.g., farmers in France in 1950s and 1960s) or unless it concentrates its vote on small or regional parties that can be dominated by interest groups (e.g., farmers in Germany).

The Style of Government

The style and form of government also critically determines whether special interests can influence policy. Coalitions are generally easier to influence because their survival usually depends on a few legislative votes which can be swayed by interest groups. Coalition governments often compartmentalize policy to limit overlaps between policy areas, with the result that sectoral debates often are not open to counterbalancing lobbies. Presidential systems potentially are quite closed if elections are infrequent and the President does not need support from the elected assembly, but can be susceptible to pressure during or near elections if the vote is likely to be close. Finally, Cabinet government, as practised in the UK, can either be controlled by determined single-interest groups or open to wider concerns, depending on the concerns of the Prime Minister and the Cabinet.

In summary, the national interest reflects these different strains and opportunities as special interests use the various electoral and government systems to press for their preferred outcome. The following sections examine France, Germany, and the UK to demonstrate the evolution of their national interests.

FRANCE AND THE CAP

Farm interests in France are considered by most people to be generally compatible with the French public interest.[10] French farmers, politicians, consumers, and industrialists generally view farming as a viable and expanding sector that should be assisted. France has been a wheat exporter since before the Second World War and by 1980 regularly exported more than half its annual production. President Valéry Giscard d'Estaing summed it up best in 1977 when he called agriculture the "petrole vert de la France."[11] As a result, farmers and the government have focused on the best way to keep the French farm sector competitive in European and world markets.[12] During the 1970s, farmers and the government were satisfied that they could improve efficiency and maintain their commercial interests within the existing price regime in Europe. The higher prices that were set to support farm incomes provided an ideal environment for farmers to expand production and exports. The Federation Nationale des Syndicats d'Exploitants Agricoles (FNSEA), the major farm organization, had bargained its way into the public policy process in France, so that it commanded great power over the content of policy and was able to match farmers' commercial interests with their social concerns.[13]

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10. Agra Europe (1983), p. 73.
11. Duchêne, Szczepanik, & Legg (1985), p. 95.
12. Neville-Rolfe (1984), p. 104.
13. Keeler (1987), pp. 9, 12-13.

The "corporatist" relationship between the government and the farm lobby held until the Socialists won the 1981 election. By then the changed production and financial structures had strained the historically strong bonds between farmers and the government. The administration decided it was time to weaken its formal links with FNSEA. The new government no longer believed that the CAP price regime was consistent with France's public interest. The French farm lobby recognized that it could not expect to keep both high prices and the unrestricted right to produce and sell for commercial markets. As a result, the larger farmers led the French farm lobby to champion the realignment of prices towards world levels and the development of a commercial policy for wheat.[14]

FNSEA positioned itself at the centre of a powerful information and lobbying network after 1958. In contrast to Germany and the UK, French law (the 1945 Tanguy-Prigent Liberation Ordinance) prohibits FNSEA from providing insurance or cooperation services, which reduces its ability to attract members through provision of non-collective services. At the start of the Fifth Republic in 1958, FNSEA therefore entered a corporatist relationship with the newly strong executive government in order to solidify its position.[15] In exchange for support for the government, FNSEA got exclusive access to the policy system and was given responsibility for the operation of many important administrative agencies and boards that managed the farm modernization program. FNSEA controlled, for example, the Sociétés d'Aménagement Foncier et d'Etablissement Rural (SAFERs), which buy land from retiring farmers and reallocate it to expanding farmers.[16] Because local FNSEA members effectively determined the viability of new and expanding farmers through

14. Neville-Rolfe (1984), p. 132.
15. Neville-Rolfe (1984), pp. 51 & 55.
16. Neville-Rolfe (1984), p. 112.

these agencies, farmers had great incentive to join the organization. Furthermore, FNSEA got large subsidies from the government that allowed it to offer services to members; Keeler argues that without the subsidies FNSEA would not have survived.[17] Finally, FNSEA was the sole recognized voice for farmers in France. Although there are three or four other farm organizations, they generally had smaller memberships and, until 1982, were totally excluded from the policy system.

As in Germany, there are no effective non-farm lobbies to offset the power of the farm movement. Consumers, environmentalists, and industrialists have had neither the inclination nor means to influence policy. In 1987, for example, half of all consumers agreed that the CAP was "worthwhile" while only 17% disagreed.[18] This is a least partly because the average consumer and taxpayer pays less in absolute terms than in Germany and the cost of the CAP relative to average household incomes is lower in France than in Germany or the UK. The predisposition toward the CAP is also at least partly because the benefits and costs are spread more evenly in France than in either Germany or the UK. Producer losses or gains are felt more widely than in either of the other two countries both because of the larger number of farmers in France (1.5 M or 7.1% of total civilian employment in 1986) and because about 20% of the French population has an interest in agriculture through land inheritance.[19]

Throughout the 1960s and 1970s, the high price policy also was almost fully consistent with the French public interest. Producer benefits were estimated to be greater than consumer costs and almost equal to the total

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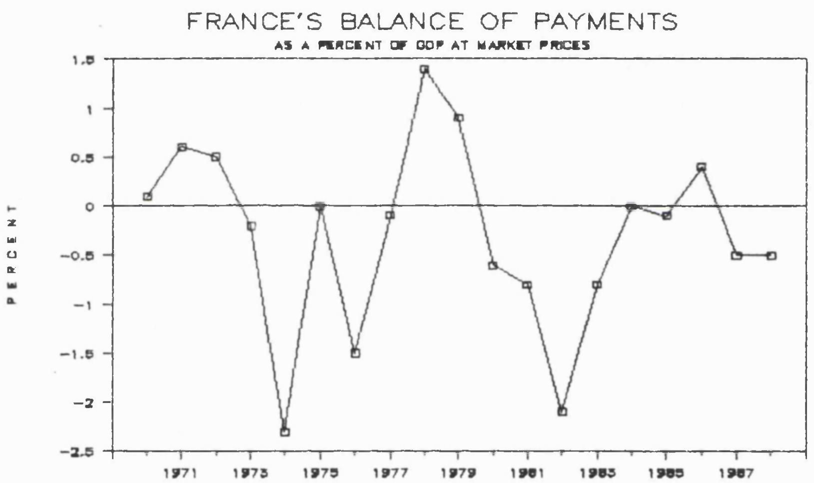
17. Keeler (1987), p. 167.
18. Eurobarometre #27, Table A40.
19. Financial Times, 16-6-80.

of consumer and taxpayer costs (Table 6.1); the country was a net recipient of inter-state transfers caused by the CAP (Table 6.6); and every percentage point increase in guaranteed wheat prices raised inter-state flows to France by more than 9 M UA. As France had a sustained large current account deficit, even with the large net in-flows from the CAP, the nation benefited from any increases in institutional prices (Fig. 6.1). Finally agriculture was judged to be a key sector that would press for greater European integration, which suited France's security interests.

Figure 6.1



By the 1980s, however, France's public interest had altered, which created the conditions for change in the policy orientation in France. Using prices to support farm incomes became increasingly inefficient, so that the producer benefits of the CAP were less than the consumers' cost. Furthermore, expansion of the CAP to new Mediterranean products, the 1984 budget deal, and the accession of Spain and Portugal in 1986 turned France into a net payer from its long-term position as a net beneficiary of the CAP. Meanwhile, less than 8% of the French population depended on agriculture in the 1980s, compared with 13.5% in 1970 and 22.5% in 1960. About that time France also re-evaluated its security interests, and decided that the CAP impeded development of non-farm policies, which potentially threatened the Western alliance (see chapter 2). But agriculture remained important because it contributed a major share of national export revenues (12.6% in 1986). The French government, and eventually the farm lobby, decided France had more to gain if the CAP was reformed so that commercial farmers could maximize their production and export potential.

The key opportunity for farmers to influence policy through the electoral system comes at the septennial presidential election, when farm votes are carefully courted by right-of-centre presidential candidates. In 1966, the 'empty chair' confrontation in the European Council so angered farmers that they nearly defeated Charles de Gaulle in the primary election that year. Future right-wing candidates ensured they did not anger the farm sector near elections. In 1974, Giscard won the Presidency at least partly because Jacques Chirac swung the farm vote in his favour; the net one million farm votes (69%) he gained offset his deficit in the non-farm vote. In 1981, even though 67% of farmers again voted for Giscard, he lost. The significantly smaller farm population was unable to muster enough votes to offset Giscard's non-farm vote shortfall. Then François Mitterand was re-elected in 1988, even though he had antagonized farmers throughout his first term. Below the Presidential level, however, farmers remained powerful. Farmers have strong connections at the local level, both through the Chambres d'Agriculture (dominated by FNSEA members) and through their "notables" (local elected officials). A survey in the late 1970s showed that 94% of farmers were acquainted with their 'notables' and 84%

had recourse to them if needed, which was the highest of all socio-economic groups.[20]

Table 6.8 Electoral Influence of Farmers in France

Voting System: Proportional Representation

Farm Population as Share of Total Working Population:
1960: 22.5% 1986: 7.3%

Impact of Farm Vote:

1966:	farmers, unhappy with the empty chair in Brussels, nearly defeated de Gaulle in the Presidential election
1974:	net one million farm vote (69%) went to Giscard (winner) cf. net win of only 400,000
1981:	67% of farmers voted for Giscard; Mitterand won
1989:	Mitterand again defeated Giscard

Sources: Keeler (1987), p. 103; Neville-Rolfe (1984), p. 129.

The 1981 election marked a turning point for farmers. Before Mitterand was elected he prepared plans to break the compact between the FNSEA and the government. Immediately after the election, Edith Cresson, the new Socialist agriculture minister, granted official status to three competing farm organizations, in addition to FNSEA. Then in June 1981 Cresson announced new aid to the farm sector. Unlike in the past, however, FNSEA did not have any role in administering the program.[21] Cresson also announced plans to review regulations on elections to the Chambres, to replace SAFERs with councils not controlled by FNSEA, and to create new professional associations to replace those controlled by FNSEA. The government thereby hoped to undercut FNSEA's power base and to supplant it with sympathetic left-leaning farm

20. J. Hayward, "Mobilizing Private Interests in the Service of Public Ambitions," in Richardson (1982), p. 126.
21. Keeler (1987), pp. 219-22.

organizations. These actions set off a "hot winter" for the French government. Although SAFERs were not changed and FNSEA continued to have privileged access to the President, in the end FNSEA was faced with the reality that it no longer controlled the policy agenda. Finally, in 1984 Mitterand announced that farmers would no longer be allowed to disrupt the peace in an effort to influence the government. He threatened "tough action" against farmers who damage public buildings during farm protests; in the past farmers had gone largely unprosecuted.

Agriculture nevertheless remained a key portfolio for ambitious politicians. A number of political leaders have used the post of minister for agriculture in the French government or president of the FNSEA as a "springboard" to French or European politics.[22] From the minister for agriculture job, both Chirac (1973-74) and Michel Rocard (1983-86) ultimately became Prime Minister. Two presidents of the FNSEA also moved to greater prominence: Michel Debatisse first became a leading member of the European Parliament for the Gaullist party and then Secretary of State for the Food and Agricultural Industries in 1979; and François Guillaume was recruited as French minister for agriculture for 1986-88.

Good relations with the farm lobby were necessary to run the highly interventionist national farm policy during the 1970s. The potential for farm influence was strongest when the French government was most active in the sector, because "the more difficult an interventionist scheme is to administer within a sector, the more the state must seek the collaboration of interest groups."[23] As the new Socialist government withdrew from interventionist policies after 1982, however, there was less need for those links with the farm lobby. As the benefits of

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22. Petit, et al. (1987), p. 46.
23. Keeler (1987), p. 258.

FNSEA membership became less certain, the natural divisions between large and small farmers, which had been building throughout the 1970s, began to cause strains within the lobby. The French government therefore found greater freedom to examine and develop farm policies that were not necessarily accepted by the FNSEA leadership.

Table 6.9 France's Opening Bargaining Positions on Cereals

Year	Prices	MCAs	Other
1973	<2.8%	+	na
1974A	ok		barley price too high; franc floated Jan. 22, giving farmers interim price rise
1974B	8.0%	na	aid for non-wheat producers given by France; Giscard promised to ask for new rise
1975	10.0%	3.5%	Chirac promised farmers min. 13.5%; "solemn undertaking"
1976	ok	ok	na
1977	3.0%	4.2%	na
1978	ok	ok	got 2.5% devaluation of franc effective Feb. 1, 1979; held MCAs constant in election
1979	2.0%	ok	agreed with Germany to phase out MCAs & press for +2% prices
1980	5.0%	2.0%	promised farmers aid
1981	10.0%	none	aid announced before prices set
1982	15.0%	1.5%	aid announced before prices set; threatened majority vote against UK; guarantee threshold ok
1983	ok	4.8%	wanted large cut in German MCAs
1984	-1.0%	5.8%	na
1985	ok	ok	accept price cuts
1986	n.a	ok	accept co-responsibility
1987	n.a	ok	accept changes in intervention; not keen on direct income aid
1988	n.a	ok	accept stabilizers; not keen on set asides

ok = accept Commission proposal
Sources: Financial Times, The Times, and Agra Europe.

Until 1983, the French government generally listened to and supported the farm lobby at least during the price review. The government was determined to forestall disruptive farm protests with promises, which usually entailed prices higher than proposed by the Commission (table 6.9). But with the strong links between France and DG-VI, there was seldom much difference between their positions. They both accepted in the early 1970s that prices should be used to support farm incomes and, in the mid-1970s worked to introduce an automatic agri-monetary system that would not allow Germany to maintain an undervalued green rate. Farmers meanwhile used their strong links with the government to extract maximum price increases through a combination of negotiation and protest. They were able to extract solemn undertakings from the French government (often from the Prime Minister or President) to support their demands in Brussels or, if that failed, to supplement inadequate price rises with national aids. Only for a short period during the tenure of Prime Minister Raymond Barre were farm interests partly subordinated to the national anti-inflation program.[24] Generally, however, the government supported demands for higher ECU prices and the end to the agri-monetary system because both would help the French balance of payments and national income. As recently as 1982, the French government fully supported farm demands, and even threatened to force a majority vote for the price package to overcome a block in the Council.

Beginning in 1981, the government's opening position on the price talks shifted in line with the new public interest. France was increasingly concerned to sustain and improve the international competitiveness of French farmers.[25] Consequently, after 1982 France supported Commission efforts to realign EC wheat prices with US target prices and to introduce an active export policy. When price cuts proved impossible in 1985, France worked with the Commission to develop the co-responsibility sys-

24. Neville-Rolfe (1984), p. 131.
25. Franklin (1988), p. 30.

tem that replaced the price and income policy of the 1970s and early 1980s. Farmers also accepted that the system would need to change; they could no longer hope to keep both high prices and unrestricted market privileges. Commercially competitive farmers, in particular, disliked any scheme that would limit their production or output, such as compulsory land set-asides or tied income aid. Although smaller farmers were less certain about the direction of reforms, FNSEA was dominated by the larger farmers. Votes in the lobby were based on dues paying members, which tended to be disproportionately wealthy Northern cereals producers rather than poor Southern farmers.[26] As a result, FNSEA accepted that the CAP must change. The quantum approach of co-responsibility and thresholds became popular in the 1980s at least partly because it was similar to the system already administered by the Office National Interprofessionel des Cereales (ONIC), where cereals producers paid a levy to develop domestic uses and export markets for French cereals. Provided the co-responsibility funds were used to expand market opportunities, that option would be acceptable.[27]

In summary, during the 1980s farmers faced the prospect of losing control of the farm policy network in France as the changes in the power structures forced apart the interests of farmers and the public. The new Socialist government, which did not depend on farm support, weakened the farm lobby after 1981 and seemed poised to bargain in Brussels for changes in the CAP. In response, the farm lobby adjusted its policy to support re-orientation of the price system and expansion of programs to improve competitiveness and exports. Consequently, by the mid-1980s the French farm policy community was re-united, only now in support of reform rather

26. Keeler (1987), p. 105.
27. Neville-Rolfe (1984), pp. 17 & 132.

than in defence of the old price system. France had become the driving force behind CAP reform.

GERMANY AND THE CAP

German history and the republican political system have provided German farmers with a unique opportunity to control the national position in European farm debates. Following the war, Germany actively supported farmers to promote food self-sufficiency and to sustain the population base in many war-ravaged areas. This policy fitted into the economy-wide security and production structures. In the unsettled period immediately after 1945 and up to the mid 1960s, West German politicians were particularly worried about Communist invasion from East Germany. The government regarded farmers—which represented more than one quarter of the total West German population in 1950 and virtually all of the rural population—as a bastion against Communist agitation within the rural areas along the border.[28] At the same time, the government was pressed to develop non-farm jobs for the 12.5 M refugees from the East between 1945 and 1961 and took the opportunity to slow farm rationalization.[29] In return, farmers expanded output, integrated themselves into the rural economies, and actively supported conservative governments. In 1955, the political bargain between farmers and the government was enshrined in the Green Law, requiring the government "to enable agriculture ... to offset the existing natural and economic disadvantages" in order to "equalize the social situation of people working in agriculture with that of comparable professions."[30] The government also encouraged industry to locate in rural areas to provide both full-time and part-time off-farm employment.[31] So by the time the CAP was created, farmers were well entrenched in German politics,

28. J. Ertl quoted in Financial Times, 8-11-78.
29. George (1985), p. 59.
30. Tangermann (1979), p. 243.
31. Ardagh (1987), p. 131.

with privileged access and significant influence over policy.

The German farmers' union, Deutscher Bauernverband (DBV), maintained its role at the centre of farm policy in Germany after 1958 because of its strong and loyal membership. The DBV is in practice the only key to the powerful lobby and farm service system. Through the Deutsche Raiffeisenverband (DRV), the cooperative movement markets more than half of the nation's cereals and 78% of the dairy products, supplies 62% of the fertilizers and 36% of the machinery, and provides 27% of farm finance.[32] Although the DRV is legally separate, it markets DBV memberships, which are "assumed by farmers to be a prerequisite for their [DRV services] obtainment."[33] At the same time, the DBV provides virtually the only access to government for farmers. Consequently, more than 90% of all German farmers are members of the association. The DBV also remains active all year round—a survey of DBV members in North Rhine-Westphalia around 1980 showed 94% of the members attended at least one meeting a year and more than 50% attended regularly—so that it can mobilize the lobby during elections and key policy negotiations.[34]

The unity of the German farm lobby was severely tested but only partly damaged over the 1973-88 period. While the Napoleonic inheritance laws in Baden-Wurttemburg, Hessen, and the Rhineland-Palatinate led to farms being broken into smaller holdings, primogeniture in the North and much of Bavaria encouraged farm consolidation.[35] Combined with the shifting production and financial structures throughout the 1970s and 1980s, divergences in the German farm sector increased. The absolute

[32]. Foxall (1982), p. 54.
[33]. Keeler (1987), p. 262.
[34]. Andrlik (1981), p. 106.
[35]. Ardagh (1987), p. 129.

number of farmers in Germany dropped from more than five million in 1950 to about 1.3 M in 1985 while almost half the remaining farmers also work off-farm. The regional dimension compounded the economic divergences and caused strains to show within the farm lobby. These conflicts came to a head in 1972 when the DBV, dominated by large-scale, full-time farmers, pushed the German government to prepare a 'Green Plan' that would provide support only for larger farmers. Small and part-time farmers, comprising the majority of the German farm population, rebelled and formed a new association to lobby for their interests.[36] The new organization remained weak, however, because it did not get official recognition from the government; most farmers remained members of the DBV.[37] Nevertheless, relations in the farm lobby remained strained. As recently as March, 1987, 10,000 small farmers protested against the domination of the DBV by large agri-business and called for the president of the DBV to resign.[38]

Despite internal disputes, however, the farm lobby successfully defended its power-base in the German farm policy community because there is "no effective countervailing interest group" to the DBV.[39] Although the consumer associations in Germany have more than eight million members, they are not influential both because the membership is spread across 36 various organizations and because the national consumer federation has no direct access to the farm policy process. The distribution of winners and losers under the CAP both strengthens the farm lobby and weakens the consumer lobby. German farmers, because they are predominantly small, are heavily dependent on the CAP to sustain their incomes (Table 6.2). On the other side, although German consumers pay a

36. Andrlik (1981), p. 107.
37. Keeler (1987), p. 270.
38. Wall Street Journal (Europe), 5-3-87.
39. Bulmer & Paterson (1987), p. 92.

higher total cost for the CAP than their counterparts in France and the UK, they have significantly higher per capita incomes, so that in Germany outlays on food, alcohol, and tobacco comprise the smallest proportion of household expenditure of any member state.[40] Germans also recognize related benefits of the CAP. In a 1984 survey, 18% of the respondents liked the assurance of food supplies provided by the CAP while 11% thought the country benefited from the trade advantages in the policy; only 5% saw agricultural surpluses as a problem.[41] Much of the German population also views the CAP as the cost of belonging to the EC and not simply the cost of farm policy.[42] Furthermore, a majority of the population still lives in rural areas, so they see and accept the need to support farmers.[43] Consequently almost half of the German public surveyed in 1987 thought the CAP was on the whole worthwhile; only 22% thought the it was too costly.[44] Meanwhile, German town-dwellers have a romantic vision of farming:

> Witness so much of classical German literature. German poetry, even more than English, is full of the love and longing for nature: trees, rivers and meadows are personified, almost mystically. But this is rarely accompanied by any sense of a tough daily local life; poets visit nature to explore their own souls and to discuss philosophy. The German novel, equally, has seldom treated themes of rural life.[45]

German farmers have carefully cultivated that "ideology that closely associated the role of agriculture with social values (i.e., stability, continuity, solidar-

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40. ASC 1988, p. T/161, shows that in 1986 17.0% of German household expenditure went for food* compared with 20.5% in France, 18.9% in the UK, and 21.9% in the EC as a whole (* incl. beverages and tobacco).
41. Bulmer & Paterson (1987), p. 149.
42. Tangermann (1979), p. 249.
43. Philip (1989), p. 4.
44. Eurobarometre #27, Table A40.
45. Ardagh (1987), p. 141.

ity)."[46] As a result, there is little pressure to change the CAP.

Figure 6.2

Economic interest (as measured by deadweight losses or financial flows) should dictate that Germans would want to change the basic CAP system. Bale and Lutz (Table 6.4) estimated that in 1976 the costs to consumers and taxpayers exceeded producer gains by about 0.7 B ECU and more recent studies show that the costs rose to almost 6 B ECU in the 1980s. As well, Koester determined that every increase in guaranteed prices raised the net payments from Germany to the rest of the Community (Table 6.6). But Germany had relatively steady economic growth and a sustained balance of payments surplus over most of the period, (Fig 6.2) so it could afford to ignore the negative effects of the price system and instead concentrate on the defence of those CAP features from which it benefited. The agri-monetary system, in particular, was popular with all the federal ministries[47] because "by effectively keeping control over the level of its green

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46. Hendriks (1987), p. 39.
47. Petit, et al. (1987), p. 56.

exchange rate, the German government, like the British, sought to retain within the framework of the CAP an important element of traditional national policy."[48] MCAs provide higher domestic prices and stronger German farm incomes while dampening prices in other countries, thereby lowering potential EC production, surpluses, and budgetary costs.[49]

The proportional representation system (with both single member constituencies and list voting) consolidates the power of the farm vote because the resultant coalitions need to court either the farm vote directly or the smaller parties that win with farm support. Individual farmers and the DBV generally support the Christian Social Union (CSU) in the large farming state of Bavaria and the Christian Democratic Union (CDU) elsewhere. In 1969, however, the Socialist Democratic Party (SPD), which was not as pro-farmer as the CDU/CSU, governed in coalition with the Free Democratic Party (FDP). Farmers fortuitously got support from Josef Ertl, a Bavarian FDP member appointed as minister for agriculture. The SPD had little sympathy with the CAP but Ertl successfully exploited the coalition to support farm interests.[50] The FDP gradually became more receptive to farm interests and after 1980 it actively courted farm votes to ensure the party could get the 5% minimum vote to ensure its parliamentary representation.[51] Ertl remained agricultural minister for 14 years, strongly supported when policy disputes arose by the other three FDP ministers in Cabinet. After the 1981 election, the FDP shifted into a coalition with the CDU/CSU and Ertl resigned. The new agricultural minister, Ignaz Kiechle, was a CSU member and became another strong farm supporter. Throughout the period the national governing coalition faced almost con-

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48. Neville-Rolfe (1984), p. 72.
49. Tangermann (1979), p. 250-51.
50. Neville-Rolfe (1984), pp. 90-93.
51. Philip (1989), p. 11.

stant pressure from farmers because the federal system ensured that there was seldom a period without either Länder or national elections. Governments in France and the UK, in contrast, generally have the comfort of three or four years between elections, which allows them greater freedom from special interest lobbies.

Table 6.10 Electoral Influence of Farmers in Germany

Voting System: Proportional Representation; 5% tourniquet

Farm Population as Share of Total Working Population:
1960: 13.8% 1986: 7.3%

Impact of Farm Vote:

1969:	about 10% of the lower house (52 out of 518 members) were farmers or associated with farming; the CDU/CSU would have needed 2/3rds of the farm vote to get a majority while the SPD could only get a majority if all farmers abstained
1972-76:	24 out of 29 farmers elected were CDU/CSU
1972:	33 of 40 closest results had a farm vote greater than the total plurality; 16 went to SPD; 17 to CDU/CSU
1972-76:	22 out of 28 farmers elected were CDU/CSU
1976:	135 of 248 districts have more than 5% farm vote; 44 districts had greater than 15% and 91 have 5-15%; 31 of 40 closest results had a farm vote greater than the total plurality; 20 went to SPD; 11 to CDU/CSU
1980-83:	22 out of 33 farmers elected were CDU/CSU
1983:	16 farmers were members of the CDU/CSU; 3 in the FDP; and 2 in the SPD.
1983-:	23 out of 33 farmers elected were CDU/CSU

Sources: Andrlik (1981), p. 115-16; Neville-Rolfe (1984), pp. 85-6 ; Schweitzer, et al. (1984), table 5.

The federal system of government in Germany further strengthens the farm lobby. Federalism has forced decentralization and diffusion of power because the Länder (through the upper house) have a say on farm policy. The federal Cabinet often has little opportunity to influence farm policy because the compromises and options have been finessed in negotiations among the department and minister for agriculture, the DBV, the Bundestag, and the Länder. This "sectorized nature of policy-making in the Federal Government places the existing [CAP] policy—and its protagonists in the ministry—in a strong position."[52] While German agricultural officials are legally bound to consult with the DBV, consumers, environmentalists, and industrialists only have access to farm debates through other ministers in full Cabinet.[53] But because the Cabinet has little say on farm issues, these other views are largely unheeded in the farm policy debate. The DBV maximizes its impact in the system by working closely with the ministry of agriculture: key members of the ministry "usually come from" the DBV, so that there is a common view on the issues and prescriptions and close personal ties between the two.[54]

The resulting set of interlocking bargains inside Germany ensures that farm interests dominate and determine the German national position in European farm debates. The German minister for agriculture almost always begins the price review demanding a set of prices that favour farmers, either through relatively low ECU price increases and no change in the undervalued green DM, or higher ECU prices to compensate for any green DM change. The bottom line has always been that DM prices and farm incomes must not fall.

In the 1973-76 period, the farm lobby faced two serious challenges to its high price policy: anti-inflation policy topped the SPD economic agenda while Ostpolitik was Chancellor Willy Brandt's key foreign policy venture. While the inflation policy was a greater immediate threat, any thaw in East-West relations would

52. Bulmer & Paterson (1987), p. 72.
53. Bulmer & Paterson (1987), p. 105.
54. Edinger (1986), p. 192.

undercut the long-term security reason for Germany to support the CAP. Both policies therefore threatened farm prices and incomes. Nevertheless, Ertl used the coalition system to ensure his government supported price increases for German farmers.

Table 6.11 Germany's Opening Bargaining Positions on Cereals

Year	Prices	MCAs	Other Demands
1973	4.0%	-1.2%	na
1974A	<12.0%	na	Ertl favours price rise but less than DBV demand of 12%
1974B	0%	na	4% is "irresponsible"
1975	<6.0%	none	na
1976	0%	none	na
1977	+3.0%	none	na
1978	+3.5%	none	na
1979	+0%	none	agreed with France to phase out MCAs & press for 2% price rise
1980	ok	none	na
1981	ok	ok	na
1982	lower	none	na
1983	ok	none	na
1984	0%	none	threatens to veto 5% DM cut; wants green ECU
1985	0%	none	rejected price cut
1986	0%	none	rejected changes in mechanisms which reduced prices
1987	higher	none	price freeze and related measures were "declaration of war"
1988	0%	ok	not keen on stabilizers but would consider provided the maximum cut is 2.5% per annum; want set asides

Sources: Financial Times, The Times, and Agra Europe.

The Stocktaking, which Ertl forced as part of the compromise to the supplementary price review in September 1974, revealed some of the pressures he had to overcome to sustain his pro-farmer policy. The battle over the German position on the Stocktaking started in November 1974 when the German Institute for Economic Research, a quasi-autonomous research unit, reported that German farmers had higher average incomes than non-farmers. This obvious attempt to undercut the income argument for the CAP created problems for Ertl. When he proposed Germany renationalize the price system to ensure farm incomes, the Cabinet rejected that position and instead officially pushed for the CAP to be changed to support consumer interests and hold down the cost of food. The German Cabinet also asked for the European Council rather than the Farm Council to debate and to decide on CAP reform to ensure non-farm interests had a role. But before the European Summit, inflation in Germany decelerated and Schmidt's government did not push for reform. The Stock-taking was dropped quietly and German farmers continued to extract full support from its national system.

Then in 1979, world commodity prices soared, Germany's terms of trade deteriorated sharply, and the German current account moved into a significant deficit position, which triggered a major attempt to reduce farm support through the CAP. Ertl attempted to forestall the domestic reform movement during the second half of 1978 when as President in the Agricultural Council he declined to schedule time for debate of possible reforms. But in 1979 both Schmidt and his economics minister pushed for reform and in 1980 the SPD issued a study that proposed to end unlimited guarantees for surplus products and to introduce national income support instead.[55] Ertl held out, however, until the next election. When the SPD lost support in the 1981 election, the diminished FDP parliamentary wing shifted into a governing coalition with the CDU/CSU who were more sympathetic to farm interests.

Since 1981, the farm lobby has been more solidly supported by Chancellor Helmut Kohl and the Cabinet. In 1983 Kohl pondered publicly whether the EC should cont-

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55. The Guardian, 20-10-80.

ract to the original six countries.[56] Earlier in the year, Ertl had also won a "famous victory" over the economic and finance ministers when the German Cabinet agreed to press the Community to develop a green ECU.[57] His successor, Kiechle, was just as successful. During the next three price reviews, he was given Cabinet approval to take an unusually hard line in Council and reject any price cuts for cereals; he even was permitted to use the veto in the Farm Council in 1985. But the German veto proved ineffective (the Commission implemented the price cut anyway), as did Kiechle's rearguard action in the Farm Council in 1986 and his threat in 1987 to cut German payments to the EC if cereals prices were cut.[58]

The German farm policy community found it had to develop an alternative policy approach following the 1985 veto. The German government, prodded by the DBV, completely rejected direct price cuts but was willing to work with the Commission to reduce CAP outlays by implementing cuts in aids, ceilings on intervention, and lower Community participation in structural programs.[59] Germany also had been willing as early as 1968 to introduce quantitative limits on intervention buying and stocks.[60] It was therefore only a small concession to accept the concepts of co-responsibility and stabilizer levies. As a result of strong German pressure, however, the new system affected less than one quarter of holdings in Germany (Table 6.3).

Germany, because it had few commercially competitive farms, was also more willing than France to consider quantitative controls on production that would tie sup-

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56. The Times, 14-12-83. Kohl subsequently claimed that he was misquoted.
57. Petit, et al. (1987), p. 30.
58. Wall Street Journal (Europe), 5-3-87.
59. Neville-Rolfe (1984), p. 282.
60. Rosenthal (1975), p. 82.

port to individuals. As early as 1986, Germany got the Community to provide funding for an experimental set-aside program in one German state. When a Community set-aside program was finally approved by the Farm Council in 1988, German farmers had the highest take-up rate in the EC. By June 1989, more than 2.4% of German land was enrolled in the plan, compared with only 1.2% in the UK and less than 0.1% in France.[61]

The German farm lobby is perhaps the strongest and most resilient in Europe. In spite of government efforts to undercut it during the 1970s, it maintained a dominant role in the national debates that formed the policy positions taken to the Agricultural Council meetings. There seems little prospect of farmers losing that position to other lobbies, given the overwhelming sympathy and support from the population at large, the continuing absence of any effective countervailing lobby, and the distinctive electoral and governance systems in Germany. Because the farm minister represents both his government and the special interests of the farm sector in the EC Farm Council, Germany has been a formidable player in the reform negotiations.

THE UNITED KINGDOM AND THE CAP

The partnership forged during the Second World War between the NFU and the agriculture ministry did not survive the UK's accession to the Community. Before 1973 UK agriculture policy was invisible to most people. The ministry and the NFU had a monopoly on farm affairs; each supported the other in the policy process to exclude all offsetting lobbies.[62] In those years, the compact between farmers and the ministry was largely innocuous because the UK supported farmers through relatively small direct payments, rather than at the expense of consumers

61. Conversation with MAFF Official, July 1989.
62. Howarth (1985), p. 104.

or industry. The UK public interest coincided with private farm interest—at least as far as they were implemented within the particular UK political system. After 1973, however, the CAP strongly favoured farmers at the expense of both consumers and taxpayers, which was neither in the interest of the government nor the economy. The UK Cabinet therefore actively undercut the farm lobby, which ultimately provided the government with greater freedom of action to reform those parts of the CAP which harm the public interest.

The farm lobby in the UK faces difficult conditions. It is divided along regional lines, so that there are separate officially recognized farm organizations for England and Wales, Scotland, and Northern Ireland. These divisions reduce the movement's lobbying impact. More importantly, however, the NFU in England and Wales (the largest union) has neither a strong package of non-collective services to encourage farmers to join nor monopoly access to the policy system. Consumers, industrialists, and environmentalists have direct access to farm debates in Cabinet through the relevant ministers. The Ministry of Agriculture, Forestry, and Food (MAFF) is also responsible, as its name says, for food and forestry and consults regularly with their lobbies.

The farm lobby provides little in the way of non-collective benefits to attract and retain members. Co-operatives market only about 17% of the nation's cereals and have little to do with provision of the means of production, except insurance (through the NFU Mutual). Until recently, the key benefit of joining the NFU was the advice it gave on how to get government assistance. When farmers were less educated and the government less active in extension work, this role ensured that farmers could not "afford not to be a member of the NFU."[63] Tables 2.19 and 2.20 show that farmers are now better educated and the government has a much more active extension system to inform farmers of technical and program opportunities. UK financial deregulation also has increased competition in the insurance and finance sectors, reducing even those benefits. Consequently, the major non-collective benefit of NFU membership has diminished, which weakens the farm lobby.

The farm movement also weakened as structural changes increased the diversity of interests. NFU annual meetings after the mid-1970s produced frequent disagreement over policy, with large farmers pitted against small farmers and grain farmers confronting livestock producers.[64] After 1980, the divisions increased further as the measures taken to control cereals and milk production were assessed disproportionately on larger producers. This also led the NFU at times to disagree strongly with its European counterparts. In 1980 the conflicts became so great that the NFU debated and passed a motion at the annual meeting calling for the UK to withdraw from the CAP and implement national support measures.[65]

In general, the public interest set the anti-CAP tone in the UK. The nation as a whole had the worst ratio of costs to benefits (Tables 6.4 & 6.5), the economy faced a large and increasing outflow of funds due to the CAP (Table 6.6), and each incremental addition to wheat prices raised the net outflow, which exacerbated the already large current account deficit (Fig 6.3). The UK government judged that those costs were excessive, given that the UK standard of living was below the EC average.

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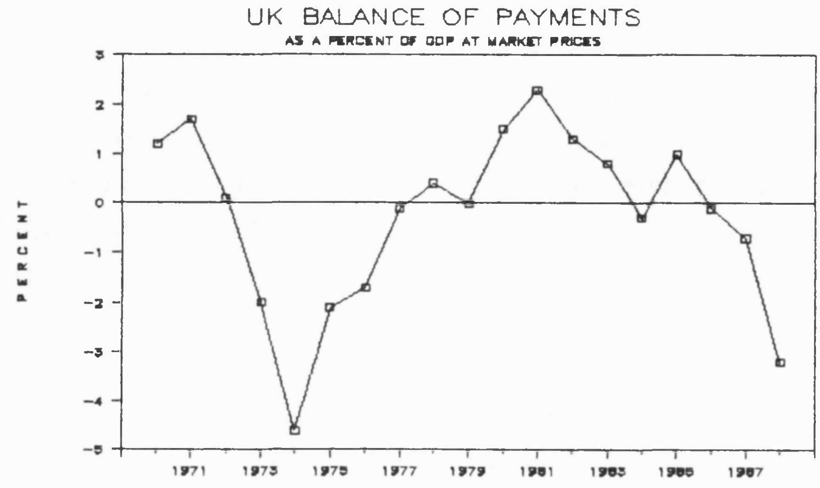
63. Howarth (1985), p. 108.
64. Howarth (1985), pp. 109-10.
65. The Times, 13-2-80.

Figure 6.3



Majority-party rule and Cabinet and party solidarity generally limited farm influence on the system to voting times. The Cabinet keeps tight control on all European affairs through the European Section of the Cabinet Office, reducing the opportunity for farmers to sway the agricultural minister. Meanwhile, the first-past-the-post, single-member constituency system (with frequent boundary reviews to eliminate inconsistencies in ridings) and declines in the farm population, combined to reduce the electoral power of farmers. By 1981, there were only 10 constituencies where the farm vote exceeded 15%; in 1955 there were 110. Furthermore, dependance on hired labour "reduce[d] the strength of farmer's lobbies from that indicated by the total labour force proportions."[66] Howarth concluded in 1985 that there was "no danger whatever to the Labour Party from losing whatever agricultural vote it has" and although in the past, Conservatives probably "had some reason to fear offending the farmers' vote," now "there no longer appears to be any electoral obstacle to the Tories adopting a radical

66. Harvey (1982), p. 183.

stance on farm policy."[67] The changes since the 1950s are significant. One Tory MP in 1988 commented that "you only have to go to Committee Room 14 every Tuesday where the Tory backbench agricultural committee holds its meetings. They used to have a hundred turn up. Now it's down to 10 or 20."[68] Most of the 'Tory Knights of the Shires' have been replaced by town-dwellers, who have a strong anti-farming bias.

Table 6.12 Electoral Influence of Farmers in the UK

Voting System: Single constituency, plurality voting

Farm Population as Share of Total Working Population:
1960: 4.8% 1986: 2.6%

Impact of Farm Vote:

1955:	110 ridings with more than 15% of vote from agricultural sector
1961:	74 ridings with more than 15% of vote from agricultural sector
1970:	60 agricultural seats were politically significant (the farm vote exceeded the half the plurality): Conservative (40); Labour (11); Liberal (9)
1981:	10 seats had more 15% of vote from agricultural sector
1983:	12 agricultural ridings were politically significant

Sources: Financial Times, 29-10-87; Howarth (1985), p. 113-6.

The NFU offset some of the decline in farm electoral significance during the 1950s, 1960s, and early 1970s as it maintained political neutrality and developed a strong working relationship with officials in MAFF. The Agricultural Act of 1947 provided the statutory right for farmers' representatives to be consulted by the government at the annual review of the agricultural industry

67. Howarth (1985), pp. 116-17.
68. The Independent, 16-12-88.

and the NFU was accepted as the sole voice of farmers.[69] The NFU used these close contacts to develop rapport[70] with MAFF officials, many of whom were recruited from the NFU. As a result, the farm sector was recognized as "the one unequivocal example of an economic sector where an interest group has been officially recognized by the state and incorporated into the process of decision making, not merely to represent its members but to play a joint role in the political management of the sector."[71]

When the UK joined the Community in 1973 the situation changed rapidly. In 1974, the Conservative government was defeated and the new Labour government opened farm policy to other interests. In line with its entente with trade unions, the Labour government favoured consumers: in particular, it maintained an overvalued green pound and fought to limit guaranteed price increases. MAFF at first "staunchly resisted any move to open up the agricultural policy community,"[72] but eventually accepted that as inevitable. The ministers for agriculture after 1974, who were usually both relatively junior members and non-farmers, were not much help because they were given a strong consumer-directed brief by Cabinet. As the farm sector adjusted in the 1980s to shifts in the underlying power structures, the ministry of agriculture—which is the only remaining sectoral ministry in the UK—sought new ways to justify its existence. The solution chosen, enshrined in section 17 of the Agricultural Act 1986, was to develop MAFF as the ministry for the countryside, in order to promote conservation, rural economic development, and rural tourism, in addition to traditional farm

69. Howarth (1985), p. 107.
70. Cox, Lowe, & Winter (1986), pp. 188-89, says the relationship has been called "clientelism," "symbiotic," and "proprietorial."
71. Cox, Lowe, & Winter (1986), p. 185.
72. Cox, Lowe, & Winter (1986), p. 196.

interests.[73] This changed mandate challenges the ministry to balance farm and non-farm interests and should further diminish farm influence.

Table 6.13 The UK's Opening Bargaining Positions on Cereals

Year	Prices	MCAs	Other Demands
1973	0%	none	na
1974A	0%	na	na
1974B	≤4%	none	na
1975	<9%	+7.5%	devalue green pound before prices set
1976	0%	none	opposed wheat reference price
1977	0%	ok	max 18-20% from transition, ECU prices & green £
1978	0%	5.0%	UK government forced to ask for 7.5% devaluation of pound
1979	0%	5.0%	will veto price increases
1980	0%	5.0%	bargaining for budget rebate; veto if necessary
1981	8%	none	na
1982	0%	none	bargaining for budget rebate; veto if necessary
1983	<4%	none	na
1984	0%	none	unhappy with green ECU system
1985	-5%	none	want prices cut directly
1986	ok	ok	would prefer price cuts; accepts co-responsibility but want it paid on acreage rather than sales; proposes voluntary set asides
1987	ok	8%	proposes set asides
1988	ok	ok	proposes limiting intervention buying; prefer price cuts rather than stabilizer levy

Sources: Financial Times, The Times, and Agra Europe.

The UK government during the 1973-79 period was strongly against both increases in guaranteed prices for cereals and automatic agri-monetary changes. Higher prices, either from devaluations of the green pound or from higher guaranteed prices, would have exacerbated the

[73]. The Economist, 10-9-88.

wage-price inflation spiral the UK was attempting to combat through the social compact with unions. Higher prices also contributed to the balance of payments deficit, which eventually precipitated a payment crisis and opened UK policy to IMF influence. Meanwhile, UK wheat farmers were reaping windfall price rises as the CAP system was introduced in the UK. Consequently, the UK farm lobby did not get the government to support higher prices. The UK government also staunchly defended the agri-monetary system because it held down domestic price increases caused by the depreciated pound. Josling and Harris argued that:

> The versatile green money system ... ke[pt] farm prices down in the UK, with the twin advantage of avoiding the political repercussions of unpopular price rises in the country where these would face the greatest opposition while at the same time reducing the potential for adding to surplus production as a result of the expansion of UK agriculture. The MCA has become an instrument for the regional differentiation of prices within the Community."[74]

After 1978 the UK approach to the CAP changed. Beginning with the 1979 election of the Conservative government, the UK shifted emphasis in the price debate. The Foreign Office and Treasury advised the new Prime Minister, Margaret Thatcher, that there was no practical or negotiable way to reform the CAP to benefit the UK. North Sea oil, which also began to flow in 1979, quickly pushed the UK current account into surplus. From April 1980 to 1985 the green pound was overvalued, so the UK government could not use it as a bargaining chip in price negotiations. Furthermore, the rebates authorized under Article 131 of the Treaty of Accession ended in 1980, causing a sharp jump in the net UK cost of the CAP. The only solution was to squeeze the price system through the budget lever.[75] The UK government therefore adopted a

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74. Josling & Harris (1976), p. 66.
75. The Guardian, 29-11-79.

combination of budget demands and threats of vetoes to attempt to force change in the CAP. This approach, however, provided the UK with little influence over the content of the reforms. The UK minister for agriculture neither had the support of the UK farm lobby nor of his fellow ministers. A number of times the UK agriculture minister appeared to be on the verge of agreement in the Farm Council, only to be undercut by the Prime Minister, Foreign Secretary, or Chancellor of the Exchequer. In 1982, 1984, and 1985, for example, those ministers struck budget agreements that did not link directly to reform of the CAP. Therefore, the UK Agriculture Minister found the budget lever next to useless.

Because the minister for agriculture and the farm lobby were unable to cooperate, few of the post-1985 reforms in the CAP were proposed by the UK. The UK government instead stuck to its demands for direct price cuts long after the rest of Council had begun to look at other options. Partly because the government and farmers could not agree on a common approach to EC debates, the resultant changes (including co-responsibility and stabilizer levies) generally were less favourable for UK farmers than almost all other alternatives. Even when the MAFF and the NFU agreed on basic direction, they failed to present a united front in European debates. In 1987, for example, both MAFF and the NFU supported the introduction of set-asides but they failed to agree about whether they should be voluntary and compulsory.

In summary, although the UK became one of the strongest proponents of CAP reform during the 1980s, it failed to influence the direction of reform because its weak farm lobby and peculiar budgetary approach often neutralized its position in the Council. As a result, the emerging cereals policy has been perceived as not compatible with UK farm interests.

CONCLUSIONS

Farm organizations are able to dominate the national interests in Council as long as they maintain large and active memberships, strong bargains with the ministries of agriculture, and electoral influence. When the relationships are strong, they can even overcome pressures for change that result from shifts in public interests. The German DBV has done just that. The French farm lobby nearly lost its position in EC policy debates in the 1980s when the French government rejected its historical support for high prices and instead opted to support the commercial aspirations of farmers. But the farm lobby quickly re-aligned itself behind the French government and thereby increased its influence over EC policy reform. In contrast, farmers in the UK lost their influence during the 1970s and the UK farm policy community entered EC debates divided.

France and Germany naturally came to dominate the farm reform debate because their positions in Council reflected bedrock support within both their governments and farm sectors. In contrast, the UK has not shown staying power in Council debates. The other governments recognize that the UK does not risk serious political backlash if it backs down in the negotiations because the UK position is usually not supported by the farm sector in the first place. Consequently, although the UK acquired greater freedom to set its policy position after 1973, it lost some of its influence in Council.

Chapter 7
PRICE POLICY: DECISIONS

Community farm policy decisions are heavily influenced by discussions leading up to the price debate among the Farm Ministers, but the key negotiations are always conducted within the Council itself. The main pressures on policy decisions arise either through the formal policy development process discussed in Chapters 4 and 5 or from the national sources discussed in Chapter 6. This chapter examines how the often-conflicting private, national, and Community interests are accommodated in the Council.

In the early years, the Commission advised, petitioned, cajoled, and threatened the Council to adopt its proposals but had little success. The peculiar price, exchange rate, and structural assistance systems in place in the 1970s enabled the Council, with or without Commission assistance, to fashion price packages to satisfy virtually everyone. But by 1980 farm specialization had reduced opportunities to trade-off price rises for some products for restraint on others, which impeded Council efforts to strike bargains that satisfied all national interests. As shifting power structures threatened to lead to re-nationalization of the CAP (see Chapter 6 on Germany and the UK in the 1970s), the Commission was forced either to relinquish control over the CAP or to reassert its authority and vision.

By 1984 the farm ministers had demonstrated that they were unable to manage the system either to their or the Commission's satisfaction, so the Agricultural Commissioner stepped in and used his own powers to manage the wheat market, to bargain with the Council, and, in some cases, to override or offset Council decisions. As early as 1977 the Commission tried to use its obvious expertise to fashion a new role as a conciliator and bridge builder in the Council. When that failed, it used its power to propose (Treaty of Rome, Article 149) as a bargaining lever. Then, in 1983, the Commission decided to use its management powers to offset some of the impact of Council decisions.

As a result, the Commission dragged the Agricultural Council "with much kicking and screaming" to reform the policy.[1] After 1984 real, and often nominal, guaranteed ECU prices for average quality wheat dropped each year, while the Commission changed the intervention system (e.g., delayed payments, shortened buying-in periods, and reduced monthly price increments) to reduce market prices. By 1988, the unlimited price guarantee for wheat was gone, official intervention prices merely represented notional prices that were often unattainable in the market, intervention operated as a buyer of last resort, and prices were automatically adjusted based on market conditions. In summary, the system was significantly more market-directed and automatic than in earlier times. This chapter explains how the Commission managed this reform.

THE DECISION-MAKING PROCESS

The focal point for all farm-related decisions is the Council of Agricultural Ministers: Article 145 of the Treaty of Rome provides that the Council has the "power to take decisions." That process begins when the Commission transmits its proposals to Council and discussions begin in the Special Committee for Agriculture (SCA), composed of representatives of the member state agricultural ministries. The President-in-Council meanwhile attends EP debates to determine the general reaction to the proposals. The SCA then reviews the EP opinion and the advice from the specialist working groups and organizes the Council debate. All non-contentious issues are resolved in the SCA and submitted to the full Agricultural Council as "A" items not requiring debate. The

[1] Franklin (1988), p. 65.

price proposals are always treated as "B" items with full debate.

Pressure groups attempt to influence the Council before the debate. COPA and the BEUC (after 1977[2]) occasionally meet with the president of the Agricultural Council. But William Averyt noted that generally:

> Eurogroups have had little success in gaining access to the Council.... Here, the older patterns prevail. The national groups have discussed proposals with their minister at length before he boards the train in Paris or Bonn for Brussels. Hence, a dual pattern of access characterizes EC politics. Community influenced strategies are most noticeable during the discussion stage when proposals are being drawn up by the Commission; at the moment of formal decision, national strategies still dominate.[3]

Nevertheless, interest groups frequently stage demonstrations outside the Council venue to reinforce their lobby efforts in the national capitals.

Once the Council has gathered all opinions, it is convened by the President-in-Council as many times and for as long as necessary to arrive at an acceptable compromise. With only infrequent meetings over a span of weeks or months, the process is often open to influence by the national governments and domestic pressure groups.

The Commission participates in Council debates under Article 149 which provides that "where, in pursuance of this Treaty, the Council acts on a proposal from the Commission, unanimity shall be required for an act constituting an amendment to that proposal." The Commission facilitates decisions by revising its proposals in line with the evolving Council debate; alternatively, the Commis-

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2. The Times, 16-2-77, reported that the BEUC met John Silkin, the President of the Agricultural Council, for the first time ever.
3. Averyt (1977), p. 3.

sioner can withhold approval for amendments in an effort to force the Council to accept Commission proposals. The Council, however, can override the Commission and enact any package it likes, provided it acts unanimously.

The Commission also has significant power to adjust the market system, thereby affecting market prices. Reg. (EEC) 2727/75 apportions specific management responsibilities.[3a] The Council is responsible for setting official prices and monthly increases, and for establishing the "general rules" for intervention while the Commission is authorized to set the "detailed rules" for regular and special intervention. If the Commission changes the intervention system against the wishes of the national governments, the management committee for cereals can reject the proposal by a qualified majority within a time limit set by the Commission. Disputed items, along with the management committee opinion, must then be decided within one month by a qualified majority in Council. Unless Council overturns the proposal, it becomes law. In practice, it is difficult to muster a qualified majority in the Council to overrule the Commission. The Commission also has the power, through general clauses in the Treaty of Rome and Reg.(EEC) 2727/75, to set guaranteed prices in the absence of a Council decision (e.g., 1985 cereals prices). The Commission accordingly has significant power to control or to offset the potential outcome of any price debate.

The other decision centres in Brussels, including the Councils of Foreign and Finance Ministers, have had little impact on the price policy.[4] Price decisions by the Council of Agricultural Ministers are final and need not be ratified by any other Council or by the European Parliament. The resulting expenditure must also be paid. Although farm issues can be passed to other Councils or

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4. Neville-Rolfe (1984), p. 90.

3a. Reg.(EEC) 2727/75 is the main regulation governing the operation of the EC cereals market.

to the European Council (heads of government), the farm ministers maintain a virtual monopoly on the information and bargains needed to finesse decisions in this complex policy area. The other Councils therefore usually fail to resolve farm issues. The exception was at the 1988 European Summit where the heads of government successfully concluded a historic package of reforms (with the support of their farm ministers).

KEY BARGAINS IN THE SYSTEM

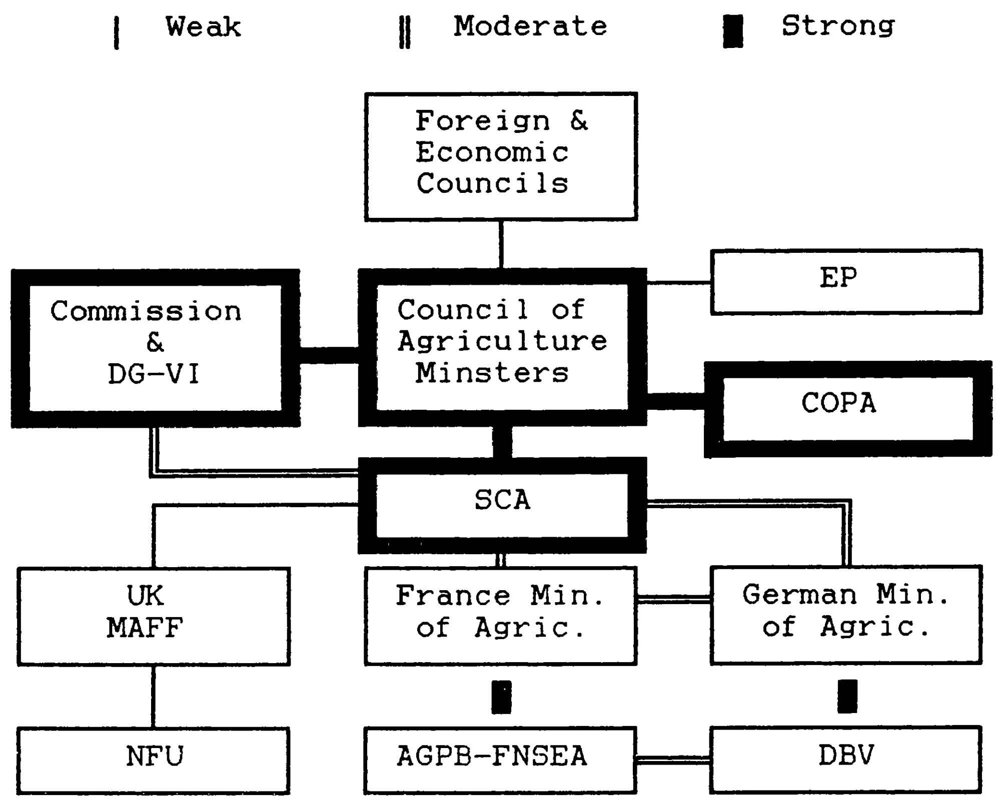
The decision making process revolves around the Council of Agricultural Ministers and the surrounding web of interlocking bargains. Council debate is usually proscribed and directed by the strong bargains between the French government and French farmers, and among the German Ministry of Agriculture, the political parties, and the DBV. In addition, the German and French governments have a loose bi-lateral relationship that at times transcends the Council chamber and forms the basis for resolving policy impasses (e.g., the Stocktaking in 1975 and introduction of the EMS in 1979 and cereals co-responsibility in 1986).

The Commission in the early years thought it could control the system. When Community interests began to shift in the late 1970s, however, it discovered how little influence and support it really had in Council or from the lobby groups. The pan-European organizations, including COPA, BEUC, CIAA, EP, and ESC, were usually either unable or unwilling to support Commission proposals for reforms.

Eurogroups have never had a major role at the decision-making level. Although COPA has access through the President-in-Council, it is generally unable to influence policy. Consequently, "farmers act at the Community level to supplement, not to supplant, action at the national level."[5] In the 1970s COPA was sufficiently united and active to offset and mask this limitation. Meanwhile, other pressure groups, which gained access to the Council only in the late 1970s, found that their generally weak and divided membership was no match for their adversaries or the issues.

Figure 7.1

KEY BARGAINS AFFECTING DECISION MAKING IN THE WHEAT PRICE POLICY 1970–79



Relations at the decision-making level in Europe began to change about 1979. The inter-state bargains in the Commission, COPA, ESC, and EP began to break down and the critical intra-state agreements—between the national farm organizations and the member state ministries of agriculture—became more important. The shifting production and finance structures weakened COPA and caused the

[5]. Pearce (1983), p. 171.

farm interests in France, Germany, and the UK to diverge. French farmers, looking to expansion and export, discovered they had less in common with smaller, less-competitive German farmers. This strained the critical bargain between Germany and France in the SCA and Council. By 1979, the UK government had downgraded its bargain with the NFUs and became the key swing agent in the price review. Instead of developing any continuing bargains, the UK switched partners almost annually, alternately supporting its farmers, the Commission, or just going it alone. Although this kept the UK in the middle of the debate, it did not contribute to its influence.

After 1979 the EP gained some influence through the budget and its agricultural section, but in the end found it could do little more than constrain Council options. Because the interests in the Assembly widened after the election, it seldom spoke with enough authority to impose its opinion. Furthermore, as the Commission's negotiating strategy evolved from 1977 to 1988, both the EP and ESC lost power to influence decisions because they were seldom consulted about the specific proposals.[6]

Pressure groups were also pushed to the margins during the 1980s. COPA, in particular, found that it had less impact on Council because it could neither produce influential opinions on issues critical to the debate nor organize lobbies that represented more than a single interest. Other eurogroups, meanwhile, were forced to shift their focus toward non-price issues (e.g., food quality, structural programs) and therefore found that they had little influence on the price review when they had their annual courtesy visit with the president-in-council.

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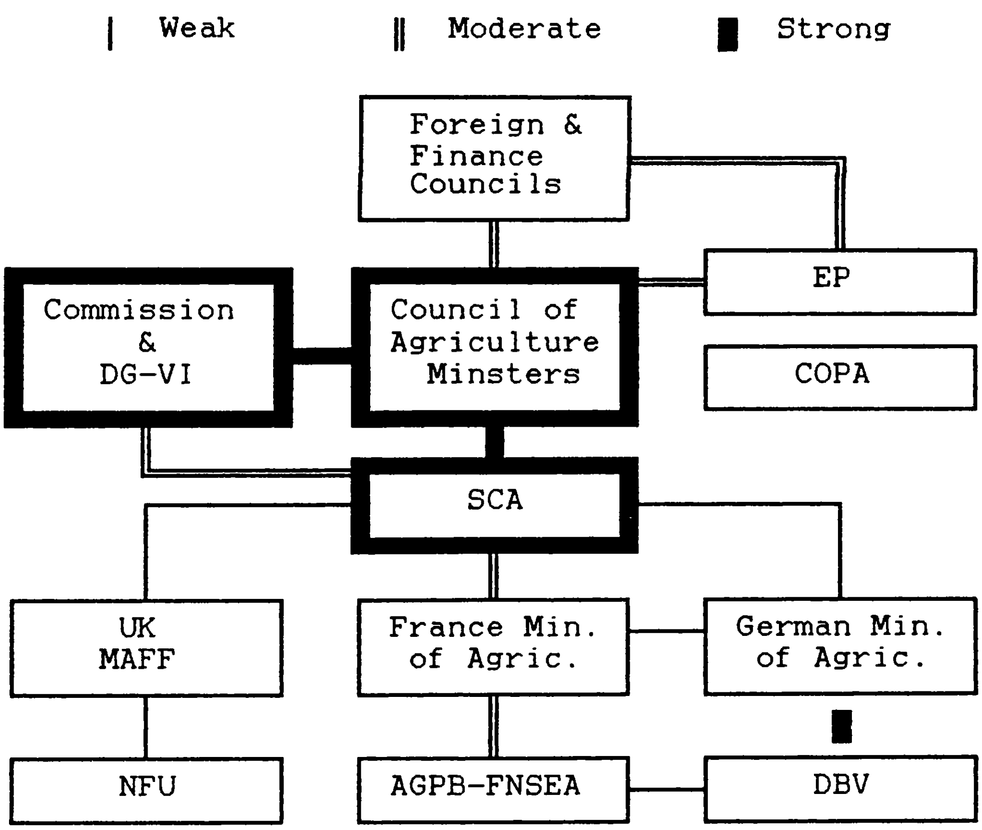
6. EP Doc 579/77, p. 83.

Figure 7.2

KEY BARGAINS AFFECTING DECISION MAKING IN THE WHEAT PRICE POLICY 1979-88



The Agricultural Council also lost some power recently. Increasingly during the 1980s the Commission or individual farm ministers placed farm issues on the agendas of the Budget, Economic, Foreign, and European Councils. For most of the period this strategy did not harm the power of the Agricultural Council because the other ministers failed completely to solve the problems. But the 1988 European Council succeeded where the others failed. Now the farm ministers risk the Commission referring the price package to a joint Budget-Farm Council meeting if they exceed budget guidelines.

Last, and perhaps most importantly, the makeup of the Council affected policy decisions. In the 1970s the membership and voting rules that applied to other policy areas did not truly matter for agricultural affairs because all decisions were unanimous (after the Luxembourg Compromise of 1966). In 1982 the Council began to decide by qualified majority votes and the distribution of votes began to matter. As the Community grew in 1980 and again in 1986, the voting power of France, Germany, and the UK was diluted, so that now their interests can be overridden by the other countries (largely with Mediterranean concerns). After the 1986 expansion, it now takes more than two of the three large wheat producers to block a Council majority decision. Previously two of the countries working together could block a decision.

Table 7.1 Voting Weight in the Council of Ministers

	1958-73	1973-80	1980-86	1986-
France	4	10	10	10
Germany	4	10	10	10
Italy	4	10	10	10
Belgium	2	5	5	5
Netherlands	2	5	5	5
Luxembourg	1	2	2	2
United Kingdom	-	10	10	10
Denmark	-	3	3	3
Ireland	-	3	3	3
Greece	-	-	5	5
Spain	-	-	-	8
Portugal	-	-	-	5
Total Votes	17	58	63	76
Big 3 as % total	47%	52%	48%	39%
Qualified Majority	12	41	45	54
Blocking Vote	6	18	19	23

Source: Rangarajan (1985), p. 202.

NEGOTIATIONS AND OUTCOMES (1973-79)

As the Commission used prices to support farm incomes and to eliminate the agri-monetary system, national interests came to the fore and "issue linkage and package broking rather than majority voting" became the means of conducting Council business.[7] After 1974 the "growth of the new three-tier presidential-ministerial-civil service decision-making body ha[d] shifted substantially the balance of power in the Community."[8] The national ministers in Council were able to fashion price packages that satisfied most national interests, often in conflict with Commission plans.

The Commission, however, remained integrally involved in the decision process. It courted support for its overall price goals formulated with the objective method by using its prerogative to propose ad hoc agri-monetary changes and differentiated product prices. At times this system seemed to work as the Council accepted the need for higher prices over much of the period. At other times the national governments short-circuited the system. They gained a tactical advantage in the negotiations as they alternately used the agri-monetary system to give their producers price increases in advance, established immutable bottom lines through their domestic processes, or forced the debate into higher forums.

A review of the price fixings and related debates over the 1973-79 period demonstrates how these various strategies and tactics, combined with the underlying bargains at the national and Community level, yielded ad hoc price packages that generally favoured farmers.

Beginning in 1973, the new Commission, with Finn Olav Gundelach as the Agricultural Commissioner, attempted to make the price setting more an administrative exercise based on the objective method formula and on automatic agri-monetary rules. If Council had adopted either the objective method or automatic changes in green rates, it would effectively have transferred power to the

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7. Henig (1980), p. 29.
8. Bieber & Palmer (1975), p. 318.

Commission, which would have seriously limited the ministers' ability to adjust the price proposals to suit their national interests. History demonstrated that the formula was not objective at all; the Commission repeatedly revised it to produce price proposals that suited its concerns. Furthermore, "any scheme to phase out MCAs would clearly remove a bargaining weapon which [the Agricultural Ministers] ... found a very useful addition to their armoury."[9] Council consequently never completely accepted either change. As the objective method completely failed to sway the Council, the Commission was forced to develop a new negotiating strategy.

The Commission then attempted to negotiate with the Council on the specifics of the price packages. Helen Wallace noted that as early as 1971 the Commission proposals to Council were less detailed than in the first years of the CAP; details were left to be completed during discussions with the national administrations.[10]

Table 7.2 Commission Bargaining on Prices

		DG VI	COM	Rev 1	Rev 2	Decision
1975	(cereals)	--	9.0%	9.0%	--	9.0%
	(German)	--	4.0%	9.0%	--	9.0%
1977	(all)	--	3.0%	3.9%	--	3.9%
1978	(all)	--	2.0%	2.25%	--	2.1%
1979	(all)	--	.0%	2.0%	--	1.3%
1981	(all)	5-6.0%	7.8%	9.45%	--	9.2%
1982	(all)	--	8.4%	10.3%	--	10.4%
1983	(all)	5.5%	4.3%	--	--	4.2%
1985	(cereals)	-3.1%	-3.6%	-2.0%	-1.8%	vetoed

Sources: Financial Times, The Times, and Agra Europe.

Price bargaining took two main forms. First, the Commission offered to negotiate different average price

9. Fennell (1979), p. 100.
10. Taylor (1983), p. 82, quotes Wallace.

increases (Table 7.2). Second, and perhaps more importantly, the Commission both proposed and encouraged the Council to adopt differential pricing for products, so that deficit products or farm sectors with poor incomes would receive larger price increases. Table 7.3 shows that over the entire period of the CAP, but especially over the 1973-79 period, the product prices for the key temperate-zone products varied widely. Generally, cereals farmers received least while milk, beef, and sugar producers received relatively more. It was quite easy to bargain for these changes during the 1970s because there were few controls or restraints on any of the key products. As well, most farmers still produced a mix of products. Therefore, higher milk, beef, or sugar prices could be used to compensate small producers for lower cereals prices. The Commission also found that it could

Table 7.3 Price Decisions for Key Products (ECU/UA)

	Common Wheat	Bread Wheat	Sugar	Milk	Beef
1973-74	1.0%	1.0%	1.0%	5.0%	10.5%
1974-75A	4.0%	4.0%	5.5%	12.0%	12.0%
1974-75B	5.0%	5.0%	5.0%	5.0%	5.0%
1975-76	9.0%	9.0%	15.0%	6,0+4.7%	8.5%
1976-77	-7.9%	4.0%	8.0%	4,5+3.0%	8.0%
1977-78	3.5%	3.5%	3.5%	3.5%	3.5%
1978-79	1.3%	1.0%	2.0%	2.0%	2.5%
1979-80	1.7%	1.5%	1.5%	0.0%	1.5%
1980-81	4.3%	4.2%	4.0%	4.0%	4.0%
1981-82	6.0%	10.0%	8.5%	9.0%	7,5+2.5%
1982-83	8.5%	8.5%	9.0%	10.5%	8,5+2.5%
1983-84	3.0%	3.0%	4.0%	2.3%	5.5%
1984-85	-1.0%	-1.0%	.0%	-1.0%	.0%
1985-86	-1.8%	-1.8%	.0%	1.5%	.0%
Average Percent Change 1985-86 cf 1968-69	2.3%	3.4%	4.2%	4.8%	5.5%

Prices: basic intervention price for common wheat; reference price for bread wheat; minimum price for beets; milk target price; & beef guide price.
Source: Neville-Rolfe (1984); and <u>ASC</u>, various.

finesse the price package with offers of differential prices for feed and bread wheat because the distribution of production of those two products varied by country.

Green rates provided the second major bargaining chip in the price review. Although he wanted the end of all monetary gaps, the Agriculture Commissioner was quite willing to negotiate differential pricing by country through ad hoc adjustments in green rates. Table 7.4 shows the impact of proposed and accepted green rate changes for common wheat. Although the general tendency was to reduce the monetary gaps, the speed and magnitude of change was largely a matter for negotiation. Over the 1973-79 period, France generally wanted to close its monetary gap faster than proposed by DG-VI (yielding higher farm prices) while Germany and the UK wanted to go slower

Table 7.4 **Commission Proposals and Council Decisions for Common Wheat Intervention Prices (% ch)**

	ECU prices		FF prices		DM prices		£ prices	
	Proposal	Decision	P	D	P	D	P	D
1973	2.8	1.0	-	1.0	.0	1.0	-	1.0
1974A	.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
1974B	4.0	5.0	5.0	5.0	4.0	5.0	5.0	17.9
1975	9.0	9.0	12.6	10.6	3.1	6.6	-	11.4
1976	-5.8	-7.9	-5.8	-7.9	-9.3	-10.4	-5.8	-7.9
1977	3.0	3.5	5.7	6.2	.0	1.5	9.5	6.6
1978	1.3	1.3	1.3	5.0	0.1	1.0	4.5	9.5
1979	.0	1.7	5.3	3.2*	.0	0.6	5.3	12.7
1980	1.8	4.3	5.5	9.5	0.6	3.1	1.8	4.3
1981	6.0	6.0	3.4	6.0	0.4	2.3	-0.2	6.0
1982	6.6	8.5	4.7	8.5	1.6	5.2	2.1	8.5
1983	3.0	3.0	5.9	7.9	-0.1	1.1	0.6	3.0
1984	.0	-1.0	2.9	8.3	-6.3	-1.0	-4.0	2.3
1985	-3.6	-1.8	-1.5	0.1	-4.1	-1.8	-3.6	-1.8
1986	.0	.0	1.5	1.4	.0	.0	.0	1.3
1987	.0	.0	4.7	6.4	-2.4	.0	3.1	5.7
1988	.0	.0	.0	1.4	-1.0	-1.0	.0	2.9

* In 1979 the franc was devalued before prices were set, causing the price rise to appear smaller.
Source: Appendix.

(to protect higher farm prices in Germany and to prevent higher prices in the UK).

After 1976 the national governments and the Commission also allowed the diffusion of different representative rates for different products, so that national governments and the Commission together could tailor a specific set of agricultural prices to suit their needs. Countries tended to devalue green rates for products with short product cycles (e.g., milk, pigs, and vegetable products) more rapidly and further than green rates for cereals. The Commission and Council used this in a number of years to facilitate successful bargaining.

Table 7.5 Green Rate Changes Outside the Price Review

Date	Special Circumstances	Impact	Approved
France			
22.1.74	Elections: franc floated	n.a	--
19.3.76	Local elections	+1.4%	yes
1.2.78	na	+2.5%	yes
4.3.78	Parliamentary election	+	yes
12.78	na	+3.6%	no
20.3.79	na	+5.118%	yes
1.10.79	Dublin Summit	+1.035%	yes
27.3.80	na	+3.5%	yes
7.5.80	Presidential election	+1.336%	yes
8.10.81	na	+1.5%	yes
4.5.82	na	+1.761%	yes
20.10.82	na	+2.8%	yes
United Kingdom			
4.8.75	Renegotiation	+5.0%	yes
14.10.75	Renegotiation	+5.1%	yes
8.1.78	Forced by Parliament	+7.5%	delayed
20.3.79	UK election	+5.0%	yes
1.10.79	Dublin Summit	+1.099%	yes
17.12.79	na	+5.0%	yes

Sources: Financial Times, The Times, and Agra Europe.

Whenever Commission proposals were inconsistent with national interests, the farm ministers used a variety of tactics to scuttle them. The agri-monetary system was the most popular. France, with a generally weak currency, had great potential to offset price restraint or to upset the price negotiations by devaluing its green rates and ensuring its producers got a price rise. Meanwhile, the UK had room during 1973-80 to devalue its green rate (during 1973-78 the UK accession agreement also allowed it to accelerate or slow the rise of UK prices toward European levels). In contrast, Germany had a consistently strong currency and was unable to change its green rates to provide its producers with national currency price changes to offset Commission proposals. Table 7.5 demonstrates that both the UK and France frequently used the green rate weapon to advantage over the 1973-82 period.

Farm ministers also obstructed the Commission with appeals to national bargains (Table 7.6). They could effectively stop a Commission proposal if they could demonstrate there were unyielding interests in the nation. Governments therefore set out to make solemn promises to the farm lobby (e.g., France in 1975), get official Cabinet direction (Germany), or refer to parliamentary votes (UK). Conversely, some member states attempted to elevate farm debates to other European forums in the hope that farm interests could be overcome. The UK, in particular, frequently tried to get the European Council or Council of Finance Ministers to decide farm policy. This tactic usually only stalemated the process, however, because the other forums lacked the expertise and the contacts to fashion compromises. When these strategies were used, however, the Commission found it extremely difficult to salvage any of its proposals. Rather, it usually simply attempted to limit the damage from such a package.

Table 7.6 National Strategies in the Council

Date	Situation
France	
1974B	Aid given to non-wheat farmers and Giscard promised to seek interim price rise
1975	Giscard offered unspecified aid to offset inflation
1975	Chirac's "solemn undertaking" to get 13.5% rise
1980	Giscard promised farmers aid
1981	National aid announced before prices set
1982	National aid announced before prices set
Germany	
1974A	Ertl accepted Council decision ad referendum (i.e., subject to approval by German Cabinet); first time used
1975-76	Government worried about inflationary impact on national wage bargaining
1978	Ertl got Cabinet approval for position in debate
1985	Government threatened to veto price cut
United Kingdom	
1976-78	Social Compact between government and trade unions
1977	Non-confidence vote forced Labour recall of Euro-MPs; weakened EP reform lobby
1978	National government forced by Parliament to request 7.5% devaluation in green DM

Sources: Neville-Rolfe (1984), p. 91; Financial Times; The Times; and Agra Europe.

While farmers were still united at the European level and maintained dominant bargains with the German and French governments, the Commission found it had to make major concessions to farm interests to get its packages accepted in Council. In 1973, Lardinois proposed to raise wheat prices in line with income needs, to revalue the DM, and to devalue the franc, but Germany refused to accept a price freeze for cereals. Although the Commission offered to use EAGGF funds to pay subsidies to German wheat producers equal to a 2% price increase to compensate for the freeze in German prices, Ertl got Cabinet approval to reject the package.[11] The Council eventually compromised with a small rise in the wheat price and left unchanged the German representative rates.

Over the next several years, national elections focused ministerial attention on farm interests much more closely, and thereby diverted the price review from Commission plans. In 1974, the Commission crafted "one of the least controversial farm price packages" that it thought had "something in it for everyone."[12] The review was complicated, however, because France floated the franc during the election in January, which gave their farmers a price increase. Shortly after, during the UK election in February, the UK Minister for Agriculture announced wheat prices would rise 8% as part of the transition to EC levels. German farmers, in contrast, could only get a price increase if European prices were raised. The Commission, however, had proposed a freeze for wheat prices. Ertl, as president of the Council, proposed after the UK election that wheat prices rise between 4% and 5%, which was accepted at the end of a 30-hour marathon session.

Shortly after prices were set, farmers began to lobby their national governments and the Commission for a supplementary price rise for 1974. Higher input costs threatened to cut sharply into farm incomes that year and world prices had risen above EC prices. COPA succeeded at least partly because the lobby in France roused President Giscard to promise to ask the EC for a supplementary price increase. The Commission offered 4% across the board shortly thereafter. France supported the rise and the UK was willing to allow a small increase but Germany was not satisfied. Ertl sided with the German Economics

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11. Agra Europe, 517, 26-4-73.
12. Neville-Rolfe (1984), p. 266.

Ministry and resisted the cereals price increase because German farmers neither needed the rise (because they did not face the same cost increases as in other countries) nor would benefit from it (because an estimated 80% of the 1974 crop in Germany had already been sold into the market). He tried a number of stalling tactics, including referring the 5% compromise solution to the German Cabinet, where it was duly rejected. The DBV meanwhile lobbied for the price rise because that would raise farm prices in the following year. Tension built until President Giscard and Chancellor Helmut Schmidt met quietly in October, while the UK was preoccupied with its general election, and negotiated a 5% price rise. In exchange for the price rise, Germany got the other ministers to agree to factor the interim increase into the 1975 price review and got the Commission to begin a Stocktaking of the CAP.

Council faced a new price review only a few months later. The Commission offered 9% for wheat in 1975-76 and proposed to realign green currencies closer to market rates. But German and French ministers in Council upset Commission plans when they publicly announced they could not accept the package. The German Cabinet, worried about the nation-wide pay negotiations, directed Ertl to accept no more than an average 6% institutional price rise. When Ertl threatened to resign (which might have destabilized the SPD/FDP coalition), Cabinet agreed to allow him to resist the proposed revaluation of the green DM. Then in January, Giscard gave a "solemn undertaking" to the leaders of the French farm lobby that price increases in 1975 would exceed the rate of inflation; Prime Minister Jacques Chirac said this should be more than 13% in francs. The Commission consequently had little room to manoeuvre. It only got agreement when it offered a smaller revaluation of the green DM and higher prices for non-cereal products. The new Labour government in the UK consented to the price increases because it was busy with its plans to re-negotiate its terms of accession.

The Stocktaking that autumn disappointed many reformers because the European Council never discussed or resolved any of its differences about reform. In retrospect, the Stocktaking appeared to have been simply a face-saving way for the German government to accept higher prices in 1974.[13]

The Commission took the election-free period that followed to make a sudden shift in the wheat price system. In 1976 the Commission pushed to realign production toward higher quality wheat and to increase feed-use of low grade wheat. It therefore proposed to implement a higher 'reference' price for wheat suitable for baking and a lower intervention price for feed wheat. After adjustments for green rate changes, reference prices for bread wheat would rise 2.9% in Germany, 5.4% in France, and almost 20% in the UK while intervention prices for feed-grade wheats would drop 9% in Germany and 6% in France, and rise about 5% in the UK. The bread wheat reference price would added another mechanism to differentiate prices, as now wheat producers would get different prices for different qualities. Both the UK and Germany attempted to exchange their approval for the new system for a cereals price freeze, but France, faced with farm riots in the country-side, pushed for higher prices. The Council, with Commission assistance, finally crafted an agreement. They accepted the Commission's direction on the new cereals price regime, but delayed full implementation until 1977-78. In the interim they set the intervention price for wheat equal to the new reference price for bread-making wheat and instructed the DG-VI to levy a 15 UA reduction for wheat that failed to meet the higher quality standards. Although the Commission pre-

13. Neville-Rolfe (1984), p. 350.

ferred a slightly different set of prices (e.g., lower milk prices), the final package was acceptable because the Council approved the realigned wheat prices and agreed to cereal prices somewhat lower than the Commission had proposed.

President Roy Jenkins announced early in 1977 that the new Commission would develop a role as "conciliator and bridge-builder between member governments."[14] In conjunction with this, the Commission began to push for market-based pricing and for an automatic system of green rate adjustments. The next price review began in January when UK Agriculture Minister John Silkin unsuccessfully petitioned the Farm Council to set guidelines for the Commission to follow in the 1977-78 price proposals; he sought to avoid any price agreement that might jeopardize agreement with British trade unions in the third stage of the social contract. The UK already faced large domestic price rises as the result of the final stage of the transition to EC prices. When his appeal failed, Silkin promised to use the green pound as a "bargaining counter to get price stability" and threatened to veto any green pound devaluation.[15] Nevertheless, the Commission proposed to complete the new price system and to raise cereals prices 3.0%, to revalue the green DM, and to devalue both the green franc and pound. France generally accepted the price package; the UK reaffirmed its opposition to price increases; and Ertl and the DBV pushed for higher DM prices. The DBV was soon silenced, however, because a leaked German ministry of agriculture report showed that German farm income had risen 21% in the preceding year. When negotiations began, the UK was isolated as the other members generally coalesced around a slightly higher rise than proposed by the Commission. The NFU, the EP, and the farm ministers lobbied the UK

14. The Observer, 16-1-77.
15. Financial Times, 27-10-76, and The Times, 7-12-76.

farm minister until he yielded. The Commission, however, declined to propose a "compromise" different from its earlier proposal.[16] The ministers therefore unanimously agreed to complete the cereals price realignment begun in 1976, raised prices 3.5%, implemented modest green rate changes (the green pound fell only 2.9% instead of 6.3% as proposed), and agreed to subsidize UK butter to hold the domestic price steady. This deal, for opposite reasons, outraged both the new Budget Commissioner and UK farmers and set the stage for a confrontation in 1978. Nevertheless, it represented a small moral victory for the Commission because it was the first time it had not compromised completely with the Council.

The negotiating pendulum oscillated during the 1978 price review and only swung toward the Commission proposals when it used Article 8 of Reg.(EEC) 2727/75 to establish a special intervention for bread wheat. The national governments out-manoeuvred the Commission initially by using the green rates weapon. In February, France requested and got a 2.5% devaluation in advance of the elections for the National Assembly. Then the NFU, angered by the 1977 price decisions, successfully lobbied the Conservative opposition in the UK Parliament to force the minority Labour government to request a 7.5% green pound devaluation.[17] Although Council delayed approval for the UK devaluation, there was little doubt that it would be allowed. Thus, both the UK and France could accept the lower price rises proposed by the Commission. The Commission had then only to deal with Germany. In April, after the French elections (and a bitter exchange over French MCAs during the election week), Council met for four successive days without agreement. The pendulum then swung towards the Commission agenda. Germany de-

16. Neville-Rolfe (1984), p. 273.
17. The Labour government wanted only a 5% devaluation while the NFU wanted 12%.

manded an average 3.5% price rise but neither the UK nor France was keen; both were concerned about inflation. The Commission offered a new package which included a smaller DM revaluation, a lower increase in the wheat reference price (1% vs 3.1% originally proposed), and a new special intervention for bread wheat of only minimum quality. The new special intervention for lower quality bread wheat would raise market prices between August and October which was of particular interest to Germany because about 80% of the German wheat harvest was usually marketed during those months. The new intervention was acceptable to the other countries because it would not directly raise wheat prices during the rest of the year. This bit of legerdemain effectively reconciled German demands for higher prices and French and UK insistence on price restraint. Ertl made a last attempt to get a full 3.5% increase by returning to Bonn for a Cabinet meeting in the middle of the Council debate, but he was forced by the clock to accept in mid-May the package the Commission had offered in April.

The Commission in 1979 tried to build on its success by proposing a cereals price freeze and automatic realignment of green rates. But the 1979 price review was again upset by the national governments. France first delayed implementation of the European Monetary System because it wanted a definite timetable for the elimination of existing MCAs and automatic elimination of new MCAs. The Council remained deadlocked until mid-January, when the FNSEA and DBV met and agreed that MCAs could be phased out provided prices rise by enough to sustain German farm revenues.[18] (The Commission estimated that German producers would potentially lose £1 B if they were not compensated by price rises.[19]) When Ertl and French farm minister Pierre Méhaignerie met with Gundelach, Ertl

18. Le Monde, 19-1-79.
19. Financial Times, 22-1-79.

unsuccessfully demanded EC compensation for any resulting DM price cuts. Agreement finally appeared imminent when the two ministers agreed that prices should rise 2% in 1979 to facilitate the change in the green DM but then the UK threatened to veto any price increase for surplus products. Threats and counter-threats followed until March when eight members of the Agricultural Council (the UK did not participate) made a gentlemen's agreement to dismantle MCAs "pragmatically," provided that changes did not cause "economic difficulties for the member state concerned." The hard-currency ministers (e.g., Germany) also accepted a new one percentage point franchise (cf. 1.5% franchise for negative MCAs), which was the equivalent of a 1% revaluation. There was then a short hiatus while the UK went to the polls (the UK and France were both allowed 5% revaluations in March). When Council reconvened at the end of June, the new UK farm minister withdrew opposition to price increases but Gundelach declined to propose a price rise for cereals. The Council then rewrote the Commission package and raised prices by an average 1.5%, devalued the green pound by 5% and the green franc 1.5% (on top of the March devaluations), and revalued the green DM 1%.

Gundelach was angered by the Council decision to rewrite the 1979 price package.[20] A few days later the Commission concurred and unanimously denounced the farm deal. The Council decision in 1979 forced the Commission to rethink its tactics. It had failed to get Council to accept its approach to prices during the late 1970s, at least partly because its new role as a conciliator in Council neutralized its own natural supporters. Eurogroups were increasingly ineffective because the revised

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20. Financial Times, 22-6-79, quoted him as exclaiming outside the Council meeting that "I am deeply depressed but I have not yet been raped." He said his comments had been poorly translated but the sense of frustration remained.

proposals during the negotiations were seldom publicized and never re-submitted to advisory groups (i.e., the EP, ESC, COPA, and BEUC).[21] The Commission therefore could not call for support from those groups. Meanwhile, COPA, when it found it could not work effectively at the European level, had little choice but to encourage its member organizations to work more closely with their national ministries of agriculture. The Commission recognized that unless it changed its approach, the CAP would slowly but surely be renationalized.

THE SYSTEM IN TRANSITION (1980-83)

Between 1980 and 1983 the Commission seriously tried to implement automatic pricing (via the guarantee threshold system) and an automatic agri-monetary system in order to reduce the role for political gamesmanship in the price reviews. It offered a combination of differentiated prices, ad hoc green rate adjustments, and in 1981, 1982, and 1983 "monetary events" to win support for its proposals but found that the Council was not receptive.[22] The farm ministers and heads of state seemed only interested in their national problems. Economic recession, high inflation, rising unemployment, and disgruntled voters encouraged the national governments to press for greater farm support.

The 1980 price review was typical of the situation the Commission faced. The UK demanded and got a 5% devaluation immediately before the review, and then announced that it wanted both a price freeze and a budget rebate. When the newly-elected EP rejected the 1980 budget and called for a "stringent" price policy, the Commission responded with proposals for restrained prices and a

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[21]. Philip (1985), p. 58.
[22]. The Commission in 1974 proposed a "monetary event" (devaluation of the lira and revaluation of the Snake currencies in the UA) to allow for a 2.76% reduction in the German monetary gap, but Ertl vetoed it.

higher co-responsibility levy for milk. But France and Germany both faced general elections soon and wanted price rises. They noted that higher world prices and a weaker ECU ensured that resources provided by the provisional twelfths rule were sufficient to allow greater price increases. The debate ebbed and flowed and the farm ministers slowly developed a price package. But Farm Minister Peter Walker was directed by the UK Cabinet not to accept the price package until the UK got a satisfactory budget rebate. With a presidential election on the horizon, Giscard threatened to pay FF 5 B to French farmers as income support if prices were not set by June 1. The French foreign minister also threatened that the other eight members would proceed if the UK blocked the developing price package. The farm ministers sent the dispute to a Summit in the last week of May without success. Finally, on May 30 (one day before the French deadline), the General Council agreed on a UK budget rebate for 1980 and 1981 and the UK lifted its veto on the price package. Consequently, milk co-responsibility was increased, wheat prices rose 4.2%, the green DM was revalued 1.1%, the franc was devalued 5.1%, and France cancelled its proposed farm support.

The May 30 deal also provided that the Commission was to review the CAP to find ways to restrain costs and control surpluses. The Foreign Ministers of France, Germany, and the UK generally agreed that CAP outlays should be restrained and both Germany and the UK thought the Commission was going in the right direction when it proposed co-responsibility as the fourth principle of the CAP. Gundelach fully intended to pursue this approach when he was re-appointed Agricultural Commissioner, but he died a few days into his new term.

Before Paul Dalsager, the new Agricultural Commissioner, had a chance to release the price proposals for 1981, France demanded a 10% price rise for 1981-82 and announced it would pay special grants worth FF 4.1 B to support French farmers. President Giscard was concerned both about farm incomes in the face of the 1980 bumper wheat crop and about re-election in 1981. Meanwhile, Germany and the UK called for the 1% VAT ceiling on Community outlays to remain, which appeared to rule out any price rises.

The Commission, however, pushed ahead and proposed to introduce a guarantee threshold system for cereals. World prices then began to rise, so that by early January EC prices could rise 5% without breaching the 1% VAT limit and by the end of January even higher prices would be possible. The Commission therefore proposed to raise prices an average 8% (bread wheat by 4%) in an effort to buy acceptance of both the guarantee threshold system and its proposed significant revaluations for the green DM and pound.

Germany generally agreed with the Commission proposals because industrial unions in the Federal Republic were settling for 5% that year, but the UK was unhappy with the price cuts being forced in the cereals sector (it did not accept that the UK should be the only country to face a price cut) while France wanted even higher farm prices. In March the Commission proposed a technical fix to the ECU to solve the conflict. When the Community introduced the European Currency Unit (ECU) for the CAP in 1979, it created the potential to change individual monetary gaps by realigning the central EMS rates. In practice, only the pound and lira central rates could be adjusted to suit agricultural interests (without affecting other sectors) because they were not linked closely to the EMS. The Commission therefore offered to have the Standing Monetary Committee revalue the notional central EMS rate for the recently strong UK pound by 22.74% and devalue the perennially weak Italian lira by 6.4%, which would effectively revalue the ECU and narrow the German monetary gap by 2.5%. This resolved the green rate negotiations because, in addition to the reduction in German MCAs, it would eliminate the UK positive monetary gap (without affecting UK farm prices) and would provide France with a new negative monetary gap (that would allow for a 2.8% devaluation immediately before the presidential election).

The Commission appeared to have Council approval for cereals co-responsibility without any compensatory price increase when the EP resolved that prices should rise by 12%. The Commission declared its position had been undercut and promptly gave way. The price package, which was set before the French presidential election, provided for a generous price rise (10% for bread wheat) but merely approved co-responsibility in principle (implementation was delayed until 1982-83). The Council, however, did allow the Commission to introduce the first of what was to be a series of adjustments to the minimum quality standards required for intervention purchases. The intervention agencies henceforward would not purchase bread wheat that did not have at least 10.5% protein content.

In June 1981 the Commission's final report to the Council on the Mandate confirmed that it wanted co-responsibility for surplus cereals production in addition to restrained pricing. At the Luxembourg Summit the Commission convinced the heads of government to delegate debate of the reforms to a special ambassadorial-level committee of mostly COREPER members, not the SCA, to keep it away from the farm ministers. The committee reviewed the proposals during the following months and reported to the 1981 London Summit, where for the first time in many years agricultural matters were handled by other than Agricultural Ministers. But the heads of government failed to agree on CAP reform and the debate returned to the Agricultural Council.

Negotiations in 1982 opened badly. Mitterand announced a FF 5.56 B farm support package for 1982 and demanded prices in France rise by about the rate of inflation (14%). Prime Minster Pierre Mauroy also refused to accept any link between farm prices and the UK budget rebate, which was back on the agenda. Meanwhile, Peter Carrington, the UK foreign minister, threatened to veto the price package until a new budget deal was set. The Commission then produced a comprehensive package which introduced the guarantee threshold system for cereals and revalued both the German and UK green rates. The Commission again attempted to finesse the green rate changes by revaluing the theoretical green central rate for the pound by 8.27%. Combined with devaluations of the central rates for Belgium and Luxembourg, the net effect was to revalue the ECU by 0.3%, which reduced the German monetary gap by a corresponding amount. But Germany rejected the remaining green revaluation. Meanwhile, France continued to press for prices to rise at least 12% and threatened to force majority voting in Council to override any UK veto; the Commission agreed that it would support majority voting. The Commission reopened negotiations in April and eventually accepted the Council President's proposals. The final package raised wheat ECU prices by 8.5%, implemented a smaller green DM adjustment, and introduced a modified guarantee threshold system. At the insistence of France and Ireland, the system compared three-year average production levels with the threshold level, which was to be adjusted for any imports of cereal substitutes over 15 Mt. The price cuts (in the succeeding year) would be in steps of 1% for each full 1 Mt of over-production. In May, before a UK budget deal was agreed, the Council put the package to the vote and the UK, supported by Denmark and Greece, refused to participate. Nevertheless, the vote passed. The Council refused to accept the UK veto because it was simply a negotiating measure and not a matter of the content of the package. The UK was unable to do much about it because it also at that time sought EC support for its embargo against Argentina during the Falkland War. The Commission subsequently offset some of the price rise when, at the beginning of the marketing year, it raised the medium quality standards for bread wheat. To receive the full reference price wheat had to have 11.5% protein, as well as to pass on all the other quality tests.

The Commission thought it would be able make a significant reduction in the EC-world price gap in 1983. The newly implemented guarantee threshold system indicated that wheat prices should be cut and CAP outlays for 1983 looked set to exceed the budget (even without any price increases for 1983-84) because of a record harvest in 1982. After a difficult internal debate, the Commission finally offered a 4% increase for wheat, reduced by 1% because production in 1980-82 exceeded the guarantee threshold by 1.4 Mt. Prices in Germany and the UK would be further reduced by green rate revaluations. Council opened the price debate in April, after the FDP lost support in the German federal election and Ertl had retired in favour of Kiechle, and the debate got stuck on green rates. In March, the EMS currencies had again been realigned, which created a record 13% positive monetary gap for Germany and an even greater negative gap for France. Germany rejected the proposed 2.8% revaluation in the green rate (because ECU prices were proposed to rise only 3%). Kiechle as President-in-Office toured the capitals and then reconvened the Council to present a slightly altered price package. The UK vetoed the package. It accepted neither a proposed 2.5% revaluation of the pound (added by Kiechle to win Irish support) nor any increase in ECU prices. The Commission also refused to modify its proposals in line with Kiechle's compromise, which stalemated the Council because it could not agree unanimously to change the package. In May, with the marketing year already started for many products, Germany reconvened the Council and recommended the theoretical central rate for the pound be revalued as in 1981 and 1982; the UK agreed, provided France and Germany would accept the Commission package. In the end, the Council presented this proposal to the Standing Monetary Committee and the sterling central rate was raised to the market rate, which effectively revalued the ECU about 1%. Consequently, the Council quickly concluded the price package, with ECU prices unchanged from the Commission proposals—the first time ever—and national currency prices only slightly higher than proposed.

After the Council agreement, the Commission got through the management committee two reforms that cut the effective support for wheat. The Commission decided to limit special intervention purchases of bread wheat to 750,000 tonnes in each of August and September and 1.5 Mt in October and imposed a 5 ECU/t non-refundable security deposit to be remitted as part of any intervention offer.

Agriculture was near the top of the EC agenda over the last six months of 1983 but little was done. The Stuttgart Summit examined farm issues in June 1983, but decided nothing. The Commission then prepared a new report on CAP reform during July and a special Council of Agriculture, Finance, and Foreign Ministers met over the next several months to prepare a report for the Athens Summit. In November, the special Council meeting concluded that agricultural issues were too technical and complex and returned them to the Agricultural Council. Subsequently, the Athens Summit failed to resolve any of the issues.

Council-Commission relations had reached a turning point. The Commission knew that it could not manage the price review with only moral suasion or manipulation of price offers. The Commission strategy for negotiating with the Council was thwarted by changes in the economic environment throughout the 1970s and early 1980s. The strategy of 'buying' price restraint on some products (such as cereals) with offsetting improvements for other products was less tenable by the mid-1980s: other products had come under tighter market regimes (sugar was subject to tighter quotas and by 1977 a milk co-responsibility levy was imposed) and new production technologies were product-specific, which made it difficult for farmers to change their production plans. The Commission also found it was unable to manage the system by operating as a "conciliator and bridge-builder." In each year that the Commission attempted to bargain using only adjusted price packages, the Council took everything offered and more. The Commission so far had offered what the Council could do on its own.

But Council successes during 1980-84 masked significant change in the member states. During the early 1980s the government-farmer bargains in the UK and France were continually changing. The time was ripe for reform.

<u>PRICE REFORM (1984-88)</u>

The Commission finally began to achieve genuine reform after 1983. During the 1980-83 period, the Commission had pushed to make wheat pricing more market directed, at first through the annual price review and then with the operation of the guarantee threshold system. By 1983 it appeared the system might work, but the 1984 and 1985 price reviews demonstrated the difficulty with that approach. Price bargaining had proved ineffective and the "monetary event" was impossible once the pound weakened in 1985. So, beginning in 1986, the Commission took the initiative and used its market management powers to push through a series of reforms that made pricing much more automatic and less open to the influence of individual member states. The Commission, remembering its 1978 success, decided to offer changes in market structures (called related measures; Table 7.7) and permit national income supports to finesse its reforms. The Commission consequently was able to set the agenda and force real reform during 1984-88.

Table 7.7 Related Measures Enacted by the Commission under Reg.(EEC) 2727/75 and Impact on Prices

Year	Measure	Impact	Used
Art.7.5:	**Intervention (Commission sets specific rules)**		
1981	Minimum protein set at 10.5% for bread wheat	n.a	yes
1982	Medium quality for bread wheat raised to 11.5% protein	n.a	yes
1983	Delay intervention payments by 4 months for cereals	-4.0%	yes
1985	Shorten delay in payments to 3 months for cereals (2 months for small farmers)	+1.0%	yes
1986	Limit intervention to Dec.1-Ap.30	n.a	no
1989	Reduce value of transport subsidies and number of intervention stores	n.a	no
Art.8:	**Special Intervention (Commission sets specific rules)**		
1978	Begins for minimum quality bread wheat (continues to 1985)	n.a	yes
1983	Limited purchases to 0.75 Mt in Aug-Sept and 1.5 Mt in October and levied 5 ECU/t security fee	n.a	yes
1984	Same limitations as in 1984	n.a	yes
1985	End of minimum quality bread wheat intervention	n.a	delayed
Art.9:	**Carry-over Payments & Other (Commission sets rules)**		
1986	Proposed cut in carryover payments	n.a	no
1987	Threatened to change cereals rules to cut prices	n.a.	no

Sources: Various Commission price proposals, Financial Times, Agra Europe, ASC, and H-GCA, Marketing Notes (various).

The Commission was helped by a fundamental shift in some of the key power structures. Highly volatile financial markets and more diversified production structures assisted the Commission. First, higher interest rates throughout Europe during the 1980s placed a higher opportunity cost on delays in payments for intervention. Most farmers in the 1980s also were well integrated into the commercial systems and therefore were open to such influences. The Commission used a rule of thumb that every month of delay in payments was equal to a one percent price cut. Second, after 1979, EC wheat producers grew and marketed more wheat than European consumers or industry needed. Consequently, the intervention price was much more important. During the 1970s, the EC wheat market price hovered somewhere between the intervention and target prices. Market prices dipped below intervention prices only when surpluses increased in the early 1980s. Consequently, delays for intervention payments, limits to intervention buying, or adjustments to special intervention rules and carry-over payments all had a direct impact on market prices.

In 1984 and 1985, the Commission also used its powers over income aids to align the German government with EC programs. In 1984, the offer of income aids provided the means to implement the green ECU system, which narrowed monetary gaps and reduced discord in Council. Then in 1985, Germany threatened to provide compensation when the Commission imposed the 1.8% cereals price cut Kiechle had vetoed in Council. The Commission calmed Germany, first, with a threat to prosecute if national aids were implemented and, second, with an offer to shorten the delay in intervention payments. Then in 1986 cereals co-responsibility was introduced without the same degree of animosity as the smaller price cut in 1985 at least partly because the Commission expanded the less-favoured areas in Germany to 51% from 33% and allowed Germany to pay direct income support. Finally, the 1988 stabilizers package was accepted at least partly because the Commission offered to supplement the price system with a set-aside program and a coordinated income payment scheme. So, although the rise of national aids appears to be a return to Council domination, in practice it provided for community-based solutions to be finessed past particularly difficult national interests in Council.

By 1984 the situation was ripe for change. All the major countries had completed their elections and for the first time the Community faced a real budget constraint. The Commission estimated that at current prices the EC budget would reach 0.997% of VAT, just a shade lower than the 1% limit. Even before the Commission presented its proposals, it announced that it would use its authority under Reg.(EEC) 2727/75 to delay all cereals intervention payments after January 1 by four months (the usual delay was one month), which effectively cut the real value of support by 3-4%.

The Commission proposed in 1984 to freeze wheat prices, to significantly revalue both the green DM and the pound, and to allow only a modest franc devaluation. Germany balked and threatened to veto the large devaluation. The UK was more concerned with getting a new budget agreement than with the actual price level while France adopted a conciliatory attitude (as President of Council). Mitterand served notice that he would not tolerate farmer protests in support of their 4% price request and threatened to prosecute any farmers who damaged public buildings. Then in Council, France proposed a new price package that would actually cut wheat prices by 1% and reduce MCAs by even more. Germany, under pressure from the DBV, proposed instead a green ECU to replace the existing ECU-based agri-monetary system. The Agricultural Council, assisted by a Commission suggestion that Germany could provide national direct income support, eventually agreed in March that the wheat price would be cut 1%, the green ECU would be introduced, and Germany could introduce after 1 January 1985 a 3% VAT refund to compensate farmers for the deflationary effects of reducing the DM monetary gap. Existing monetary gaps would be dismantled in three stages: at the start of the 1984-85 marketing year, on 1 January 1985 and completely by the start of 1987-88. The package was put in jeopardy in May, however, when the Commission declined a request from Chancellor Kohl to allow his government to pay farmers a 5% VAT refund. Kohl had requested permission to begin the payments in July to improve CDU prospects in the EP election. Meanwhile, the EP withheld the UK's 1983 budget refund and caused the UK government to withhold formal approval for the package.

The heads of government met at Fontainebleau Summit at the end of June and resolved all the outstanding disputes. The Summit agreed to give the UK a rebate worth 1 B ECU in 1984 and then rebates equal to 66% of its net contribution in future years, to give Germany a smaller but still significant rebate from the future cost of the CAP, and to raise the VAT limit to 1.4%, effective 1986 (with interim measures until then). The Summit also overruled the Commission and approved Germany's request to pay a 5% VAT refund effective 1 July 1984. Furthermore, the Summit gave the Finance Council authority to veto future price packages if outlays looked to exceed the average growth over the past three years.[23] Although the Commission was forced to concede the size and timing of the aid for Germany, it played a critical role in the negotiations, because as guardian of the Treaty, it had the authority to challenge national aids in the European Court of Justice.

The 1984 decisions on the budget and the agri-monetary system set the stage for further reform. The Fontainebleau agreement ensured that the UK share of additional spending was to be only 7% (rather than 20%) while Germany's share was reduced marginally.[24] As such, "the

23. Bureau of Agricultural Economics (1985), p. 61.
24. Harvey & Thomson (1985), p. 14.

UK's financial responsibility for additional CAP expenditure is now substantially lessened, thus weakening the only consistent ally of the Commission in its efforts to bring about budget saving changes in the CAP."[25] But, the redistribution of the burden made France a major contributor to the budget, which affected the way in which it looked at Community policies in the following years.[26] Meanwhile, the new green ECU system, which was initially resisted by the Commission, eventually enhanced the prospects for reform. Although it raised guaranteed prices in weak currency countries with each EMS realignment, it largely removed the pressure for ECU prices to rise to accommodate green rate revaluations. The new system also firmly established the validity of national income aids to support particularly disadvantaged producers or countries. Henceforward, ECU prices could be set based on market conditions rather than social concerns.

Hans Andriessen, the new Agricultural Commissioner in 1985, was immediately presented with an ideal opportunity to cut prices. The record cereals crop in 1984 had pushed the three-year average production more than 5 Mt over the guarantee threshold and triggered a 5% price cut. Then the EP strengthened the Commission position when it rejected the 1985 budget and forced the Community to operate with provisional twelfths. DG-VI proposed an average 2% increase in prices but the Commission instead voted 12 to 2 to raise prices only 1.5%. When the 5% guarantee threshold penalty was assessed, wheat prices would fall 3.6%. In addition, the Commission pushed for further revaluation of the green DM, which would force German wheat prices down 4.1%. The UK, at one extreme, pushed for a flat 5% ECU price cut while, at the other extreme, COPA demanded that prices rise 4-5% (even this was a concession because the objective method indicated

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25. Harvey & Thomson (1985), p. 14.
26. M. Butler (1986), p. 86.

prices should rise 7.8%). Germany rejected the complete proposal and instead called for tighter quality controls, termination of intervention buying for feed-grade wheats, and a freeze of institutional prices.[27] Perhaps the greatest surprise was that France sided with the Commission against Germany. It saw the price cut as a "precondition for the continued expansion of the cereals sector" and viewed the German stand as a threat to the long-term commercial prospects for French cereals farmers.[28]

Kiechle promptly raised the stakes and promised German farmers that cereals prices would not be cut in DM terms. When the CDU lost some of the vote in state elections in North-Rhine Westphalia, the German cabinet came on side: Kohl appealed to the Commission not to push for the price cut while Josef Strauss, the Premier of Bavaria and a CSU leader, publicly supported a veto. The Agricultural Council reconvened in mid-May and approved by a qualified majority the 1985-86 prices for all products except cereals and rapeseed. The Commission then offered to moderate the cereals price cut to 2% and finally to 1.8%. But, when the issue was again put to the Council in June, Germany formally vetoed the prices. With the marketing year fast approaching, the Commission adopted the 1.8% price cut as an "interim precautionary measure;" it interpreted the failure to take a decision as leaving it free to choose how to regulate the market. Kiechle then threatened to use national aids but the Commission vowed to prosecute. The Commission and Kiechle finally reached a compromise in June: Kiechle accepted the price cut in exchange for a reduction of one month in the EC delay in payments for cereals intervention (and approval for Germany to provide funds to further reduce the delay by one month for small farmers), and for extension of the

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27. The formula, because it was based on a three-year moving average, would also trigger 5% price cuts in both 1986 and 1987, which frightened German farmers even more.
28. Vasey (1985), p. 659.

special intervention for 3 Mt of bread wheat. Germany was placated as those measures allowed German farm gate prices to remain relatively constant but it certainly was not in favour of further reform.

The Commission remained determined to press ahead. It released in July (without support from one German Commissioner) a Green Paper, which proposed alternative policy options for the cereals sector, including a new co-responsibility levy in place of the guaranteed threshold system, set-asides, support for alternative crops and export development, and direct income payments. France accepted the general outline of the proposals but the UK preferred direct price cuts while Germany insisted that price support was essential to maintain farm incomes. The consultative bodies examined the report and provided opinions but little consensus developed. Before the year ended the Commission decided that guaranteed prices could not be cut directly because of German opposition. Instead, DG-VI prepared a detailed plan to rationalize the cereals sector by use of a new co-responsibility levy and a realignment of feed and bread wheat prices.

The Commission's 1986 price package proposed to implement DG-VI's plan. The reference price and special intervention for bread wheat were to be eliminated, feed wheat intervention prices were to be cut 5% from the basic intervention price, a 3% co-responsibility levy was to be introduced, and intervention was to be closed until April 1 following the harvest. Kiechle came under great pressure when the CDU lost support in state elections in April. If the losses continued in a state election in Lower Saxony in June, then the CDU/CSU/FDP coalition in the upper house might have been threatened. Kiechle therefore promised to provide German farmers with up to DM 1 B direct income support if the prices were not adequate.

The German and French ministers for agriculture developed an uneasy alliance to coordinate their approach in Council. But immediately after the first meeting, the franc was devalued in the EMS, which provided French farmers with a price increase. When 50,000 German farmers protested against the price package, Kiechle got Cabinet support to formally reject the Commission package. Meanwhile, the EP and the UK sided with the Commission. When the Council met the next week the Commission regained control of the negotiations. By the end of the meeting the ministers had agreed by a qualified majority to implement most of the reforms: feed wheat prices were cut by up to 5% from the common wheat intervention prices; co-responsibility was introduced; intervention buying was only open October 1 to April 30 (September 1 with an additional month payment delay); the reference price for bread wheat was replaced with a 3.59 ECU premium for wheat with more than 14% protein; quality standards for intervention were raised to the old bread wheat standards; the monthly increments were cut 4.7% and delayed until the shortened buying-in period began in October[29]; and the green franc and pound were devalued 1.5%. The Commission overcame German resistance by tailoring the co-responsibility system to German needs. It was levied only on cereals marketed (Germany uses a higher proportion of its cereals on farm as feed) and small farmers were to receive aid to offset the levy on the first 25 tonnes marketed. As shown in Table 6.3, that ensured that only about 18% of German farm holdings were affected by the levy. The Commission also approved German plans to provide its farmers with DM 500 million in direct aid. Andriessen thus successfully introduced co-responsibility and tightened the intervention system for wheat through a judicious use of technical fixes,

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[29]. The cut in monthly increments was not opposed by Germany because its farmers generally sell their crop early in the year, before the increments amount to much.

national aids, direct EC payments to small farmers, and devaluations.

Then drought ravaged the 1986 cereals crop across Europe and in August France responded with a FF 1.9 B aid package for 1986 and a further FF 2.02 billion for 1987. Both packages were approved by the Commission. Later that fall the Commission and Council implemented a package of measures that resolved long-standing problems in the milk and beef sectors, leaving only cereals unresolved.

The 1987 price package was first delayed by the German federal election in January and then by disagreement in the Commission. Finally, in mid-February the Commission released proposals to freeze bread wheat prices, cut feed wheat prices 2.6%, revalue completely the green DM, tighten quality standards, limit intervention buying to February through May (and then only when prices drop below the intervention price), and discontinue monthly increases until intervention opens. Kiechle retorted that the proposals amounted to a "declaration of war."[30] The Commission in an unprecedented meeting between the 17 Commissioners and the German cabinet offered to provide direct EC income payments in an attempt to persuade Germany to accept the package. But when German farmers protested in both Bonn and Brussels, the German cabinet threatened to veto the price package. A Council meeting of Farm and Finance Ministers failed to break the deadlock and debate dragged on through June. The Commission then threatened to make technical changes within its authority to force lower cereals prices.[31] Eventually, the Council and Commission compromised. The Commission withdrew its proposals to cut feed wheat prices, but Council cut monthly increments by 18%, imposed a 6% cut

30. International Herald Tribune, 2-3-87.
31. Financial Times, 19-6-87.

in intervention payments, and allowed the Commission to implement new intervention rules that closed buying except when market prices dipped below the official price. Germany accepted an expansion in the MCA franchise to 1.5% (equivalent to a 0.5% revaluation) and agreed that the remaining effective DM monetary gap for cereals would be eliminated at the beginning of the 1988-89 crop year. In exchange, the Commission agreed to standardize the payments delays at 110 days and allowed Germany to pay its farmers compensation of DM 1.1-1.2 B in January 1989.

The Commission pressed forward during the autumn with proposals to remake cereals intervention into a safety net and to introduce automatic price cuts in proportion to over-production (either by higher co-responsibility or by shorter intervention). The Commission proposed that every 1.55 Mt (1%) of cereals produced in excess of a 155 Mt cereals threshold would force prices down by 1%, subject to a 5% maximum cut in 1988-89 and a 7.5% cut in 1989-90. The Commission would automatically implement cuts based on production figures, without reference to the Council. The Commission also proposed a voluntary set-aside program to remove up to 20% of land from production, in an effort to provide the basis for a compromise with Germany. Germany, nevertheless, rejected the package. The UK government, bolstered by general NFU agreement, supported the stabilizers and set-aside proposals, subject to a satisfactory budget resolution, while France wanted the set-aside policy to allow land to be planted to fodder crops. The budget meanwhile resurfaced as an issue. The EP rejected the 1988 budget and forced the Community to operate on provisional twelfths; the expected outlays for 1988 exceeded the resources available under the 1.4% VAT ceiling.

The Commission opened the negotiations when it offered to raise the threshold to 158 Mt and to exempt small producers from the new stabilizer levy on the first

20 tonnes of cereals marketed, provided they set aside 30% of their land. Germany countered the Commission proposals with proposals to set the threshold at 160 Mt and to cut prices by a 3% maximum in 1988 and 2.5% in future years. The UK rejected those changes and threatened to veto the budget solution being worked out in the Finance Council unless there were price cuts (it wanted a 155 Mt threshold); Germany responded by threatening to cut the UK annual rebate. The Council could have deadlocked over the issue, but Chancellor Kohl, as President-in-Office, wanted to get the CAP issue resolved so the Single Europe project could proceed.[32] When a special Brussels Summit convened in February, both sides backed down. With the help of their agricultural ministers, the heads of government negotiated a compromise on the stabilizers package. Germany accepted the new 3% stabilizer levy (payable in advance but refundable depending on production) on top of the existing 3% co-responsibility levy and the UK accepted the 160 Mt threshold in exchange for budgetary guidelines which limited growth in CAP outlays to less than growth in total outlays. The Summit even went further than the Commission proposed. First, the ministers adopted cumulative automatic price reductions for cereals whenever EC production exceeded the 160 Mt threshold; the Commission had only proposed non-cumulative reductions. Second, they agreed to set a ceiling on CAP expenditure growth of 80% of GNP growth (including new stock depreciation); the Commission had proposed a 100% growth rate, provided depreciation of both old and new stocks was included. Finally, they empowered the Commission to challenge Agricultural Council price decisions and refer them to a special Finance and Agriculture

32. The Globe & Mail, 30-12-87, quoted an EC diplomat as saying that "if [Germany] fails, this could go down as the worst EC presidency in history." Another EC official said that being the president probably helps moderate the German position because "they now have the opportunity to tell their clientele back home afterward that they had no other choice but to compromise."

Council meeting, which would have the power to revise the decision. As a result, they were able to conclude a new budget system that provided new resources to implement the programs to make a success of the Single Market.

CONCLUSIONS

Thus, by February 1988, the Commission and Council had reformed the wheat price system. The reforms of 1984-88 were only possible because the Commission prepared a consensus package and then negotiated bi-laterally with the dissenting members, using a combination of threats (of further technical changes to market mechanisms, such as reduction in the number of designated intervention delivery points and in the subsidy to transport grain to the intervention store) and enticements (approval for national aids). As a result, the 1988 and 1989 price reviews progressed relatively smoothly along the path laid out by the Commission in earlier reports and by 1989 the price and intervention system had developed closer links between producers and the markets.

The European Community, with a new market system for wheat in place, was well positioned to take a major role in the Uruguay Round Negotiations of the GATT in 1989 and 1990. The system in 1989 was neither perfect nor complete, but it was a major step on the way to a having a market system in place for the 1990s that can produce exportable quantities of wheat at competitive prices, without prohibitively large budgetary costs.

Chapter 8

TRADE POLICY: DEFENCE IN THE 1970s

The EC agricultural trade policy has generally been dictated by the stage of development in the EC farm sector. Tangermann observed in 1983 that "policy makers in the Community have never really taken any interest in agricultural trade." Instead, "in CAP thinking, trade is a variable that is dependent on domestic policies, but not an instrument variable or an objective in itself."[1] This introspective orientation conformed during the 1970s with the pressures in the food policy system examined in chapters 3 through 7: farmers, the Commission, most of the European consultative bodies, and the national governments believed during the 1970s that the price system was the most important tool to protect EC consumers and to support incomes of the primarily small farmers.

The cold-war political system, volatile exchange and inflation rates, and uncertain world grain markets inclined both consumers and their governments during the 1960s and 1970s to seek food self-sufficiency to insure against food shortages (see chapter 2). Food security was deemed essential to assure independence from coercion by the exporters.[2] The International Wheat Agreement, first introduced in 1949, was negotiated by exporters and importers to reduce the uncertainty of supply and price. When it failed in 1968, the EC was concerned that as the largest world food importer it would be vulnerable to changes in international markets. Events during the 1970s justified the EC's concern. First, the 1972 "great grain robbery" more than doubled the world wheat price. Then in 1973 the US embargoed exports of soya and in 1975 there was a sugar crisis. In between, the World Food Conference in 1974 concluded that because the world population would likely continue to outgrow the earth's

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1. Tangermann (1983), p. 50.
2. ASC 1981, p. 30.

productive capacity, market instability would increase. Then, in 1979, the US embargoed all grain exports to the USSR (after the Afghanistan invasion), which appeared to confirm that food had become a political weapon. Meanwhile, as discussed in chapter 2, market intelligence was so poor that the EC was unable to detect or protect itself from food shortages that resulted from political, production, or market shifts.

The domestic orientation left little opportunity for an active export policy. Support for the domestic wheat price forced the Community to exclude low-cost imports from North America and Australia. Although the EC produced some wheat in excess of domestic needs during the 1960s and 1970s, it did little to take advantage of its position. The Commission and Council believed that EC wheat production was not commercially viable and that excess output posed a problem of 'surplus disposal.' Henri Nouyrit, of the French Confederation of Agricultural Co-operatives, noted:

> For exports there is no real policy. So called 'surpluses' are disposed of as the opportunity arises. There is no plan for exports, no medium term policy. Exports have become a sort of undesirable adjunct to intervention. Financial preoccupation over export restitutions has inhibited a proper commercial policy involving an effort to establish permanent trade flows, to seek out new markets, and to develop commercial instruments such as credits and long-term contracts.[35]

Instead the Community pursued the cheapest way to dispose of surpluses. In particular, it encouraged alternative uses, donated food as aid, stored surpluses in Community intervention stocks, or simply concluded one-time export sales.

[35]. N. Butler (1983), p. 113.

The CAP's domestic orientation also severely circumscribed the EC's approach to the Tokyo Round of the GATT. The Community had little alternative but to adopt a defensive stance to protect the mechanisms of the CAP. The EC negotiators were therefore unable to pursue international agreements that would allow the EC to take advantage of its emerging export interests.

This chapter examines how the price and export policies interacted and supported each other during the period and reveals the roots of the new policy orientation that developed in the 1980s.

PRICES AND TRADE

The EC wheat trade policy before 1979 was an ad hoc response to the surpluses that resulted from the domestic orientation of the EC wheat price system. The objective method criterion was developed and prices were set based entirely on domestic needs; the level of protection had to be kept high to protect the intervention system. In particular, the Community used the threshold price and variable levy systems to eliminate competition from virtually all non-European wheats. Any resulting wheat surpluses were not regarded as a problem. Marsh concludes that "symbolically the assurance of an adequate supply of cereals, guaranteed by policy, is the token of food security, which a generation who knew war and post-war shortages of food prized highly."[4]

The Commission's 1960 price proposals[5] had divorced domestic pricing from international market influences for two reasons that remained relevant during the 1970s. First, European farms were generally smaller than in the US, Canada, and Australia, so that EC producers would not be able to compete with those producers. Second, and

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4. J. Marsh, "Summary," in Beard (1986), p. 10.
5. IMF (1988), p. 9.

more importantly, the EC believed that the world wheat market was distorted and therefore could not be relied upon to produce either fair competitive conditions or adequate supplies at reasonable prices. In the 1950s and 1960s world trade in wheat had become largely a matter of competition between governments so that world market prices seldom reflected real market or production conditions. Furthermore, domestic programs in the major producing and consuming nations exacerbated the uncertainty in world markets (see chapter 2). During the 1970s, for example, more than half of the world grain market (including the EC) was insulated from international market conditions. Table 8.1 shows that, although EC policy contributed to price volatility, a significant portion was due to agricultural and trade policies in other countries.

Table 8.1 **Effect of the CAP on Volatility and Level of the World Wheat Price**

Study & Date	Period	EC	Share of Volatility	Price Level
Koester (1982)	1975-77	9	--	-9.6%
Sarris & Freebairn (1983)	1978-80	9	19.8%	-9.2%
Mathews (1985)	1978-82	10	--	-0.7%
Koester & Valdés (1984)	1980	9	--	-4.6%
Anderson & Tyers (1984)	1980	9	50.0%	-13.0%
Tyers (1985)	1980	9	44.0%	-13.0%
Tyers & Anderson (1987)	1980-82	12	32.8%	-6.0%
Sarris (1988)	1981-83	10	8.5%	-3.0%
Tyers & Anderson (1987)	1985	10	24.0%	-0.7%

Source: IMF (1988), pp. 122-25, Tarditi (1989), p. 187.

Also, in the 1970s, the Bretton Woods system of fixed exchange rates ended and all major world currencies began to fluctuate. Because most trades in the world wheat market were denominated in US dollars, a fluctuating dollar-ECU exchange rate (or its equivalent) forced changes in offer prices for exports and imports in EC currency terms even in the absence of any change in the world wheat price. During the 1970s, the swings between the US dollar and the ECU (or its equivalent) would have exacerbated the volatility of domestic European prices if the variable levy had not protected the domestic market (Table 8.2).

Table 8.2 Exchange-Induced Volatility in EC Wheat Prices

Annual % Change in:	US $ Prices	ECU/US$	Impact
1971	-1.8%	+4.7%	-
1972	+48.8%	+8.4%	+
1973	+93.8%	+3.2%	+
1974	-4.5%	+0.4%	-
1975	-5.3%	-3.3%	+
1976	-26.7%	-4.0%	+
1977	-0.8%	+6.6%	-
1978	+21.4%	+9.7%	+
1979	+22.5%	+4.6%	+
1980	+5.2%	-10.3%	-

Notes: US $ Prices are for #2 Hard Winter Wheat, FOB Gulf; in the impact column "+" signifies the exchange rate exacerbated the price change while the "-" shows it partially or totally offset the world price change.
Sources: IWC, World Wheat Statistics; Eurostat, EC Economy.

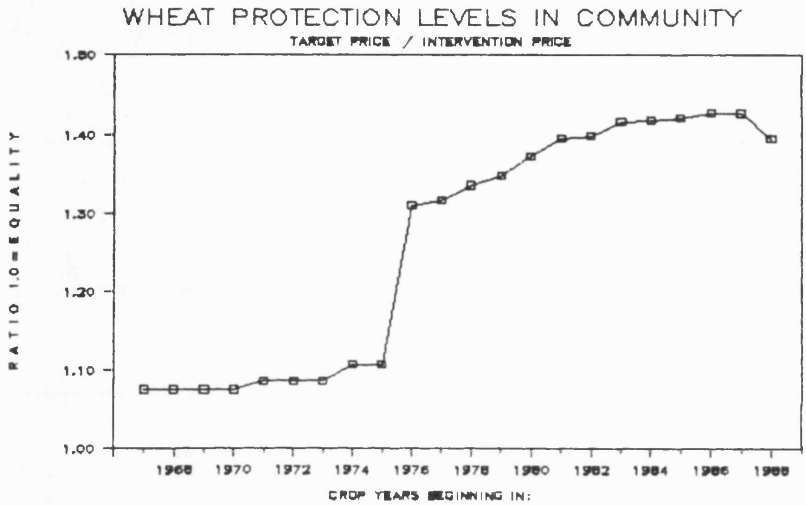
Consequently, the Commission and Council set the threshold price and variable import levy so that imported wheat would be priced at the target level in the food deficit regions. Graph 8.1 shows that the world price (represented by the Gulf offer price for US #2 Hard Winter Ordinary Wheat converted to ECUs) swung widely during the 1970s but the Community price system insulated both European consumers and producers from these gyrations. Instead, the Agricultural Council generally adjusted domestic prices in line with the objective method criterion, which reflected production costs, net farm income changes, and economy-wide income growth.

Figure 8.1

After 1976, Community protection against imports was increased through adjustments in the price system. The Council implemented the reference price system for bread wheat and cut the common wheat intervention price. As a result the gap between the target and intervention prices expanded from about 10% in 1975 to more than 30% in 1976. Between then and 1985, the gap increased to more than 40% as intervention price rises were held below the increases for target prices.

The successive expansions in protection served two purposes. First, increasingly after 1976 France demanded greater Community Preference to ensure that imports did not cut into its domestic market, which was shrinking as production rose in the other member states. The Council found that it needed to increase protection continuously over the period to get the French government to accept the rest of the price package. Second, greater Community preference helped the Commission support the market system. As supply grew ahead of demand, the internal wheat market price dipped down to the intervention price. Rising imports would have forced the Commission either to purchase more into intervention or to fund greater exports. Greater Community Preference, in contrast, both dampened import volumes and exacted higher levies from those imports that continued.

Figure 8.2



In short, the Commission and Council believed that EC wheat production was not commercially viable and therefore needed to be protected from international competition. Consequently, the Community viewed any excess output as simply a problem of 'surplus disposal' and not a commercial opportunity.

MECHANISMS FOR SURPLUS DISPOSAL

The relatively high and assured returns for wheat encouraged EC farmers to produce surpluses of common wheat throughout the 1970s. But, because EC production of the other cereal crops was less than adequate to meet domestic demand, the Community was not concerned about wheat surpluses. In general, the Community sought to dispose of the surpluses in the least costly fashion, which included a combination of encouragement of alternative uses, Community storage, food aid donations, and exports.

a. Alternative Uses

The Community primarily encouraged farmers to use low-quality wheats as animal feed in the place of imported cereal-substitutes or the traditional barley and maize feed-grains that were in perpetual shortage in the EC. Between 1968 and 1974 the Community denatured surplus wheat and subsidized its use as feed and then after 1975 realigned market prices both to encourage farmers to produce a different mix of crop and feed merchants to incorporate more wheat into their feeds. By 1972 almost 39% of the wheat produced in the Community was consumed as feed, compared with only about 24% in 1966. But the end of the denaturing program and rising prices made common wheat less competitive with imported feed, so that by the late 1970s less than 30% of the wheat produced in EC was fed to animals.

Common wheat was an expensive nutrient source compared with imported oil-seed cakes and non-cereal substitutes. In the EC, cereals substitutes cost only about 1.2 times more than cereals (the ratio was 2.5 in the US), which encouraged farmers to substitute non-cereals feeds for maize, barley, and feed wheat.[6] The high price regime in Europe was a major reason for the price difference. But part of the price differential was also believed to be because cereal substitutes (i.e., corn gluten, citrus pulp, and manioc) were priced by the exporters at or below cost of production. US corn gluten, for example, was readily available because it was a byproduct of isoglucose (corn-sugar) production, which resulted from the trade protection provided to US cane and beet sugar producers. Farmers also thought that manioc was available to the EC at artificially low prices because Thailand provided subsidies to tapioca producers.

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6. Duchêne, Szczepanik, & Legg (1985), p. 140.

Competition from cereal-substitutes became acute during the 1970s because trade in these products was covered by the GATT. The Community had surrendered during the Dillon Round of the GATT the prerogative to tax oilseed and non-grain feed imports (i.e., bound the duty at zero).

Table 8.3 Applicable Duties on Cereal Substitutes

Product	Duty	Status	Major Supplier
Soya	0%	GATT duty bound	United States
Manioc	6%	GATT duty bound	Thailand
Corn Gluten	0%	GATT duty bound	United States

Source: ASC 1980, pp. 103-04.

The Community responded to surpluses in the late 1960s with a subsidy to denature surplus wheat (i.e., contaminate it with fish oil so that it could not be used for human consumption); that grain was then offered at lower prices to the EC livestock industry. This policy lasted until 1974, when the world price soared; thereafter it became the high-cost option for surplus disposal. At the same time, rising concern about world food scarcity radically changed taxpayers' and politicians' views of the morality of diverting food from its best use. Consequently the denaturing program was terminated.

The French government and wheat producers association (AGPB), however, continued to advocate the use of domestic wheat as an animal feed.[7] After the denaturing program ended, they pushed the Community to reduce imports into the domestic feed market. In particular, they pressed the Commission and Council to raise the target price faster than the intervention price and to renego-

[7]. Financial Times, 24-6-77.

tiate the GATT-bound duties. France also supplemented this with its own programs. The Office National Interprofessionel des Cereales (ONIC) collected a levy on all cereals marketed in France and used the funds to build feed lots to use French feed wheats. Generally the other producing countries were less concerned about feed markets because they did not have any surplus wheat.

The Community responded in 1975 to French demands and market pressures with a series of measures to make low quality wheats competitive as feed. In 1975-76, the Commission began to align barley and maize prices and moved the maize marketing year into line with the other cereals. Then in 1976 the Commission proposed and the Council accepted, with general support from the relevant lobbies and consultative agencies, a single intervention price for common wheat, barley, and maize and a new reference price for wheat of bread-making quality (a premium compensated farmers for lower yields). After two transitional years prices were finally in the 'silo' formation (with all feed grains priced equally and bread wheat supported at a higher level), but the inexorable growth of surpluses of low-quality feed wheat continued. As discussed in Chapter 2, the cereal grading system was unable to differentiate properly between feed and bread quality wheats, so that much of the low-quality wheat that could not command a premium on commercial markets ended in EC intervention. Thus, throughout the 1970s, the Community was unable to manage the domestic circulation of cereals to halt the growth in surpluses requiring disposal.

b. Storage

Storage in public or private intervention was also used. Even though the budget did not fully count the depreciation costs of intervention storage, public purchase and storage of surpluses was generally regarded as the most expensive option. With a guaranteed buying system and little on-farm storage, stockpiles usually ended up in intervention stores in the surplus countries, where they incurred finance, technical storage, and wastage costs.

The focus of the stock policy during the 1970s was undoubtedly security of supply rather than disposal. Wild gyrations in prices and supplies on international markets, which began in 1972 and continued through 1976, spurred the Community to hold the average ratio of stocks to domestic use at about 21% (i.e., close to the 20% ratio that usually accompanies stable prices). In contrast, the major exporting countries (especially the US and Canada) held greater stocks to reduce wasteful competition on generally slack world markets.

Table 8.4 EC9 Stock-Domestic Use Ratios for Wheat (000t)

	Final Stocks	Domestic Use	Stocks to Use	Domestic Surplus	Net Exports
1973	7003	35594	19.7%	2360	2400
1974	9529	35798	26.6%	5747	1620
1975	6698	33260	20.1%	222	1582
1976	7226	33629	21.5%	1690	1042
1977	6577	35309	18.6%	560	221
1978	9232	36706	25.2%	6870	448
1979	7708	37587	20.5%	5037	3169
1980	7573	38024	19.9%	8934	7356
1973–80	7693	35738	21.2%	3928	2330

Sources: Eurostat Supply Balance Sheets; Nimexe.

The Community was careful to hold the stock-to-use ratio in manageable bounds. It never moved outside the rather narrow range of 18.6% to 26.6%. In contrast, the world-wide stock to use ratio dropped well below the lowest EC level in both 1972–73 and 1973–74, which caused world wheat prices to almost triple. As world-wide production rebounded, the world stock-to-use ratio soared, reaching almost 32% in 1976-77. As a result, US offer prices fell more than 25% in 1976. The Community avoided these sharp swings in prices as it maintained steady stocks and used external markets as a swing destination for, or source of, residual quantities of wheat.

In the Stocktaking in 1974-75, the Commission proposed an "active storage policy for cereals" to absorb cyclical fluctuations in production, ensure domestic supplies, and fulfill international obligations,[8] but the Council never accepted this approach. An active storage policy is a necessary adjunct to the development of a commercial policy for wheat. To ensure customers are satisfied, the Community would have to hold precautionary supplies which would raise the stock-to-use ratio above the average 21% recorded in the 1970s. As exports were generally one-off shipments, the Commission was able to live without an active storage system.

c. Food Aid

After decolonization in Africa and Asia in the 1960s, war and revolution became commonplace. Although EC member states were no longer responsible for these countries, instability in those regions endangered European economic trade and investment. France and the UK, through La Francophonie and the Commonwealth, and the EC through the Yaoundé and Lomé Conventions, attempted to calm political conflicts in the former colonies in Africa, the Caribbean, and the Pacific. But endemic and episodic famine increased tension and conflict and threatened to involve the former colonial masters again in those areas.

Food aid was one solution. Community aid formally began on 1 July 1968 with the Food Aid (Cereals) Convention, negotiated at the International Wheat Council meet-

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8. Newsletter on the CAP #3, March 1975, p. 45.

ings during the Kennedy Round of the GATT. Before that time, all food aid was disbursed by the member states. The EC initially agreed to contribute 1.035 Mt annually, to be supplied by either the Community or by individual member countries. In 1968-69, only 29% of the cereals aid was given by the Community; that figure rose steadily until 1985-86 when the Community gave about 70% of the 1.67 Mt committed.

Table 8.5 EC Cereal Food Aid Allocated and Shipped

	Cereals Aid Allocated (000t)	Cereals Shipped (000t)	Shipped compared with Allocated	Wheat Surplus (000t)	Shipped as % of Surplus
1969	301	286	-5%	3,480	8%
1970	337	327	-3%	443	74%
1971	353	244	-31%	-631	100%
1972	414	232	-44%	3,396	7%
1973	464	479	3%	-1,284	100%
1974	580	736	27%	1,120	66%
1975	643	717	12%	4,987	14%
1976	708	264	-63%	248	100%
1977	721	937	30%	1,098	85%
1978	721	886	23%	-1,089	100%
Average	524	511	-3%	1,177	43%

Notes: The aid figures include all cereals but wheat was the most important commodity; the wheat surplus figure includes common and hard wheats.
Source: Green Europe #216, Annex Table 1; Eurostat, Supply Balance Sheets.

Food aid allocations are set by the Council on advice of the Commission, subject to the commitments in the Food Aid (Cereals) Convention. Shipments are administered both by the member states and the Commission with the costs allocated partly to Title 6 of the EAGGF budget (the refund portion of the aid) and partly to the development budget (the remainder of the cost of the aid).[9] Aid planning is managed by the Development and Cooperation Directorate of the Commission (DG-VIII). The Cereals Management Committee, consequently, had only indirect influence on shipments (e.g., determining when shipments can move) and as such was never able to make direct use of the shipments to develop commercial markets.

The evidence suggests that during the 1970s the EC generally regarded food aid as a means of disposing of surplus cereals rather than as a means to develop markets.[10] Although the Community between 1968 and 1978 supplied virtually all of the grain that it had committed under the 1968 Food Aid Convention, it shipped the grain at times and under conditions that best suited the Community. The aid certainly was not tailored to the recipient's needs. Table 8.5 shows that during that decade the Community exceeded its annual commitment whenever it had supplies surplus to its domestic needs (i.e., in 1974-75 and 1977) and cut back on shipments during or following any year when the EC cereals crop was poor (i.e., 1971-72 and 1976). World demand for food aid exceeded supply throughout the period, so the EC's volatile pattern of shipments did not help it develop an image as a reliable source.

In 1974 the Commission proposed changes in the Community food aid policy. Supplies of wheat and other cereals had expanded faster than domestic demand and the Commission wanted to dispose of more of the surpluses as aid. The FAO World Food Conference in 1974 supported the Commission's position and asked developed countries to

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9. Before 1975, the entire cost of food aid was allocated to Title 6 of the EAGGF budget. The 1975 Budget estimated that prior to 1975 about 193 M ua was allocated to the EAGGF budget to purchase cereals to ship as aid.
10. Bard (1972), p. 43.

expand their annual cereals aid commitments to 10 Mt in order to meet larger food deficits throughout the Third World. The Commission accepted this approach and proposed to more than double the amount of aid disbursed by the Community (rather than by member states) and to distribute more to LDCs via the World Food Program and the International Red Cross.[11] Although the EP and the ESC supported the Commission's proposal, neither farmers nor the Ministries of Agriculture were enthusiastic because the additional costs (for restitutions and, until 1975, purchases) would be borne by the EAGGF and could squeeze other farm priorities. When drought hit in 1976, the Commission withdrew the plan because the member states rejected any increase in commitments when domestic supplies were short. Reform of the food aid system then waited until the 1980s.

d. Export

When the Community found it had wheat that could not be disposed as feed, stored, or given as aid, it opted to move its surpluses onto external markets. The export market was viewed as a cheap storage system because short-term exports could be cut off with impunity while physical stockpiling required finance, storage, and depreciation costs.[12] The export system, therefore, remained undeveloped at the Community level; the Commission failed to develop more than a custodial or bookkeeping role during the 1960s and 1970s.

Refunds (or restitutions) were the only EC-controlled instrument to support exports. 'Common law' or standing refunds, granted for cereals exported as grain (and, after 1981, for processed cereals and cereals by-products), were generally confined to sales to countries bordering the EC with known, verifiable requirements. In

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11. Bulletin of the ECs, 3/74, pp. 30-34.
12. Donelan, p. 17.

contrast, 'awarded' refunds were paid for unprocessed cereals exported to all destinations. The Commission, on the advice of the Management Committee for Cereals made weekly awards which fixed a maximum figure for export refunds, on the basis of offers submitted by Community operators. The fixed refund offers (which included the MCA refund) were limited to set periods, markets, and volumes.[13] During the 1970s, DG-VI and the Management Committee for Cereals—comprised of members of national agricultural ministries—generally set tenders whenever domestic stocks looked set to exceed the desired stock-to-use ratio. The tenders were short term and more often than not open to all takers. Consequently, the export system did not develop long-term customers but rather simply disposed of surpluses at the lowest cost.

The export system was most strongly supported by France. Events during the 1960s and 1970s had amply demonstrated that food was useful both as a weapon and diplomatic tool. France therefore insisted that the Community continue to have an export presence to counter the dominant power of the US.[14]

France also had commercial export interests. It had been a significant wheat exporter since shortly after the Second World War and believed it had an export "vocation." Furthermore, France wanted wheat exports to offset its large balance of payments deficits. As wheat production rose in France and the world market expanded, France saw that the commercial potential of wheat exports could become even more important in the 1970s. As a result, France pushed the Community to develop an active export policy.

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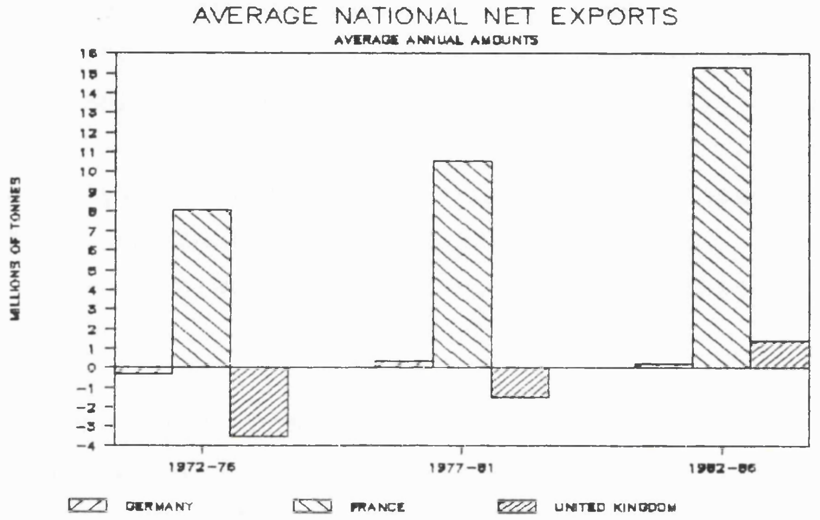
13. OECD (1987c), p. 84.
14. Financial Times, 11-11-75.

Neither Germany nor the UK was particularly interested in export policy because they were both large food importers. Instead, both governments during the 1970s were preoccupied with ensuring adequate quantities of food imports at reasonable prices, which often put them at odds with France.

Figure 8.3



The Commission, prodded by the French government, proposed in 1975 that the EC enter fixed-term supply contracts to provide greater continuity for export shipments and perhaps cut the cost of exports.[15] It recommended that the Community enter a 12-month contract with Egypt to supply in 1975-76 a minimum of 1 Mt of wheat and wheat flour. The Commission also proposed that the EC arrange with Egypt a three-year sugar agreement, a two-year dairy deal, and a one-year beef package. Israel and Algeria were targeted for similar contracts.[16] The EP supported the proposal[17] but the ESC withheld support because it believed the Community should not implement any agreement

15. Duchêne, Szczepanik, & Legg (1985), p. 205.
16. Financial Times, 1-8-75.
17. Newsletter on the CAP, Jan. 1976, p. 8.

before the IWA discussions were complete.[18] Meanwhile, divisions between the member states developed. France pushed for the contracts while the MAFF, with NFU support, expressed concern that long-term agreements would institutionalize existing surpluses or create new ones. The UK farmers and government instead preferred a renewed IWA to provide both security of supply and price stability.[19] Germany and the Netherlands also rejected the proposal.[20] The 1976 drought scuttled this proposal, much as it did the food aid proposals. "Divisions of opinion in the Commission developed" during the year and the Council never acted.[21]

As a result, France developed and supported its own cereals export system outside the EC sphere. French cereals farmers, with state assistance, managed a comprehensive system to distribute, store, and finance their export sales. The cereal cooperatives owned enough capacity to store and market about 70% of the French wheat crop, and thereby acted as agents for about 40-45% of the French cereals exported.[22] As the market became more competitive in the 1970s, the French co-ops also developed close links with the multinational grain traders to ensure they maximized their commercial prospects.[23] To support the system, French farmers paid a para-fiscal levy on all cereals marketed in France. ONIC and Unigrains then used some of the funds to provide credit guarantees on cereal exports.[24] The French government also used the Compagnie Français d'Assurances pour le Commerce Extérieur (COFACE) to provide credit guarantees for cereals exports (generally six month guarantees on 95% of the credit at market rates of interest). Conse-

18. <u>Newsletter on the CAP</u>, Jan. 1976, p. 12.
19. House of Lords (1981a), pp. 71 & 156.
20. Neville-Rolfe (1984), p. 25.
21. House of Lords (1981a), p. 70.
22. Foxall (1982), p. 16.
23. Morgan (1979), p. 310.
24. OECD (1987b), p. 201.

quently, French cereals producers greatly expanded their exports through the 1970s, earning the admiration and support of President Giscard.

The Community, meanwhile, directed its attention to negotiations through the GATT. The assortment of domestic policies operating in the EC in 1976 when the GATT Round began, however, provided little scope for the Community to develop its commercial interests.

THE EC IN THE GATT

The Community approach to GATT negotiations was largely determined by domestic concerns until 1979. At first, the Community needed to complete the CAP, so the Commission and France used the Dillon and Kennedy Rounds to force recalcitrant member states to come into line. The Community also started out to use the Tokyo Round to defend what it had built. Near the end of the talks, however, it shifted emphasis and tried to enhance its commercial prospects.

Domestically, the Commission and the national governments dominated the GATT trade negotiations. Although domestic policy actors were consulted at the beginning of each of the negotiations, they were then excluded from the debate: the negotiating system deprived them of any real access. The Commission negotiated for the EC, guided both by the Council's approved strategy (embodied in a directive) and a committee of national officials (the '113 Committee' per the Treaty of Rome). The 113 Committee followed the Commission negotiators to Geneva and regularly met to refine the EC position. The Commission with 113 Committee support was regarded as "a powerful negotiating team" because it exploited the fact that it could only move from its mandate with the consent of a qualified majority in the 113 Committee.[25] The secrecy and remoteness of the talks and the negotiating process all helped to isolate farmers (who anyway were not overly concerned with the trade discussions, providing the Community system of pricing and preferences prevailed). The EP and ESC were also isolated because the Treaty of Rome does not require Council to consult either of them on commercial agreements under Article 113. Thus, neither agency had any real access to or influence on the process.

a. GATT Negotiations Before 1973

Prior to 1973 the Commission and Council used the GATT strategically to build the Community policy system. The Dillon Round was used to get GATT approval for the European customs union and the general parameters of the common policies while the Commission and France worked together in the Kennedy Round to finesse the introduction of the wheat price regime. Then, in 1966, with the CAP largely complete, the Commission focused for the first time on carving a protected position for Europe in the world wheat market.

Although the CAP was first discussed at GATT committee meetings in 1958, the farm policy was not fully scrutinized until the closing stages of the Dillon Round because the market mechanisms had not been approved by the Council. After they were enacted in 1962, Article XXIV of the GATT required the EC negotiate with the countries that would be affected by the new customs union. The negotiations, especially with the United States, concluded when the EC agreed to compensate the affected agricultural exporters for their lost markets by allowing an unlimited quantity of oilseeds, seedcake, and cereal substitutes to enter the Community duty-free. The EC believes it thereby fully "paid for" the variable levy sys-

25. M. Butler (1986), p. 144.

tem because that decision opened the EC to world market influences and raised the cost of the CAP price support schemes.[26] In exchange, the EC believed the CAP was accepted by all GATT signatory states. Although US farmers were not pleased, the US government accepted the protectionist orientation in both European and world agriculture as necessary to help Europe recover from the war and to encourage the former combatants to unite against the new common enemy: the USSR.[27]

The Commission then used the agricultural talks in the Kennedy Round (1962-67) to force member states to complete the CAP. Warley concludes that DG-VI had a "single-minded preoccupation with creating and protecting the CAP" and used the Kennedy Round "not to alternate (sic) the CAP's external effects but to secure its completion."[28] This defensive posture, which fit ted well with the existing power structures, was championed at the negotiations by both the Commission and France and strongly supported within Europe by the farm lobby. The Commission "declared its complete agreement with the USA on their [farm issues] inclusion in the negotiations, but, before committing itself on the international plane it needed to complete its own agricultural policy and in particular fix the level of common agricultural prices."[29] France —worried that US imports would ruin French farmers' opportunity to become Germany's primary supplier—demanded that the CAP price and financial regimes be completed before talks begin. COPA unanimously agreed: Deleau, then president of COPA, argued that "the existence of the CAP is an essential prerequisite for negotiations on

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26. Petersmann (1986), p. 41.
27. Warley (1976), p. 330; Tangermann (1978), p. 205; Barkema, Henneberry, & Drabenstott (1989), p. 23.
28. Warley (1976), p. 342.
29. Casadio (1973), p. 11.

agricultural products in GATT, and such policy cannot be called into question."[30]

The German government appeared as if it would have been willing to bargain access to EC food markets in exchange for freer world trade in manufactures but France withheld support for the EC position on industrial tariffs until Germany agreed to complete the CAP price and financing arrangements.[31] To force Germany to complete the Community prices quickly, France pushed the Council in February 1964 to propose at the GATT the *montant de soutien* system. Under the proposal, contracting countries would bind the maximum level of support for agriculture for three years. The formula set the *montant de soutien* equal to the difference between the world and domestic prices, adjusted for any direct subsidies to the farm sector. The system was expected to push Germany to a quick agreement on EC price levels because the *montant de soutien* could not be determined until domestic prices had been set.[32] The EC strategy succeeded and by 1966 the Community had set most of the important prices for the CAP.

After the 'empty chair crisis' was resolved and prices set, the Commission and Council collaborated to develop provisions to guarantee access to the EC market, in response to demands from the traditional world wheat exporters. The EC thus offered to bind the Community's self-sufficiency ratio for grains at 90% (it was at 85% in 1966) and to either store or export as non-commercial aid any EC surpluses. The UK, which was not then a member of the Community, offered to bind its ratio at 75% (it was at 66% in 1966). European farmers, however, were not pleased. Deleau argued that "the protection of European agricul-

30. Casadio (1973), p. 38.
31. Casadio (1973), p. 25.
32. Casadio (1973), p. 124.

ture must not be reduced."[33] He argued that the level of prices could not be discussed within the framework of tariff negotiations, nor could quantitative guarantees be given to the USA or other countries, as that would deny EC farmers any opportunity for technical expansion.

When that GATT Round concluded in 1967 farm traders had not reached agreement because the EC was unwilling to accept a 10% cut in their montant de soutien and conversion of the self-sufficiency ratio to a quantitative guarantee. Under the authority of Article XX(h) of the GATT, the farm traders reconvened the talks at the International Wheat Council and eventually concluded an International Grains Agreement to begin in 1967. The new Wheat Trade Convention (replacing the 1962 agreement which had been extended in 1965 to the end of the Kennedy negotiations) established new minimum and maximum prices, provided that importers would buy agreed percentages of their purchases from member countries, and dictated that exporters would adopt special measures whenever the price bands were breached. A related Food Aid (Cereals) Convention provided for long-term cereals aid commitments. The Trade Convention, however, failed in June 1968 when bumper crops pushed market prices below the minimum prices of $1.73/bu set in the Wheat Trade Convention.

b. GATT Relations (1973-79)

The 1973-79 period saw a dramatic turnaround in the Community approach to world food trade and the GATT. When the Community entered the trade negotiations in 1973 its defensive posture was dictated by its status as the largest importer in the world and only a relatively small exporter of temperate-zone products. But, by 1979, the EC changed its external orientation, especially for cereals, to match its developing competitive status.

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33. Casadio (1973), p. 38.

Table 8.6 EC External Trade in Agricultural Products

	All Food Products (B ECU)				All Cereals (Mt)			Common Wheat (Mt)		
	(X)	(M)	(X-M)	(X/M)	(X)	(M)	(X-M)	(X)	(M)	(X-M)
EC6										
1968	3.0	8.8	-5.9	33%	6.4	17.1	-10.7	n.a	n.a	n.a
1969	3.1	9.7	-6.6	31%	7.0	14.2	-7.2	n.a	n.a	n.a
1970	3.6	10.6	-7.0	33%	7.1	17.6	-10.5	n.a	n.a	n.a
1971	3.9	10.6	-6.8	36%	4.7	17.4	-12.7	n.a	n.a	n.a
1972	4.4	11.6	-7.1	38%	7.1	15.3	-28.2	4.8	2.7	+2.1
EC9										
1973	6.9	19.8	-12.9	35%	6.8	23.8	-17.0	5.1	2.6	+2.5
1974	8.7	22.6	-13.9	38%	5.4	19.8	-14.4	4.9	3.3	+1.6
1975	8.9	21.8	-20.9	41%	7.1	23.5	-16.4	7.0	5.4	+1.6
1976	10.0	27.4	-17.4	36%	5.2	26.7	-21.6	5.2	4.1	+1.0
1977	12.0	32.6	-20.6	37%	2.1	26.4	-24.3	3.5	3.3	+0.2
1978	12.8	31.0	-18.3	40%	6.1	20.7	-14.6	4.1	3.7	+0.4
1979	14.5	33.4	-18.8	44%	8.0	18.4	-10.4	6.9	3.7	+3.2
1980	18.4	33.9	-15.5	54%	12.3	16.4	-4.1	10.5	3.2	+7.0
EC10										
1981	37.3	25.1	-12.2	67%	16.6	16.2	+0.4	13.9	3.5	+10.4

Sources: Green Europe #217, p.44 & 46; Nimexe.

Even before negotiations began in the Tokyo Round of the GATT, the EC was forced to defend itself against claims resulting from the enlargement of the Community. The accession of the UK, Denmark, and Ireland in 1973 affected other traders, and Article XXVI:3 forced the Community to negotiate with them and satisfy their claims. In August 1974 the talks ended without a conclusive result. Australia and the US "agreed to disagree" with the EC on cereals because they considered their legal rights were jeopardized by accession of the UK and Denmark; they decided instead "to continue discussions with a view to seeking, through international negotiations, agreed solutions to the problems arising in the field of international trade in cereals."[34] Thus, the

34. Bulletin of the ECs 7-8/74, p. 19.

Community was uncertain when it entered the new GATT negotiations whether its trading partners accepted that the CAP was legitimate.

Meanwhile, the Community faced a number of attacks on its policy under the Article XXIII disputes settlements system. Table 8.7 shows that between 1973 when the Tokyo Round negotiations opened and the conclusion of the talks in 1979, EC policies were challenged at least nine times by other agricultural exporters; previously all challenges had been directed at the member states. Although none of the challenges forced any appreciable change in EC policy for either cereals or other sectors, they forced the Commission to review its export policies. Until 1973 the EC had never initiated a legal challenge at the GATT against any government for any trade issue. It then launched its first action (against the US) and henceforward lodged counter complaints with the GATT whenever its policies were threatened either by retaliation or countervailing duties. The Community, however, never used the legal route to open other markets; it simply used it to defend its position.

The accession negotiations and the legal cases convinced the Community that its farm policy was not secure under international law. Farm Commissioner Petrus Lardinois noted in a speech in the US in 1976 that the US could attack the CAP as "protectionist" and "anti-GATT" with impunity because it did not have obligations for farm products under the GATT. He objected that the 'grandfather clause' (written into the Treaty via the 1951 Torquay Protocol) and the 1955 waiver (under Art. XXV:5) gave the US complete freedom from GATT discipline in the area of farm policy.[35] In the Tokyo Round negotiations the Community set out to rectify that imbalance.

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35. Newsletter on the CAP #7, September 1976, p. 2.

Table 8.7 GATT Article XXIII Dispute Settlement Proceedings Against the EC

Date	Plaintiff	Issue
1974	Canada	EC concessions on grains (Art. XXIV:6)
1976	USA	EC measures on animal feed proteins; use of surplus dairy products in feed
1976	USA	EC fruit and vegetable rules; minimum import price regime
1976	Australia	Ditto
1977	Chile	EC malted barley export subsidies
1978	Australia	EC sugar export refunds/export subsidies
1978	Brazil	EC sugar export refunds/export subsidies
1979	Chile	Discriminatory import rules on apples

Sources: Petersmann (1986), pp. 67–70; Hudec (1988), pp. 46–51.

Thus, at the beginning the Community saw the agricultural parts of the negotiations in defensive terms.[36] The Commission Communication in April 1973 affirmed that the "principles of the CAP" could not be questioned. But French Foreign Minister Michel Jobert was displeased because the Commission was not positive enough in defense of the CAP.[37] Because of his pressure, the final text adopted by the Council of Foreign Ministers in May 1973 declared that the "CAP principles <u>and</u> their mechanisms" could not be matters for negotiation because of the "fundamental and specific characteristics of agriculture." The Community then demanded at the GATT that the agricultural talks be separated from the general tariff negotiations. Although the major food exporters were unhappy with that approach, the GATT ministers in Tokyo in Sept-

36. The genesis for the MTN was also defensive. In 1972 the US imposed a 10% surcharge on all imports in an effort to reduce its balance of payments deficit. France and Germany protested. In the end, they agreed to revalue their exchange rates and to work within the EC to initiate a new round of multilateral trade negotiations in exchange for the end of the US import surcharge.

37. Jackson, Louis, & Matsushita (1984), pp. 24–26.

ember 1973 acquiesced; Article 3(e) of the declaration recognized that agricultural talks must "take account of the special characteristics and problems of this sector" and therefore separated them from the tariff talks.

The farm trade talks then proceeded in two distinct phases. The Commission argued that Europe must seek "the expansion of trade in stable world markets," first through a negotiated "code of good conduct covering export practices" and second via international commodity agreements (ICAs) for wheat, flour, feed grains, rice, sugar, and some milk products.[38] Thus, the GATT continued to examine subsidies and export practices while, in 1975, the wheat and grain trade issues were moved to parallel talks at the IWC.

The Community laboured in the main agricultural forum to defend and strengthen the basic features of the CAP. Wide ranging proposals to reform GATT Article XVI:3 (export subsidies) threatened to force the Community to a complete overhaul of the CAP; if the Community could no longer provide export subsidies (i.e., restitutions or refunds), the CAP could quickly become unworkable. The Community entered the final stage of the discussions firmly convinced that it "should make its agreement subject to retaining the full text of Art. XVI, particularly paragraph 3, which is sufficient as it stands and therefore needs no interpretive clauses."[39] But the US had made a commitment to US farmers that the GATT agreement would include some action on international trade in farm products. In the end a compromise was reached. The EC accepted a new interpretive code when the US Trade Representative (USTR) assured Gundelach that the US did not

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38. <u>Bulletin of the ECs Supplement 2/73</u>, p. 9-10.
39. <u>COM(78)275</u>, p. 12.

plan to use the new code to attack EC policies.[40] The US had wanted the interpretive code to prohibit or at least severely curtail EC export refunds but had little choice but to accept the face-saving subsidies code; if it held out longer, its negotiating mandate would have expired, invalidating all the work in the other areas.

The GATT ministers finally accepted Art. 10 of the new code, which declared that signatories "agree not to grant directly or indirectly any export subsidy on certain primary products in a manner which results in the signatory granting such subsidy having more than an equitable share of world export trade in such product, account being taken of the shares of the signatories in trade in the product concerned during a previous representative period, and any special factors which may have affected or may be affecting trade in such a product." The code, however, was left deliberately vague, as the definitions for both "equitable share" and "representative period" were caged with enough caveats so that they could not really bind. For example, the "equitable market share" was adjusted for "developments on world markets" while the reference period was to include the three most recent calendar years in which "normal market conditions" existed.[41] The code did not even attempt to define "subsidy."

The Community gained significantly more than it surrendered in this part of the negotiations. First, Article 10 of the code categorically accepted that export subsidies were legal. Second, Article 11 of the code confirmed that subsidies other than for exports would be permitted to promote social and economic policy objectives. The code explicitly allowed subsidies to elimi-

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40. Hudec (1988), p. 40, reported that USTR Robert Strauss sent Gundelach a letter to confirm US intentions.
41. GATT (1988), p. 221.

nate industrial, economic, and social disadvantages of specific regions, to restructure industry, to sustain employment, to encourage R&D, and to avoid environmental problems. As such, these provisions effectively approved the complete panoply of price supports, structural programs, and social policies that underpinned the CAP. The Community negotiators had good reason to be pleased with their accomplishments.

The outcome of the GATT subsidies negotiations had a significant impact on the wheat talks at the IWC. At the start, the Community sought to negotiate an International Grains Agreement to get stability in wheat and feed grain markets and to protect further the CAP market systems. The Community hoped to reach a market sharing arrangement that would protect both its import needs (as a major food importer) and its export interests (largely in Africa). In May 1977, the European heads of government called for the GATT to develop "a mutually acceptable approach to agriculture that will achieve increased expansion and stabilization of trade and greater assurance of world food supplies." They said: "Such progress should not remove the right of individual countries under existing international agreements to avoid significant market disruption."[42] Ertl thought the ideal would be "that Australia and New Zealand find markets in their own region—Indonesia, Hong Kong and Japan" while "Europe and the US can share Africa and South America."[43]

In January 1978 a special meeting of the IWC asked the Secretary General of the FAO to convene a conference to negotiate a new IWA.[44] The EC entered those talks as

42. Golt (1978), pp. 4-5.
43. Financial Times, 8-11-78.
44. Cohn (1979), p. 135, argues that the talks were shifted to the IWC and supervised by UNCTAD rather than by the GATT to avoid problems that arose in 1967. The USSR refused to join the IGA negotiated in the GATT

spokesman for the group of importing countries (with 314 votes at the IWC out of the 1,000 votes for importers, the EC was the major importer; it also had 102 votes out of 1,000 votes for exporters in 1973-74).[45] As the import spokesman, the EC pushed for lower prices and guaranteed supplies in the price band.[46] When the opening positions had been staked out, the EC and most of the LDCs agreed that the floor price should be kept at about US$115/t, that the ceiling price should only be a little higher, and that stock actions should be triggered whenever prices breached firm price bands. The EC also wanted the agreement to extend to all cereals rather than just wheat; as a major importer of feed cereals, it believed that an agreement for wheat alone would not be all that useful for the EC. The only major disagreement between Europe and the LDCs was over reserve stocks. The LDCs wanted large stocks to ensure adequate supplies in poor crop years while the EC wanted relatively small stocks, so that they could export or dispose of their surpluses rather than hold them in storage.

The US, the major exporter, wanted a wheat-only agreement to include a higher floor price (US$145/t), a higher ceiling price (US$215-225/t), and stock accumulation triggered by farmer-owned stocks rather than by market prices. The US also wanted higher world stocks (25-30 Mt) so that EC surpluses would be stored rather than sold on the international market; the EC at that time had surplus wheat production about equal to the American demands for reserve stocks.

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because it was not renegotiable when non-GATT members were invited to participate. Non-participation by the USSR and other CPEs (especially China) meant that the 1967 arrangement could not control world prices as sales to non-GATT members were excluded.

45. Bulletin of the EC, 6/73, p. 66.

46. Winham (1986), p. 253.

At the beginning of 1977 the four traditional exporters—the US, Canada, Australia, and Argentina—met frequently to develop an exporters' position. When negotiations began in earnest at an IWC/UNCTAD conference in Geneva in 1978, the traditional exporters included in their discussion the EC and Japan but excluded the LDCs from the substantive talks on trigger prices and stock holding.[47]

Table 8.8 Bargaining Positions in the IWC Grain Talks (1977-79)

	stock levels Mt	floor price US$/t	ceiling price US$/t	trigger mechanism	products covered
EEC					
Opening	12-15	115	na	fixed prices	all grains
Final	20-22	125/140	195	fixed prices	all grains
LDCs					
Opening	25-30	115	na	fixed prices	na
Final	excluding LDCs	125-30	160	nc	na
US					
Opening	25-30	145	215-25	farm stocks	wheat
Final	25	125/140	200	prices	wheat +
Canada	30	140-55	225	-	wheat
Australia	<25	140-55	180	-	wheat
Argentina	<25	140-55	-	-	wheat
Japan	-	100	-	-	-

Sources: International Herald Tribune, Financial Times, The Times, and The Guardian.

By the time the negotiations were suspended sine die, the US and the EC had significantly narrowed the gap between their respective positions but a wide gap had opened between the LDCs and Europe. The US had accepted that the agreement could include other cereals as in the International Grains Agreement of 1967 and that reserves could be triggered by prices rather than changes in farm-

47. Cohn (1979), p. 140.

er-owned stocks. Meanwhile, the Community had accepted both a higher floor and ceiling price and had indicated that it would share in a larger world reserve stock. At the start the EC had agreed with the LDCs that both the floor and ceiling prices should be set as low as possible. At the last meeting in 1978 the US and EC agreed that half of the stock obligations would be triggered if prices dipped below US$140/t and the remainder if prices continued to fall below US$125/t. The EC also indicated it would accept a ceiling price of US$195/t and offered to hold 2.8 Mt in reserves, which would comprise its share of a stockpile of 20-22 Mt. As a result, the EC moved firmly into the exporter's camp in the talks.

The Commission, satisfied that the subsidies code would neither jeopardize EC market mechanisms nor impede EC trade expansion, was willing to strike a deal with the US and in November 1978 asked the Council for approval to complete negotiations along the lines of the package that was evolving. France used its standing reserve on the GATT talks to force the negotiations to continue because it feared that the IWA agreement might limit export expansion.[48] This action completely severed the IWA talks from the rest of the GATT negotiations, because the main GATT agreements were required to be completed within weeks. Otherwise the US negotiating authority would lapse and the entire process would be jeopardized.

In reality the talks were doomed when the EC had moved from the import to export side of the negotiations because the LDCs were left without a spokesman. Although the US and EC positions had moved closer, the major importer group of LDCs completely rejected the potential

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48. The Times, 27-11-78; Financial Times, 14-12-79.

outcome to which the exporters were converging.[49] This deadlock ultimately killed the international wheat agreement and ended the trade talks for the 1970s.[50]

CONCLUSION

Opinion in the Community built during the late 1970s for the Community to develop an active export policy. In 1977, the ESC looked beyond the GATT negotiations and called for the Community to create a "genuine agricultural trade policy" to include commercially-motivated ICAs, long-term supply agreements, export contracts, and new credit vehicles. Then in 1978 the EP recommended that the EC use the GATT disputes settlement system more actively to protect and support its commercial interests. These pronouncements heralded change. Cereals traders in DG-VI, French and UK wheat producers, and the government in France were beginning to see Europe as a world competitor.

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49. Cohn (1979), p. 137, writes that a key disagreement was over stocks. Under all the proposals LDCs would have to hold reserve stocks. The LDCs asked for aid to help build storage and handling systems to hold those stocks in their own countries, but the major exporters refused to pay (they were hoping to make profits storing the grain for the LDCs). The LDCs therefore refused to consider holding stocks to support the market.

50. G. Schuh, "The Changing Context of Food and Agricultural Development Policy," in Gittinger, Leslie, & Hoisington (1987), p. 80, argues that the outlook for the IWA was uncertain even before the stalemate because the new international financial system made commodity agreements markedly more complex than in the 1950s and 1960s. Wide swings in the US dollar relative to European or other world currencies would trigger stock action without any underlying changes in the system. In the fifteen years between 1955 and 1969 (when the IWA broke down), the ECU-US dollar exchange rate changed less than 4% in any one year and only moved about 11% over the entire period. In contrast, after the Bretton Woods system of fixed exchange rates ended in 1971, the ECU-US dollar exchange rate varied by as much as 20% in any single year and by about 40% over the entire period.

The Commission also thought so. It believed the outcome of the GATT negotiations in the agriculture sector—without a new IWA but with official recognition that the general and specific instruments of the CAP wheat policy were legal—was "satisfactory because it enables the Community to consolidate its agricultural policy."[51] The EC had successfully ensured that the "the CAP was not called into question and the basic principle behind, and operation of, its mechanisms, including those most open to attack by our partners, such as levies and refunds, remain intact."[52] In particular, Article XVI:3 continued to allow export subsidies for agricultural products and Article 10 of the new subsidies code did not really restrict Community action. Furthermore, Article 11 of the code explicitly authorized subsidies for many social objectives that had never previously been sanctioned. Thus, the Community found the international rules were pliable when it was forced to confront its changed position in the 1980s.

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51. COM(79)514, p. 68.
52. COM(79)514, p. 9.

Chapter 9

TRADE POLICY: COMPETITION IN THE 1980s

The Community developed a comprehensive commercial policy for wheat during the 1980s through a series of unilateral, bilateral, and multilateral efforts. Although the obvious reason for the new policy was that the Community needed to find an outlet for surplus production, the development of the trade policy only occurred when major changes in the power structures and bargains overcame strong resistance within the Community. In short, the commercial policy for wheat was built on the successes and changes of the 1970s.

By 1979 changes in the structures and bargains in the Community forced the Commission and Council to re-evaluate the wheat policy. As a result, the Community shifted focus and came close to striking a new IWA where Europe could realize the potential gains from commercial exports. Although the wheat talks became stalemated and the only new GATT measures were embodied in a subsidies code, the Commission, supported by most of the domestic agricultural policy actors, welcomed the outcome because it presented an opportunity to reappraise the basic support mechanisms of the CAP. Henceforward, the Community sought to use the GATT to support domestic reform and to promote its export interests, which represented a fundamental shift from the defensive posture in the 1970s.

Beginning in 1979, the Community realized that the security imperative had changed. As discussed in chapter 2, the pre-1979 security concerns began to shift during the 1980s, as East-West relations improved and the EC recognized the rising economic interdependence of food and industrial production. Germany's minister of defence in 1980 recognized this and warned that the CAP threatened the ability of Australia and New Zealand to play an effective military role in their region and could lead to a full scale trade dispute that would endanger Community imports of energy and raw materials.[1] Meanwhile, new information technologies reduced the possibility of major market dislocations caused by 'grain robberies.' Furthermore, because of the changes in the production structures by 1980, the Commission recognized that EC food security could probably be met by the 25% of farmers who produce about 75% of farm output and who need neither income nor price support.[2]

The Community also was pushed to change by the rapid growth in production and surpluses. By the early 1980s, the EC annually produced about 10 Mt more wheat than it could use. Furthermore, as shown in Table 2.6, the operation of the CAP price and structures policies during the 1970s had dramatically improved the competitiveness of large wheat producers in Europe. The Community had two options: it could tighten controls on domestic production and consumption through administrative edict (i.e., quotas) and opt out of the export market, or it could restructure its price and trade policy toward market forces to capitalize on its new position as a competitive producer. As demonstrated in chapters 3 through 7, the Community opted to redirect its domestic wheat policy to market conditions. An adjunct of that change was that the Community needed to ensure that commercial farmers could find outlets for their product; the EC was therefore compelled to look to exports. Rising volatility in the financial markets, however, had increased the risks encountered in export competition so that European farmers needed help to export.

The Community would not have been able to develop an active export policy without changes in the underlying bargains in the Community. New bargains between the Commission and large wheat farmers replaced the old agri-

1. Pearce (1981), p. 61.
2. Pearce (1981), p. 99.

cultural policy compact that had developed the defensive, inward-looking wheat policy of the 1960s and 1970s. As the EC farm sector consolidated and specialized, the newly-dominant, world-competitive producers demanded greater access to world market opportunities. This split between commercial and peasant farmers enabled the Commission and Council to override powerful conservative forces in Europe and ultimately to make the reforms to the domestic price regime that would allow the Community to develop an export policy. Within Germany, for example, the Minister of Economics in 1979 suggested that the EC should forego an export policy for agriculture because it might damage prospects for successful trade negotiations to ensure raw materials imports.[3] Meanwhile, the UK government was uncertain whether it wanted the EC to develop an export policy; instead, in 1980, the UK suggested that each member state should deal with its own surpluses.[4] The Commission prevailed because it got strong support from a number of important quarters. As mentioned in chapter 7, France decided in 1985 to support the Commission's proposals to realign the price and trade policy. As a result, France became the strongest proponent of reform.

The Uruguay Round of GATT negotiations faces new opportunities and constraints because of these changes. For the Community, the exercise presents two main opportunities. First, if international agreement recognizes the EC's role as a natural competitor and establishes new rules for international food trade, then the crippling export subsidy war could end. That would relieve the budgetary burden of the CAP and release funds to implement other programs to support Community development. More importantly, perhaps, the GATT could contribute to domestic reform. The new market approach outlined in

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3. Financial Times, 9-7-79.
4. The Times, 21-11-80.

chapter 3 could still be overturned if conditions in the farm sector deteriorate. "For the Commission it would certainly be helpful to be imbedded in an international agreement which would support its position vis-a-vis those member countries which still are against price cuts."[5] On the other hand, if the GATT fails to recognize the EC as a 'natural' competitor in the wheat area, the Uruguay Round, and possibly the entire GATT system, could collapse.

THE REVISED PRICE SYSTEM

The domestic price system and international trade policy for wheat are inseparably linked. The operation of the price system determines where and how much wheat is produced, how it is marketed, and the levels of subsidies required for exports. During the 1970s, when the price system was devoted to supporting farm incomes irrespective of market conditions, there was little room for the Community to develop a sustained export presence on the world market. The two goals were incompatible because of both the expense and logistics. But, beginning in 1977, rapidly increasing supplies of common wheat and negotiations in the Tokyo Round of the GATT caused the Commission to re-examine the price system. Henceforward, the Commission attempted to frame prices to adapt domestic production to market conditions (both domestic and international), rather than to ameliorate domestic problems.

Although there was no clear agreement within the Community in the 1970s that competition was either desirable or attainable, the Commission nevertheless tried to realign domestic prices to international levels. Accelerating inflation and relatively strong farm incomes in Europe in 1978 and 1979 allowed the Commission to provide limited EC price increases and yet still bring European

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5. Tangermann (1988), p. 35.

prices more in line with US guaranteed prices. Then, after 1980, opinion began to shift as the old-time bargains that defended the income-supporting role for prices broke down (discussed in chapters 4 through 7). By the mid-1980s the farm policy community which had successfully managed the development of the CAP was gone. In its place, new relationships between commercial farmers and the Commission arose, which enabled the farm policy community to reform the CAP to address the new domestic and international market pressures of the 1980s.

In 1980 the Commission for the first time suggested that Community prices should be aligned with world prices. It pursued that line of argument in the Mandate of 30 May 1980, concluding that the support (i.e. target) price for cereals in the US was a "valid point of reference" for the world price.[6] The Commissioners had explicitly rejected aligning EC prices with world prices for a number of reasons:

> It is unlikely that European consumers could be supplied for long at low and stable world prices if community supply, because of reduction in production, would depend to a greater extent on imports. World market prices are notoriously volatile because the quantities involved in international trade are often marginal in relation to total production (e.g. sugar, cereals, dairy products) and may reflect short-term fluctuations in production.... Therefore, the Commission is convinced that a generalized and systematic alignment to world market prices would not be a practical policy guideline."[7]

They also did not envisage cutting nominal prices; rather, they hoped inflation would close the approximately 20% gap between the two regions.

The Commission generally followed this pricing strategy until 1985. By 1982 the guarantee threshold

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6. COM(81)608, p. 24.
7. COM(81)608, p. 8.

system was in place and the EC-US price gap had begun to narrow. But, in 1985, the weakening US dollar increased the price gap and the Commission decided that nominal EC prices would need to be cut if the Community was to close the gap. When the 1985 price cut was vetoed by Germany in the Agricultural Council, the Commission initiated a review of the options, which were eventually published in the Green Paper. A major rift then developed within the Agricultural Directorate-General over the options. Parts of DG-VI pushed strongly during the review for the Commission to continue to set prices to support incomes and to use a variety of soft-options (including land set-asides and quotas) to dampen growth in surpluses and budget outlays. As shown in chapter 4, the cereals traders prevailed and a market focus was adopted by DG-VI.[8] Even then, the market-pricing approach met resistance in the full Commission: the German Commissioner voted against the Green Paper in 1985 because he rejected the central premise that EC prices should be aligned with world prices.[9] Nevertheless, the majority prevailed and thereafter the Commission worked to make the price and intervention systems support the export policy, rather than the reverse.

The Commission's Green Paper in 1985 set the tone for the reforms over the next several years:

> As for exports, arrangements whereby the producers themselves can take over export risks, if they were to be systematically introduced, could be incorporated into the market organizations ... by restricting to specified quantities the price and disposal guarantees granted by the Community at levels above world prices. Beyond these quantities, disposal would be the responsibility of the producers themselves, at world market prices.[10]

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8. Agra Europe, 1140, 5-7-85.
9. Financial Times, 16-6-85.
10. COM(85)333, p. 41.

In addition, the Commission suggested that support prices should be fixed at a level closer to those of other exporting countries, especially where a significant share of Community production was destined for world markets.[11]

Meanwhile, in preliminary discussions in 1985 leading to the Punta del Este conference, agricultural trade representatives from many of the GATT signatory states concluded that "export subsidies could be permitted in the GATT system as long as they are financed by producers themselves rather than being paid for by the taxpayer."[12] The Commission, realizing this would fit comfortably with Community needs, proposed producer co-responsibility levies to fund export refunds. In practice, the new levy differed little from the levies already paid by French cereals producers to ONIC to finance export marketing (those levies had never been challenged as subsidies in multilateral forums). Beard says that as a result, "it can be argued by the EC authorities in international negotiations that EC exports are not being subsidized and that they are therefore legitimate competitive sales, because of the co-responsibility levies contributing to the cost of surplus disposal and export subsidies."[13]

Over the following few years the Commission manipulated the price and intervention systems to achieve the changes proposed in the 1985 Green Paper, which were consistent with the prevailing trade laws and conventions. In particular, the Commission forced through the Council new rules that realigned prices closer to world prices and effectively moved much of the financial responsibility for exports to farmers.

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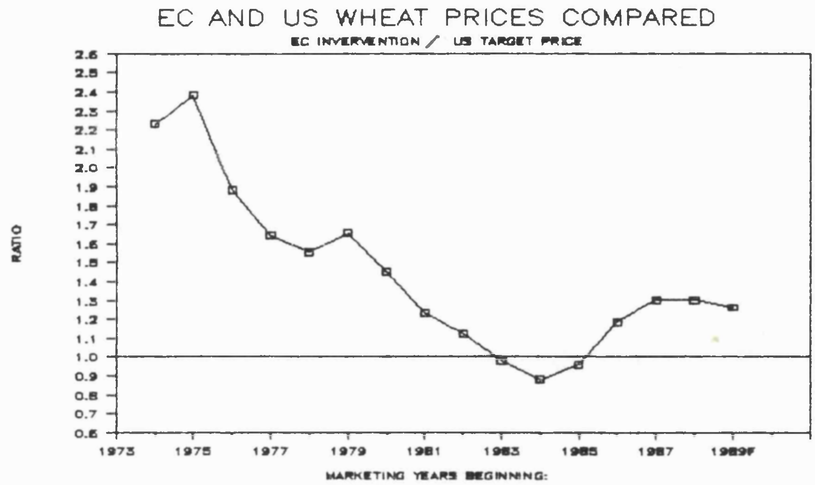
11. COM(85)333, p. 41.
12. Zietz & Valdés (1988), p. 52.
13. Beard (1986), p. 54.

Figure 9.1[14]



In 1986 the Commission proposed a 3% co-responsibility levy on common wheat to finance approximately half of the cost of exporting surpluses.[15] Although the Council only adopted the levy on the basis that the funds would be used to develop domestic uses, it did accept that the funds should be given to DG-VI rather than put into the general revenue account. In practice, there was nothing to ensure that the levy was not used to finance exports. The 1988 budget stabilizers levy worked in the same way. Furthermore, the Council set the production threshold for cereals (beyond which prices would automatically fall) at 160 Mt because that represented the net average annual consumption of domestic and imported cereals in the Community. Amounts over that level would need to be exported. Taking all the changes together, in just over two years the Commission both set in motion an automatic system to close the gap between support prices in the EC and

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14. The data in Figure 9.1 have not been adjusted for US land set-asides or EC changes to the related measures. If they could be quantified, the gap might disappear for 1989 because between 1986 and 1989 the US reduced its set-aside requirements (which effectively raised the value of the US deficiency program) and the EC undercut the operation of intervention (which reduced the value of EC support prices).

15. COM(86)20, p. B3.

the US and got producers accepting a greater share of the cost of exports.

Table 9.1 EAGGF Expenditures on Cereal Exports

	Export Refunds[1]	Co-resp Levies	Refunds on Aid	Net Refunds[2]	Import Levies[3]	Net Cost[4]
1973	567	0	0	567	-25	592
1974	92	0	0	92	54	146
1975	416	0	1	414	192	222
1976	494	0	45	450	331	119
1977	360	0	31	329	298	31
1978	832	0	52	780	317	463
1979	1182	0	30	1152	266	886
1980	1175	0	26	1149	198	951
1981	1206	0	21	1185	219	966
1982	1065	0	24	1041	226	815
1983	1525	0	16	1059	167	892
1984	918	0	15	903	141	762
1985	1077	0	14	1063	203	860
1986	1711	56	60	1595	319	1276
1987	3157	379	86	2692	500	2192
1988F	2805	814	141	1850	350	1500
1989F	2773	1119	133	1521	300	1221

Notes: M UA in 1973-77, M EUA in 1978-80, and M ECU in 1981-; ([1]) includes refunds on aid shipments; before 1975 it also included the purchase cost of cereals aid; ([2]) refunds net of co-responsibility and refunds on aid; ([3]) for common wheat, estimated to equal the difference between the threshold price and the US #2 HWO FOB Gulf offer price multiplied by the total tonnage of wheat imported; ([4]) equals net refunds less the import levy.
Sources: EC Budgets, OJ No. L Series, Nimexe for EC wheat imports, Canadian Wheat Board Annual Reports for US wheat prices, ASC for the EC threshold prices, EC Economy for the US-EC exchange rates.

Table 9.1 shows the impact of these changes on export finances. Revenues from co-responsibility in 1989 were forecast to pay for more than one third of the cost of exporting cereals. In addition, when the refunds for food aid (which are included in the export cost in the EC but are generally excluded in other exporters budgets) and the revenues earned from the variable levy on cereals imports are removed, the net cost of exporting cereals was substantially lower.[16] Furthermore, imports of cereal substitutes under GATT-bound duty rates forced domestic production onto world markets, which contributed significantly to the cost of export restitutions (as much as 800 M ECU in 1982). If, as some groups in the EC argue, the costs of those exports were not assessed to the export policy, then the net cost of cereals exports approached zero in 1989, which put the EC in a strong position to sustain its export effort.

Meanwhile, the Commission reduced the role for official prices. Until 1983 the intervention price represented a solid floor under the market price and, as such, was used as the relevant price for comparison with other competitors. But after 1983 the Commission used its powers under Reg.(EEC) 2727/75 to reform intervention. It was "restored" to its original role as "a safety net to cushion farmers against short-term production fluctuations which are not structural in nature."[17] Chapter 3 illustrates that as a result intervention no longer operates during and immediately following the harvest, when much of the crop is marketed (especially in Germany)[18] and that, even when intervention operates, the effective price paid to producers is cut from the already reduced official support price by about 14% (due to the 94% buying-in rate, the 110-day delay in payments, and smaller and fewer monthly increments).

The combination of realigned prices, restricted intervention activity, and producer co-responsibility for

16. Food aid is financed under the EAGGF Guarantee Section of the budget (as per Reg.(EEC) 2681/74). The export refund portion of the cost is assigned to titles 1 and 2 while the world market value of the gift is assigned to Title 9.
17. ASC 1988, p. 16.
18. For those producers without on-farm storage, the potential intervention prices are therefore moot; they are forced to accept whatever prices prevail on the market when they harvest the crop.

exports has strengthened the European wheat sector's potential to take advantage of commercial opportunities in the world markets. The Commission believes the domestic price system is now a "sound basis for export growth."[19]

DEVELOPING MARKETING TOOLS

The Community sought throughout the 1980s to build upon its domestic reforms in order to assure growing opportunities for commercial wheat producers. As before 1979, the Community still had four key alternative outlets for surplus wheat: food aid, feed or industrial usage, storage, or export. Whereas the Community generally preferred during the 1970s to store or donate as aid its surplus cereals, in the 1980s the EC sought to develop long-term, commercial outlets for the excess wheat. Food aid shipments continued, but aid policy was reshaped to focus on assisting economic development in the Third World rather than simply on disposing of EC surpluses. Domestic storage, which remained significant, also was reshaped, so that it operated more as an adjunct to the export policy, rather than as an alternative. In place of those outlets, the Community encouraged alternative, commercially-viable domestic uses for wheat (i.e., animal feed or industrial feedstock) and created mechanisms to develop continuous exports. In short, the Community shifted its focus from 'surplus disposal' toward development of commercial markets.[20]

a. Food Aid

The European food aid program over the 1980s moved away from merely being a mechanism for surplus disposal towards a true development-based policy. The EC during the 1980s grew "increasingly to accept that its food aid

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19. Bull. EC 3-84, p. 14.
20. The Commission's rhetoric changed about that time. It no longer referred to "surpluses" for disposal but to "exportable surpluses."

commitment should be a continuing one no matter what the state of its internal supply situation."[21]

Table 9.2 Cereals Aid Allocated and Shipped from the EC

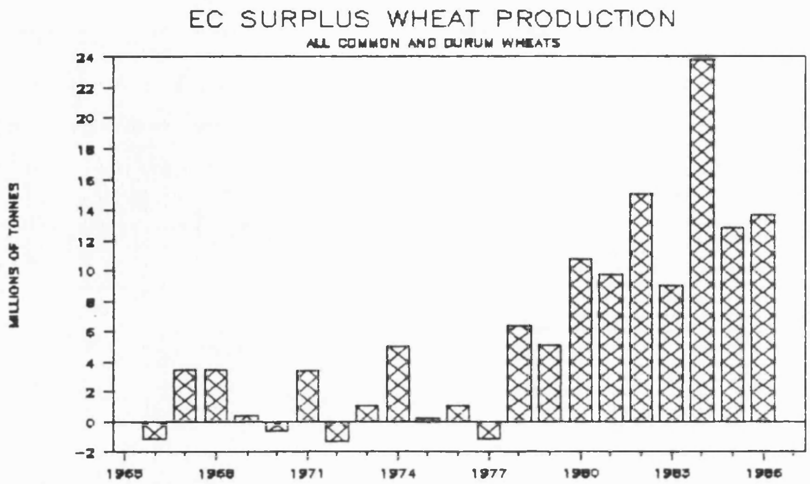
	Cereals Aid Allocated (000 T)	Cereals Shipped (000 T)	Shipped compared with Allocated	Wheat Surplus (000 T)	Shipped as % of Surplus
1969-78	524	511	-3%	1,177	43%
1979	721	656	-9%	6,398	10%
1980	721	625	-13%	5,109	12%
1981	928	969	5%	10,825	9%
1982	1000	852	-15%	9,731	9%
1983	1001	686	-32%	15,079	5%
1984	1128	1340	19%	8,970	15%
1985	1160	1087	-6%	23,819	5%
1979-85	951	888	-7%	11,549	8%

Notes: The aid figures include all cereals but wheat was the most important commodity; the wheat surplus figure includes common and hard wheats.
Source: Green Europe #216, Annex Table 1; Eurostat, Supply Balance Sheets.

The change in EC food aid policy was precipitated by the rapid expansion in exportable surpluses. During the 1970s the Community was frequently threatened with domestic shortfalls. As food aid was viewed largely as a means of surplus disposal (accounting for an average 43% of total surpluses in 1969-78), the Community was quite willing to cut aid shipments to supply the domestic market. During the 1980s, however, the Community found its surpluses were large enough so that even when the Community faced a major crop failure, it had sufficient produce to supply both domestic and foreign aid commitments. Consequently, the aid annual shipments during the 1980s reflected the needs of receiving countries, rather than short-term market problems in the Community.

21. Fennell (1987), p. 105.

Figure 9.2



More importantly, perhaps, the mechanisms of food aid were revised in the 1980s, so that food aid could not easily be used to develop commercial markets. After wild gyrations in food prices and supplies in the 1972-73 period, the developed countries met with the food-deficit countries at the World Food Conference in Rome in 1974 and agreed to expand the World Food Program. This "represented a bench mark in thinking" as it shifted concern from Asia to Africa.[22] In 1971-72, less than 9% of world-wide cereals food aid went to Africa; by 1976-77 the proportion had risen to more than 28% and by 1982-83, more than 50% of aid was directed to Africa. Meanwhile, Africa received about 52% of the EC's aid in 1983-85, up from only 19% in 1969-71.[23] This shift reduced the potential for using food aid to develop commercial relations because Africa slipped further into economic disorder after 1970, with per capita GDP falling an average 2% per annum. Increasingly, the African countries were unable to purchase or produce enough food to feed their rapidly rising populations. Food production per capita

22. Gittinger, Leslie, & Hoisington (1987), p. 15-17.
23. Green Europe #216, Annex 10-11 bis.

slipped by an average 0.7% per year between 1973 and 1980 and then fell by more than 1.8% per annum between 1980 and 1984.[24] Consequently, exporters like the Community found little commercial potential in Africa and were forced to reformulate their policies to expand the development aspects of their aid.

In 1979, the Commission proposed a new Food Aid Regulation "to transform food aid into an independent policy aimed at development objectives."[25] The newly elected EP also began to push for the Community to develop a more responsible aid policy. In 1982 the Council finally approved revised regulations that focused European food aid on development goals—raising the standard of nutrition, helping with emergencies, and contributing to balanced economic and social development in the recipient countries—and thereby divorced food aid from disposal of European surpluses. Since then the Community has diversified its methods of giving aid so that in some cases the food aid provided by the EC does not even originate in the Community (i.e, triangular arrangements).

After 1979, the Community also increased the share of cereals aid that it shipped multilaterally. Between 1968 and 1978 the Community shipped less than 15% of its aid via multilateral arrangements or agencies. The rest was given bilaterally, which created potential to use the aid to develop commercial markets. But in the 1980s on average about 30% of the aid was shipped multilaterally and in 1985 about 539,000 tonnes or almost half of the Community aid that year was shipped through multilateral arrangements. Consequently, the Community was less able to use aid for commercial purposes.

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24. World Bank (1988), pp. 154-56.
25. Green Europe, 216, p. 3.

Table 9.3 Cereals Aid Shipped Partly or Wholly Through Multilateral Channels

	Year	Volume (000 t)	% of Total Shipments
1969-78			
Low volume	1969	8.3	2.7%
Low Share	1969	8.3	2.7%
High Volume	1978	184.7	20.8%
High Share	1972	113.3	48.9%
Average	--	84.0	14.5%
1979-85			
Low volume	1980	163.4	26.1%
Low Share	1981	187.4	19.3%
High Volume	1985	539.4	49.6%
High Share	1985	539.4	49.6%
Average	--	264.7	29.8%

Source: Green Europe #216, Annex Table 10.

In 1988 McMahon concluded:

> Operation of the policy shows that although it started as a means of disposing of agricultural surpluses, it has moved towards being a tool in the process of development. The latest Commission paper on the food aid policy states that food aid is now an integral part of the development policy. They point to the 1984 decision allowing for the possibility of replacing food aid by credit, where there is risk of upsetting the recipient's market, as evidence of the transformation of the policy. Proposed reforms, such as the encouragement of triangular transactions, clearly point the way forward for food aid policy as an integral part of development.[26]

b. Alternate Uses

After the Community ended the wheat denaturing program in 1973, it was left to find alternate uses for the rising surpluses of low grade wheats. The search focused on two alternatives. First, the Community sought

26. McMahon (1988), p. 270.

to increase the use of low-quality wheat as animal feed, initially by "completing the CAP" (i.e., limit imports of cereal substitutes) and then by reform of the price system. Then, in the late 1980s, it encouraged processors to use more wheat as a feed-stock for industrial products.

Table 9.4 EC10 Use of Cereals, Soya, & Cereal Substitutes for Animal Feed (Mt)

	Wheat[1]	Other Cereals[1]	Soya[2]/[3]	Manioc[2]	Corn Gluten[2]	Total Subs[4]
1974	12.3	61	12.5	2.1	0.7	4.6
1975	9.5	60	11.6	2.2	0.9	5.9
1976	9.9	59	13.4	3.0	1.1	8.0
1977	10.8	59	13.1	3.8	1.5	9.6
1978	11.7	61	16.6	6.0	1.7	11.9
1979	12.4	61	17.9	5.4	2.0	12.1
1980	13.2	58	18.4	4.9	2.6	13.0
1981	13.6	55	18.6	6.7	2.8	14.8
1982	14.9	54	18.5	8.1	2.8	16.2
1983	20.1	50	18.3	4.5	3.6	14.1
1984	21.3	50	16.4	5.3	3.7	13.6
1985	21.4	50	18.6	6.3	3.5	14.7
1986	21.7	--	23.8	5.8	4.1	12.2
1987	--	--	24.6	7.0	4.7	15.4

Notes: (1) marketing years beginning on August 1 (July 1 after 1986); (2) calendar years; (3) before 1982 the soya figure is the total of beans, cake, and meal, not converted to cake equivalent; in 1978, the cake equivalent figure was 14.5 Mt, rather than 16.8 Mt; (4) cereal substitutes include manioc, corn glutens, citrus pulps, cereal brans, and industrial and animal by-products.
Sources: ASC 1980, p. 102; ASC 1985, p. 122; EC Commission, CAP Working Notes, 1987, p. 56; Eurostat, Supply Balance Sheet; H-GCA, Marketing Notes, various.

As discussed in Chapter 8, the price 'silo' was not particularly successful in encouraging greater consumption of low-quality wheats as animal feed. When that approach failed to solve the problem, the Community sought to reduce imports of non-cereal feeds. By 1979 the derogations of the CAP cereals markets (i.e., zero-bound duties under the GATT) caused the Community serious headaches. During the 1980s, the Community annually imported about 30 Mt of soya and cereal-substitutes, which was more than double the exportable production for common wheat. Without its GATT obligation, the Community would likely have reduced imports of these substitutes and fed a significantly higher proportion of its common wheat to animals. In 1979-80, imports of 8.9 Mt of cereal substitutes were estimated to cost the Community about 400 M ECU, or about half of the net cost of cereals exports.[27] In 1981 COPA estimated that imports of all cereal substitutes at zero duty cost the Community 855 M ECU[28] and, by 1982, the cost of importing 9 Mt of manioc and corn-gluten feeds had risen to 650 M ECU, or about two thirds of the net costs of wheat exports.[29]

Pressure to negotiate changes to these bindings built up over the late 1970s and into the 1980s. French farmers in particular were convinced that imports of cereal substitutes cost them dearly. They saw the import of low cost substitutes as the primary cause of weak domestic demand for their wheat and a major factor behind the fall in EC domestic market prices toward the intervention levels. Especially following the introduction of the cereals co-responsibility levy in 1986, FNSEA pressed the French government to have the Council tighten Community Preference.[30] But the feed industry, consumer associations, and the UK government generally opposed the French proposals. At the European level the French farm lobby was able to convince the EP (in the late 1970s) to support GATT negotiations to limit imports of these competing products. After 1979, however, MEPs on the committees on external economic relations and consumer affairs developed contrary positions. The ESC meanwhile generally supported farmer demands to limit cereal sub-

27. ASC 1980, p. 100.
28. Agra Europe, 936, 10-7-81.
29. COM(81)608, Annex 9.
30. Financial Times, 11-2-86.

stitutes, but not if the result would be a trade war with the US.

The Commission decided as early as 1982 to try to limit imports of soya and cereal-substitutes. It first opened negotiations for a voluntary export restraint (VER) agreement with the exporters of manioc, the major cereal substitute not produced in the US. GATT Article XXVIII allows contracting countries to modify bindings of specific products provided they provide compensation.[31] In April 1982 the Commission reached a tentative agreement with Thailand and Indonesia, paving the way for the EC to suspend the bound-duties on manioc. In July 1982 the Council approved a nine-year deal with Thailand, which was not a GATT member, that initially limited it to 5.5 Mt imports and gradually reduced that to 4.5 Mt by 1986, at a maximum ad valorem levy of 6%. In exchange Thailand got grants to aid rural development and agricultural diversification in manioc dependent regions. Indonesia and Brazil, both GATT members, were to share (85% and 15% respectively) a 0.588 Mt quota in 1982, which would rise to 0.97 Mt in 1986, subject to a 6% ad valorem duty.[32] In 1986, the quotas for Thailand (by then a GATT member), Indonesia, and Brazil were extended to 1990 and new quotas were developed for China and other non-GATT members for the 1987-89 period.[33]

US shipments of soya and corn gluten feeds were more difficult to control. The Commission first proposed in 1982 that the Community should negotiate under Article XXVIII to limit imports of US soya and corn gluten feeds. But that offer appeared to have been simply part of an effort to finesse the 1982 price package past the French

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31. If satisfactory compensation can not be negotiated, then the affected country can retaliate with equivalent measures.
32. Bull. EC 7/8-1982, p. 37.
33. Bull. EC 11-1986, p. 69.

government in the Council rather than a serious attempt to act.[34] As pressure grew, however, the Commission had to respond. In 1984 Council finally authorized the Commission to open negotiations with exporters of maize starch residues (i.e. corn gluten feeds), spent grains from brewing and distilling, and maize cake. The Commission began discussions with the US in July 1984 but failed to reach any agreement.[35] The Commission was careful to avoid a full-scale battle over this issue because of the increasing importance of world markets for the Community. Thus, when it became obvious that the US would not budge, the Commission decided that it would have to use price cuts to improve the competitiveness of EC wheats as animal feed.

The set of measures aimed at realigning wheat and feed cereals prices, combined with the limitations on imports of manioc, had some success in the mid-1980s. The feed use of common wheat rose to an average 21.1 Mt in 1983-86 from an average 13.5 Mt in the previous four years. But exportable surpluses of wheat continued to rise.

The Community decided in the late 1980s to again implement subsidies for domestic feed merchants to incorporate common wheats into feeds. At the end of 1988 the Council agreed to pay subsidies to livestock producers to use compounds that include at least 20% EC cereals. The subsidies rose progressively with the proportion of EC cereals used.[36] In total, the Commission planned to make 2-3 Mt of surplus cereals available for feed under this plan.

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34. Financial Times, 8-4-82.
35. ASC 1984, p. 27 & 79.
36. Agra Europe, 1312, 11-11-88.

Meanwhile, the Commission worked after 1980 to develop industrial uses for wheat and other surplus cereals. Once the Commission had shifted its scrutiny from farmers to the larger agro-industrial complex, it saw potential to direct some of the rising surpluses into industrial processes. After 1983 the Commission pushed biomass and ethanol production as a potentially large outlet for low quality wheats. Although the Community had some success with this approach—industrial usage of common wheat rose to 1.3 Mt in 1986-87 from 0.475 Mt in 1980-81 and only 0.135 Mt in 1972-73[37]—the expanded usage represented only about 2% of total domestic usage.

c. <u>Storage</u>

After 1980, the Commission and the Cereals Management Committee directed its stocks policy much more in response to export imperatives. During the 1970s, the Committee maintained a tight grip on the domestic stock-to-use ratio by adjusting exports and aid shipments in line with disposable surpluses. Long-term commitments were assiduously avoided. After 1980, however, the Commission was faced with significantly larger disposable surpluses (an average 13 Mt per year compared with only 4 Mt during the 1970s) and a more competitive international market (much of the wheat moved under long-term contract). The Community could no longer expect to store all the exportable grain, nor did it expect to ship it as aid or use it in the livestock industry or for industrial processes. The Community found it needed to develop an active, long-term export policy, which in turn required it to adapt its storage practices. Consequently, the stock-to-use ratio was allowed to swing more widely than in the 1970s. In both 1981 and 1983, for example, the Community increased exports by more than the increase in production, which caused the stock-to-use ratio to drop below the level that was historically viewed as consis-

[37]. Eurostat, <u>Supply Balance Sheet</u>.

tent with domestic price stability. The EC also maintained the stock-to-use ratio at a higher average level throughout the period in order to guarantee that it could meet its market commitments.

Table 9.5 EC Stock-Domestic Use Ratios for Wheat (000t)

	EC	Stocks	Use	Ratio	Surplus Wheat	Net EC Exports
1973-80	9	7693	35738	21.2%	3928	2230
1981	10	6999	40003	17.5%	9725	10404
1982	10	10399	40894	25.4%	14824	9463
1983	10	7856	46527	16.9%	8795	11664
1984	10	14353	47994	29.9%	22217	11961
1985	10	13911	48468	28.7%	11737	12487
1986	10	13007	48920	26.6%	11604	9252
1981-86	10	10087	45468	24.2%	13150	10872

Sources: Eurostat Supply Balance Sheets; Nimexe.

Furthermore, the Commission held greater stocks for strategic purposes. In 1981 the US challenged the EC export subsidies at the GATT. Under the 1979 Subsidies Code, export subsidies were allowed, provided the exporter did not thereby gain more than an equitable market share. The US argued that EC subsidies for wheat flour exports allowed it to gain market share at the expense of other exporters. Before the case was adjudicated, the EC announced at the 1982 GATT Ministerial that it would limit its exports to 14% of the world wheat market; the EC had captured about 14% of the world wheat market in the 1980-82 period.[38] Even though the disputes panel failed to conclude whether EC wheat flour exports exceeded the "equitable share" standard of the subsidies code, the Community after 1983 was willing to hold larger stocks than strictly needed for domestic purposes in an

[38]. Petit (1985), p. 59.

effort to placate the EC's major competitors so as to lessen international price competition.

d. Export Mechanisms

When the new EP convened after the 1979 election, it supported France's call for the Community to develop medium and long-term agreements and to provide a greater variety of incentives to exports (e.g., credit).[39] The ESC, which as early as 1977 called for a "genuine agricultural trade policy,"[40] meanwhile examined and proposed a variety of configurations of contracts, credit, subsidies, and international agreements that would best suit EC export interests.

The Commission generally accepted that approach in the 1980s. But before asking for greater powers or new mechanisms, it used its management powers to improve the existing export machinery to enable it to move maximum volumes through the export system at the best price. In particular, the Commission created advance settings for refund payments (thereby ensuring that sales were made when buyers were ready, even if the volumes were not necessarily available to move at the time of the sale), introduced differentiated and special refunds (which allowed the Commission to target exports to specific markets and to practice market price differentiation), and developed product balance sheets (which enabled DG-VI to plan its export campaigns).[41] These innovations were critical factors in a number of Community sales during the 1980s. In 1983, for example, the Commission used a "special export refund" to regain the Egypt wheat flour market after the US made a subsidized flour sale.[42] Then, in 1986, when the US made an Export Enhancement Program (EEP) offer to the USSR, the Commission was able

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39. EP Doc 1-37/80, 24-3-80, p. 22.
40. OJ No. C 61, 10-3-77, p. 17.
41. Bull. EC 7/8-1981, p. 21.
42. Bull. EC 10-1983, p. 58.

to offer a special refund (more than 8 ECU/t) in advance of the new marketing year because the product balance sheets showed that the Community would have available supply in the new year. By doing so, the EC was able to beat the US offer and thereby to complete a 1 Mt sale to the USSR.[43] Again, in 1988, the Commission countered US EEP offers to China and the USSR with special subsidies of 4.5 ECU/t for wheat exports (in addition to the existing standing refund offer).[44]

The Commission also got Council approval in 1981 to provide restitutions on exports of processed cereal products.[45] Thus, after 1981, the Commission was able to offer export packages of multiple products from numerous food groups, which gave it greater marketing power.

The Commission, however, was not content with those tools. The Commission felt that the export system lacked continuity. The Community was unable to maximize export revenues or volumes because it was constrained to single-year sales and was only allowed to use export refunds to regulate volume, price, and destination. The Commission argued that, without further mechanisms, it could not optimize the timing, volume, or price of export sales; as a result, exports were unnecessarily expensive. The Commission also reported that its customers wanted the greater security of supply that would flow from long-term agreements. The Commission therefore pressed the Council in 1980 for permission to develop long-term framework agreements (LTFAs or multiannual supply agreements) to protect important EC food export markets.[46] These three to five-year agreements—which would only cover part of expected total export volumes—would "regularize sales"

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43. International Herald Tribune, 15-8-86.
44. Canadian Wheat Board, Weekly News Summary, Week 13, Oct 24-28, 1988.
45. 29th Review of the Council's Work 1981, p. 184.
46. COM(81)429, 10-8-81, p. 1-2.

because they would establish the price conditions, safeguard rules, and minimum and maximum annual volumes of a variety of products that the Community would agree to export. If integrated into development programs of LDCs or tied to multi-annual food aid agreements, these contracts would also help stabilize world markets because EC customers would be assured secure supplies. In March 1982, the Commission asked Council to allow it to open negotiations on LTFAs with Algeria, Egypt, Morocco, and Tunisia but the Council did not approve.[47]

France, in particular, was unhappy with the limited number of export mechanisms that the Community could use to market wheat. It became increasingly concerned after 1979 that rising EC production restricted its commercial opportunities within the Community. It wanted the EC to develop an active export policy so that French farmers could replace their lost EC sales with new world markets.[48] As early as 1975 France pressed the Community to make long-term framework agreements with Europe's major trading partners but, as mentioned in chapter 8, that attempt failed. When the Community did not pursue long-term exports, France negotiated with China and eventually signed in September 1980 an agreement to sell 0.5 Mt to 0.7 Mt of wheat annually between August 1980 and July 1983. Then, in October 1982 France concluded a three-year agreement in principle to boost French food exports to the Soviet Union; the deal included commitments for between 1 Mt and 3 Mt of wheat each year over the period.[49] Nevertheless, France continued to press for Community action. In October 1983 the French minister for agriculture proposed that the Community create an EC Cereals Export Board to act as a central selling agency, similar to the Canadian or Australian Wheat Boards, but

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47. COM(82)73, 4-3-82.
48. Pearce (1981), p. 97.
49. Agra Europe (1983), p. 46.

the proposal died because the Commission declined to forward it to the Council.[50]

Meanwhile, the Commission attempted to develop credit mechanisms to support EC wheat exports. In 1981 the Commission offered to co-ordinate the existing national credit agencies (to reduce competition between member states) and to develop an EC credit system for food exports.[51] As with LTFAs, however, Council refused to act and the member states were left to develop their own programs.

Table 9.6 **Export Mechanisms Used by the EC and Other Major Exporters**

	80-81	81-82	82-83	83-84	84-85	85-86	86-87
EUROPEAN COMMUNITY (including Member States):							
(Mt)							
Cash	11.0	11.1	11.3	12.5	13.3	10.5	12.4
Credit	1.7	1.9	2.3	1.1	2.6	3.0	1.8
Gift	.9	1.3	1.1	1.4	1.5	1.0	1.1
(% distribution)							
Cash	81	78	77	84	76	73	81
Credit	12	13	16	7	15	20	12
Gift	7	9	7	9	9	7	7
TOTAL OF US, CANADA, ARGENTINA AND AUSTRALIA:							
(Mt)							
Cash	59.0	69.5	50.4	58.4	58.6	40.9	38.8
EEP	–	–	–	–	–	2.1	8.4
Credit	13.4	11.4	24.1	19.9	15.3	17.7	17.9
Gift	1.8	1.9	2.0	2.4	2.2	1.8	2.5
Total	74.1	82.8	76.4	80.7	78.9	62.5	67.6
(% distribution)							
Cash	80	84	66	72	74	65	57
EEP	–	–	–	–	–	3	12
Credit	18	14	31	25	19	28	27
Gift	2	2	3	3	3	3	4

Source: IWC (1988), Table 27.

50. Petit, et al. (1987), p. 31.
51. Bull. EC 7/8-1981, p. 21.

As with the LTFAs, France led in the development of credit instruments. After October 1982 the US used a blend of zero-interest export credits and credit guarantees to "regain lost market share" in the Mediterranean market; by February 1984, after the first full year of the three-year EEP program, it had disbursed US$601 M of blended credit for wheat sales to Algeria, Egypt, Morocco, and Tunisia.

Table 9.7 EC Wheat Exports with Credit (000t)

To:	80-81	81-82	82-83	83-84	84-85	85-86	86-87
AFRICA	-	**250**	**500**	**715**	**1,424**	**1,320**	**514**
- Algeria	-	-	-	-	-	-	210
- Angola	-	-	-	50	70	41	-
- Ethiopia	-	-	-	-	243	75	-
- Morocco	-	250	500	400	905	786	-
- Tunisia	-	-	-	265	206	418	304
MIDDLE EAST	-	**800**	**750**	**270**	**1,040**	**1,640**	**1,316**
- Egypt	-	800	750	270	1,000	1,340	700
- Syria	-	-	-	-	-	200	500
- Turkey	-	-	-	-	40	100	116
CPES	**1,700**	**800**	**875**	-	-	-	-
- China	500	500	875	-	-	-	-
- Poland	1,200	300	-	-	-	-	-
LATIN AMERICA	-	-	**165**	**105**	**166**	-	-
- Brazil	-	-	165	-	-	-	-
- Cuba	-	-	-	105	166	-	-

Source: IWC (1988), Table 19.

France regarded those countries as traditional French markets where it had a strong interest in developing economic and political relationships.[52] Consequent-

[52]. F. Clerc, "French Attitudes," in Tracy & Hodac (1979), p. 363, noted that there is an "advantage for the Community in having available agricultural produce which can be exported to countries of the Mediterranean, the Near East, and above all Africa, where the Community is seeking to develop its political relationship." J. Lynn

ly, when the Commission failed to get authority to extend either credit or credit guarantees for EC wheat exports, France decided to expand its own credit offerings. Table 9.7 shows that France responded with expanded credits to Egypt, Morocco, and Tunisia to retain their market share. The French government granted, both to export companies and the importing countries, two- and three-year credit packages at market rates of interest, with a COFACE guarantee for 95% of the total amount. In the past, COFACE extended credit guarantees to exporters only for political and commercial risks and for no longer than six months.

Although of lesser importance, UK and German exports of wheat were on the rise, which encouraged those two countries to develop their own set of export mechanisms. In the UK, the Home-Grown Cereals Authority provides market intelligence, promotes R&D, and acts as the EC agent for intervention buying, storage, and disposal of surplus cereals and rapeseed, but does not provide any export assistance. The Export Credit Guarantee Department (ECGD) of the Department of Trade and Industry, traditionally only involved with grain exports in a minor way, was permitted at the end of 1984 to extend credit and credit guarantees for all bulk grain sales to government and public agencies for a maximum two years and, in cases where other countries were offering credit, for up to three years.[53] The IWC, however, does not think the ECGD used this facility often between then and 1988. Even without further support, however, UK producers were clearly set to capitalize on their new export capacity. The UK made large investments in port and grain handling facilities during the late 1970s and early 1980s, so that

& A. Jay, Yes, Prime Minister (London, 1986), p. 31, present a wonderful satire of European geopolitical concerns of the CAP which is uncomfortably close to this statement.

53. IWC (1988), p. 3:10.

by the mid-1980s the UK could move 750,000 tonnes monthly or about 9 Mt annually.[54]

In Germany, support for cereals exports comes mainly from producer financed agencies. The Marktabsatzfond, a marketing fund set up in 1969, was reformed in the 1980s so that its export efforts were financed entirely by levies on agricultural products sold in Germany (before 1979-80 it received government funding). It spends a significant portion of its budget to promote exports, particularly to traditional markets in Eastern Europe.

In 1985, the Commission's Green Paper signaled a new phase in the search for more EC export mechanisms. Once the Commission got the new co-responsibility system in operation, it proposed to develop related trade policy instruments. Commercial farmers, largely in France, demanded that they have greater opportunities to sell abroad if their domestic support was to be cut. In the Green Paper, the Commission first recommended that export refunds should be further varied by quality, intended use, and destination. Then, it recommended that the Commission should become more active in the credit area. In particular, the Commission proposed to harmonize existing national credit and insurance practices, to encourage the use of ECU-denominated loans (to reduce exchange risks), to regulate national loan subsidies to ensure they accord with the OECD code for credit for industrial products,[55] to develop an EC-level export credit program, and to negotiate multi-annual supply contracts.[56] The Council did not respond and national measures continued to proliferate.

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54. F. Rees, "The EEC and the UK's Cereals Processing Industry," in Swinbank & Burns (1984), p. 106.
55. See OECD (1987a), pp. 231-238. The guidelines include the maximum proportion of credit allowable per trade (85%), the maximum term (10 years), and the minimum interest rates (SDR rate less 10 basis points).
56. COM(85)333, p. 46.

In 1988, after the outstanding domestic concerns were resolved at the special Brussels Summit, the Commission returned to the Council for approval for a Community-based export system. The Commission again offered to co-ordinate national credit agencies (COFACE, ECGD, and Marktabsatzfond) in order to harmonize national loans on hard commercial food exports (using OECD guidelines) and then to develop an EC scheme of reduced-rate loans to support exports to the poorest debtor nations in Africa. The credit program would provide subsidies of 35% to 100% of the loan interest rate for up to three years, while the principal of the loans would be guaranteed for the EC exporters.[57] The Canadian Wheat Board estimated that the proposal (76 M ECU in 1989) would have been adequate to finance approximately 2 Mt of wheat sales during the first year of the program (equal to about 10% of the 1989 EC export campaign).[58] The Council had not decided on that set of proposals by September 1989.

Although the trade policy was not in full operation in 1989, it was possible, nevertheless, to see its scope. The Commission would co-ordinate national LTFAs and credit arrangements (which are largely financed through para-fiscal levies on producers) until the Council approves a set of European supply agreements and credit measures (similarly financed by producers through co-responsibility levies). When fully operational, the system would rival any now functioning in the major competing countries.

THE EC IN THE GATT

Faced with the changed orientation of the CAP and strong domestic pressure for export expansion, the Community adopted an aggressive strategy for the Uruguay

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57. Agra Europe, 1296, 22-7-88, p. 2.
58. Canadian Wheat Board, Weekly News Summary, Week 4, Aug. 22-26, 1988.

Round of GATT negotiations which began in 1986. Whereas in the Tokyo Round the EC sought to protect and defend its domestic farm policy, in the Uruguay Round until 1989 it sought to consolidate its domestic reforms and expand its position in world wheat markets. In particular, the EC wants the GATT to confirm that it is a 'natural' competitor and to grant it the privileges that flow from such a position, such as the right to defend its market share and the opportunity to enter new markets.

The Community entered the negotiations in the run up to the Punta del Este conference in a strong position, having begun the process to recast its domestic price system to support its international goals. The Commission argued in 1988 that:

> In so far as the Community has been able to press forward its reforms internally, it has also been in a position to make a credible contribution to the achievement of a consensus at international level (OECD, GATT and the economic summits of the Seven in Tokyo, Venice and Toronto) on the principle that only consistent adjustments of the agricultural policies themselves will enable the world markets to be stabilized and trading conditions improved.[59]

The domestic reforms between 1983 and 1988 were closely linked with the international negotiations. The co-responsibility and stabilizer systems (which incorporate levies, a maximum guaranteed quantity, and automatic price cuts) provided the Community with a solid base for export growth because, as indicated above, the levies contribute a large and growing share of the export subsidy costs of the CAP. As well, the mechanisms modulate prices in line with market conditions.

With its domestic programs in order, the Commission sought to develop a matching strong external position. As in the 1970s, the Community faced a variety of legal

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59. ASC 1988, p. 25.

and political challenges to its export policies (e.g., in 1981 and 1982 the US launched five separate GATT legal challenges to EC agricultural production and trade practices). In contrast to the earlier period, however, the Commission responded aggressively to those challenges. The Community's new response to trade irritations was "a quick, sharp, and rather belligerent threat of retaliation, often listing the actual products."[60] For example, the EC retaliated to the onslaught of US litigation in 1981 and 1982 with cases against the US subsidized sale of wheat flour to Egypt in 1983 and against tobacco and wine import restrictions in 1985.[61] In the 1980s the EC also frequently blocked panel decisions and then negotiated bilaterally with the other litigants to resolve the disputes.[62] After 1979 the Commission also began to use GATT Article XXIII to pry open foreign markets for European exports. Furthermore, in 1984 the EC Foreign Ministers Council adopted a "New Commercial Policy Instrument," similar to the Section 301 provisions of the US Trade Act of 1974, which permits private EC citizens to complain about GATT violations of other countries and establishes a series of steps by which EC officials could be forced to respond with GATT lawsuits against offenders.[63]

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60. Hudec (1988), pp. 30-31.

61. In 1983 the US administration subsidized a sale of 1 Mt of wheat flour to Egypt, which France saw as an unfair incursion into its traditional market. The US had added to the commercial sale a fully subsidized payment-in-kind from CCC stocks to bring the average offer price well below the EC bid; a French observer estimated the subsidy cost the US budget about US$130 million. The EC challenged the sale as an abrogation of Art. 10 of the Subsidies Code.

62. The Community also matched the US in rhetorical excesses. In 1983, for example, the EC said the US had entered a traditional EC market for the first time in 10 years when it made a subsidized sale of wheat flour to Egypt. In fact, the US had sold an average 2 Mt per year over the preceding several years; the difference was that US sales were always unprocessed grain rather than flour.

63. Hudec (1988), p. 35.

Table 9.8 Key Farm Trade Disputes at the GATT (1980-89)

GATT Article XXIII Dispute Settlement Proceedings:

Date	Plaintiff	Issue
1980	Canada	EC restrictions on imports of beef
1980	USA	UK restraints on poultry imports
1981	Australia	EC canned fruit production subsidies
1982	EC	Switzerland measures on table grapes
1982	Australia+	EC sugar export subsidies
1982	USA	EC production aids on canned fruit
1982	USA	EC tariff on Med. citrus imports
1983	EC	USA tobacco policies
1984	EC	Chile dairy products policies
1984	Australia	EC beef and veal regime
1985	EC	Canadian provincial liquor boards
1986	EC	Canadian limits on beef imports
1987	EC	Japan label rules & distribution systems for bulk wine and beer
1988	USA	EC meat hormone ban
1988	Chile	EC import licenses for dessert apples
1988	US	EC subsidies to feed processors
1988	US	EC restrictions on imports of apples
1988	EC	US 1955 waiver
1988	EC	US duties on EEC products in response to Hormone Directive

Formal Dispute Settlement proceedings under the Framework of the 1979 Tokyo Round Trade Agreements:

Date	Plaintiff	Issue
1981	USA	EC export subsidies on wheat flour
1982	USA	EC export subsidies on pasta
1982	USA	EC export subsidies on poultry
1983	USA	EC export subsidies on sugar
1983	EC	US wheat flour sale to Egypt
1985	EC	US countervailing duty action on wine

+ also Austria, Brazil, Columbia, Cuba, Dominican Rep., India, Nicaragua, Peru, & Philippines
Sources: Petersmann (1986), pp. 67-71, 370-76; Hudec (1988), pp. 46-51; OECD (1988); OECD (1989).

Then the Community brought before the GATT Council meeting on 22 September 1988 a complaint against the 1955 waiver granted for US agricultural laws. The Community argued the waiver was the major infringement of the GATT in the agricultural area and therefore the main source of "disequilibria, tensions and weakening of the trading system."[64] The EC and US had held consultations under Article XXIII:2 during 1987 and 1988, but had failed to resolve their differences. The US offered to address the waiver in the Uruguay Round negotiations but the EC wanted to remove that bargaining chip before the talks got to the substantive stage. The EC therefore pressed the GATT Council to establish a panel to review US sugar policies (exempted under the waiver) and, if no agreement could be reached, to vote by a two-thirds majority to remove the waiver. The GATT in July 1989 established a panel to review the case.

Meanwhile, the momentum behind the Uruguay Round of the GATT increased. Compared with past multilateral trade negotiations, this round developed a different focus. In the Tokyo Round discussion centered on tariff levels and the profusion of export subsidies and non-tariff trade barriers. The Uruguay Round, in contrast, quickly evolved into an exercise to establish ground rules to limit both domestic and international policies that distort trade.

In March 1985 the Council set out its objectives for the new GATT Round. Both the Commission and Council agreed that the Community should seek "more satisfactory arrangements for trade in agricultural products which would not call into question the fundamental principles of the CAP."[65] The Community would not countenance prohibition of export subsidies or the variable import levy because both instruments were fundamental to the domestic organization of the markets. Furthermore, Bruno Julian, the EC agricultural representative at the GATT, said that "the EC believes it is entitled to a fair share of the world market and will be aggressive in trying to obtain

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64. GATT, Focus, #57, Sept/Oct 1988, p. 1.
65. 33rd Review of the Council's Work 1985, p. 105.

this share."[66] In support of that goal, the Community quietly let lapse its 1982 commitment to hold its share of the world wheat market to 14%; during 1984-86 the EC market share averaged more than 17% and rose to 20% in 1988.

The Community then stonewalled at the GATT opening meeting until the other countries accepted a significantly less dogmatic ministerial declaration than either the US or the Cairns Group desired. The final declaration simply stated that the contracting parties "agreed that there is an urgent need to bring more discipline and predictability to world agricultural trade." The talks were not committed, as the US argued, to total liberalization of farm trade, but simply to "increase discipline."[67] Furthermore, export subsidies were not singled out as a key issue.

The Commission also seeks to use the GATT talks to protect its own reform initiatives from domestic pressures, rather than, as in the past, to defend domestic interests from outside forces. Although the Commission and European Council want lower domestic support prices and a commercially directed export policy for wheat, there are still large numbers of farmers and politicians who would like to reverse the changes. The Commission therefore seeks through the GATT to embed the new CAP orientation in an international agreement.[68] Whereas the EC chose to protect the CAP mechanisms in the Tokyo Round by removing agriculture from the agenda (i.e., to the IWC

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66. D. Hayes & A. Schmitz, "The Price and Welfare Implications of Current Conflicts between the Agricultural Policies of the US and the EC," in Baldwin, et al. (1988), p. 69.
67. GATT, <u>Press Communiqué</u>, 1396, 25-9-86, p. 7.
68. Tangermann (1988), p. 35.

and into discussions leading to interpretive codes)[69], this time it wanted agriculture fully on the GATT agenda. The domestic reforms over 1984-88 brought the CAP largely in line with the terms of the GATT and the subsidies code negotiated at the end of the Tokyo Round. Therefore, the Community has little to fear from GATT discipline. Instead, it judges that it would gain if agriculture were brought fully under the rules and obligations of the GATT because it could use the disputes settlement system to resolve differences about the subsidies code (without resort to export subsidy wars) and state trading rules.

The Commission decided early in the negotiations that it could best serve both its domestic interests and international market goals by pushing for adoption of a revised form of montant de soutien, similar to that proposed in the Kennedy Round negotiations. In particular, the Commission believes such a system would help entrench its domestic reforms, permit it to "balance" Community Preference so that cereal-substitutes and oilseed imports are treated as any other imported foodstuff, allow it to extend export subsidies to processed food products, and, perhaps most importantly, help to reduce the predatory price competition in international markets. The Commission accepted that a modified producer subsidy equivalent (PSE) system could be used provided it was adjusted to take account only of measures with a significant incidence on trade, that it included a method to quantify production constraints, and that it accommodated problems related to world price and currency fluctuations.[70] The OECD, the US, Canada, and the Cairns group also appeared

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[69]. International commodity agreements, such as the IWA, are not governed by the GATT and as such there is no disputes settlement procedure. The subsidies code is also not part of the formal GATT treaty, so it is more difficult to police than other trade rules.
[70]. National Consumer Council (1988), p. 80.

willing to consider a similar sort of system to measure and bind farm support.

The EC in 1987-88 expanded its proposal. It suggested to the GATT Negotiating Group on Agriculture that each country bind for a period of five years its total support for cereals, rice, sugar, oilseeds, dairy products and beef and veal at the level prevailing in 1984 (chosen so that the EC would get total credit in the negotiations for the significant reforms that it had implemented afterwards). The subsidy level would be measured by comparing domestic support prices (ECUs in the EC) with a fixed external reference price (expressed in national currency terms in order to remove distortions caused by changes in exchange rates). Each country could then adjust the specific levels of support by commodity without limitation, provided the aggregate level of support remained at or below the bound amount. At the end of five years the system would be reviewed and the Community suggested that it would then accept a long-term phased reduction in agricultural support that affected international markets.[71] The Community additionally sought to improve its market prospects by forcing the state trading agencies, especially the Canadian and Australian Wheat Boards, to operate more openly (i.e., transparently),[72] which is essential for the EC to be able to set the proper level of refunds and import levies.[73]

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71. GATT, Focus, #50, p. 5; #56, p. 4; & #58, p. 7. Also see Negotiating Group on Agriculture (GATT), The EC Approach on Aggregate Measurement of Support (Paris, MTN/GNG/NG5, 10-7-89).

72. Tangermann (1988), p. 36. A good example of EC concerns was reported in The Western Producer, 18-5-89. The Canadian Wheat Board, which in the past publicized major sales, announced that it would no longer comment on sales.

73. Morgan (1979), p. 295.

As outlined, the policy was sharply at odds with the US goal of complete liberalization by the year 2000.[74] When the trade ministers met in Montreal in December 1988, the differences became obvious. The US and the EC failed to agree on the wording for either the mid-term review or the negotiating mandate for the remainder of the talks. The entire GATT Round was then jeopardized because the trade ministers refused to proceed with the other areas until there was progress on agriculture.

In April 1989 the US and EC finally resolved their differences. After four months of wrangling over the words related to the ultimate goal of the talks, the trade ministers agreed that they sought "a fair and market-oriented agricultural trading system" which would "provide for substantial progressive reductions in agricultural support and protection sustained over an agreed period of time, resulting in correcting and preventing restrictions and distortions in world agriculture markets."[75] The ministers also agreed that the EC would get credit for the positive measures it had adopted since the Punta Del Este meeting in September 1986, thereby embedding past reforms in international agreement. Furthermore, for the short-term, the deal specified that support prices for producers (in ECUs for the EC) should not be raised above the level which prevailed in April 1989. Consequently, when the Agricultural Council met later in April, it had little alternative but to accept the Commission proposals for the 1989-90 marketing year.

CONCLUSION

During the 1980-89 period, the Community successfully replaced its old, inward-looking trade policy (which was designed to protect small family farms) with a fledg-

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74. Financial Times, 15-10-88.
75. GATT, Focus: Uruguay Round Special Issue, #61, May 1989, pp. 4-5.

ling commercial export policy to assist competitive farmers to realize their commercial potential. Although the new intervention rules and co-responsibility levies had not brought EC prices in line with US prices by 1989, nor had the Council approved the full selection of export mechanisms offered by the Commission, the shape of the Community's trade policy for the 1990s was clearly visible. As a result, the Uruguay Round of the GATT was extremely important for both the Commission and Community in the late 1980s, because it "represented a unique opportunity to encourage and consolidate the reforms—indispensible as they are—in agricultural policies in the various countries, and to improve, on a lasting basis, conditions on world markets."[76]

76. ASC 1988, p. 26.

Chapter 10

CONCLUSIONS: LESSONS FOR POLICY MAKERS

The changes in the CAP wheat policy during the 1980s were the result of significant shifts in the power structures and concomitant changes in some of the critical bargains in the system. It follows, therefore, that further change can only come as fast as the structures shift, which creates both constraints and opportunities in the Uruguay Round of the GATT. In short, the GATT negotiators must accept that "politics is the art of the possible." They may continue to strive for the ideal, but in the end they must accept the 'possible' or fail. The foregoing analysis, using the international political economy approach, illuminated the vital linkages between the political and economic spheres to determine the 'possible.'

Trade policy poses a particular problem for analysis and policy development because it depends critically on the domestic economic and policy systems in the trading nations. This thesis provides some hope for the GATT Round because it shows that the EC has already made some of the significant reforms that are prerequisites for a successful trade negotiation. The foregoing analysis, in particular, shows that the domestic reforms in the EC entail more than mere tinkering with mechanisms; they represent fundamental changes in attitudes and outlook. Many observers and participants both within and outside the Community believe the CAP price policy has been reformed solely because of budgetary pressures. If that were so, the policy could easily be sustained with just a simple fix at the margins (because the budgetary situation is largely within the authority of the EC political system); if that were possible, there would be little potential for agreement at the GATT. In reality, as chapters 2 through 9 demonstrate, the CAP wheat policy has been reformed because the inexorably shifting power structures realigned the fundamental bargains that both support and drive the policy system. As a consequence, the entire outlook of the farm policy community in the EC has changed. Avery notes that during the 1970s reform of the CAP caused apprehension in political circles and for many "the very term 'reform of agricultural policy' was taboo."[1] During the 1980s, however, virtually all actors in the policy community came to accept that reform was necessary and most believed that it was even desirable.

International trade negotiators must recognize the basis for these reforms and understand their implications. The challenge for the Uruguay Round GATT negotiators is to recognize the changes within the Community (i.e., that Europe is a natural wheat trader) and to develop a new trading environment that will both secure, and build upon, the domestic reforms in the European Community.

<u>The New Power Structures</u>

Since 1970, the shifting structures, more than anything else, caused greater diversity in both the economic and political systems, thereby making it much more difficult to control either farm policy options or outcomes. The changes in structures, however, are not complete. They are only part of long-term movements that are occurring world-wide. Consequently, neither the policy community nor the resulting economic systems are stable— they will continue to face pressure to change.

The security structure is perhaps the least certain of all the power structures. The thaw in East-West relations in the 1980s and the major economic and political reform efforts in the Soviet Union and Eastern Europe are far from secure. There are many road-blocks and pitfalls that could stall or reverse the reforms. Neverthe-

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1. Avery (1987), p. 161-2.

less, the world security structures have changed enough that one can confidently say that the CAP wheat system of the 1970s would be inconsistent with any new one that could evolve over the coming years. International conflicts, in particular, are highly unlikely to follow the conventional patterns (i.e., lengthy battles and blockades). Meanwhile, the failure of the US embargo in the early 1980s demonstrated countries had little to fear from disruption of supply. Self-sufficiency therefore should diminish as a strategic concern. As discussed in chapter 2, food self-sufficiency also is now neither physically possible nor politically desirable. Worldwide integration of production has virtually eliminated the potential for any country to be truly self-sufficient in any product. Instead, an open and fair trading system is more critical than any national policy of self-sufficiency. The CAP as it operated in the 1970s represented a major irritant in the trade system, and thereby threatened the basis of the transformed western security system.

In contrast, production changes are both more certain and inexorable. The gap between commercial and peasant farms continues to widen annually: small farmers have neither motivation nor opportunities to become more competitive while large efficient farmers (now producing about 80% of EC cereals) continuously apply new technologies and capital to increase productivity. Furthermore, in spite of the reforms of the price system, Community wheat and cereals output could rise sharply during the next decade. Spain, which in 1988 had more land seeded to wheat than any other member state except France, had wheat yields of only 40% of the average in France, Germany, and the UK. If yields increase in response to the higher prices now offered to Spanish producers, Spain conceivably could produce another 5 Mt of wheat and perhaps an additional 10 Mt of other cereals.

Although significant increases in productivity have made large European farmers competitive with other major exporters, they will face stiff competition in the coming years. The IWC estimates that the USSR, currently the largest single importer of wheat and feed grains, could become self sufficient in cereals by 1993 if the new farm program introduced during 1985-89 improves the efficiency of grain use, reduces post-harvest losses, and raises yields.[2] As world wheat stocks are rebuilt in the 1990s and production rebounds in North America, lower Soviet imports should intensify competition among Europe, Canada, Australia, and the US for the slowly growing markets in the developing world.[3]

Rapidly changing financial systems will also continue to press on farmers. The introduction of financial capital into the European farm sector allowed farmers to expand, consolidate, and specialize but also opened the sector to more volatility. In 1989 there was little prospect that financial conditions would return to the stability that characterized the 1960s. Nevertheless, the financial system rapidly innovates and may yet fill one of the missing elements in the developing EC market-based price system. Strange has noted that European farmers do not have ready access to and consequently do not use futures markets to insure themselves against poor prices.[4] Instead, the CAP market regimes have protected farmers both from international competition and volatile prices. As the security afforded farmers under the CAP is steadily eroded by reforms, the financial system will be pressed to develop a futures market for wheat and other cereals. The financial community, spurred by deregulation and competition flowing. from the Single Mar-

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2. <u>The Western Producer</u>, 22-12-88.
3. <u>The Western Producer</u>, 4-5-89.
4. Strange (1986), p. 113.

ket, might rapidly fill this gap in the system, further reducing the need for regulated prices.

Finally, the knowledge base for farming and food production is booming, with scientific knowledge doubling about every 10 years. So far, recombinant DNA techniques have not been directed fully to cereals; when they are, the potential for growth will be large. The US Office of Technical Assessment forecast in 1982 that wheat yields world-wide could rise 1.3% per annum until the turn of the century because of new technologies and seeds.[5]

Overall, the power structures examined in Chapter 2 represent only a stage in the continually changing environment for the European and world wheat industry. There certainly will be more changes, many of which will push the system along the way it has been going since 1980 while others will force re-evaluation and redirection of policy.

The Evolving Policy Community

The biggest change since 1970 is the striking reversal in the influence of farmers on the system. The rapidly evolving structures forced the policy community to transform itself. In the 1970s, the CAP wheat policy represented a archetypical case of "sacred cows herded by special interests."[6] Since then the policy community has become both more diverse and more balanced, with the cows (the CAP mechanisms) less sacred and the special interests (farmers) less able to herd. Farmers still have influence, but more in line with their economic significance, while non-farm groups, especially consumers and environmentalists, now have a greater say in future direc-

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5. M.J. Phillips, "Enhancing Competitiveness," in Federal Reserve Bank of Kansas City (1985), p. 31.
6. BBC Broadcast, 30-10-87.

tions. Overall, however, markets are the strongest force driving the system.

The farm lobbies in the three major cereals producing countries have all lost power and influence and appear to have little chance of regaining their lost position. The farm lobby in Germany is increasingly losing the unique position it maintained in the political and economic systems. The security imperative to have farmers in the regions bordering on East Germany has lessened with the thaw in East-West relations while the massive shift from full to part-time farming has sharply reduced the number of small and inefficient farmers who depend solely on their farm labours. At the same time, non-farm groups in most of the member states want to ensure that the new Single Market is completed and that the world trading system allows European firms to compete abroad and they are willing to offer the CAP to those goals. Consequently, support for farmers now comes less assuredly from Bonn. French farmers also appear to have passed a key political threshold, as they were unable to elect their favoured presidential candidate in either 1981 or 1989. Farmers are highly unlikely, even if a Gaullist president is elected, to rebuild the privileged corporatist relationship which sustained them during the 1960s and 1970s. Meanwhile, UK farmers have decided that their government is not receptive to their needs and now look for support from Brussels. In the UK a survey of producers in 1988 showed that 75% of them believe that the EC is a better farm policy maker than the UK government and, as such, they are fully committed to the CAP.[7]

The Brussels farm policy community is also only a shadow of its former self. COPA and the strong farm lobbies in the European Parliament and the ESC have

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7. Centre for Agri Food marketing study results reported in Financial Times, 25-11-88.

little chance of regaining their earlier power. DG-VI has also lost influence since 1980 because of a variety of administrative and political reforms. In particular, the shift to market pricing allows non-farm interests to become more involved in agricultural policy formulation because market-based pricing requires fewer contacts and less expertise to finesse through the councils. Consequently, the agricultural policy community is increasingly unable to keep budget, foreign, and trade ministers out of the farm policy debates. To compensate, the farm policy community in Brussels has expanded its brief, along the lines of the 1986 revision of the UK Agricultural Act, to include all rural issues. In 1989, the Commissioner appointed to DG-VI was called the Commissioner for Agriculture and Rural Development and promptly began to review and expand the directorates responsible for rural issues. On balance, the policy community has been irreparably changed.

The Changed Orientation for Price Policy

The CAP has changed fundamentally. In brief, it no longer represents a "licence to farmers to over produce;"[8] instead, the domestic market now largely determines the prices and marketing conditions. The reform of the CAP has come so slowly and in such fits and starts that many observers refuse to accept that it has really occurred. But, a comparison of the system in the early 1970s with the system operating in 1989 clearly demonstrates the extent of the reforms (chapter 3).

Although prices have been cut and intervention systems have been increasingly tightened since 1985, EC market prices have not fully responded. The tight world wheat situation has offset much of the impact of the lower support in Europe and masks the changes in the policy. First the depreciating dollar and then drought

8. Philip (1989), p. 6.

in North America in 1988 and 1989 supported the world wheat price in ECU terms, so that the Community has been able to sell abroad with lower net subsidies. Domestic growing conditions in 1985-88 also were not as favorable as in 1984, so that the volumes of grain were not onerous. Consequently, the Commission until 1989 was able to sustain domestic prices above the reduced support levels without exceeding the budgetary limits. The farm lobbies, in particular, recognize that whenever yields stabilize in both North America and Europe, the domestic wheat price in the EC should drop in line with the reduced price and intervention support. Even though that has not happened, the reforms that enable it to occur are real.

The EC's competitors commonly complain that Europe has not adopted complete free market pricing in one step. That expectation plainly fits in the category of the ideal rather than the 'possible.' To give due credit, the Commission attempted to make the price system the sole market regulator in the mid-1980s but the cuts needed to restore market balance were too great for national governments to accept. Koester estimated in 1981 that real EC wheat prices would have to be cut by 4-6% annually merely to halt the growth in surpluses. In West Germany, that would have led to annual nominal cuts of as much as 2%.[9] The Australian Bureau of Agricultural Economics (BAE) in 1985 demonstrated by using regression analysis that production would have increased over the 1973-82 period even if the Commission had been able to cut real prices an average 4% per annum. They concluded that the investment stimulus to yield was so great that total agricultural production in the EC would still have risen by more than 10% under such a price regime.[10] The BAE proceeded to demonstrate that output will rise fur-

9. Koester (1981a), p. 10.
10. Bureau of Agricultural Economics (1985), p. 318.

ther between 1987 and 1995 even with 4% per annum real price cuts.[11] More recently, a Canadian study of the international wheat markets concluded that even if the EC paid farmers at only about US$80/t, the EC would still produce about 70 Mt of wheat.[12] The Council rejected such large price cuts and the Commission was forced to seek other methods to stabilize production and costs.

The financial dependence of farming also clearly limits the opportunities for overall policy reform. Cereals farmers in France, Germany, and the UK have high debt levels and, in most cases, land represents a large proportion of cereal farm investment. Because land prices generally reflect the expected returns from production (and there are few alternative uses for cropped land), even small changes in the level of domestic support for cereals translates into significant changes in land prices. Consequently, heavily indebted cereals farmers (who are usually the most efficient producers[13]) are particularly vulnerable to land price fluctuations. Major changes in the pricing structure, therefore, could eliminate a significant portion of cereal farming's net worth. The Kiel Institute of World Economics estimates that complete liberalization of the CAP would cause farm land prices in Germany to drop by 17%[14] while other studies suggest the relative shadow prices for farm land would decline by two-thirds to three-quarters,[15] which could translate into price cuts of up to 50%.[15a] In addition to endangering a large number of farms, such declines in land prices would also threaten many farm-

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11. Ibid., p. 320.
12. Furtan, et al. (1988), p. 129.
13. ASC 1988, p. 61, shows that in 1985-86, the largest 14% of farms had 40% of the capital in agriculture and the lowest net worth as a percentage of liabilities.
14. Centre for International Economics (1988), p. 28.
15. Ibid., p.28. 15a. P. Pierani & K. Frohberg, "Impact of CAP Trade Liberalization on Agricultural Supply," in Tarditi, et al. (1989), p. 136.

based financial institutions and agricultural suppliers.[16]

In spite of these constraints, the Community achieved significant reform. But the reforms are and likely will remain less than total liberalization for a number of reasons. First, cereals are different from many commodities. Compared with mineral products and even livestock production, the cereals production cycle is quite long, with little opportunity to adjust production decisions once the process has started (i.e., the price elasticity of supply is very low in the short term). Adjusting prices after the crop is sown has little or no effect on final production levels. Hence, the Community and most farmers are unenthusiastic about freely floating prices during the marketing year.

Second, because the opportunity cost for much of the agriculture sector's land, labour, and capital is low in the short to medium term, governments will always provide some support to keep people on the farm. Especially for the peasant farmer, the farm land, the specialized buildings and farm machinery, and the skills acquired in the operation of the small holding have little value outside the farm sector.

Perhaps most important of all, governments have both a significant investment to protect in rural areas and limited resources to replicate those services in urban areas if the population were to move. Governments have generally made large per capita public investment in rural roads, schools, hospitals, and public utilities and therefore have a strong economic reason to support the rural economy, which has been overwhelmingly farm-based.

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16. K. Thomson, "Budgetary and Economic Effects of CAP Trade Liberalization," in Tarditi, et al. (1989), p. 117, estimates that the farm supply industry would suffer losses of nearly 60 B ECU if the CAP were liberalized.

In the 1970s and early 1980s, the Community supported farmers largely through higher prices. But, with the reform of the price system in the 1980s, the Commission decided to use a wider variety of programs to put rural development "in the forefront of the European Community's objectives."[17]

Domestic economic and political changes will continue to expand concern for rural affairs, to the detriment of farmer-directed and dominated policies. As discussed in chapters 8 and 9, section 11 of the 1979 GATT subsidies code provided a blueprint for reform of the policy in the 1980s. The current round of multilateral trade negotiations under the aegis of the GATT certainly has a vital role to play in directing, guiding, and, ultimately, sustaining this reformulation of the European wheat policy.

Constraints and Opportunities for GATT Negotiators

The reform of the EC wheat price policy, and the emergence of the Community as a 'natural' competitor in world markets, both constrains the scope of possible outcomes and presents opportunities for progress. The direction chosen will depend on how the international community responds to the EC.

The farm talks in the Uruguay Round negotiations are vitally important because failure could jeopardize the entire GATT process. The opening of the new round of negotiations was delayed in 1986 because of disagreements over farm trade issues and at the start of 1989 progress in the non-farm areas was stalled for four months because negotiators were unable to agree on a mid-term report for the agricultural negotiations. Ultimate failure to resolve the outstanding farm trade issues could also endanger existing GATT agreements because governments in the

17. Avery (1989).

US and the Cairns Group countries, in particular, have so strongly sold the prospects for farm policy reform that farmers might force new retaliatory farm trade actions if the promised reforms do not occur. The negotiators in the Uruguay Round must ensure that they do not destroy the benefits of past agreements in the quest for a new, more comprehensive package. Although many regarded the 1979 Tokyo Round agreements as relatively unimportant for farm trade, they have proved to be significant. The subsidies code, in particular, provided the Community with a blueprint for reforming its domestic policies after 1985, by specifying the acceptable types of, and targets for, government support.

Traditionally, the GATT is based on the view that "the world is not rich enough to despise efficiency."[18] Although that motivation possibly dominates other countries or other commodities, it is not the key concern of Community negotiators in the area of agricultural trade. Instead, the Community both seeks acceptance of its developing export orientation and support for its domestic approach. Avery believes that the GATT should "harness the external pressures to help, rather than hinder, the process of reform" in the EC.[19] Therefore, the GATT must develop a workable way to reduce support and bolster the rules governing farm trade.

At a minimum, the trade negotiations must accept that no agreement will be able to dictate specific changes to domestic policies. The GATT must allow the national governments to design domestic policy in their own way. A major stumbling block in the negotiations up to autumn 1989 was the desire of the US negotiators to dictate which domestic policies the EC could use and which would have to be changed. The US proposal to con-

18. Warley (1976), p. 364.
19. Avery (1987), p. 163.

vert all levies to tariffs, in particular, is "unrealistic, for it would involve radical changes in domestic mechanisms and administration of agricultural policy."[20] The GATT should coordinate reductions in farm support, but leave the methods to the individual governments.

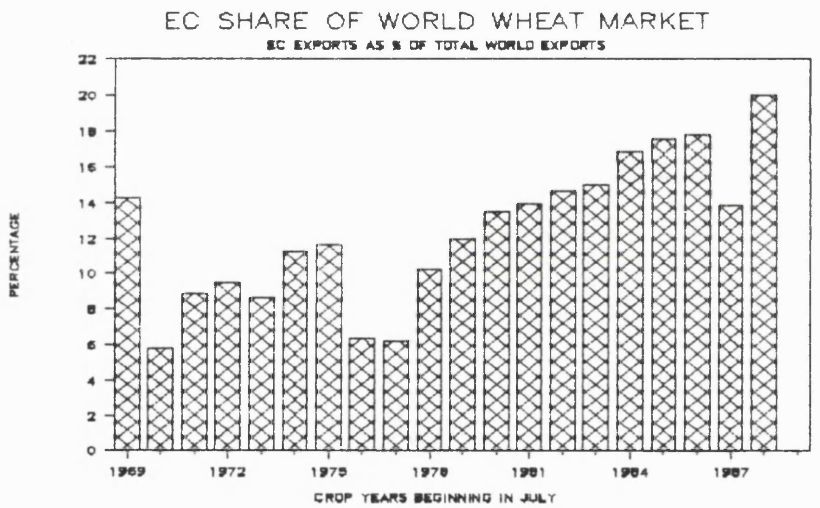
The EC and the traditional exporters have already agreed in principle that they would be willing to bind and gradually reduce agricultural support, using some type of aggregate measurement, such as the producer subsidy equivalent (PSE) measure proposed by the FAO and OECD or the trade distorting equivalent (TDE) measure proposed by Canada.[21] Provided it is not cluttered by demands that limit mechanisms that may be used, this approach would allow the EC to negotiate internally to get agreement on tighter market control (i.e., lower producer support prices and more co-responsibility). Although total support would be bound, it should be possible to allow the EC to realign its external protection (i.e., higher duties on cereal substitutes) and to provide for some ameliorating measures to offset price movements caused by largely monetary-induced exchange rate fluctuations.

Unlike in the past, the GATT cannot ignore the Community's export interests (Fig 10.1). At the very least, GATT members will need to recognize the EC as a legitimate competitor. Even in 1989, the prevailing opinion among the traditional wheat traders (i.e., the US, Canada, Australia, and Argentina) is that the EC should not export. But the Community cannot easily be denied a position in world markets. Farmers, governments, and the Commission fully support the EC's changed focus on commercial wheat exports. A 1987 opinion survey showed an overwhelming

[20] Avery (1987), p. 164.
[21] GATT, News of the Uruguay Round: #007, 14-7-87, p. 4; #011, 12-11-87, pp. 2-3; and #017, 30-6-88.

majority of respondents believed the EC should maintain its role as the second largest food exporter.[22] The traditional exporters should instead press for the Community to proceed to realign its domestic policy and encourage the EC to develop a system of producer-financed export subsidies to replace the current EC budget-based system of export restitutions. As shown in Chapter 9, the Community is already moving in that direction. Now, most of all, it needs support through the GATT to sustain the reforms.

Figure 10.1



The GATT will also need to accommodate Community and developing world concerns over the impact of macroeconomic policy on trade. For both LDCs and the EC, the link between protection and exchange rate misalignments has become a major issue.[23] Resolution of the US current account and budgetary deficits, in particular, poses the

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[22]. National Consumers Council (1988), pp. 190, 196, & 198. About 67.1% of Germans, 83.8% of the French, and 72.3% in the UK agreed that "the EC should maintain its role as the second largest exporter of agricultural products by improving competitiveness" For the Community as a whole, 70.7% responded yes and only 8% disagreed.

[23]. Valdés (1987), p. 575.

most difficulty. Cline estimates that if the US current account deficit is reduced to a sustainable level, exchange rates will have to change massively. In the EC, that would require a swingeing realignment in the EMS, including a 17% revaluation of the DM against the French franc,[24] which would wreak havoc with the agri-monetary system and the whole CAP wheat price regime. Although at first glance this threatens to make the negotiations more complex, exchange rate adjustments may provide a critical opening for reform in the EC. The Commission has announced that it wants to end the agri-monetary system by the beginning of 1992 so that intra-EC trade in food products will compete on the same basis as non-agricultural products in the newly completed Single Market. By then revaluations of the DM may have opened the gap between the green and real ECU (already about 13.7%) to such a degree that all producers would suffer a price cut if the green ECU were set equal to the real ECU. If by that time the GATT has negotiated firm commitments to hold the line on domestic price support for farmers, the Community might be persuaded to allow effective ECU prices to drop by the amount of the correcting factor, provided both income support and direct cash payments could be made. The GATT therefore should seek an agreement that will establish a framework to guide Community reforms.

The GATT negotiators, however, must get beyond the confusion and disagreement emanating from the different national negotiating mandates and strategies. One critical difference between the EC and US is that the US Trade Representative's (USTR) mandate is set once and for all by the Congress in the Trade Act, while the Commission's mandate is continuously revised. As a result, the USTR can offer to negotiate almost anything (such as complete liberalization of farm trade) without causing major protests from the national constituencies, because any-

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24. The Economist, 6-5-89, p. 95.

thing outside the negotiating mandate must be ratified by Congress. In this round, the 1988 US Trade Act only authorizes the President to negotiate rules for agricultural trade and to reduce farm subsidies in a manner "consistent with the US policy of agricultural stabilization."[25] Even if lower world-wide farm supports are approved in the GATT, the concomitant changes in US domestic farm programs are not covered by the fast-track system of approval for the rest of the GATT. Congress therefore has the opportunity to fully debate and amend any changes proposed for the US Farm Bill.[26] In contrast, anything the Commission offers as a negotiating position, because of the constant supervision by the 113 Committee, would be viewed as official policy and therefore could incite great opposition and concern in the EC. The GATT participants therefore must not assume that the EC is unnecessarily obstructionist when it hesitates to make ambitious proposals; it simply has a different negotiating style imposed on it by its mandate.

Contrary to popular opinion in North America and Australia, the Community is serious about the GATT farm talks and is willing to pay a price to get agreement. During the mid-1980s the Community voluntarily limited its wheat exports to a maximum 14% of the world market in order to reduce the level of animosity in the trade forums. Since then, the Commission has used its powers a number of times to manage EC exports to support its position in the multilateral trade talks. In March 1989, for example, the Commission suspended all free market wheat export tenders until April 5 because of the sensitivity of negotiations leading up to the April 5 GATT negotiating meeting in Geneva.[27]

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25. Omnibus Trade and Competitiveness Act of 1988, P.L.100, 23-8-88, S.1101(7.B).
26. Ibid., S.1102(b).
27. The Western Producer, 16-3-89.

Perhaps most important, the balance of power in the European Commission now favours reform. In January 1989, when the Commission was reappointed, Frans Andriessen, the agricultural commissioner and the architect of CAP reform during 1984-88, was moved to become the Commissioner for DG-I (external affairs) and assumed responsibility for the GATT negotiations. Consequently, the EC trade negotiators for the first time may have both the political influence and the technical knowledge to sway debate and offset the influence of defensive elements in DG-VI. Support also extends into the national governments and to the farmers themselves. France, Germany, and the UK all support the GATT negotiations and each is willing to make further changes in the CAP in exchange for concessions in other areas. Meanwhile, commercial farmers in Europe generally support farm reform, provided it comes gradually. Daniel Green argues that farmers are "not rejecting change; for in no other industry have men kept abreast of a rapidly changing technology quite so successfully." Rather they want change to come at an "evolutionary rather than a revolutionary pace."[28] Better than most, farmers know that they must survive the short-term to take advantage of the long-run benefits of reform.

Finally, the GATT negotiators must look closely at the calendar. The scheduled final year for the Uruguay Round negotiations roughly coincides with two major domestic events. First, the 1985 US Farm Security Act must be renewed in or shortly after 1990. Second, the EC budgetary, production, and price targets set in 1988 are only established until the end of the 1991-92 marketing year; after then, the Community must either extend or replace the system. Although farmers likely could not force the EC to return to using prices to support farm incomes, the Community could reverse its support for a

28. Green (1975), p. 126.

market-based price and marketing system and introduce stronger administrative controls over the market (e.g., through quotas and market guarantees), which would virtually eliminate any chance for fair competition in the international market. Therefore, the GATT negotiators and their political masters must decide whether to accept the possible or risk failing in pursuit of the ideal.

EC: WHEAT PRICE PROPOSALS AND DECISIONS (ECU/TONNE; MARKETING YEARS)

		Target Price	% CH	Inter-vention Price	% CH	Refer-ence Price	% CH
1972-73	Year-end Prices	137.58	--	126.64	--	--	--
1973-74	Commission Proposal	141.37	2.8%	130.13	2.8%	--	--
	Council Decision	138.96	1.0%	127.91	1.0%	--	--
	Year-end Prices	138.96	1.0%	127.91	1.0%	--	--
1974-75	Commission Proposal A	141.73	2.0%	127.91	0.0%	--	--
	Council Decision A	147.30	6.0%	133.02	4.0%	--	--
	Commission Proposal B	153.19	10.2%	138.34	8.2%	--	--
	Council Decision B	154.66	11.3%	139.67	9.2%	--	--
	Year-end Prices	154.66	11.3%	139.67	9.2%	--	--
1975-76	Commission Proposal	170.12	10.0%	152.24	9.0%	--	--
	Council Decision	168.58	9.0%	152.24	9.0%	--	--
	Year-end Prices	168.58	9.0%	152.24	9.0%	--	--
1976-77	Commission Proposal	184.38	9.4%	143.45	-5.8%	162.73	6.9%
	Council Decision	183.76	9.0%	140.24	-7.9%	158.37	4.0%
	Year-end Prices	183.76	9.0%	140.24	-7.9%	158.37	4.0%
1977-78	Commission Proposal	189.20	3.0%	144.47	3.0%	163.21	3.1%
	Council Decision	191.11	4.0%	145.15	3.5%	163.92	3.5%
	Year-end Prices	191.11	4.0%	145.15	3.5%	163.92	3.5%
1978-79	Commission Proposal	196.32	2.7%	146.97	1.3%	169.01	3.1%
	Council Decision	196.32	2.7%	146.97	1.3%	165.58	1.0%
	Year-end Prices	196.32	2.7%	146.97	1.3%	165.58	1.0%
1979-80	Commission Proposal	196.32	0.0%	146.97	0.0%	165.58	0.0%
	Council Decision	201.42	2.6%	149.47	1.7%	168.06	1.5%
	Year-end Prices	201.42	2.6%	149.47	1.7%	168.06	1.5%
1980-81	Commission Proposal	208.97	3.7%	152.15	1.8%	171.00	1.7%
	Council Decision	214.01	6.3%	155.88	4.3%	175.20	4.2%
	Year-end Prices	214.01	6.3%	155.88	4.3%	175.20	4.2%
1981-82	Commission Proposal	231.13	8.0%	165.23	6.0%	182.21	4.0%
	Council Decision	230.55	7.7%	165.23	6.0%	192.72	10.0%
	Year-end Prices	230.55	7.7%	165.23	6.0%	192.72	10.0%
1982-83	Commission Proposal	246.81	7.1%	176.10	6.6%	205.40	6.6%
	Council Decision	250.61	8.7%	179.27	8.5%	209.10	8.5%
	Year-end Prices	250.61	8.7%	179.27	8.5%	209.10	8.5%

EC: WHEAT PRICE PROPOSALS AND DECISIONS (ECU/TONNE; MARKETING YEARS) (con't)

		Target Price	% CH	Intervention Price	% CH	Reference Price	% CH
1983-84	Commission Proposal	261.41	4.3%	186.44	4.0%	217.46	4.0%
	- Less Co-Respons.	261.41	4.3%	184.58	3.0%	215.29	3.0%
	Council Decision	261.41	4.3%	184.58	3.0%	215.29	3.0%
	Year-end Prices	261.41	4.3%	184.58	3.0%	215.29	3.0%
1984-85	Commission Proposal	261.41	0.0%	184.58	0.0%	215.29	0.0%
	Council Decision	259.08	-0.9%	182.73	-1.0%	213.14	-1.0%
	Year-end Prices	259.08	-0.9%	182.73	-1.0%	213.14	-1.0%
1985-86	Commission Proposal	262.97	1.5%	185.47	1.5%	216.34	1.5%
	- Less Co-Respons.	249.82	-3.6%	176.20	-3.6%	205.52	-3.6%
	Interim Prices	254.98	-1.6%	179.44	-1.8%	209.30	-1.8%
	Year-end Prices	254.98	-1.6%	179.44	-1.8%	209.30	-1.8%
MARKET SYSTEMS REVISED IN 1986-87: BREAD WHEAT REFERENCE PRICE REPLACED WITH 2% PREMIUM; FEED WHEAT PRICES CUT BY UP TO 5%; 3% CO-RESPONSIBILITY ASSESSED; AND INTERVENTION RULES MODIFIED							
1986-87	Commission Proposal	256.16	0.5%	179.44	0.0%	--	--
	Council Decision	256.16	0.5%	179.44	0.0%	--	--
	Year-end Prices	256.16	0.5%	179.44	0.0%	--	--
1987-88	Com Proposal (wdrn)	251.63	-1.8%	175.85	-2.0%	--	--
	Com Proposal (rev'd)	256.10	0.0%	179.44	0.0%	--	--
	Council Decision	256.10	0.0%	179.44	0.0%	--	--
	Year-end Prices	256.10	0.0%	179.44	0.0%	--	--
1988-89	Commission Proposal	250.30	-2.3%	179.44	0.0%	--	--
	Council Decision	250.30	-2.3%	179.44	0.0%	--	--
	Year-end Prices	250.30	-2.3%	179.44	0.0%	--	--
ADDITIONAL 3% (REFUNDABLE) BUDGET STABILIZER LEVY ASSESSED AND INTERVENTION FURTHER TIGHTENED							
1989-90	Commission Proposal	247.78	-1.0%	174.06	-3.0%	--	--
	Council Decision	247.78	-1.0%	174.06	-3.0%	--	--

Notes: Prices before 1979 converted at 1 ECU = 1.208953 * UA; the percentage difference in the reference price in 1976-77 is the change from the intervention price for 1975-76.

Sources: Commission Proposals, ASC (various).

FRANCE: WHEAT PRICE PROPOSALS AND DECISIONS (FF/TONNE; MARKETING YEARS)

		Conversion Factor for Green ECU	Franc Green Rate	Target Price	% CH	Inter-vention Price	% CH	Refer-ence Price	% CH
1972-73	Year-end Prices	--	4.59422	632.1	--	581.8	--	--	--
1973-	Commission Proposal	--	NA	NA	NA	NA	NA	--	--
74	Council Decision	--	4.59422	638.4	1.0%	587.6	1.0%	--	--
	Year-end Prices	--	4.59422	638.4	1.0%	587.6	1.0%	--	--
1974-	Commission Proposal A	--	4.59422	651.1	2.0%	587.6	0.0%	--	--
75	Council Decision B	--	4.59422	676.7	6.0%	611.1	4.0%	--	--
	Commission Proposal A	--	4.59422	703.8	10.2%	635.6	8.2%	--	--
	Council Decision B	--	4.59422	710.5	11.3%	641.7	9.2%	--	--
	Year-end Prices	--	4.59422	710.5	11.3%	641.7	9.2%	--	--
1975-	Commission Proposal	--	4.74658	807.5	13.6%	722.6	12.6%	--	--
76	Council Decision	--	4.65955	785.5	10.5%	709.4	10.6%	--	--
	Year-end Prices	--	4.65955	785.5	10.5%	709.4	10.6%	--	--
1976-	Commission Proposal	--	4.65955	859.1	9.4%	668.4	-5.8%	758.2	6.9%
77	Council Decision	--	4.65955	856.2	9.0%	653.4	-7.9%	737.9	4.0%
	Year-end Prices	--	4.65955	856.2	9.0%	653.4	-7.9%	737.9	4.0%
1977-	Commission Proposal	--	4.78294	904.9	5.7%	691.0	5.7%	780.6	5.8%
78	Council Decision	--	4.78142	913.8	6.7%	694.0	6.2%	783.8	6.2%
	Year-end Prices	--	4.96381	945.6	10.8%	720.5	10.3%	813.7	10.3%
1978-	Commission Proposal	--	4.96381	974.5	2.7%	729.5	1.3%	838.9	3.1%
79	Council Decision	--	5.14920	1010.9	6.6%	756.8	5.0%	852.6	4.8%
	Year-end Prices	--	5.42697	1065.4	12.3%	797.6	10.7%	898.6	10.4%
1979-	Commission Proposal	--	5.42021	1064.1	-0.1%	796.6	-0.1%	897.5	-0.1%
80	Council Decision	--	5.50961	1109.7	4.2%	823.5	3.2%	925.9	3.0%
	Year-end Prices	--	5.56725	1121.4	5.2%	832.1	4.3%	935.6	4.1%
1980-	Commission Proposal	--	5.76891	1205.5	7.5%	877.7	5.5%	986.5	5.4%
81	Council Decision	--	5.84700	1251.3	11.6%	911.4	9.5%	1024.4	9.5%
	Year-end Prices	--	5.99526	1283.0	14.4%	934.5	12.3%	1050.4	12.3%
1981-	Commission Proposal	--	5.84700	1351.4	5.3%	966.1	3.4%	1065.4	1.4%
82	Council Decision	--	5.99526	1382.2	7.7%	990.6	6.0%	1155.4	10.0%
	Year-end Prices	--	6.19564	1428.4	11.3%	1023.7	9.5%	1194.0	13.7%
1982-	Commission Proposal	--	6.08656	1502.2	5.2%	1071.8	4.7%	1250.2	4.7%
83	Council Decision	--	6.19564	1552.7	8.7%	1110.7	8.5%	1295.5	8.5%
	Year-end Prices	--	6.19564	1552.7	8.7%	1110.7	8.5%	1295.5	8.5%

FRANCE: WHEAT PRICE PROPOSALS AND DECISIONS (FF/TONNE; MARKETING YEARS) (con't)

		Conversion Factor for Green ECU	Franc Green Rate	Target Price	% CH	Inter-vention Price	% CH	Refer-ence Price	% CH
1983-84	Commission Proposal	--	6.37174	1665.6	7.3%	1187.9	7.0%	1385.6	7.0%
	- Less Co-Respons.	--	6.37174	1665.6	7.3%	1176.1	5.9%	1371.8	5.9%
	Council Decision	--	6.49211	1697.1	9.3%	1198.3	7.9%	1397.7	7.9%
	Year-end Prices	--	6.49211	1697.1	9.3%	1198.3	7.9%	1397.7	7.9%
GREEN ECU SYSTEM INTRODUCED IN 1984-85; CORRECTING FACTOR ADDS TO PRICES IN FRANCE									
1984-85	Commission Proposal	--	6.67790	1745.7	2.9%	1232.6	2.9%	1437.7	2.9%
	Council Decision	1.033651	6.86866	1839.4	8.4%	1297.3	8.3%	1513.3	8.3%
	Year-end Prices	1.033651	6.86866	1839.4	8.4%	1297.3	8.3%	1513.3	8.3%
1985-86	Commission Proposal	1.033651	7.01590	1907.0	3.7%	1345.0	3.7%	1568.9	3.7%
	- Less Co-Respons.	1.033651	7.01590	1811.7	-1.5%	1277.8	-1.5%	1490.4	-1.5%
	Interim Prices	1.033651	7.00089	1845.2	0.3%	1298.5	0.1%	1514.6	0.1%
	Year-end Prices	1.083682	7.00089	1934.5	5.2%	1361.4	4.9%	1587.9	4.9%
MARKET SYSTEMS REVISED IN 1986-87: BREAD WHEAT REFERENCE PRICE REPLACED WITH 2% PREMIUM; FEED WHEAT PRICES CUT BY UP TO 5%; 3% CO-RESPONSIBILITY LEVY ASSESSED; AND INTERVENTION RULES MODIFIED									
1986-87	Commission Proposal	1.083682	7.10590	1972.6	2.0%	1381.8	1.5%	--	--
	Council Decision	1.083682	7.09967	1970.8	1.9%	1380.6	1.4%	--	--
	Year-end Prices	1.125696	7.09967	2047.2	5.8%	1434.1	5.3%	--	--
1987-88	Com Proposal (wdrn)	1.125696	7.43388	2105.7	2.9%	1471.6	2.6%	--	--
	Com Proposal (rev'd)	1.125696	7.43388	2143.1	4.7%	1501.6	4.7%	--	--
	Council Decision	1.137282	7.47587	2177.4	6.4%	1525.6	6.4%	--	--
	Year-end Prices	1.137282	7.47587	2177.4	6.4%	1525.6	6.4%	--	--
1988-89	Commission Proposal	1.137282	7.47587	2128.1	-2.3%	1525.6	0.0%	--	--
	Council Decision	1.137282	7.58418	2158.9	-0.8%	1547.7	1.4%	--	--
	Year-end Prices	1.137282	7.58418	2158.9	-0.8%	1547.7	1.4%	--	--
ADDITIONAL 3% (REFUNDABLE) BUDGET STABILIZER LEVY ASSESSED AND INTERVENTION RULES FURTHER TIGHTENED									
1989-90	Commission Proposal	1.137282	7.47587	2106.7	-2.4%	1479.9	-4.4%	--	--
	Council Decision	1.137282	7.69787	2169.2	0.5%	1523.8	-1.5%	--	--

Notes: The prices before 1979 were converted at 1 ECU = 1.208953 UA; in 1978 the Franc Green Rate was changed after the Commission proposal, so the existing rate has been entered rather than the proposed rate; the percentage difference in the reference price in 1976-77 is the change from the intervention price for 1975-76; because France continually devalued the franc, there are times the year-end prices would be higher than the Commission's proposed prices (e.g., 1979-80); in those cases it is best to compare the proposed prices with the Council decision.
Sources: Commission Proposals; ASC (various); and Commission (1988), Taux de Conversion.

GERMANY: WHEAT PRICE PROPOSALS AND DECISIONS (DM/TONNE; MARKETING YEARS)

		DM Green Rate	Target Price	% CH	Intervention Price	% CH	Reference Price	% CH
1972-73	Year-end Prices	3.02741	416.51	--	383.39	--	--	--
1973-74	Commission Proposal	2.94385	416.17	-0.1%	383.09	-0.1%	--	--
	Council Decision	3.02741	420.69	1.0%	387.24	1.0%	--	--
	Year-end Prices	3.02741	420.69	1.0%	387.24	1.0%	--	--
1974-75	Commission Proposal A	3.02741	429.07	2.0%	387.24	0.0%	--	--
	Council Decision A	3.02741	445.94	6.0%	402.71	4.0%	--	--
	Commission Proposal B	3.02741	463.77	10.2%	418.81	8.2%	--	--
	Council Decision B	3.02741	468.22	11.3%	422.84	9.2%	--	--
	Year-end Prices	3.02741	468.22	11.3%	422.84	9.2%	--	--
1975-76	Commission Proposal	2.86467	487.35	4.1%	436.13	3.1%	--	--
	Council Decision	2.96018	499.02	6.6%	450.67	6.6%	--	--
	Year-end Prices	2.96018	499.02	6.6%	450.67	6.6%	--	--
1976-77	Commission Proposal	2.84843	525.19	5.2%	408.62	-9.3%	463.51	2.8%
	Council Decision	2.87922	529.09	6.0%	403.78	-10.4%	455.99	1.2%
	Year-end Prices	2.87922	529.09	6.0%	403.78	-10.4%	455.99	1.2%
1977-78	Commission Proposal	2.79407	528.64	-0.1%	403.66	0.0%	456.02	0.0%
	Council Decision	2.82276	539.46	2.0%	409.71	1.5%	462.71	1.5%
	Year-end Prices	2.82276	539.46	2.0%	409.71	1.5%	462.71	1.5%
1978-79	Commission Proposal	2.79049	547.83	1.6%	410.12	0.1%	471.63	1.9%
	Council Decision	2.81432	552.51	2.4%	413.63	1.0%	465.99	0.7%
	Year-end Prices	2.81432	552.51	2.4%	413.63	1.0%	465.99	0.7%
1979-80	Commission Proposal	2.81432	552.51	0.0%	413.63	0.0%	465.99	0.0%
	Council Decision	2.78341	560.64	1.5%	416.04	0.6%	467.78	0.4%
	Year-end Prices	2.78341	560.63	1.5%	416.04	0.6%	467.78	0.4%
1980-81	Commission Proposal	2.75175	575.03	2.6%	418.68	0.6%	470.55	0.6%
	Council Decision	2.75175	588.90	5.0%	428.94	3.1%	482.11	3.1%
	Year-end Prices	2.75175	588.90	5.0%	428.94	3.1%	482.11	3.1%
1981-82	Commission Proposal	2.60723	602.61	2.3%	430.79	0.4%	475.06	-1.5%
	Council Decision	2.65660	612.49	4.0%	438.95	2.3%	511.98	6.2%
	Year-end Prices	2.65660	612.48	4.0%	438.95	2.3%	511.98	6.2%
1982-83	Commission Proposal	2.53140	624.77	2.0%	445.78	1.6%	519.95	1.6%
	Council Decision	2.57524	645.38	5.4%	461.66	5.2%	538.48	5.2%
	Year-end Prices	2.57524	645.38	5.4%	461.66	5.2%	538.48	5.2%

GERMANY: WHEAT PRICE PROPOSALS AND DECISIONS (DM/TONNE; MARKETING YEARS) (con't)

		DM Green Rate	Target Price	% CH	Intervention Price	% CH	Reference Price	% CH
1983-84	Commission Proposal	2.49870	653.19	1.2%	465.86	0.9%	543.37	0.9%
	- Less Co-Respons.	2.49870	653.19	1.2%	461.21	-0.1%	537.95	-0.1%
	Council Decision	2.52875	661.04	2.4%	466.76	1.1%	544.41	1.1%
	Year-end Prices	2.52875	661.04	2.4%	466.76	1.1%	544.41	1.1%
GREEN ECU SYSTEM INTRODUCED DURING THE 1984-85 MARKETING YEAR								
1984-85	Commission Proposal	2.37039	619.64	-6.3%	437.53	-6.3%	510.32	-6.3%
	Council Decision	2.52875	655.15	-0.9%	462.08	-1.0%	538.98	-1.0%
	Year-end Prices	2.39792	621.25	-6.0%	438.17	-6.1%	511.09	-6.1%
1985-86	Commission Proposal	2.38516	627.22	1.0%	442.38	1.0%	516.00	1.0%
	- Less Co-Respons.	2.38516	595.86	-4.1%	420.27	-4.1%	490.20	-4.1%
	Interim Prices	2.39792	611.42	-1.6%	430.28	-1.8%	501.88	-1.8%
	Year-end Prices	2.39792	611.42	-1.6%	430.28	-1.8%	501.88	-1.8%
MARKET SYSTEMS REVISED IN 1986-87: BREAD WHEAT REFERENCE PRICE REPLACED WITH 2% PREMIUM; FEED WHEAT PRICES CUT BY UP TO 5%; 3% CO-RESPONSIBILITY LEVY ASSESSED; AND INTERVENTION RULES MODIFIED								
1986-87	Commission Proposal	2.39792	614.25	0.5%	430.28	0.0%	--	--
	Council Decision	2.39792	614.25	0.5%	430.28	0.0%	--	--
	Year-end Prices	2.39792	614.25	0.5%	430.28	0.0%	--	--
1987-88	Com Proposal (wdrn)	2.39792	603.39	-1.8%	421.67	-2.0%	--	--
	Com Proposal (rev'd)	2.34069	599.45	-2.4%	420.01	-2.4%	--	--
	Council Decision	2.39792	614.11	0.0%	430.28	0.0%	--	--
	Year-end Prices	2.39792	614.11	0.0%	430.28	0.0%	--	--
1988-89	Commission Proposal	2.37360	607.88	-1.0%	425.92	-1.0%	--	--
	Council Decision	2.37360	594.11	-3.3%	425.92	-1.0%	--	--
	Year-end Prices	2.37360	594.11	-3.3%	425.92	-1.0%	--	--
ADDITIONAL 3% (REFUNDABLE) BUDGET STABILIZER LEVY ASSESSED AND INTERVENTION RULES FURTHER TIGHTENED								
1989-90	Commission Proposal	2.37360	588.13	-1.0%	413.14	-3.0%	--	--
	Council Decision	2.37360	588.13	-1.0%	413.14	-3.0%	--	--

Notes: Prices before 1979 converted at 1 ECU = 1.208953 $ UA; the percentage difference in the reference price in 1976-77 is the change from the intervention price for 1975-76.
Sources: Commission Proposals; ASC (various); and Commission (1988), Taux de Conversion.

UNITED KINGDOM: WHEAT PRICE PROPOSALS AND DECISIONS (POUNDS/TONNE; MARKETING YEARS)

		Conversion Factor for Green ECU	Pound Green Rate	Target Price	% CH	Inter-vention Price	% CH	Refer-ence Price	% CH
1972-73	Year-end Prices	--	0.382168	52.58	--	48.40	--	--	--
1973-74	Commission Proposal	--	NA	NA	NA	NA	NA	--	--
	Council Decision	--	0.382168	53.11	1.0%	48.88	1.0%	--	--
	Year-end Prices	--	0.382168	53.11	1.0%	48.88	1.0%	--	--
1974-75	Commission Proposal A	--	0.382168	54.16	2.0%	48.88	0.0%	--	--
	Council Decision A	--	0.382168	56.29	6.0%	50.84	4.0%	--	--
	Commission Proposal B	--	0.382168	58.54	10.2%	52.87	8.2%	--	--
	Council Decision B	--	0.412489	63.80	20.1%	57.61	17.9%	--	--
	Year-end Prices	--	0.412489	63.80	20.1%	57.61	17.9%	--	--
1975-76	Commission Proposal	--	NA	NA	NA	NA	NA	--	--
	Council Decision	--	0.421638	71.08	11.4%	64.19	11.4%	--	--
	Year-end Prices	--	0.471156	79.43	24.5%	71.73	24.5%	--	--
1976-77	Commission Proposal	--	0.471156	86.87	9.4%	67.59	-5.8%	76.67	6.9%
	Council Decision	--	0.471156	86.58	9.0%	66.07	-7.9%	74.62	4.0%
	Year-end Prices	--	0.471156	86.58	9.0%	66.07	-7.9%	74.62	4.0%
1977-78	Commission Proposal	--	0.500910	94.77	9.5%	72.37	9.5%	81.75	9.6%
	Council Decision	--	0.485244	92.74	7.1%	70.43	6.6%	79.54	6.6%
	Year-end Prices	--	0.485244	92.74	7.1%	70.43	6.6%	79.54	6.6%
1978-79	Commission Proposal	--	0.500995	98.36	6.1%	73.63	4.5%	84.67	6.5%
	Council Decision	--	0.524589	102.99	11.1%	77.10	9.5%	86.86	9.2%
	Year-end Prices	--	0.524589	102.99	11.1%	77.10	9.5%	86.86	9.2%
1979-80	Commission Proposal	--	0.552200	108.41	5.3%	81.16	5.3%	91.43	5.3%
	Council Decision	--	0.581264	117.08	13.7%	86.88	12.7%	97.69	12.5%
	Year-end Prices	--	0.618655	124.61	21.0%	92.47	19.9%	103.97	19.7%
1980-81	Commission Proposal	--	0.618655	129.28	3.7%	94.13	1.8%	105.79	1.7%
	Council Decision	--	0.618655	132.40	6.3%	96.44	4.3%	108.39	4.2%
	Year-end Prices	--	0.618655	132.40	6.3%	96.44	4.3%	108.39	4.2%
1981-82	Commission Proposal	--	0.582603	134.66	1.7%	96.26	-0.2%	106.16	-2.1%
	Council Decision	--	0.618655	142.63	7.7%	102.22	6.0%	119.23	10.0%
	Year-end Prices	--	0.618655	142.63	7.7%	102.22	6.0%	119.23	10.0%
1982-83	Commission Proposal	--	0.592604	146.26	2.5%	104.36	2.1%	121.72	2.1%
	Council Decision	--	0.618655	155.04	8.7%	110.91	8.5%	129.36	8.5%
	Year-end Prices	--	0.618655	155.04	8.7%	110.91	8.5%	129.36	8.5%

UNITED KINGDOM: WHEAT PRICE PROPOSALS AND DECISIONS (POUNDS/TONNE; MARKETING YEARS) (con't)

		Conversion Factor for Green ECU	Pound Green Rate	Target Price	% CH	Inter-vention Price	% CH	Refer-ence Price	% CH
1983-84	Commission Proposal	--	0.604167	157.94	1.9%	112.64	1.6%	131.38	1.6%
	- Less Co-Respons.	--	0.604167	157.94	1.9%	111.52	0.6%	130.07	0.5%
	Council Decision	--	0.618655	161.72	4.3%	114.19	3.0%	133.19	3.0%
	Year-end Prices	--	0.618655	161.72	4.3%	114.19	3.0%	133.19	3.0%
GREEN ECU SYSTEM INTRODUCED IN 1984-85; CORRECTING FACTOR ADDS TO PRICES IN THE UK									
1984-85	Commission Proposal	--	0.593946	155.26	-4.0%	109.63	-4.0%	127.87	-4.0%
	Council Decision	1.033651	0.618655	165.67	2.4%	116.85	2.3%	136.30	2.3%
	Year-end Prices	1.033651	0.618655	165.67	2.4%	116.85	2.3%	136.30	2.3%
1985-86	Commission Proposal	1.033651	0.618655	168.16	1.5%	118.60	1.5%	138.34	1.5%
	- Less Co-Respons.	1.033651	0.618655	159.75	-3.6%	112.68	-3.6%	131.42	-3.6%
	Interim Prices	1.033651	0.618655	163.05	-1.6%	114.75	-1.8%	133.84	-1.8%
	Year-end Prices	1.083682	0.618655	170.95	3.2%	120.30	3.0%	140.32	3.0%
MARKET SYSTEMS REVISED IN 1986-87: BREAD WHEAT REFERENCE PRICE REPLACED WITH 2% PREMIUM; FEED WHEAT PRICES CUT BY UP TO 5%; 3% CO-RESPONSIBILITY LEVY ASSESSED; AND INTERVENTION RULES MODIFIED									
1986-87	Commission Proposal	1.083682	0.618655	171.74	0.5%	120.30	0.0%	--	--
	Council Decision	1.083682	0.626994	174.05	1.8%	121.92	1.3%	--	--
	Year-end Prices	1.125696	0.626994	180.80	5.8%	126.65	5.3%	--	--
1987-88	Com Proposal (wdrn)	1.125696	0.646618	183.16	1.3%	128.00	1.1%	--	--
	Com Proposal (rev'd)	1.125696	0.646618	186.41	3.1%	130.61	3.1%	--	--
	Council Decision	1.137282	0.656148	191.11	5.7%	133.90	5.7%	--	--
	Year-end Prices	1.137282	0.656148	191.11	5.7%	133.90	5.7%	--	--
1988-89	Commission Proposal	1.137282	0.656148	186.78	-2.3%	133.90	0.0%	--	--
	Council Decision	1.137282	0.675071	192.17	0.6%	137.76	2.9%	--	--
	Year-end Prices	1.137282	0.675071	192.17	0.6%	137.76	2.9%	--	--
ADDITIONAL 3% (REFUNDABLE) BUDGET STABILIZER LEVY ASSESSED AND INTERVENTION RULES TIGHTENED									
1989-90	Commission Proposal	1.137282	0.675071	190.23	-1.0%	133.63	-3.0%	--	--
	Council Decision	1.137282	0.701383	197.65	2.9%	138.84	0.8%	--	--

Notes: Prices before 1979 converted at 1 ECU = 1.208953 ‡ UA; the percentage difference in the reference price in 1976-77 is the change from the intervention price for 1975-76.
Sources: Commission Proposals; ASC (various); and Commission (1988), Taux de Conversion.

SOURCES FOR FIGURES

Figure	Sources
2.2	IWC, World Wheat Statistics, various.
2.3	EC Commission, European Economy, various.
2.4	EC Commission, European Economy, various.
2.5	EC Commission, European Economy, various.
3.1	Eurostat, Agricultural Prices, 5B; Appendix.
3.2	Eurostat, Agricultural Prices, 5B; Appendix.
3.3	Eurostat, Agricultural Prices, 5B; Appendix.
4.3	EC Commission, European Economy, July 1987; EC Commission (1988), Taux de Conversion.
4.4	EC Commission, European Economy, July 1987; EC Commission (1988), Taux de Conversion.
4.5	EC Commission, European Economy, July 1987; EC Commission (1988), Taux de Conversion.
4.6	Eurostat, Agriculture Statistical Yearbook, various.
6.1	EC Commission, European Economy, various.
6.2	EC Commission, European Economy, various.
6.3	EC Commission, European Economy, various.
8.1	IWC, World Wheat Statistics, various; Appendix.
8.2	Appendix.
8.3	Eurostat, Agriculture Statistical Yearbook, various.
9.1	IWC, World Wheat Statistics, various; Appendix.
9.2	Eurostat, Agriculture Statistical Yearbook, various.
10.1	IWC, World Wheat Statistics, various.

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Market Year	Commission Proposal (COM and date)	ESC Plenary Opinion (Reference and date)	EP Agriculture Draft (Reference and date)	EP Plenary Opinion (Reference and date)	Council Decision (Date)***
1973-74	COM(73)445/453	OJ No. C 69, 28-8-73	Doc 24/73	OJ No. C 26, 30-4-73	1-5-73
1974-75A	COM(74)30, 16-1-74	OJ No. C 88, 26-7-74	Doc 366/73	OJ No. C 23, 8-3-74	23-3-74
1974-75B	COM(74)1446, 29-9-74	No opinion	Doc 248/74, 14-9-74	OJ No. C 118, 3-10-75	2-10-74
1975-76	COM(74)2001, 27-11-74	OJ No. C 47, 27-2-75	Doc 473/74, 13-1-75	OJ No. C 32, 11-2-75	12-2-75
1976-77	COM(75)600, 10-12-75	OJ No. C 50, 4-3-76	Doc 522/75, 5-2-76	OJ No. C 53, 8-3-76	6-3-76
1977-78	COM(77)100, 28-2-77	OJ No. C 77, 30-3-77	Doc 9/77, 21-3-77	OJ No. C 93, 18-4-77	25-4-77
1978-79	COM(77)525, 8-12-77	OJ No. C 101, 26-4-78	Doc 579/77, 13-3-78	OJ No. C 85, 10-4-78	12-5-78
1979-80	COM(79)10, 5-2-79	OJ No. C 171, 9-7-79	Doc 675/78, 12-3-79	OJ No. C 93, 9-4-79	21-6-79
1980-81	COM(80)10, 7-2-80	OJ No. C 182, 21-7-80	Doc 1-37/80, 24-3-80	OJ No. C 97, 21-4-80	30-5-80
1981-82	COM(81)50, 20-2-81	OJ No. C 159, 29-6-81	Doc 1-50/81, 19-3-81	OJ No. C 90, 21-4-81	2-4-81
1982-83	COM(82)10, 27-1-82	OJ No. C 114, 6-5-82	Doc 1-30/82/A, 19-3-82	OJ No. C 104, 11-4-82	18-5-82
1983-84	COM(82)650, 21-12-82	OJ No. C 124, 9-5-83	Doc 1-1325/82/A, 28-2-83	OJ No. C 96, 11-4-83	17-5-83
1984-85	COM(84)20, 21-1-84	OJ No. C 103, 16-4-84	Doc 1-1508/83, 2-3-84	OJ No. C 104, 16-4-84	31-3-84
1985-86	COM(85)50, 30-1-85	No opinion	Doc 2-1770/84, 4-3-85	OJ No. C 94, 15-4-85	**
1986-87	COM(86)20, 13-2-86	OJ No. C 181, 20-5-86	Doc A2-8/86/A/B/C,	OJ No. C 120, 20-5-86	25-4-86
1987-88	COM(87)1, 24-2-87*	OJ No. C 150, 9-6-87	Doc A2-40/87, 29-4-87	OJ No. C 156, 15-6-87	30-6-87
1988-89	COM(88)120, 25-3-88	OJ No. C 175, 4-7-88	Doc A2-108/88	OJ No. C 187, 18-7-88	14-7-88

Notes:
- 1974-75A and 1974-75B were both acted upon.
* Revised 16-3-87
** Council never approved the cereals price decisions; the Commission implemented an interim set.
*** The best sources for information are the Bulletin of the ECs, OJ L Series, Green Europe Newsflash, and the Home-Grown Cereals Authority Marketing Reports.