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**European Union Agricultural Policy: Problems and Perspectives\***

*Importance of Agriculture in the take off of European integration and the development of Common Agricultural Policy (Cap)*

Agricultural policy is the most developed activity of integration in the EU and as such, it serves as an example of what countries can achieve through it. It also highlights the numerous complexities to be addressed, in particular, those affecting the relationship among and within countries and interest groups.

One of the main reasons for the extent of integration of the Agricultural Policy was the important role the sector played in bringing about the birth of the Community. Agriculture was a large sector in each of the original six countries when the Community adventure begun with the Treaty of Rome in 1957. At that time, the 19 % of working population in the Community was employed in agriculture, and in Italy it reached almost 30% (Tab. 1). The EEC could not satisfy its internal demand for food with its own level of production and was highly dependent on the imports from the rest of the world. Production and food availability was particularly relevant to countries facing industrial development with problems pertaining to social stability (Tab. 2). In this period it was very important to create stability in food prices in order to allow a greater general stability throughout the system.

*Tab. 1 - Importance of agriculture in the six Member States (1960) and some divergence*

	<i>Germany</i>	<i>France</i>	<i>Italy</i>	<i>Nether.</i>	<i>Belgium</i>	<i>Luxemb.</i>	<i>EU</i>
<i>Employment in agriculture on total activity (%)</i>	13.8	20.7	30.8	10.4	7.7	16.4	19.7
<i>Share of agriculture on GDP*</i>	7.5	10.2	18.5	10.7	7.4	8.8	12.2
<i>Farm size</i>	10.1	16.7	6.8	9.9	8.2	13.4	10.6

\* *Gross Domestic Product at factor cost in 1958*

*SOURCE: OECD and Commission of European Communities*

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\* I owe a special thanks to dr. Fabio Brancolini for his contribution at many stages of this work and its translation.

*Tab. 2 - Member States Food Dependency before the European market  
(self sufficiency degree, average 1953-56)*

Products	Germany	Belgium and France Luxembourg	Italy	Netherlands	
Cereals (human alimen.)	74	54	119	92	46
Rice	0	0	61	142	0
Potatoes	99	96	101	100	141
Sugar	83	140	126	98	96
Legumes	51	93	75	104	146
Vegetables	83	99	97	111	143
Fruits	62	78	61	126	96
Meat	94	96	102	91	128
Eggs	64	102	97	92	241
Fish	93	62	95	66	214
Cheese	82	34	103	98	214
Butter	94	93	102	91	244
Total Fat	43	47	66	77	51

\* Self sufficiency degree = Production/Consumption x 100

SOURCE: OECD

Several reasons explain the prominent place assigned to agriculture in the EU life since the its inception. In the '60's, when the famine suffered during the war was still a recent memory, agriculture played the role of a leading sector with respect of:

- a) accumulation process of non-agricultural sectors: agricultural prices in fact had a good deal of influence on labour price, because of the prominence given to expenditures for food;
- b) social stability and political interest: the rural community were an important source of votes for politicians. At the same time the rural world was considered a relevant element for social stability, because of the conservative system of values usually embodied by this sector;
- c) manpower for non-agricultural sectors: during the industrial take-off, agriculture represented an important source of labour: workers needed to be re-employed and addressed to other emerging economic sectors. Nonetheless the rural exodus could be possible, and did not create negative effects in terms of food supply, if it had been shouldered by an increase of agricultural productivity. This, in other words, is self explanatory of the need for a common agricultural policy.

Consequently member states' attention after the Treaty of Rome focused mainly on agriculture, which had soon to become the first sector in which attempts for the lunch of a jointly managed sector policy were to be experimented. Indeed, with the conference of Stresa, in 1958, the lines of intervention on the

sector were formally designed<sup>1</sup>. Finally, in 1962, the organisation of the Common Market (OCM) was set up, the institution of FEOGA and the first basic regulations defining the common agricultural market. In particular the first agreement to fix common agricultural prices was reached for the price of cereals, and then for milk and dairy products, sugar and meat.

It was right in this moment that was also defined the bulk of measures addressed to agriculture which, still now, represents the most significant area of member states integration; an area that, in the end, could also resist to the difficulties brought about by those processes of enlargement which would have included, along time, many other European states.

### ***The Price Policy Take Off: Technical Aspects and main Effects***

When the Agricultural policy took off, price policy, still relevant now, was the key instrument of regulation: It addressed the relationship between income and price, farming revenues and market stabilising policies.

Price policy was introduced to achieve at the same time basic goals such as<sup>2</sup>:

- a) Promote domestic market stability in terms of prices and food supply (standing the Community food dependency as seen before);
- b) Guarantee EEC producers a reasonable economic return;
- c) Protect the Common Market against foreign competitors.

The main technical aspects of the price policy focus on the definition of three institutional prices, yearly decided by the European Council of Ministers<sup>3</sup> that are *parity price*, *threshold price*, *intervention price*. The general working schema is described in the Fig. 1

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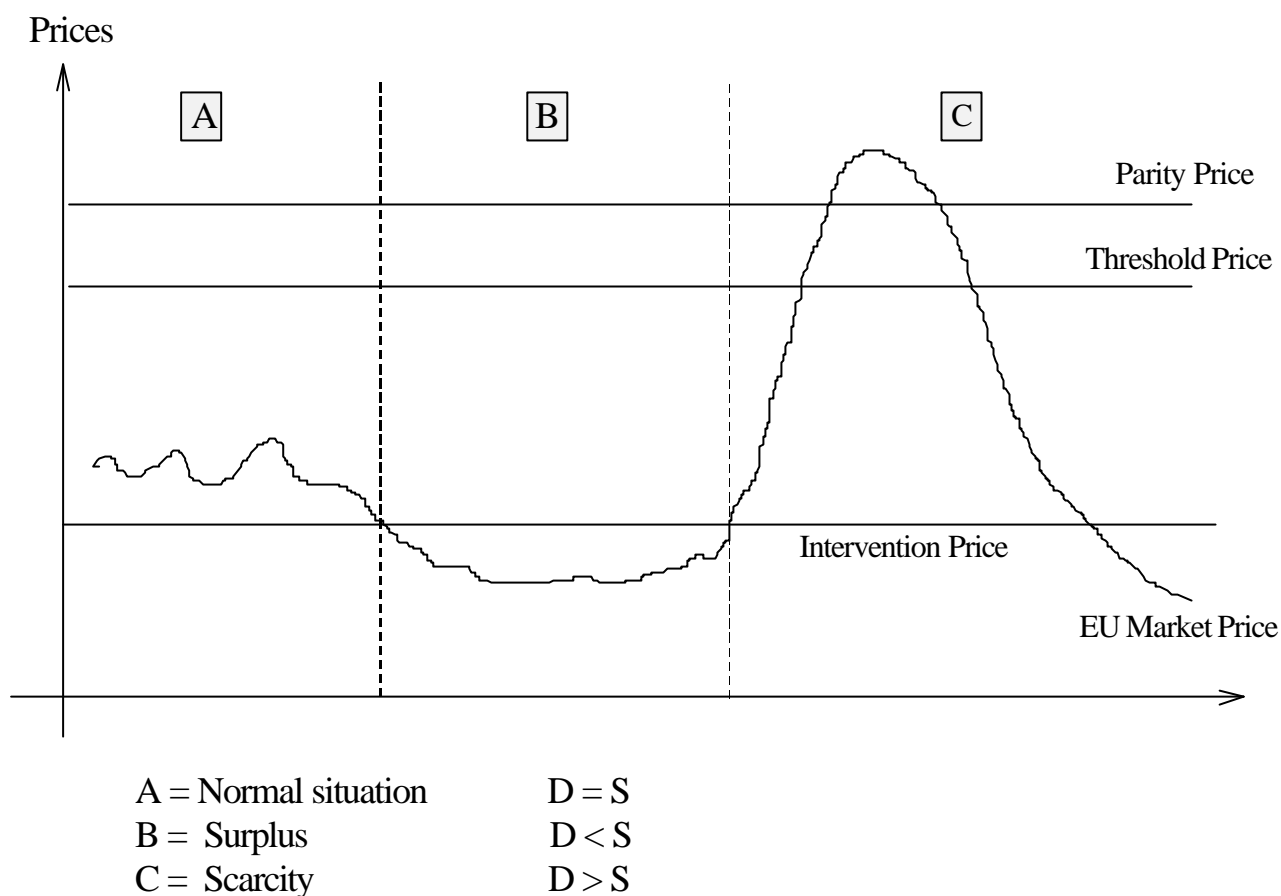
<sup>1</sup>The Conference was chaired by Sicco Mansholt, first Commissioner for Agriculture, and attended by the officials of national ministries and farmer's organization (B.E. Hill, 1984). It Produced an agreed set of objectives, such as increase agricultural trade, and eliminate subsidies which would distort competition; improve returns, preserve family farms, encourage rural industries; provide special aid to disadvantaged regions.

<sup>2</sup>Article 39 of the Treaty of Rome states that Common Agricultural Policy shall have the following goals:

- i) increase productivity by fostering technical progress and develop agricultural production in the respect of optimization of the use of factors in particular of labor;
- ii) ensure fair living standards for the rural community, specially by increasing agricultural incomes;
- iii) stabilize markets,
- iv) ensure supplies availability
- v) assure the consumer reasonable prices for agricultural commodities.

<sup>3</sup>The common support prices are reviewed annually in a complex package (called "Green Package"), that requires an agreement among member states and entails a long and difficult discussion (called "Green Marathon"): In fact everyone tries to protect its "strategical" production: this usually means to give more attention to powerful groups of interests acting inside of every member states or in the EU. The discussion starts with the proposal made by the Commission, which considers the economic and market situation, together with the results of the "objective method" concerning information about the domestic agricultural returns for different products and countries. This information came from the European Accounting Network that collect data directly from farms in every member state.

Fig. 1 - EU Institutional Prices Schema



The *parity price* (or *target price*) represents the level which domestic market prices should attain to meet farmers desired returns. It is based on the idea of parity between agricultural and non agricultural revenues, considering that the former are lower than the latter as a consequence of market instability (price, supply and demand volatility) and structural conditions of farms (small dimensions and low productivity compared to the other economic sectors). The target price, therefore, does not properly represent a constraint, because it works as an important reference point upon which are derived all other institutional support prices.

On the import side the *threshold price*, represents the minimum entry price faced by all the other countries at Community frontiers. As a forecast device for the Community market, the threshold price is set at a level defined by the target price, being just a bit lower and taking account of internal distribution costs<sup>4</sup>. This means that *variable levies* are employed and calculated as the difference between the domestic price and the threshold price. This levy is an important positive source for revenue for CAP balance. Obviously, when the community experiences a shortage of a given product, and the domestic market price rises above

<sup>4</sup>Usually there is a 5% -7% of difference between the two prices done to the following mechanism: threshold price + distribution costs = target price.

the threshold level, it becomes possible for products from any third country to enter relatively freely in the community; in this case, the imports are necessities for satisfying the high level of food demand and protect consumer's needs.

Finally, the *intervention price* represents the 'floor' price guaranteed for certain commodities by the Community. To make it operative, national intervention agencies are to be established, with the specific obligation of buying at the stated intervention price. Normally market prices should be above intervention prices determining no need for Community support within the internal market. The intervention price operates when market price falls below: in this case the Community intervenes by buying the product in question at the intervention price, thus representing a costs in terms of the Community balance. The larger is the gap between intervention price and market price, the higher is the cost's entity faced by the Community. Moreover, when the EU buys a commodity paying the intervention price, it has also to face transport, storage, transformation, marketing, and sale costs.

In conclusion, the EU prices are free to fluctuate within a defined band that have the intervention price as a floor price and the threshold price as a ceiling. This mechanism allows the Community to maintain prices generally, but not always, above world level.

In the end the price policy turns out to be a regulation of prices, which entails the institution of a system of transfers along with public storage and a protecting external policy.

*Tab. 3 - Agricultural price divergence in 1960 (average of 6 countries = 100)*

<i>Products</i>	Germany	France	Italy	Netherl.	Belgium	Luxemb.
<i>Wheat</i>	109	75	109	100	123	83
<i>Sugar</i>	122	82	104	93	--	99
<i>Milk</i>	102	92	99	94	116	98
<i>Livestock</i>	101	88	114	89	106	102
<i>Pigs</i>	110	94	106	85	115	90

*SOURCE: Commission of European Communities*

A point to be made, when price policy is in the spotlight, is that it started with a quite high level of institutional prices. In fact it had to mediate among interests of countries with lower domestic prices such as Netherlands and France, and others with higher domestic prices such as Germany and Italy (Tab. 3). Therefore the price policy, which was meant to be only a measure of support, took off determining a very high level of prices which, in turn, represented a new problem to be faced in the future. In fact if it is true that agricultural policy was endowed with high intervention prices, from that moment onward, there was a "rise game" among member states and producers interests, which entailed a continuous increase of agricultural institutional prices (tab 4). Since the beginning then, price policy had the slant of an income support measure rather than to be only a mean to stabilise markets, using public buffer stocks.

*Tab 4 - Average annual Cap prices changes 1974-83 (%)*

Year	Commission proposal	Council Minister Outcome	Annual rate of change of farmgate/input price ratio
1974-75	+ 7.2	+ 9.0	- 11.3
1975-76	+ 9.0	+ 9.6	+ 4.3
1976-77	+ 7.5	+ 7.7	+ 3.4
1977-78	+ 3.0	+ 3.9	- 2.4
1978-79	+ 2.0	+ 2.1	+ 1.2
1979-80	0	+ 1.3	- 2.3
1980-81	+ 2.4	+ 4.8	- 5.9
1981-82	+ 7.8	+ 9.2	- 2.5
1982-83	+ 9.0	+10.4	- 0.1
1983-84	+ 5.5	+ 4.2	n. a

SOURCE: Bowler I.R. 1985, p. 72

The described system generates a gap between domestic and world prices, thus the Community is not competitive in international markets. To be competitive on world markets the Community can decide to pay subsidies, equal to the difference between domestic and international prices, to traders for exporting products from the Community; these subsidies are called *export refunds* and represent a cost for the Community budget. Then it was observed that as the Community grew more productive, its presence on international markets became more distinctively dependent upon the resources invested to support exportation.

As one can see, with the only instrument of price policy it became possible to operate the three main CAP headings which are : market unity<sup>5</sup>, community preference<sup>6</sup> and financial solidarity<sup>7</sup>.

Obviously the CAP is a rather complicated issue which includes, within market policies, a variety of elements, such as subsidies per hectares, slaughter premiums, conversion subsidies, etc.; all these measures have been adopted as needed, but none of them is used continuously over time. These measures became means to enforce price policy and market regulation. The structural policy itself, discussed later, is scarcely significant in this respect: although being considered as an important form of intervention already around the late '60s, it has been for long constrained by not being adequately financed. As some authors pointed out<sup>8</sup>,

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<sup>5</sup>Within the Community a single market area had to be created, that would have allowed free internal movement of agricultural commodities, with common prices for the main products.

<sup>6</sup>Agricultural trade shall give preference to Community member States, having established a protecting uniform external tariff.

<sup>7</sup>Sharing the financial burden of the CAP, which in turns allows the Community a certain autonomy of expenditure: namely the redistribution policy becomes independent from the single States contributions.

<sup>8</sup>"It can mean all things to all men, and usually does; and there has been little evidence until recent years to suggest that the Community has attempted to define and formulate a coherent policy dealing with agricultural structures, other than Mansholt's ill-fated proposal of 1968" (S. Harris, A. Swinbank, G. Wilkinson, 1983, p.215).

there was still some confusion over the term structural policy itself not to talk about the definition of the means of intervention<sup>9</sup>.

The high level of domestic prices - resulting from the institutional support of prices - permitted the sustaining of farm incomes, the support of agricultural production, and it also gave the Community a greater degree of autonomy in food production, particularly, from the United States. Moreover, an unlimited support of production ( at least for some products e.g. livestock and cereals), which was not selective, avoided damaging conflicts between countries in defining the overall goals of the policy.

### ***Liberalism and Protectionism***

Liberalism and protectionism have always coexisted within the Community political life.

Firstly, in the international context of the '60's, the dominant idea was to maintain a fundamentally protectionist policy for agriculture.

The international trade market had a marginal and residual role while the attention was still all focused on the domestic market. The United States, whose agriculture was addressed toward international trade already at that time, also formally required since the first Round agriculture was not introduced in the GATT negotiation<sup>10</sup>. This behaviour in turn has dampen the dynamics of the agricultural world trade.

Also on the European side the need to protect the internal market from the rest of the world was pressing. So, as it has been stressed so far, this has been achieved through the introduction of target prices, threshold prices and variable levies.

On the other hand, the liberalist philosophy was well alive since the Community start up: firstly the EEC was developing dragged by the need of further promoting free trade inside the broader internal market. Secondly, going back to the agricultural policy and its substantially protectionist approach, it's to be pointed out that the same fundamental principle which allows to protect the Community from the rest of the world, encounters a limit in so far as there is an ethical principle to be respected: the equity in living standard between agriculture and non agriculture population that is just the goal of the target price. Thus from this point of view, there is no contradiction between liberalism and protectionism.

However, with regards to domestic policies and inter-member state relationships, the prevalent attitude was not entirely liberal, indeed, member states still felt the need to intervene to control economic activity and markets in line with their own requirements and beliefs. In this period, the Community was still far away from agreeing upon a common liberal approach. Besides, it didn't really appear realistic to start this type of work given that there would have been an inordinate number of problems to be faced to promote integration between different countries all with differing levels of economic organisation and development.

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<sup>10</sup>The GATT (General Agreement on Tariff and Trade), now WTO (World Trade Organization), provides a complex of rules for the conduct of world trade and for the reduction of trade barriers; the general goal is to reduce the economic conflicts among states promoting free trade all over the world. Therefore, agricultural products were excluded from the treaty up the last round (Uruguay round) started in 1985 but concluded only in 1994. The Uruguay round has been one of the most difficult agreement in the GATT life because of the agricultural discussion.

To conclude, it is not surprising that, in the field of international relationships, the basic framework of the CAP was supported by two seemingly conflicting philosophies - protectionism and liberalism. Liberalism between member countries and protectionism toward the rest of the world. The apparent contradiction can be explained by the fact that liberalism had to be established internally where beforehand the countries were, more or less, all practising protectionism in agriculture. To this aim, it was necessary a protectionist instance was employed with respect to those countries outside the community. Both liberalism and protectionism are therefore two faces of the same coin. This dual approach was permitted as protectionist policies proliferated world-wide as evidenced from the fact that agricultural products were not included in GATT talks, until 1985.

***Price policy effects: regional and structural disparities, domestic and international conflicts***

Price policy dominated the scenario of agricultural policy, absorbing the main part of human and financial resources. With this regard, we can remember the relevance that the price decision has always taken in the yearly definition of the Green measures, where it represented one of the biggest point of discussion. From a financial point of view, the enormous importance of price policy is evident in the fact that it represented the most important expenditure for the agricultural fund (FEOGA) and for the EU budget: until the end of '80s, and still during the '90s, the Guarantee section of the FEOGA that specifically finances price policy and market regulation, absorbed funds at a rising rate reaching 90-95% of the total amount. Thus, only a minor portion of FEOGA funds were assigned to the structural projects and policies, generally financed by the Guidance section (tab. 5).

*Tab. 5 - Budget expenditure: relevance of FEOGA and of Guarantee Section*

Years	% agriculture on total budget	% Guarantee on total FEOGA
1969	90	98
1972	89	98
1975	73	93



1978	74	96
1981	69	94
1984	70	96
1987	67	97
1990	64	93
1993	58	92
1996	55	91

SOURCE: European Commission

For many years, the general scenario induced by price policy was such that the agriculture policy gave something to everyone. However, the effects were quite different between farms, sectors of production, countries and their regions. Generally speaking, bigger farms were better protected. This was because even although prices were the same, quantity produced determined the amount of financial aid per farm: the more a farm produced the greater its share. From this, it is obvious that in the countries and the regions where there were larger and more productive farms, the resources received were greater. The Community could only in part attempt to rectify its action by means of a structural policy, which deals with the allocation of direct financial aid to needy farms and regions. But this never fully took shape because pricing policy absorbed the bulk of the resources. Structural Policies were first implemented at the end of the 70's, but they are only now beginning to play an important role: through out the 70's and the 80's, the resources used for these fluctuated between 5-7% of the total Agricultural budget ( which itself accounted for 70-80% of the total Community overall budget. Tab. 5). Moreover, during the '70s, the different levels of support between sectors was brought in to discussion. It was clear that cereals and livestock were more protected and because this sort of activity was located in the central areas of Europe, these central regions were the main beneficiaries; it appeared evident that the pricing policy was widening the gap between the rich farms of the Centre and the poorer of the South (tab. 6).

*Tab. 6 - EU Support expenditure in % (specific agricultural commodities)*

Products	1996	1994	1981
Cereals	42.1	38.4	17.2
Sugar	4.8	6.3	6.9
Vegetables	4.2	4.7	5.8
Wine	2.7	3.6	4.1

Diary	10.3	12.9	30.0
Meat	17.5	16.4	16.8

SOURCE : EU Agricultural Commission

These considerations, altogether, constituted a major criticism of the agricultural price policy: it was considered less and less effective in achieving the goals set for economic efficiency and, at the same time, it seemed incapable of redressing the imbalance between rich and poor farming areas. But it was extremely difficult to change direction as there were too many interests already bound up in the nature of the policy.

Actually, already around the end of the '60's, the notorious "Mansholt plan" listed the forecastable negative effects linked to price policy and called for a revision, which had rather to put the stress on structural intervention. Nonetheless there was a strong recalcitrance to reform the price policy and the experimented action of intervention on which member states had agreed. Moreover, at the time of the Mansholt plan, there were not yet strong balance constraints, and not those international conflicts which, in the '80's, played a leading part in fostering the CAP reform. An unwillingness to change caused the policy to take more than 10 years before being really modified.

### *The '80's the first adjustment of price policy*

The '80's saw a dramatic upheaval both within the EU and on the international scene.

Firstly, from the Community's perspective, agriculture was playing a less prominent role in the Economy of the EU<sup>11</sup>: therefore, it seemed less appropriate that Agriculture should receive such a large percentage of Community resources. Secondly, through this system of transfers (i.e. variable levies), many agricultural products became more competitive on the international markets, causing a mounting conflict between exporters. Moreover through the system of transfers, the internal production began to exceed domestic demand and consequently, it called for a greater intervention on behalf of community institution, to soak the surplus product (tab. 7).

At this point the Community had to deal with two additional problems:

1. the increasing expenditure related to agricultural policy, which had started to cause conflict between the various member states.
2. increasing tension between the EU and the other major exporters, especially with the USA.

*Tab. 7- EU Self-sufficiency degree*

Products	1993-94	1980-81	1973-74
Cereals	126	103	91

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<sup>11</sup>In 1993 employment in agriculture went down to 5.4 % on the total activity in the 15 member states.

Sugar	135	..	..
Vegetables	..	100	95
Wine	97	..	..
Milk	211	377	231
Butter	104	118	98
Meat	105	101	96

SOURCE: EU Agricultural Commission

Therefore, Agricultural Policy, having originally started out as one of the driving forces towards harmonisation and integration, was now becoming more and more of an obstacle, both in terms of relations between member states, and also in terms of relations with the exterior. It was for these reasons that during the 80's the Community started to introduce progressive regulations to modify its action. In the 80's the emerging idea was to modify the principle of unlimited guarantees of production. The first revision of price policy started at the end of the '70's with the coo-responsibility levies (1977), followed later, by quotas (1984) and budget stabilisers (1988).

The coo-responsibility levy has been applied to milk in 1977, and later to cereals; it is a tax on production, originally to promote the marketing of the product (in particular of milk) (Swinbank, 1983). This tax provided a new source for the Community balance, and although quite limited (2-3%) permitted a reduction of the intervention price.

Quotas were instead introduced on milk in 1984, and do represent a very strict measure. Every producer was given a maximum amount to be produced: high fees are fixed to impede overproduction. In this case a production standstill is determined, and this penalise not self sufficient countries such as, for example, Italy.

Finally, budget stabilisers, which were introduced in 1988, regard every product and set a maximum supportable quantity: if production exceeds this amount, a fall in price will be triggered.

The lines of intervention surely played a significant part both on the side of surplus control and, more remarkably, on Community expenditures; the range of the advantages generated is directly proportional to their coercive force.

Nonetheless the same lines did not, in the end, interfere with price policy basic functioning patterns; one could rather observe that they were aimed at controlling its negative effects. Moreover, these measures were constantly under fire as a result of new changes in the Community, e.g. the enlargement of the EU through German Reunification created a disequilibrium in the livestock markets, further aggravating previous difficulties.

Always in the 80's there were new conflicts against the EU and its agricultural policy. From the international point of view, the main attack on the Community activity came from the last round of the GATT talks, during which agricultural products became an object of negotiation and, consequently, one of the most contentious issues on the agenda.

The growth of the European Union presence on the international scene, thanks to a massive use of export subsidies, determined continuous conflicts among export countries, in particular with the United

States. In 1985, at the opening of the last GATT Round, the agricultural world market was strongly unstable, and the inter-country relations quite conflicting: true or threatened commercial wars were a worrisome presence. It is than clear that the general climate which allowed a protectionist attitude was deeply changed. The United States at the opening of the Uruguay Round, asked for agriculture to become an issue of negotiation to overcome the various national protectionist attitudes.

Therefore, the castle created in the 1960's was losing its foundations: The means for sustaining agricultural and internal exchange were becoming limited and the external protectionist policy was no longer fair game.

Nonetheless, the debate on this issue is so delicate that it actually took nearly eight years to reach a solution: The Uruguay Round only led to an agreement in 1994, and indeed it was the longest negotiation ever since.

### ***The '90s reform: from price policy to direct revenue transfers***

These factors all created the premise for the reform of 1992, called "The Mc Sharry Reform". It mainly interested cereals and livestock which had been among the most protected sectors. There are essentially two key points in this reform: The first point is the need of realigning internal and international prices. This does not involve the complete abolition of Agricultural Policy, but rather its redirection from support through sustained prices to support by means of direct contributions to farming income. This is known as "Decoupling Policy" and it was in the intentions that the changes introduced should not interfere with product markets. This revision was speeded up by the activity on the international scene, particularly by the GATT negotiations. For this purpose the reform reduced the sustained price (30% in the last 3 years) and the level of protection against imports. In exchange, there are now compensation schemes for maintaining the previous level of income. This also involves the adoption of policies to restrict production: the main instrument is the "*Set-aside*", a system of financial transfers to reduce the amount of land for agricultural production.

The second point of the reform concerns the necessity for rendering the policy more selective, and oriented towards specific goals: there is an increased attention toward environmental issues and the removal of the structural and regional imbalances. This has been carried out with the implementation of certain regulations, such as the accompanying measures of the Mc Sharry Reform, moreover, it was recognised a more important role to the Structural Policy: resources accorded to Structural policy were increased from less than 10% to more than 30%.

The accompanying measures are particularly relevant because they represent an evolution of agricultural strategy of support. Indeed transfers are not given only for productive purposes but rather to achieve social goals; the safeguard of the environment is, in this case, a fundamental issue. For this particular reason, measures that range from the development of forests and their improvement to the support of biological products have been designed. In this respect there is also a commitment to incentive a production with a

less environmental negative impact and a use of land with tourist purposes (e.g. farms parks, agritourism, etc.).

In conclusion, this last approach reveals a new sensibility: the policy focus is no longer centred on production, but increasingly on the social function played by the sector.

This new vision is reinforced by the international context: one of the most important points of the last GATT agreement has been the classification of transfers in three boxes: the red, which contains the disallowed subsidies because they can generate instability in the market (the case of price policy is the most relevant); the yellow box, which includes transfers admitted with many limitations (it is the case of the most recent direct transfers to revenues, introduced with the EU reform); finally, the green box contains the transfers admitted, which every country can manage according to its preferences such as environmental transfers. It is now evident that the EU as well as other countries are now free to adopt a subsidy program under the environmental policy heading.

From the European Commission point of view, the reform proved to have had a positive impact for the following reasons: 1) There has been a significant reduction of production and subsequently of surplus stocks, which has also relaxed the pressure on the Community Budget. 2) The European Reform has been an important step towards the conclusion of the GATT negotiations. 3) According to the European Commission, Agricultural Incomes as yet have not been affected negatively by the reform. 4) There has been a positive impact on the environment because of the reduction of fertilisers and other chemicals inputs<sup>12</sup>.

Thus, for a comprehensive evaluation of the reform, we have to consider those complex problems that the reform could not solve. First of all, the reform is not yet completed and still it concerns only cereals and livestock, while Mediterranean commodities are not fully defined. Still many problems affect the future of the agricultural scenario. In particular we wonder whether there will be other restrictions; in this case the problems resulting from the reform could become more acute and this could emphasise barriers between European countries; a risk of re-nationalisation of domestic farming policies could result.

### ***Structural policy reform***

In reviewing the problems that the European Farming Policy is now facing, we should say a few words about structural policy. As mentioned before, it played a limited influence in the Community life being object of important discussion but not of relevant financial transfers. If we look at the history of the Cap, the structural policy appears quite soon when the EU started its life with two main types of intervention:

a) individual projects for the modernisation of production and marketing: e.g. Regulation 64/17 and 77/355, for the improvement of agricultural products processing and marketing; transfers to promote the constitution of producers associations and improve marketing leads.

b) Regional measures: e.g. funds addressed to local areas, districts and regions, for specific aim such as irrigation implementation etc..

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<sup>12</sup>In 1995, it would appear that the outlaying set for the Agricultural budget is on target (51% of the total budget). (Commissione CEE, 1995, pag. 147)

Generally up to the first years of '70 they were usually episodic transfers. After the Mansholt Proposal, beginning in the 1972 the community enhanced structural directives, even known as socio-structural directives (72/159, 72/160, 72/161); these measures mark the start up of a more regular plan of intervention based upon structural factors. More precisely it is a package of transfers directly addressed to farmers chosen on a selective base, aimed at the modernisation of their farms. The aforesaid measures were followed by the 75/268 Directive, which has introduced the principle of discrimination between regions and producers within the CAP, specifically supporting the operators of the less developed areas (hills and mountains).

In line with this philosophy of intervention, in 1977 the Mediterranean Package was launched. This was specifically structured to help the development of the most disadvantage areas of the Mediterranean countries, in provision of the future Community enlargement which would have included Greece, and Spain and Portugal. It consisted of a number of programs to create infrastructures, rural services, irrigation systems and forestry

In the '80's structural policy appeared more regularly on the Community's political agenda. The changes brought about by the Community's reforms also entailed modifications regarding traditional methods of funding and planning in this area. Namely in 1985 the Integrated Mediterranean Programs were started; it is to be noted this last instrument represent an advancement of the way of intervention proposing a new strategy for the development of rural areas. The territory is in focus, meaning that the intervention is addressed to agriculture along with all the others economic sectors such as industry, small and medium firms, tourism etc. to create the conditions for homogeneous development.

Finally, in 1988 the still in action last reform<sup>13</sup> was enhanced. The aim here is to co-ordinate the 3 main financial bodies; Regional, Social and Guidance. This means that intervention to help struggling rural areas is not only directed towards Agricultural activity, as the new idea is to focus on the territory as a whole, instead of individual sectors: aid is directed towards local industries, agriculture, tourism, etc. simultaneously and is co-ordinated through a program which requires active participation of the local organisations - both at private and public levels. Changes in structural policy have been quite radical, and are the product of long period of discussion on this issue. Therefore, this marks an important step forward in the Community's initiative. Nevertheless it does not mean that problems will be avoided. For its successful execution the new package relies on local organisations who have to be capable of managing funds and also of stimulating local demand. Indeed, not every area has these skills. The Italian experience has highlighted that poorer areas are often less equipped to deal efficiently with this kind of intervention: an example can be offered by Southern Italy, which was particularly slow in developing this programs and at taking advantage of the available transfers (Tab. 8).

*Tab. 8: Member States payments out (%) on balance, for target, in 1993.*

Member	Target 1	Target 2	Targets	Target 5
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<sup>13</sup>The first reform regard the years 1989-1993 and than it has been refinanced, with few modifications, for the years 1994-1999.

State			3and 4	
Greece	84.3%	..	..	..
Spain	87.7%	81.3%	73.6%	83.7%
France	84.0%	77.2%	93.4%	75.8%
Ireland	94.6%	..	..	..
Italy	73.1%	59.6%	72.3%	61.4%
Portugal	91.1%	..	..	..
Un.King.	83.0%	73.2%	92.5%	79.5%
Luxemb.	..	46.7%	83.3%	38.4%
Netherl.	..	61.9%	87.6%	72.6%
Belgium	..	70.9%	83.8%	57.8%
Germany	..	70.7%	87.5%	77.9%
Denmark	..	75.5%	90.8%	76.4%
EU 12	85.2%	74.0%	85.5%	75.2%

SOURCE: European Commission

In conclusion, the present phase of the program requires better planning skills and a more efficient use of funds, which calls for competition between public administrations.

### *Perspectives and Problems*

The EU agricultural policy general scenario has changed dramatically in the last years. Firstly, the expanded integration process calls for a reduction of the relevance given to agriculture: that is to say that financial resources in particular have now to be addressed to other economic and social fields. Secondly, the philosophy of sustain itself, is changing dramatically: the “public hand” is introducing new and more complex instruments which require public administrators, firms and firm’s representatives, social and economic parties to adopt new strategies. Thus the CAP new course requires today a common effort to strengthen the integration process among all these subjects, who are consequently called to commit themselves in finding proposals and in realising them in the interest of the Community as a whole. Farmers have now to face this new situation and no longer rely on that general support which the old price policy could provide.

The prospective on the future scenario are still more complex when one considers the pressures played by the rest of the world on the Community. From the one hand is the enlargement to the Peco<sup>14</sup>: in fact because of the weight agriculture has within the Peco, along with the divergence in the different state of development achieved, it is hard to extend the same line of intervention to this other countries. On the other hand, new problems arise when it is considered the Union enlargement to the Turkey and South Mediterranean countries, which is already on the way to be defined.

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<sup>14</sup>The enlargement to the PECO has been accepted in the Copenhagen meeting (June 1993) and it will be done as soon as every country interested will be able to respect the economics and political conditions set by EU

Moreover, two further problems are worth consideration. The first deals still with the EU and the rest of the world. As we said before, the EU attitude is still orientated towards a fair degree of government intervention in agriculture; independently from political beliefs - for or against governmental interference in the economy-, it would be difficult to imagine the EU properly functioning without recourse to central intervention, which has had a key role in co-ordinating member states way of behaving and policy definition. Nonetheless, during the last GATT talks the European instance was under heavy fire from many other countries (USA, CAIRNS countries). Since then, we have found ourselves in a period of relative calm, but there is no guarantee of this lasting; a further conflict could arise between the European position, tending to support regulation, and the more liberal approach associated with North America. Such conflicts jeopardise the stability of the EU, which has continuously to revise and update policies to mediate the internal equilibrium between member states : every change on the outside threatens to change the previously established internal equilibrium and undermines the stability of the Community.

On the other hand, from the internal point of view, an element of instability arises from the ever more powerful regional voices: the greater degree of autonomy requested by many regions against their own central government is obvious to everyone. A good example can be found in Italy, where the Agricultural conflict between regions and the state brought about the abolition of the Agricultural Ministry, thanks to a referendum promoted by the regions themselves. Faced with these “centrifugal forces” the Community has to reinforce regional importance within the Community, as it has already done with Structural Policy.

A final consideration brings about the environment, an issue which is creating growing concern also in the field of agriculture. As seen before, the new direction of the CAP has started to take the environmental question more seriously. However, this remains an area in which politics have not yet had a great impact. The EU although having discussed at length potential measures, and apart from a few small initiatives, still seems to be following the same old philosophies, which are: the principle that big firm is efficient, the relevance of economies of scale and high levels of productivity, the constant implementation of new technology, and as a consequence, the general disregard for the increasing pressure on the environment. For these same reasons, the Community has still a huge amount of work to do.

We have now examined some of the complexities with which the EU has to battle, both inside and out: the member states of the EU have an economic interest to defend which pushes towards integration, by reinforcing Community activity, and working together to find solutions for the different problems encountered along the way. But the risk of disintegration is ever-present. This stimulates the search for solutions which may sometimes even be painful; for instance the reform in Agriculture with the cuts in subsidies was difficult to accept for farmers; other examples can be found in the violent reaction of French farmers against GATT conclusions and, in recent times, of Italian farmers against the milk quota system. Even if a particularly arduous compromise must be shouldered, it is to be always remembered that the Community is vehicle for dialogue between different countries both in Europe and in the rest of world. For these reasons, it plays a crucial role in creating an atmosphere of “détente” and perpetuating the process of maintaining peace in a strategically important area of the world. This has in particular a prominent importance in times of troubles when international co-operation becomes more fragile



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