THE RESTRUCTURED CAP AND THE PERIPHERY OF THE EU

By

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1. Introduction

The European Community's (EC) Common Agricultural Policy (CAP), which has been characterized as the "cornrestone" of the whole EC, has been a focus of controversy and reform attempts for a long time. In practice, however, the pressures for reform from within the EC over the past fifteen years have arisen mostly because of budgetary limits, while the pressures from other affected countries, mainly the US, Canada, Australia, and other exporters of temperate agricultural products have not resulted in much change. The recent GATT agreement over agricultural trade liberalization, however, prompted a renewed attempt at CAP reform, reflected in Commissioner's Ray Mc Sharry proposals (Commission of the EC, 1991a, 1991b).

The principal aim of the "Mc Sharry Plan" is to shift CAP support from a regime based on the support of commodity prices, in which producer benefits are largely proportional to the volume of production, towards a system of compensatory payments to farmers. This is intended in part to redistribute policy benefits in favour of smaller producers and would also result in a redistribution of support among member states given the variation in size structures across the Community.

The purpose of this paper is to evaluate and examine in a broad sense the consequences of CAP reforms for the periphery countries of the Community. While there is no unique definition of which regions constitute the periphery countries of the Community, in terms of agricultural structure there are major differences between the periphery, mostly Mediterranean part of the Community, and the rest. For instance, in Greece, Ireland, Portugal and Spain agriculture's shares of income and employment in their national income and total employment respectively are significantly higher than in the other EU countries. Furthermore, farms in Spain, Greece and Portugal, on average are characterized by smaller sizes, lower labour productivity and higher shares of Mediterranean products, compared to farms in the north. For the purposes of this paper, and to facilitate the statistical work, the perphery regions of the EU will be considered to consist of those in the four countries mentioned above.

The paper consists of six sections. The second section reviews agriculture in the periphery countries. In the next section an evaluation of the CAP prior to the Mc Sharry reforms is provided while special reference is made of its effects on the periphery countries. In Section 4 are discussed the effects of the reform of the CAP on the agricultural sectors of the periphery countries. In Section 5, the conclusions are summarized and some policy implications are drawn. Finally, the recent developments in agricultural policy in the EU are described in the Appendix.

2. Analysis of current position of agriculture in the periphery countries

Agriculture is a vital element not only in rural economy but in the wider national economy for the southern European countries and Ireland. Agriculture accounts for a significant part of their economy contributing the highest shares of their national income and the farming population among the member states of the E.U., in which the average level is 3% and 6% respectively. Greece occupies the first place followed by Ireland, Portugal and Spain (Table 1). These figures, coupled with persistent structural problems such as the decline in the number of farmers, an ageing population, a substantial number of farmers with persistently low incomes, etc explain the relatively "protectionist" attitude of these countries which translates into demand concessions in both price policy and structural aid.

Greece's gross value added of agriculture per hectare is double that of the other three countries. However, in terms of gross value added of agriculture per person employed it holds the third place resulting in low average labour productivity (55 percent of the EC average). This can be attributed to the large number of people employed in greek agriculture coupled with the small and fragmented lots. This, in combination with the relatively dry climatic conditions and the mountainous nature of the land, leads to low efficiency and high production cost for most of the agricultural products. Agricultural labour productivity in Ireland, Spain and Portugal is double, one and half times and half as much as that of Greece respectively. In any case, the southern countries of the EU are characterized by large, labour-intensive agricultural sectors and low labour productivity resulting in low farm incomes. A consequence of this are the marked disparities in farm incomes between the EU member states. Thus, the richest average farmer (Belgium) has an income approximately two times higher than the Community average and is more than eight times better off than the poorest average farmer (Portugal).

Average farm sizes in the southern countries are low. In Greece and Portugal they are well below the EU average while Spain's are close to it. On the other hand, Ireland is well above the EU average (Table 3). Average sizes, however, are misleading due to big regional variations. Moreover, averages may be pulled down by the existence of numerous smallholdings which are farmed on a part-time basis. A better indicator is provided by the "European Size Units". Using this definition, the southern European countries' average is about 5 ha while Ireland's is more than double that.

Agri-food products have a relatively high share of total Irish exports, with grass-based products - meat, livestock, dairy products - playing a major role. In terms of imports, agri-food is relatively small. It is estimated that approximately 40% of Ireland's net foreign exchange earnings come from this sector. The southern European countries present a mixed picture Greece, Spain and Portugal, especially the first two, are big exporters of "Mediterranean" produce (Table 4). But these countries also have substantial agricultural imports, particularly feed grain and livestock products; Portugal is even more dependent on such imports.

Regarding the contributions to and receipts from the EU budget, all four countries are net receivers. Ireland, a country with a large agricultural sector and high agri-food exports, is a big beneficiary of the budget (Table 5). Spain and Greece do quite well out of both the FEOGA "Guarantee" and the structural funds. Portugal is a net beneficiary only thanks to structural aid. All four countries are also expected to get quite a lot from the "Cohesion Fund" which was set up to facilitate the convergence of their economies with those of the other EU member states. The objective of social and economic cohesion became the subject of a special protocol as well as of specific provisions in the Maastricht Treaty (articles 130 a-e). The Cohesion Fund provides financial contribution to projects in the fields of the environment and transport infrastructure. Finally, a Delors II Package was anounced that will lead to further financial transfers to the poorer regions of the Community. Within this context, the farm sectors of the periphery countries are expected to benefit both from a very high proportion of Community cofinancing (around 85-95%) and from the more selective and differentiated way of structural aid provision.

3. An Evaluation of the Common Agricultural Policy

The CAP was created at a time when Europe was in deficit for most food products. Its mechanisms were devised to meet this situation. In essense, they support internal prices and incomes, either through intervention or border protection or, where no frontier protection exists, by variable aids (deficiency payments).

The main policy before the reform of the CAP was price support. This was adopted not because it was considered to be the most efficient for achieving the set objectives but because it is generally regarded as less interventionist than other policies, such as direct subsidies, and therefore politically more acceptable by the taxpayer. The original CAP system, despite its advantages (stability of market prices, security of supply of agricultural products, etc.), revealed a number of serious deficiencies.

- The prices and guarantees provided mainly through intervention and secondarily through production aids stimulated output increases which were beyond the market's absorption capacity. Between 1973 and 1991 the volume of agricultural production in the EC increased by 2% per annum whereas internal consumption grew only by 0.5% per annum. This development has generated surpluses of some commodities. In the 1991 budget these stocks were worth 3.7 billion ECU. These operations have not only caused serious financial problems to the Community but also to its major trading partners and to the less developed countries and have complicated its international relations.

- The impressive rise in agricultural output has led to a spectacular increase in Community expenditure on price support. On the basis of five-year averages Community expenditure reduced over the twenty years period from 75 to 60 per cent. However, since the budget has risen at a faster rate than prices, the CAP took a slightly smaller slice from a much larger pie. Agriculture still used three-fifths of the total Community budget, 95 per cent of it absorbed by the Guarantee Section and only 5 per cent by the Guidance Section. The budget of the Guarantee Section had risen from 4.5 billion ECU in 1975 to

31.5 billion ECU in 1991 (or 11.5 billion ECU at constant 1975 prices). Although FEOGA expenditure increased over the twenty year period approximately twice as fast as the rate of growth of the Community GDP, real farm incomes remained almost unchanged. Two explanations of this paradox were offered: it was argued that, first, most incomes in the economy experienced recent stagnation or decline, and that without the support of the CAP, the fall in farm incomes would have been worse; and second, the price support policy was not an efficient method for improving incomes.

- The public costs of protection of the agricultural markets seemed to increase inexorably, thus limiting the funds available for other purposes.
- Since the system linked agricultural support with quantities produced, it inevitably stimulated production growth and thus encouraged intensification of production techniques. This development led to negative results: nature was abused, water was polluted and the land impoverished.
- The price support policy provided strong incentive to the big farmers, who took advantage of the guaranteed high prices and the opportunity to make a profit by investing in agriculture to produce as much as possible irrespective of market demand. A consequence of the price support policy was that the largest and the most intensive farms absorbed the greater part of the FEOGA expenditure although their owners were certainly not those most in need of better living standards. So, 80 per cent of the support provided by FEOGA was devoted to the 20 per cent of farms which accounted for the greater part of agricultural land. Obviously, the system did not take adequate account of the incomes of the vast majority of small and medium size family farms.
- The system led to substantial intra-Community income redistribution from consumers in one member state to producers in another.
- The FEOGA expenditure was traditionally dominated by the support provided to the northern member countries. "Too much" was produced of

"northern commodities" which received "above-average protection". The "southern commodities" (i.e. fruit, vegetables, olive oil, cotton, wine, sheep-and goat meat and tobacco) have traditionally played a minor role in the history, and certainly in the cost, of the CAP. Conversely, CAP expenditure has traditionally been greatest for the northern commodities (i.e. milk, sugar, beef and veal). After Spain's and Portugal's accession mediterranean commodities (in particular, olive oil, peaches, wine, cotton, tobacco, etc.) have become more noticeable in terms of CAP expenditure.

- World marked prices for most agricultural products were well below those of the EC. Hence, the consumer on the one hand gained from price stability and availability of plentiful supplies, but on the other hand lost from having to pay very high prices. Moreover, as the poor in the population spend a relative high proportion of their disposable income on food and the CAP's price support mechanism keeps food prices high, poorer people and the poorer member states ended up by paying a large share of the burden of the CAP. For example, the proportion of income going to the consumption of food in Greece, Ireland and Portugal is twice the EU average. Therefore, the CAP causes massive transfers of income from consumers to producers of food within countries and, through trade, between EU countries. Moreover, since the CAP has failed to concentrate on poor farmers, the problem here is not only that the poor people of Europe are paying for the cost of the CAP disproportionately, but also that those who benefit most from the policy are the richer farmers of the Community.

4. Consequences of the CAP Reform for the Perphery Countries of the EU

Literature related to the effects of the CAP reform on the agriculture of the periphery countries is rather limited. There are some working documents but these are not easily available. The existing studies examine some aspects of the effects which the CAP reform is likely to have on the agricultural sectors of the EU countries. Since a detailed quantification of the impact of the CAP reform on the periphery countries[1] of the EU is not always feasible, a mainly qualitative approach is attempted.

Allanson (1993) analyses the distributional implications of commodity-based support programmes by means of an empirical analysis of the McSharry proposals for the modulation of support in the cereals sector. The results of the study reveal that in the EC 12 the estimates indicate that more than 90% of holding with 40% of the total cereals area would be exempt from set-aside (Table 6). Due to the relative low reference yields in the "Mediterranean" states, the holdings and the area under cereals that would be exempt from set-aside are significantly lower. Table 7 presents estimates of the proportion of the

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1 Baltas and Korka (1995) examined the economic and environmental effects of the reformed CAP on a number of greek agricultural products, namely alfalfa, corn, citrus (lemons and oranges), olive oil and edible olives, sheep and goat meat and pigmeat From the empirical analysis they concluded the following

- Since there was not support policy for alfalfa, the increase of input prices dropped their application and reduced considerably alfalfa cultivators' profits The reduction in profits might be outweighted by the guaranteed minimum prices, which have been only recently adopted by the Council of Agriculture Ministers for dry folder
- The introduction by the reformed CAP for corn of a compensation payment in per stremma terms increased profits, whereas fertilizer application rates due to the abolition of subsidies dropped and pesticide application remaind almost unaltered
- In the case of citrus products, the decline of market prices due to the fall of withdrawal prices in conjuction with the decrease of exports resulted in a significant fall in farmers' income and a smaller decrease in fertilizer and pesticide application as well as in yields. Hence, the need is obvious which will have no adverse effect on the environment
- In the case of olive oil, the increase in production aid following the practical abolition of the consumption aid proved insufficient to meet rising production cost and thus caused a decrease in profits, fertilizer and pesticide application The situation is worse for edible olive for which was no support policy
- The EC stabilization policy for the sheep-goat sector has improved agricultural incomes with practically no environmental degradation
- Although there was no CAP reform for pig-meat, the abolition of MCAs due to the completion of the internal market resulted in an increase in nominal terms of prices and profits Moreover, the rise of meat output created more animal excreta and pollution The higher profits that pig farmers enjoy provide the economic means to aquire the necessary biological installations to remore any undersirable environmental effects

From the foregoing analysis it can be said that the reformed CAP has resulted in a reduction in the application of fertilizers whereas pesticide application rates remained more or less unchanged. However, income support proved insufficient in many cases to meet the extra cost causing a decline in farmers' income This was the case for citrus fruit and olive oil.

total cereals area that is set aside. Overall, it is predicted that 8.9% of the EC 12 cereals area would be set aside and that this would lead to a 9.4% fall in output, calculated on the basis of yields given in Table 6. These cutbacks would be distributed across the Community's periphery countries as follows: Portugal (1.3%), Greece (1.4%), Spain and Ireland (9.4%). Under the McSharry Plan, modulation would induce some very limited redistribution of support in favour of member states with low yields and poor farm size structures in which virtually almost all producers are exempt from set-aside. Thus, the shares of output and producers' returns would rise in Portugal from 0.94% to 1.03% and from 0.94% to 1.01% respectively, in Greece[2] from 2.74% to 2.99% and 2.74% to 2.93%, while in Ireland and Spain they would remain unchanged.

The reform concerning milk does not change fundamentally the old system. Although it tightens somewhat the overall quota, it exempts Greece and Spain which receive a quota increase of 100,000 and 500,000 tonnes respectively. This will have a positive effect on their milk production, taking also into consideration the reduction in feeding costs due to cuts in the price of cereals. Moreover, the 5 per cent reduction of the butter intervention price spread over a two-year period does not influence at all the southern countries for which, being highly deficitary, the intervention mechanism is not applied. In any case, milk production in the southern countries accounts for less 10 per cent of total EC cow's milk production. On the contrary, the reform in milk will have a negative effect on milk production in Ireland, whose agriculture depends heavily on dairy products. However, it should be pointed out that headage premiums are paid to producers, the majority of whom are small and medium size operators.

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[2] Karantininis (1994) investigating the efficiency of compensatory payments which are induced under the CAP reform on Greek cereals he also finds that the new regime is a "second best" policy which improves the total welfare of both producers and consumers

The effects of the reform on the beef sector are similar to those on the milk sector. The 15 percent reduction in the beef intervention price is outweighted by the reduction in feeding cost and the premia on bovine animals. Again, this reform will leave almost all farmers in the south and the small- and medium sized producers in Ireland unaffected, while their incomes might increase slightly. On the other hand, it will negatively influence the larger producers resulting in a decrease of Irish beef production.

In the sheep-goat sector the Community is only 82 per cent self-sufficient. About 43 percent of production is located in the southern countries of the EU and 5 percent in Ireland. The basic mechanism of support involves a sheep-goat premium. The reform proposals limit the number of ewes eligible for this premium to 1000 head per producer in the less favoured areas and to 500 elsewhere; in any case, flock size cannot exceed the producer's reference flock (i.e. the average for 1989, 1990 or 1991). With this reform, the Community tries to stabilize the existing level of production in the sheep-goat sector. Hence, no significant changes are expected in the level of output and farm income following the CAP reform.

In the case of tobacco, where more than 90 percent of EU production is located in the four Mediterranean countries (including Italy), a quota system is introduced for the first time reducing the global maximum quantity from 370,000 tonnes in 1993 to 350,000 tonnes in the 1994-97 period. Obviously, this measure will negatively affect farm incomes. Greek farmers especially will have significant losses because of the country's relatively large tobacco production (about half of total EU output). Since tobacco production is localized, this implies that the net losses in some regions will be much larger per farm or per ha and thus the reform will have very detrimental effects on Greek tobacco growers.

The last part of the CAP reform concerns structural adaptation and agri-environmental action. Regarding the environmental part, the measures are mainly applicable to the farmers who use intensive cultivation methods, which is not the case for the southern farmers. In Ireland, considerable progress has been achieved in the area of farm pollution control in the period between 1989 and 1993 and environmentally friendly farming has been encouraged under a pilot scheme which has been operated on a limited basis since 1992. Two important measures will form part of this strategy, namely the continuation of the Operational Programme for the Control of Farmyard Pollution supported by the Structural Funds and the Agri-Environment Scheme to be introduced under the CAP reform agreement, cofinanced by the Guarantee Section of the FEOGA. In addition to encouraging farmers to follow a specific code of good environmental practice, this scheme will also address requirements in relation to overgrazing problems, danger to Natural Heritage Areas (formerly known as Areas of Scientific Interest) and water quality sensitive areas. All on-farm investment schemes must conform to strict planning/environmental standards and grant aid is only payable when the national and EC authorities are satisfied that the necessary requirements have been met.

The plans on afforestation influence mostly the northern farmers, as farm sizes in the south are small and hence not easily suitable for afforestation. Conversely, the early retirement scheme will be particularly .beneficial in the periphery of the EU, since in the south nearly three fifth of the farmers are over the age of 55 while in Ireland less than half are above that age. The resulting restructuring of farm holdings will create the necessary conditions for maintaining the maximum number of viable farm households in the wider rural economy. Moreover this scheme, which is cofinanced by the EC, is characterized by higher levels of aid and greater flexibility in comparison to previous schemes. Although it is not compulsory, it could be proved potentially very important from the social equity and macroeconomic perspectives due to the inadequate pension systems of these countries coupled with their mounting social security and pension budget expenditure

There is a new thrust to the McSharry reform. The reductions in price support, mainly in the cereals sector, are coupled with direct compensatory payments. Hence, the idea is that the burden of CAP support should shift from the consumer to the general tax-payer. The increased CAP budget comes basically from the compensatory payments to cereal, milk and beef producers, where the overall cost will increase. The overall cost in the tobacco and sheepmeat sectors will decline (Table 8).

The benefits to consumers resulting from the reformed CAP are rather small but have marked distributional implications which are reported in Table 9. The total envisioned reduction in consumer expenditure in the EC 12 is about 6.3 billion ECU or about 0.18% of their total final consumption expenditure. It is clear that in the two poorest countries of the EC, Greece and Portugal, benefits to the consumers amount to much larger shares of the average consumer basket compared to the other countries. But even within each EC country, the benefit is highly skewed in favour of the poorer households. For instance, in Greece Sarris (1992), using the results of the 1987/88 household budget survey, found that the shares of bread and cereal products, beef meat and dairy products in the food and total expenditures of the poorest households are 39.1 and 19.0 percent respectively, while for the wealthiest households they are 27.8 and 5.7 percent respectively. It is clear that the benefits in terms of price reductions for consumer goods will comprise a much larger portion of the budget of the poorer households, compared to that of the richer ones. Table 9 shows that the average consumer benefit on a per capital basis is highest for Greece (21.9 ECU/capita) followed by Ireland (17.3 ECU/capita), Portugal (11.5 ECU/capita) and Spain (10 ECU/capita). Most of the savings will occur in the beef and dairy products, mainly as a result of cereal price reductions.

When the total consumer benefits of Table 9 are added to the net budgetary benefits of Table 8 we obtain the net benefits of the CAP reform proposals, which will amount in 1997 (the year of presumed steady state) to a total net gain of 7.62 billion ECU per annum.

5. Concluding Remarks

From the foregoing analysis we have seen some distributional effects on the periphery countries of the EU due to the reform of the CAP. The first major conclusion is that the redistributive effects of the modulation proposal for cereals incorporated in the McSharry Plan are minor. This limited redistribution of support will operate to the advantage of the Mediterannean states with low yields and poor farms size structures.

In the milk sector, the increase of quotas for Greece and Spain will have a positive effect on milk production and farmers' incomes, while for Portugal the situation will remain the same. On the other hand, the reform will have an overall negative impact on the Irish milk and dairy sectors, particularly to the big farmers. The effects of the reform in the beef sector are similar to those in the milk sector. In the sheep-goat sector no significant change is expected in the level of output and farm income. However, there will be is a net loss for producers of tobacco, a typical "southern" product. The change in the tobacco regime implies that the southern EC countries will loose farm support. However, the reform entails substantial consumer gains which are proportionally higher in the south, particularly to the poorer households.

The most positive aspect of the McSharry reform for the periphery countries appears to be the one concerning the early retirement scheme for older farmers. This is not only because the potential transfers to the South are large but also because this structural measure, in combination with a restrictive price policy, might mean lower land values which facilitate land acquisition and lead to greater farm size. In fact, the sector's structural adjustment should create the necessary conditions for maintaining the maximum number of viable farm households in the wider rural economy.

However, the weak state of the economies of the periphery countries and the gloomy prospects for job opportunities outside agriculture, coupled with the large proportion of "less-favoured" regions in their farming sectors form a serious obstacle to such an adjustment. In this respect, the increased support for less-favoured regions and the structural measures aimed at the creation of alternative sources of income for people that abandon farming or for part-time farmers assume tremendous importance (Caraveli, 1993).

Table 1: Agriculture in the economy and in employment

Country	Share of agriculture in GDP[1] (%) (1)	Share of agriculture in total employment[2] (%) (2)
Greece	16.1	21.4
Ireland	8.1	13.8
Portugal	4.7	11.6
Spain	4.1	10.1

[1] 1991 data

[2] 1992 data

Source: Commission, *The Agricultural Situation in the Community*, 1993 report.

Table 2: Area, production and employment[1]

Country	Utilised agricultural area 000ha (1)	Final production of agriculture mn.ECU (2)	Gross value added of agriculture (GVA) mn.ECU (3)	GVA per hectare ECU (4)	Employment in agriculture 000 (5)	GVA per person employed ECU (6)
Greece	5,741	8,616	6,301	1,098	793	7,946
Ireland	4,444	4,420	2,611	588	154	16,955
Portugal	4,532	3,577	1,713	378	522	3,282
Spain	26,389	23,840	12,090	458	1,253	9,649
Total of EC 15	**139,864**	**210,890**	**116,432**	**832**	**8,155**	**14,277**

[1] Data for the four countries refer to the year 1992 and for the Total of EC 15 mostly for 1992 and for the 3 new member states for 1991.

Sources: [1] Commission, *The Agricultural Situation in the Community*, 1993 report.
[2] Eurostat, *Basic Statistics of the Community*, 1993
[3] OECD, *Economic Accounts for Agriculture*, 1978-1991.

Table 3: Farm sizes[1]

Country	Average size in hectares (1)	Average size in European Size Units (2)
Greece	4.0	4.2
Ireland	26.0	11.6
Portugal	6.7	3.9
Spain	15.4	5.6
EC 12	14.0	11.2
EC 15	14.2	....

1 Data for EC 12 refer to the year 1989/90 and for the 3 new member states for the year 1988.

Sources: 1 Eurostat, *Agricultural Statistical Yearbook*, 1994.
2 Eurostat, *Basic Statistics*, 1988.

Note: European Size Unites refer to the total "standardised gross margin" of the holdings in question. The "standardised gross margin" is the difference between the standardised monetary value of gross production and the standardised monetary value of certain special costs (mainly purchased inputs). In the 1989/90 survey 1 ESU was equal to ECU 1,200.

Table 4: Share of agri-food products[1] in total trade (1992)

Country	Share of agri-food products	
	in total imports (%) (1)	in total exorts (%) (2)
Greece	11.1	31.8
Ireland	8.9	21.0
Portugal	24.3	11.9
Spain	18.7	15.6

1 i.e. SITC 0+1 (included agricultural raw materials, processed foodstuffs, etc.).

Source: *The Agricultural Situation in the Community*, 1993 report.

Table 5: EU budget, 1993 (million ECU)

Country	Contributions		Receipts (payments)				Net receipts
			Total		FEOGA Guarantee		
	Amount (1)	Percentage (2)	Amount (3)	Percentage (4)	Amount (5)	Percentage (6)	(7)
Greece	1,011	1,58	5,148	8,02	2,719	7,90	4,137
Ireland	567	0,89	2,939	4,58	1,606	4,67	2,372
Portugal	910	1,42	3,418	5,32	479	1,39	2,508
Spain	5,173	8,09	8,263	12,87	4,188	12,17	3,090
EC 12	**63,973**	**100.00**	**64,208**	**100.00**	**34,423**	**100.00**	**235**

Source: Court of Auditors, *Annual Report 1993* (Official Journal C327 of 24.11.94): pp 15 and 37.

Table 6: Area equivalent limits and the distribution of holding with cereals by member state of the periphery

Country	Reference yield[a] (t/ha)	1992 tonne limits (area equivalent) (ha)	Proportion of holdings with cereals and subject to:		Proportion of cereals area on holdings subject to:	
			No set aside (%)	Set aside (%)	No set aside (%)	Set aside (%)
Greece	3 40	27 06	99 33	0.67	90 61	9.39
Ireland	5 46	16.85	88 91	11 09	37 16	62 84
Portugal	1 66	55.42	99 87	0 13	91.54	8 46
Spain	2.50	36 80	93.30	6 70	37.12	62.88
EC 12 weighted mean	4 60	20 00	90 52	9.48	40.56	59.44

[a] Reference yields were calculated over the period 1986 through 1990 from data on total cereal yields reported in *Cereal Statistics* (Home Grown Cereals Authority, various year).

Source: Allanson (1993), Table 2.

Table 7: Estimated set-aside obligations and the distribution of cereal output and producer returns by peripheral member state of the periphery

Country	Proportion of cereals area to be set aside (%)	Proportion of EC12 cereals output under:		Proportion of EC12 producer return under:	
		Old regime (%)	New regime (%)	Old regime (%)	New regime (%)
Greece	1.41	2.74	2.99	2.74	2.93
Ireland	9.43	1.01	1.01	1.01	1.01
Portugal	1.27	0.94	1.03	0.94	1.01
Spain	9.43	13.38	13.40	13.38	13.38
EC 12 weighted mean	8.92	(100)	(100)	(100)	(100)

Cereal output shares are calculated from the structural data in Table 1 (Allanson; 1993) using the reference given in Table 2. Producer returns are calculated under the old regime as the product of output and the old buying - in price of 155 ECU/t, and under the new regime as the product of output and the final target price of 100 ECU/t, plus all compensation payments.

Source: Allanson (1993), Table 3.

Table 8: Budgetary Benefits and Costs from CAP Reform (in million ECU)

Product	Net Financial Cost of CAP Reform Proposals					
	1993	1994	1995	1996	1997	Total 1993-1997
Cereals	-688	-668	702	743	201	290
Milk	240	894	1400	1480	1367	5381
Beef/meat	53	81	180	365	365	1044
Sheep/meat	-119	-168	-210	-216	-220	-933
Tobacco	-86	-236	-326	-404	-404	-1456
Net FEOGA cost[a]	**-550**	**-47**	**1746**	**1968**	**1309**	**4426**

[a] Includes some other minor items.

Source: Net benefit data in individual sectors and years are from EC Commission working documents.

Table 9: Estimated Consumer Benefits from the Proposed CAP Reforms

Country	Products					Per capita benefit (ECU)	Per capita benefit as percentage of Consumption Expenditure
	Cereals	Milk	Cheese	Beef	Total		
	million ECU						
Greece	59.0	7.3	110.1	43.6	220.1	21.9	0.571
Ireland	19.7	8.8	17.0	15.3	60.7	17.3	0.279
Portugal	48.8	11.9	27.2	30.7	118.6	11.5	0.394
Spain	158.3	57.3	68.3	106.8	390.7	10.0	0.162
EC 12	**1492.6**	**433.1**	**2674.3**	**712.6**	**6312.7**	**19.4**	**0.178**

Computed from data in EC Commission, *The Agricultural Situation in the Community,* various years and the hypotheses of the McSharry proposals. The per capita concumption of various commodities in the EC member states is based on 1989 data.

Source: Sarris (1992), Table 8.

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APPENDIX

Recent Developments in Agricultural Policy[3]

1. Reform of the Common Agricultural Policy

On 21 May 1992 the Council of Ministers reached political agreement on far-reaching changes to the CAP. Although the reform makes fairly wide-ranging changes to the rules in force hitherto, it does not invalidate the objectives as laid down in Article 39 of the EEC Treaty and the three principles on which the CAP was founded, namely a common market for agricultural products, Community preference providing protection against world market fluctuations and financial solidarity, through the common financing of the policy.

The retention of these principles has meant that the basic policy instruments, i.e. intervention buying-in to support market prices and variable levies and export refunds to close the gap between Community and world market prices, have been kept in place, albeit at much lower levels. In addition, they have been supplemented by new instruments namely:

- a substantial reduction in the prices of agricultural products to make them more competitive both within the Community and on world markets;
- compensation for the price cuts in the form of hectare or headage payments based on historic data and thus not linked to the quantities produced;
- implementation of measures to limit the use of the factors of production (set aside of arable land and stocking rate criteria) alongside

[3] This part comes from Section 2.5 of the Baltas and Korka's book (1995)

the retention of earlier supply management measures such as the milk production quotas;

- introduction of accompanying measures such as environmentally friendly farming, afforestation and early retirement.

The reform implies a major shift in emphasis from price support to forms of farm support not directly linked to production. It covers 75% of agricultural production falling under common market organizations (i.e. cereals, oilseeds, protein crops, tobacco, milk, beef and sheepmeat) and will be phased in over the three marketing years 1993/94 through 1995/96.

Regarding the agricultural products under consideration the following changes have occured.

For cereals the support price will be lowered by about 30%, bringing it close to world market levels. Producers will be compensated for the price cut in the form of hectare payments (equal to the average regional yield based on a historic reference times 45 ECU, when the reform is fully implemented in 1995/96). To be eligible for the compensatory payments the larger producers (with a production capacity equivalent to 92 tonnes of cereals or more will have to set aside 15% of their arable land.[4] The small producers with an insufficient base area to produce 92 tonnes of cereals would be exempt from this requirement.

The large cut in the cereals price is expected to affect both production (by reducing the increase in yields as the changed input-output price relationship induces farmers to make less intensive use of inputs) and demand (by increasing the competitiveness of cereals, especially for animal feed purposes).

[4] The measures for cereals also hold for oilseeds and protein crops

The cereals price cut will also affect the livestock sector, where feeding costs will go down thus making possible a lowering of support prices. In the milk sector the butter intervention price is reduced by 5% spread over two years. The quota system is maintained, although the reference quantities could be cut by a further 2% spread over two years, subject to a review of market conditions by the Council. Greece and Spain receive a quota increase of 100,000 and 500,000 tonnes respectively.

In the beef sector the intervention price will be reduced by 15% to maintain its competitive position vis-a-vis pigmeat and poultry, which use cereals to a greater extent. The support price cut outweights the expected drop in feeding costs. The headage payments (male premium for bulls and steers and suckler cow premium) will therefore be increased but will be subject to certain stocking rate criteria to promote extensive livestock production. The volume of premiums will be determined by a historical reference herd. In addition, intervention will be tightened to discourage overproduction.

In the sheep sector a limit per producer is introduced for the number of ewes eligible for the premium of a 1000 head in the less favoured areas and of 500 elsewhere. In addition, the number of eligible ewes cannot exceed a producer's historically determined reference flock. To establish individual producer's reference flocks the years 1989, 1990 or 1991. can be chosen by the member-State.

For tobacco the varieties produced in the Community will be regrouped in 5 categories with a single premium for each. The global maximum quantity eligible for a premium will be reduced from 370,000 tonnes in 1993 to 350,000 tonnes in the 1994-97 period.

Alongside the market measures the accompanying measures will extend existing provisions and introduce greater flexibility through an agri-environmental action programme, an enhanced programme for the afforestation of agricultural land and an improved early retirement scheme linked to the restructuring of agricultural holdings. The accompanying measures will be given form in multi-annual programmes to be presented by the Member States and will be cofinanced by the Community (at 75% in objective 1 regions and 50% elsewhere). Because of their more structural nature the programmes will have to fit into an overall approach of rural development and economic diversification of rural areas.

The agri-environmental measures will be directed at promoting environmentally friendly production measures for which farmers would receive extra aids in recognition of their role in the protection of the rural environment and management of the landscape.

Against the background of the Community's deficit in wood and wood products and the importance of forestry for land use and the environment, the afforestation programme will considerably increase the financial means available for the afforestation of agricultural land is no longer needed for productive purposes.

The early retirement scheme increases the aids available to older farmers wishing to step out on condition that the land released in used to improve the production structure and economic viability of agricultural holdings (increase in size, especially in regions where holdings are fragmented) or is used for non-agricultural purposes if restructuring is not possible.

2. The GATT Uruguay Round Agreement and its Impact on the CAP

The agreement reached following the Uruguay Round of GATT negotiations, which will come into effect on July 1 1995 and last until June 30 2001. The Uruguay Round is the first-ever global trade agreement to encompass agricultural products, and the deal should bring a significant degree of liberalisation to world agricultural markets. The GATT agreement on agriculture imposes disciplines on member countries in three separate areas; market access, domestic support and export subsidies. The essence of the agreement on agriculture is as follows:

- ***Domestic support***

  Domestic subsidies in the agricultural sector are to be reduced by 20% over six years (13.3% in developing countries). The calculation is made on the base year 1986-88 using the Aggregate Method of Support (AMS), which takes all products globally. For the European Community, this part of the agreement has never been an issue because the various reforms in CAP since 1988 mean that the Community's current Total AMS is already more than 20% below the reference figures for 1986-88. The impact of the CAP reform-notably the substantial cut in cereals support prices will ensure that the AMS stays well below its target level throughout the coming six years.

- ***Market access***

  All import restrictions are converted to customs tariffs (by "tariffication"). These tariffs are reduced by 36% over a period of 6 year with a minimum reduction of 15 per cent for each agricultural product and for developing countries by 24% over 10 years, using as base for the calculations the 1986-1988 period. In order to ensure at least some degree of market opening in all sectors, the GATT agreement requires each country to make "minimum access" provisions. Under these arrangements, import opportunities must be opened for the equivalent of 3% of internal consumption, rising by the end of the six-year period. Any country may take steps to limit the imports of a product which is specified as being the subject of a concession in order to prevent markets being damaged by a surge of imports, either in terms of their volume or their low price.

- ***Export subsidies***

The volume of subsidised exports is to be reduced by 21% and 14% for developing countries over six years (base period 1986-90). Budgetary expenditure on export subsidies will simultaneously have to be reduced by 36% and 24% for developing countries over six years.

Many observers (e.g. Josling, 1990) claim that the CAP reform, the GATT agreement and the completion of the internal market are three closely interrelated factors, expected to exert a cummulative effect on the European farm sector.