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COMMON MARKET FARM REPORT

BELGIUM, FRANCE, FEDERAL REPUBLIC OF GERMANY, ITALY, LUXEMBOURG, THE NETHERLANDS

Three "Marathons" that Made the Common Farm Policy - A Review

The six countries of the European Common Market -- Belgium, France, Germany, Italy, Luxembourg, and the Netherlands -- were far apart when they started out on their journey into the common agricultural market. But they will have made substantial sacrifices of principle and self-interest by the time the transition period for abolishing trade barriers in farm products ends on January 1, 1970. The greatest hurdle to be met by then concerns the permanent method of financing the common agricultural policy (CAP) -- a problem which the Community will start to tackle this fall. In the following two articles, based on part of a new book, Food, Farming and the Common Market,* two agricultural economists at Oxford University, Michael Butterwick and Neville Rolfe, describe the three marathons during which the Council of Ministers worked out a Community policy for agriculture and explain how the common farm policy is financed.

The Making of the CAP, 1958-1968

In 1958 the farm population of the Community was 15 million people, over 20 per cent of the total labor force. It was natural, therefore, that the Rome Treaty explicitly provided for a common agricultural policy. The Six saw that sharp differences in farm prices among the member states of an industrial common market would have a distorting effect on costs and wages. They were, therefore, convinced of the need to eliminate differences in agricultural support policies which were responsible for the differing prices.

The creation of an agricultural community involved reconciling both climatic and geographical conditions and official attitudes that were widely dissimilar. Since the war, national support policies for agriculture had generally developed in an ad hoc fashion, with varying stress being laid on long-term measures to improve farm structure and marketing and on short-term adjustments to prices.

The six governments made slow progress at first in applying an agricultural policy that was above national interests. A conference convened at Stresa in July 1958, under the chairmanship of Sicco Mansholt (former Netherlands Minister of Agriculture and the member of the EEC Commission in charge of agricultural policy) had a mandate under Article 43 of the Treaty to make recommendations for a future common policy.

A sharp confrontation of national viewpoints was revealed: the French placed special emphasis on organized markets, the Germans on structural reform as a means of raising farm incomes, the Italians on liberalizing trade and abolishing subsidies, the Dutch showed themselves fiercely anti-autarkic, and the Belgians were generally conciliatory.

*Oxford University Press, 1968

The Stresa Objectives

The conference, however, was the point of departure for a Community philosophy which the Commission's officials have developed and strengthened over the past ten years. The objectives the officials of ministries and farmers' organizations laid down at Stresa were:

- to increase agricultural trade between member countries and with third countries and to eliminate all intra-Community quantitative restrictions
- to maintain a close relation between structural and market policies
- to achieve a balance between supply and demand while avoiding encouragement of surpluses and giving scope to the comparative advantage of each region
- to eliminate all subsidies tending to distort competition between one country or region and another
- to improve the rate of return on capital and labor
- to preserve the family structure of farming
- to encourage rural industrialization so as to draw away surplus labor and eliminate marginal farms
- to give special aid to geographically disadvantaged regions

It was left to the Commission to translate these objectives into draft regulations. Regulations were submitted to the European Parliament at the beginning of 1960, and approval was completed in June. As a result of further discussion by the Economic and Social Committee, the Commission agreed to bring such matters as agricultural education, social security for farmers and farm workers, grants for transfer out of agriculture, and rural housing under the CAP also.

The Rome Treaty envisaged a three-stage progression towards a common agricultural market. The first exploratory stage was to last not longer than three years. A second stage, during which national policies and prices would be gradually aligned and merged in common regulations, was to be completed not later than January 1, 1970 -- the date set for the end of the Treaty's transitional period for the alignment of industrial tariffs. The third stage would be the completely integrated organization for all agricultural produce within the Community. Otherwise, the Treaty gave virtually no indication of the mechanism to be adopted. By the end of 1960, however, the variable

levy had been accepted in principle by the Council as the means of adjusting current external market prices to internal target prices, whether between individual member countries or between third countries and the Community as a whole. In this way, Community producers would be protected from competition resulting from lower prices prevailing on outside world markets. Import prices would be raised automatically by the appropriate customs levy to threshold levels fixed close to the internal target prices.

Deficiency Payments Unacceptable

The alternative method of the deficiency payment was found unacceptable on two main grounds: its high cost, and the difficulty of administering a system involving claims by some six million farmers, most of whom would be poorly educated and many illiterate. Two other considerations, though not explicitly stated, must have weighed in favor of the proposed "free market" system. First, it would provide a more effective lever for moving the vast labor surplus out of agriculture. Deficiency payments, however, hedged by standard quantities and other qualifications, involve a greater degree of firm price guarantee than does the Community system. In such a situation, political pressures resulting in "feather-bedding" price levels might have been even harder to resist. Secondly, none of the six countries had a tradition of cheap food for the consumer. There was, therefore, no particular incentive to start providing him with food at world prices by introducing deficiency payments as part of the CAP.

Despite this agreement in principle on levies, little further progress was made during 1961 in getting the Six to surrender their national systems and patterns of trade. The Germans were reluctant to reduce their meat imports from South America and continued to maintain health regulations against those from France. The Italians accused the French of dumping wine. French farmers began to see their hopes dashed of an easy outlet for their surpluses. The Dutch continued to look mainly to their overseas trade. It is ironic that one of the longest of the Treaty's agricultural clauses made detailed provision for the conclusion of long-term contracts between the signatories during the initial period -- so little were the Six in agreement that only one was ever made, for only 650,000 tons of grain supplied by France to Germany.

The First Marathon

Although in June 1961 French Prime Minister Michel Debré was saying that without a common agricultural policy there could be no Common Market and no Europe, it was not until December 18, 1961, that events forced the Council into action. With the three-year time limit for the preparatory period due to expire at the end of the month and Britain's recent application to join as a further spur, the Council embarked on the celebrated marathon and package deal that was to become the prototype for several more. At no other time since has it been found necessary officially to stop the clock: the decisions, reached at 5:30 a.m. on January 14, 1962, had to be made effective as of midnight on December 31, 1961 to comply with the Treaty.

Now, six years later, the agreement initiating a common policy for grains, pork, eggs, poultry, fruit and vegetables, and wine, and laying down the broad principles for financing it -- hammered out by the Council in the first marathon in the course of 17 days -- looks small compared with the unified market for these and almost as many other products which was completed on July 1, 1968. But, in spite of later hazards, the first step was undoubtedly the hardest one without which no Community policy could emerge. Once taken, however many compromises might be necessary or temporary exceptions and allowances made, there was no going back to separate national policies. The second installment of regulations, covering the rest of the main products, left hanging when negotiations with the United Kingdom were broken off in January 1963, was not agreed upon until nearly two years later.

The main effect of the new policies arrived at in December 1963, in a somewhat shorter, second marathon, was to eliminate distortions to fair competition caused by national subsidies and import quotas and to establish common standards of quality for the commodities covered by the regulations. During the first two years of the CAP (1962/63 and 1963/64) relatively slow progress was made in reconciling the wide divergence of prices which had previously existed; substantial levies on trade between the countries were to be imposed. The Commission early in 1964 therefore proposed that the Community should proceed at once to the harmonization of grain prices for the 1964/65 harvest year. Grain prices being the key to the CAP, such a step would have notably accelerated the whole pace of European integration.

The Third Marathon

Although the principle of accelerating price unification was agreeable to member governments, the so-called Mansholt proposals were considered too precipitate. The unified prices for grain eventually agreed upon in December 1964 were not to come into force until July 1, 1967. As a quid pro quo for accepting the key soft wheat price of DM 425 ($106.25) per ton, the German government, under strong political pressure from the farm lobby to hold out for DM 450 ($112.50) or more -- secured out of 1967-1970 Community funds compensatory lump sums to German farmers. The justification for this subsidy was the advancing of the date for the unified market laid down in the Treaty.

Italy, on the other hand, was compensated for the loss which more expensive feedgrains would cause its livestock producers. Besides similar lump sums, special lower minimum import prices were to be allowed until 1972, and the importance to Italy's agricultural economy of horticultural products was to be recognized by a complete redrafting of the common fruit and vegetables regulation to allow for market support out of Community funds. Further, Italy's contribution to the farm fund during 1965/66 and 1966/67 would be limited to a ceiling of 18 per cent and 22 per cent respectively. As a logical consequence of these decisions, the Commission was requested by the Council to submit proposals for the financing of the CAP not only for the two years still to run before the beginning of the unified market, but, more important, for the unified market itself.

The Controversial Package

Emboldened by the success of the three marathons of December 1961, December 1963, and December 1964, the Commission, in its reply in March 1965 to the Council's request, included in its package a number of controversial issues. Apart from details for the future working of the Agricultural Fund, it was proposed that as an extension of the harmonization of agricultural prices all intra-Community duties on industrial goods should be abolished on July 1, 1967, thus bringing forward by two and a half years the end of the transition period in all its aspects. Further, the entire proceeds not only of the agricultural levies but of the common external tariff on industrial goods should also accrue to the Community budget. In view of the likely cost of the CAP, this also had some logic.

Finally, the Commission proposed that owing to the enormous financial responsibility which such an arrangement would place upon it, the European Parliament should be given wider powers of supervision of the Commission's stewardship. As is well known, the Commission's proposed package proved unacceptable to French President de Gaulle and resulted in the withdrawal of the French from the Council of Ministers at the end of June 1965 without arrangements even being made for the interim financing of the CAP from July 1. It was implied that the Commission had exceeded its brief and had been acting beyond its legal authority in making these proposals. The Commission, however, relied on the sense of Article 201 of the Treaty, which begins: "The Commission shall study the con-

How the European Agricultural Fund's spending will have grown 1962-70

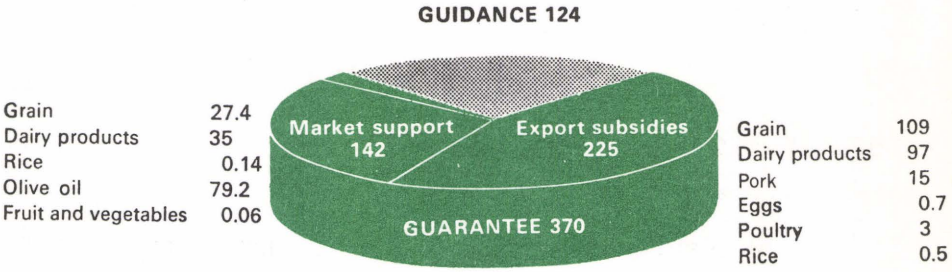
$ million

	1962–3	1963–4	1964–5	1965–6	1966–7	1967–8	1968–9	1969–70†
Guarantee section	29	51	163	240	370	1313	2012	2770
Guidance section	9	17	54	80	124	285	285	285
Total	38	68	217	320	494	1806*	2437*	3124*

†Estimate
*Includes special temporary payments to German, Italian and Luxembourg grain producers for losses caused by diminishing grain prices. These amount to $208m. in 1968, $140m. in 1969 and $69m. in 1970.

How the money was spent

$ million



1968/69 Budget Proposed: $2.4 Billion

The European Communities Commission now estimates that the common agricultural policy will cost $2.437 billion in the year ending June 30, 1969. This compares with a budget provision of $1.806 billion for 1967/68 and an actual expenditure of $2.045 billion.

This is the total provided in the draft 1968/69 budget for the EAGGF, which has been submitted by the Commission to the Council of Ministers. Most of the budget is provided for the Guarantee Section -- $2.012 billion, compared with a 1967/68 budget provision of $1.313 billion.

Four product groups make up almost all of the Guarantee Section payments: grains, $667 million ($535 million budgeted last year); dairy products, $624 million ($370 million); sugar, $302 million ($110 million); and fats and oils, $261 million ($193 million). The remainder of the 1969 budget will be spent on agricultural modernization under the Guidance Section ($285 million) and on special payments to Germany, Italy and Luxembourg ($140 million).

European Agricultural Fund:

Member states' contributions and repayments up to December 31, 1968

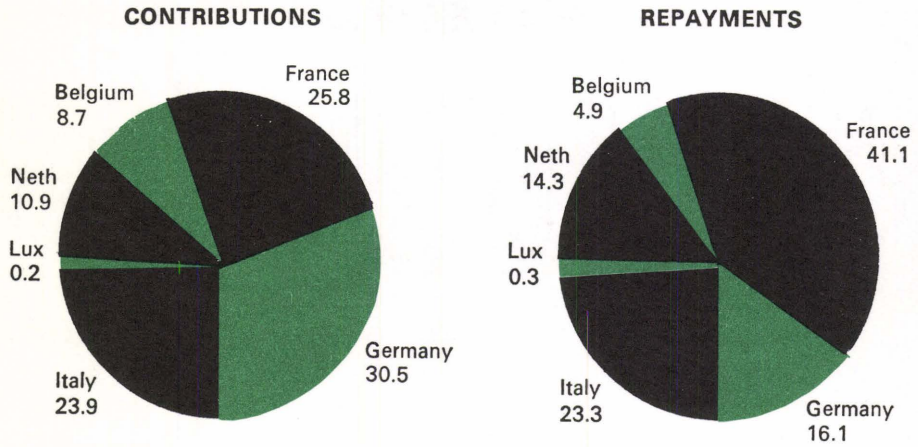
What they pay in and draw out, in $ millions

	CONTRIBUTIONS		REPAYMENTS	
	Guarantee	Guidance	Guarantee	Guidance
Belgium	156	23	95	15
France	436	82	875	44
Germany	538	87	168	56
Italy	413	64	306	150
Luxembourg	5	1	1	3
Netherlands	200	27	303	16
Total	1,748	284	1,748	284

Excluding special payments made in 1967-8 totalling $208 million to German, Italian and Luxembourg grain producers.

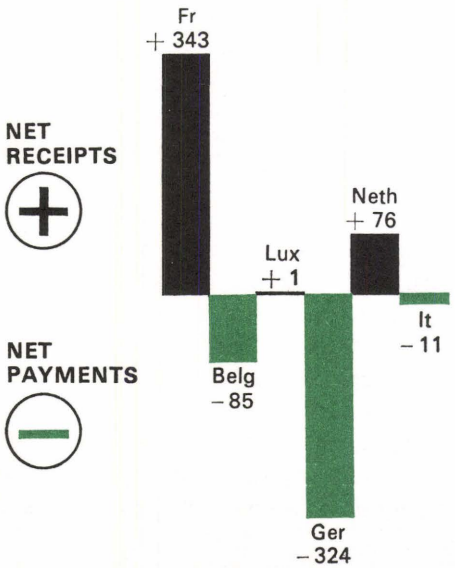
Percentage shares

Including special payments



Balance

$ million



ditions under which the financial contributions of member states provided for in Article 200 may be replaced by other resources of the Community itself, in particular by revenue accruing from the common customs tariff when the latter has been definitely introduced. For this purpose, the Commission shall submit proposals to the Council."

The Luxembourg agreement of January 1966, when the French returned to the Council table, advanced the date of the full customs union by eighteen months only, to July 1, 1968. The Commission's provocative proposal about the additional powers of the European Parliament was tactfully forgotten. In May 1966, a new scale of contributions to the Guarantee section of the Fund was fixed for 1965/66 and 1966/67. During the rest of the transition period there was to be a new basis: a variable element -- 90 per cent of each country's levies on farm produce -- was introduced to cover about half the cost of the Fund. The balance was to be met by each government according to a fixed scale.

However, the problem of how to finance the CAP after 1969 remains and will be one of the critical decisions to be reached by the Six next year.

How the CAP is Financed

So far, paying for the CAP has proceeded by a series of compromises about the share to be contributed out of national budgets. Agricultural support falls under two main headings: price guarantees and guidance. Under the first heading are the costs of

official intervention to support the market, either by purchase for storage or transformation (e.g. denaturing of wheat for stockfeed, melting down of butter into cooking fat, distilling of sugar) for subsequent re-sale on domestic or non-member country markets,

restitutions or subsidies paid on exports of Community produce to enable them to be sold at lower world market prices.

Guidance covers the cost of all types of aid out of Community funds towards structural improvements of production and marketing.

For the 1962/63 season, the costs of the CAP were met entirely out of national budgets according to a scale of contributions, or key, laid down in Article 200 of the Rome Treaty for the Community's budget (which covers it administrative costs). This scale (Germany, France and Italy, 28 per cent each; Belgium and the Netherlands, 7.9 per cent each; and Luxembourg, 0.2 per cent) was also used as a basis for contributions to the Agricultural Fund, which was set up as a result of the January 1962 marathon. Article 40 envisaged a fund or funds, but separate financing of individual commodities was rejected in favor of a central European Agricultural Guidance and Guarantee Fund, generally known as FEOGA (Fonds Européen d'Orientation et de Garantie Agricole). The Fund is divided into two distinctly managed Guidance and Guarantee Sections.

The Guarantee Section

For 1963/64, 90 per cent of the Guarantee Section's expenditure was to be met from contributions assessed according to the key, and the remaining 10 per cent in proportion to each member country's share of the Community's net imports. For 1964/65, these proportions were modified to 80 per cent and 20 per cent respectively. The French withdrawal from the Council in 1965 left the question of financing FEOGA hanging in mid-air. It was not until May 1966 that the Luxembourg settlement fixed a new scale of contributions to the Guarantee Section for that year and for 1966/67. Italy's share for 1965/66 having been limited to 18 per cent at the time of the December 1964 marathon, Germany agreed to exceed, for that year only, the 31 per cent ceiling already placed on its contribution under an earlier arrangement, and France for the first time accepted the largest share.

For the remaining two and a half years to the end of the transition period, from July 1, 1967 to December 31, 1969, when the Fund would be directly financing the whole of Community expenditure on guarantees for the first time, contributions were to be assessed, according to the Luxembourg settlement, on an entirely fresh basis. A variable element consists of 90 per cent of each country's receipts from levies and customs duties on agricultural produce raised at the common external frontier. This was to cover about half the expenditure of the Guarantee Section of the Fund. The balance to be financed by the national governments according to a fixed scale: France 32 per cent, Germany 31.2 per cent, Italy 20.3 per cent, Netherlands 8.2 per cent, Belgium 8.1 per cent, and Luxembourg 0.2 per cent.

Financing Exports

During each of the first four years, the financing of export restitutions (to make up the difference between world market prices and internal target prices) accounted for about 80 per cent of drawings from the Fund for guarantee purposes. A high proportion of the drawings in the first two years was devoted to grains but this fell rapidly once other commodities were brought under the CAP. In 1965/66, export refunds on milk and milk products already amounted to $70 million, compared with $104 million for cereals. In addition, there was internal market support for butter ($28 million) and cereals ($16 million -- mainly for denaturing).

These figures, however, do not represent the full amount actually paid to farmers in the Community by way of price support for these products. In 1965/66, the proportion of total guarantee payments being shouldered by the common farm fund was still only six-tenths. Rising by stages from one-sixth in 1962/63, the Fund's responsibility finally extended to 100 per cent of payments on July 1, 1967, when the unified markets for cereals, pork, eggs, and poultry were established. There is also an upper ceiling of $60 million a year for market support costs of fruit and vegetables (of which Italy is allotted $40 million) until 1969.

Owing to the considerable variations in self-sufficiency between one member country and another, individual contributions to and drawings from the Guarantee Section of FEOGA have never balanced very closely and are never likely to. The preponderant benefit acquired to France in the early years of the Fund's operation. Given France's position as a net exporter, it is likely to remain the principal beneficiary. Market support for products other than grains, notably butter, cheese, pork, fruit and vegetables, and olive oil has, however, considerably redressed the balance in favor of the other countries.

Guidance Expenditure

Financing of the Guidance Section of FEOGA has been much simpler. In the first place, expenditure was from the beginning annually at one-third of the expenditure of the Guarantee Section, and the 1966 Luxembourg agreement subsequently established an upper ceiling of $285 million. National contributions have been fixed according to the percentage scale prevailing for the Guarantee Section at the time. Capital grants from the Guidance Section are alloted up to a maximum of 25 per cent (in certain cases in Italy and Luxembourg, up to 45 per cent) of the total cost of approved investment projects, on condition that the individuals, cooperatives, or firms benefiting from the grants con-

tribute at least 30 per cent (which may be in the form of borrowing), and that some part of the balance is found by the sponsoring member government.

Although in the first three years, applications were forwarded to the Fund on the initiative of member countries, from October 1967 only projects which fall within the Community's official common three-year programs (1967/69) have been acceptable. The $672 million which it is estimated will accrue to the Guidance Section during this period will be divided up under ten major headings in three main groups: programs designed to increase productivity, particularly that of labor; those promoting improved marketing of horticultural and milk products; and those combining improvement of both productivity and marketing (for meat, olive oil, and generally backward regions). The first group of programs comprises land consolidation, irrigation, drainage, and development of woodlands as part of structural improvement.

Since the amount of funds available for a given year to the Guidance Section is only known after the drawing up of the Guarantee Section's accounts, allocations have to be made in arrears. The delay between the submission of applications to national ministries and their actual approval by the Fund can be hardly less than two years. This considerably lessens the value to individual farmers of the Fund as a source of aid. In any case, its contribution to investments in Community agriculture will remain a fairly modest one. It has been estimated by the Commission that by 1970, all forms of structural investments in agriculture in the Six will amount to $11 billion. With an annual ceiling of $285 million and normal participation of 25 per cent, the Guidance Section would then be assisting about $1.1 billion worth of investment, or 10 per cent of the total.

Apportionment of grants between member countries is supposed to be on an 'equitable and harmonious basis.' That amounts paid in and drawn out by each country were at first roughly equal is said to have been a coincidence. In any case, unlike the disbursements of the Guarantee Section, those of the Guidance Section are made to individual organizations and not to national treasuries. For the first two years, funds were allocated fairly evenly between marketing schemes and those promoting structural improvements on the land and in marketing. For 1965/66, a greater stress on marketing was evident, $25 million out of $42 million going for schemes of this kind, $24 million to raising productivity, and the balance to mixed purpose projects. In addition, a special grant of $45 million for production and marketing of olive oil, fruit and vegetables, and $15 million for tobacco was alloted to Italy to be spent by the end of 1969.

Vital Decision

The part played by finance in the evolution of the CAP is a question about which a good deal more will be heard. The importance of the Fund as a focus for progress in harmonizing other national policies -- fiscal, monetary, transport, and social -- makes the ultimate decision about its future after 1969 a particularly vital one for the Community. The solution adopted will be essentially a political one, hammered out in the Council. With President de Gaulle still on the scene it is unlikely to resemble closely the Commission's supranational proposals of 1965. Whatever happens, 100 per cent of the agricultural levies will, under Regulation 25 which governs the Fund, be payable into the Fund as of the end of the transition period. This might cover 50 per cent of its needs. The negotiations will concern the balance.

Should the balance continue to be met from national budgets according to some fixed scale, or from all or part of the customs duties on industrial imports into the Community? Under the Commission's earlier proposals a progressively larger share of these duties would, between 1967 and 1973, have been put at its disposal. One of the weak points of the Commission's case in 1965 was that the full amount of duties accruing to the Community budget after 1972 would probably have provided a larger revenue than was necessary. The Commission proposed, rather lamely, that any surplus should simply be handed back again to member countries.

Overshadowing the political issues is the rapidly mounting cost of agricultural support. Even with the expenditure of the Guidance Section pegged at $285 million, the cost to the Fund is expected to reach $2.18 billion by 1970. The liability of the Guarantee Section for dairy produce alone will by then, according to the Commission's estimates, exceed $800 million. However, in 1968, the Council agreed to limit the Community commitment for dairy produce to $640 million in 1968/69. Here is a dilemma central to financing the CAP. High levels of price support involve high rates of levy, but the surpluses to which the high prices give rise impose a growing burden of expenditure on the Fund. In the long run, a diminishing volume of imports will tend to reduce its revenue as well.

Lowering target prices, on the other hand (granted this were politically acceptable), would result in a lower rate of levy on a somewhat higher volume of imports. This might make the Guarantee Section marginally more self-financing.. It would also lead inevitably to heavier calls on the Guidance Section, farmers' loss of income having to be offset by more intensive structural reforms. It seems in any case likely that its present ceiling will have to be raised after 1969. Either way, high or low, levies alone will be increasingly inadequate to finance the Fund.

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