THE COMMON AGRICULTURAL POLICY

Prospects for Change

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J.P.

1 Introduction

Among the many surpluses generated by the CAP, there is a surplus of proposals for changing it. This paper is not intended to add to the number of these proposals, but will analyse some of them in the light of current developments in the European Economic Community.

The central problem of the CAP is that it uses a single instrument, prices, to pursue two objectives: maintaining farm income; and balancing supply and demand. Neither objective has been adequately achieved. There is constant pressure to raise prices so as to ensure a decent income for low-income farmers, but high prices encourage output to expand, and so add to surpluses and thus to the budgetary costs of the CAP. Other costs are imposed on the Community by the CAP: it wastes economic resources; redistributes income inequitably; and causes large transfers of resources between member states.

The budgetary costs are receiving growing attention for various reasons: their uneven distribution among member states has resulted in proposals for changing the structure of the budget; the Community's financial resources seem likely to be exhausted some time before the end of 1983; and in 1984 there is likely to be a further rise in expenditure, since Spain and Portugal are due to become members of the Community then. Because the CAP accounts for such a large share of the budget, discussions about the budget inevitably involve the CAP. The forthcoming revisions to budgetary arrangements will entail changes in the CAP, but these changes could either improve or mar the prospects for reforming the CAP.

The paper begins by sketching the origins of the CAP, setting it in the broader context of the Community, and tracing its political and institutional evolution. Chapter 3 describes the operation of the price system, shows how external relations and structural policy have been subordinated to it, and how it has dominated financing. In Chapter 4 the results of the CAP are compared with the five objectives set for it in the Treaty of Rome, and the extent to which member states have continued to pursue national objectives is demonstrated in Chapter 5. An assessment of the costs and benefits of the CAP, for the Community and for the rest of the world, is made in Chapter 6.

The last three chapters deal with the revision of the budget and its implications for the CAP. Chapter 7 outlines the pressures for budgetary reform, and considers some of the proposals that affect the CAP and the attitudes of the member states towards them. In Chapter 8, recent events, culminating in the publication of the Commission's report on restructuring the budget, will be described. Chapter 9 analyses the Commission's proposals and member states' initial reactions to them, indicates how events may develop in the next year or two, and suggests some objectives and tactics for the negotiations.

2 The political framework

The reasons for including agriculture in the European Economic Community were both political and economic: France would have declined to participate in a Community that provided for free trade in industrial goods but not in agricultural goods; and exclusion of agriculture would have distorted competition within industry because divergent food prices would have implied divergent wage rates. In addition, the agricultural sector was expected to demonstrate the advantages of collective action and so be a motor of integration. The founders of the Community believed that within the larger market a more efficient allocation of resources would be achieved. The consequent benefits to producers and consumers would generate political cohesion at the Community level comparable to that which the welfare state had generated at national level. Further, farmers were thought to be one of the various 'functional' groups whose common interests would transcend national boundaries and help to advance this process. To take the view that agriculture was a particularly suitable sector in which to promote integration was perhaps to make a virtue of necessity. Member states were unlikely to delegate to the Community responsibility for administering the prosperous and expanding sectors of their economies.[1]

The Treaty of Rome provided the Community with four main institutions: the European Commission; the Council of Ministers; the Parliament; and the Court of Justice. Of these, the first two were directly responsible for policy-making. The Commission is a collegiate body appointed for four years, whose fourteen members (since the admission of Greece in January 1981) are appointed by common consent of the member governments. They are required to act independently of member governments and of the Council of Ministers. Each Commissioner is responsible for a particular area of policy, but they are collectively responsible for all their decisions. The Commission has a dual role: first, as the guardian of the Treaty of Rome, it draws up proposals for Community policy; second, it acts as executive and secretariat, supported by a civil service organized in Directorates-General corresponding to the areas of responsibility of the Commissioners. The Directorate-General for Agriculture is commonly known as DG VI (the sixth Directorate-General).

On most issues the Council of Ministers has to negotiate to give the Commission's proposals the force of law. Each member government has a seat on the Council and may send any member of government it chooses to meetings. The Treaty of Rome provided for majority voting in the Council on many issues, after a twelve-year transition period. Presidency of the Council rotates among the member governments every six months. For some areas of policy special councils have evolved: the Agriculture Council, which comprises the agriculture ministers of the member states, normally meets once a month. The discussions of most councils are prepared by the Committee of Permanent Representatives (Coreper), which comprises member governments' ambassadors to the European Communities, but the Agriculture Council is served by the special Committee on Agriculture (SCA), which comprises agricultural officials.

In the same year that the Community was founded, 1958, the Comité des Organisations Professionelles Agricoles des Pays de la Communauté Economique Européenne (COPA) was set up, with the active encouragement of the Commission. This was a federation of farmers' unions in the Community. To qualify for membership of COPA, organizations had to meet two key criteria: they had to be national, i.e. not confined to one region, and general, i.e. not confined to one group of products. They were also expected to be representative of all farmers in their country and to be exclusively agricultural. COPA was to coordinate the positions of its member organizations. They provided notes from which COPA built up a common position. COPA could be seen as promoting that coalescence of functional interest at Community level which was to contribute to the process of integration.

Agriculture in the member states

Agriculture was economically and politically important in all six member states and already subject to widespread intervention. In the mid-1950s it accounted for more than a quarter of civilian employment and for more than 10 per cent of GNP. Size alone made agriculture politically important, and in most countries the political weight of landowners was greater than their numbers warranted.

For several reasons the member states, like many other developed countries, intervened extensively in their agricultural sectors, as well as affording them external protection. Agriculture's role as a provider of basic necessities had been thrown into relief by the food shortages that had occurred during and immediately after the Second World War. On both economic and strategic grounds, countries were anxious to safeguard food supplies. Yet more uncertainty surrounds production of food than of other goods because agriculture is peculiarly dependent on natural phenomena, such as climate and disease.

Despite its importance, agriculture in most European countries began to undergo a relative decline in the years following the Second World War as their economies became more prosperous. Increased per capita income may be matched by increased expenditure on food up to the point at which the capacity of the human stomach is reached and the desire for a higher quality or more varied diet is met. Subsequently, the income elasticity of demand for food is less than unity: that is, expenditure increases by a smaller proportion than income, or may even fall for certain products. To the extent that the agricultural sector does not reduce its costs or expand exports commensurately, it receives a smaller proportion of national income. Unless the number of individuals engaged in agriculture declines, their incomes fall relative to those in other sectors.

This occurs simultaneously with another aspect of economic expansion: technological advance. Whereas some farmers are well placed to benefit from this, others are not. The apparent solution is for those who are unlikely to gain from technological progress to move out of agriculture, leaving a smaller number to produce a larger amount. In fact a reduction in agricultural employment did occur, notably between 1950 and 1970, but there remain many older farmers with small farms,