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Reform of Europe's Agricultural Policy?

In its communication "Agenda 2000", which lays down the financial framework of the European Union until the year 2006, the EU Commission has presented a concept for the reforming of European agricultural policy. With this concept the Commission wishes to take two things into consideration at once: the planned enlargement of the EU eastward to include Central and East European applicant countries and the requirements of the coming WTO round.

In association treaties with ten Central and East European countries, the EU has expressly reaffirmed its intention of granting these countries membership. Eastward enlargement will probably begin soon after the millenium and by 2005 several Central European countries are likely to be Union members. EU enlargement eastward, however, is impossible without adjustments on the part of European agricultural policy, since the farming sectors in the applicant countries are too important and present agricultural policy could no longer be upheld if they acceded, as the agricultural guidelines foresee further cuts in agricultural spending as a percentage of the aggregate Community budget.

The aggregate national product of the ten associate members makes up just 5% of the national product of today's EU. In contrast to this, agricultural acreage in these countries is equivalent to 44% of the agricultural acreage of today's Union and their agricultural output comes to about 30% of Union output at present. The total share of the labour force employed in agriculture in these countries is very large. In Poland for example the figure is 26% as compared with 5.5% on average in the EU and 2.4% in Germany. On top of this, the prices at which agricultural products are currently traded on the markets of Central Europe are generally well below those in the EU. In many cases they are only 50% to 70% of the prices supported by EU agricultural policy in Western Europe and are thus close to world market levels. If the Union were enlarged to include these countries without a change in agricultural policy, this would create a strong production incentive for farmers in Eastern Europe, who would inundate the markets with their agricultural produce.

At current support prices, this additional supply of agricultural produce would result in an enormous rise in EU agricultural expenditure, an estimated ECU 5 to 50 billion every year, depending on the underlying assumptions. Even a conservative estimate of ECU 10 billion (the EU Commission's estimate is ECU 9-12 billion) would be unpayable since EU agricultural policy expenditure is tied to the growth of the Community's national product; the increase in agricultural expenditure may now not exceed 0.74 times the growth of the national product. If the eastward enlargement of the Union raised the Community's aggregate national product by around 5%, then agricultural expenditure would only be allowed to increase by about 4%. Assuming, though, additional agricultural spending due to the eastward enlargement of about ECU 10 billion, this would mean a budget increase for EU agricultural policy of around 20%. A breach of budget discipline and an infringement of the agricultural guidelines of this order is inconceivable. In this situation the EU has no

option other than to reform the common agricultural policy since it is politically improbable that East European countries will join without their agricultural sectors. That would denigrate those countries to second-class members of the Union – which they would not accept. The alternative of long transition periods for the agricultural sector also seems unlikely after the establishment of the single market, which has become an essential cornerstone of the integration process.

A reform of the common agricultural policy is also unavoidable due to the requirements of GATT or the WTO, since their instruments and the present support level are only assured until the year 2003. They will, however, already be on the agenda in the next WTO round of negotiations starting in 1999. There is no question that this round will result in a greater market opening of the European Union and the sinking of its subsidy level. Continuing with present pricing policy would maintain the distance between EU and world market prices. The resultant surpluses would be increasingly difficult to sell on world markets due to the international agreements established in the last GATT round, particularly the decision to restrict export subsidies. Moreover, applying present agricultural policy to the applicant countries in Central and Eastern Europe would increase the danger of piling up new beef and cereal mountains. This kind of policy would increasingly isolate the EU, as other major agricultural exporters are increasingly decoupling price policy from income policy.

In this situation, the EU Commission has come to the conclusion that there is no way around lowering agricultural price support. Within the Agenda 2000 it has therefore suggested lowering price support levels for cereals, beef and dairy produce. The intervention price for cereals is to be reduced by 20% and that for beef in stages by 30%. A simplified and flexible quota system for dairy products is to be maintained until the year 2006, but with support prices down by 10% on average. The potential effects of these price cuts on farmers' income is to be offset by a considerable increase in area compensation payments and payments for beef and breeding stock as well as the introduction of new payments for dairy cows. These measures are to be flanked by a policy of reorganizing and strengthening rural development. The necessary adjustment process for farming is to be accompanied in future by corresponding development programmes not only in regions where development lags far behind but in all affected areas.

On the whole, the EU Commission's proposals – in continuation of the reform of 1992 – for a further departure from price support and a stronger move toward direct income payments, as well as the proposed lowering of intervention prices for cereals and beef, are welcome developments. Another step in the right direction is the Commission's proposal for moving away from the current exclusive link of price support payments to a certain percentage of set-asides, and towards the granting of payments for the eligible cultivated area. As no binding time-limit has been set for such payments, however, after existing leases have expired the direct payments will probably lead to higher tenancy payments and will thus benefit the landowners instead of acting as adjustment aid for the tenant farmers.

Although altogether the Commission's reform proposals can be gauged as positive, they are a long way from heralding a sweeping reorganisation and liberalisation of agricultural policy. The Commission seems to be paying too much attention to the question as to what it can get accepted by the Council of Agricultural Ministers. Changes have been proposed mainly in those areas in which pressure for reform is currently at its most acute. In particular, no proposals have been made on changing the procedure for agricultural policymaking in Brussels itself. It is therefore to be feared that in its deliberations on the reform proposals the Council of Agricultural Ministers will again come out in favour of supposed national interests, which are in fact the economic rents of their farmers, and considerably dilute the EU Commission's reform proposals.

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