CHAPTER 3

THE COMMON AGRICULTURAL POLICY

The Background

Agricultural Policy has been a major preoccupation of authorities since the beginning of organised human society. This preoccupation stems from the fact that farmers produce the single most important basic commodity of vital importance to human survival: food. If the maintenance of adequate food supplies is essential for human well-being, it is even more essential for political stability. Consequently, it becomes imperative for the authorities to intervene in the agricultural sector. Conversely, since in most societies a higher percentage of the population is engaged in agriculture or related activities, and since they produce or help to produce food which is absolutely essential for human well being and political stability, they are able to exercise such kind of leverage on the political system that they enjoy considerable political protection and power.

Agriculture in Western Europe is a pampered sector. The history of Europe testifies that farmers have been a privileged lot, with guaranteed political protection, and they exercise control over the political system. In Germany, for instance, it was the great land estates of the Junkers in Prussia that provided the economic base for the class that dominated the Second Reich. They continued to exercise great influence in the

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1 When it is said that the farmers enjoyed political protection and exercised control over the political system, it is referred to the big farmers and the landed class. The small and marginal farmers barely managed to survive. However, whenever mobilised, they have been a major force.
Weimar Republic too. After the First World War, when agricultural incomes started to fall drastically, it was the political mobilisation and violence in the predominantly agrarian regions of Germany, Austria-Hungary, and Italy that encouraged the authoritarian political movements and fascist regimes to assume power. These regimes exalted agriculture as the foundation of a “distinct national culture and the bedrock of the nation-state.” This reached its crescendo when the National Socialist Party in Germany linked “blood, race and soil”, an ideology that proved beneficial to the party in the long run.

Governmental intervention is an integral part of agriculture in Western Europe. Historically, this was mainly because of certain features characteristic to agriculture in general, and agriculture in Western Europe in particular. Firstly, the typical European farm was small, so small that individual farmers could not increase efficiency by means of using capital-intensive goods. The government had to fill that void.

Secondly, agriculture is characterised with a persistent low farm income. This is mainly because (a) income elasticity of demand for food is low. As income rises, expenditure on food also rises in absolute terms, but generally a smaller proportion goes to buying food. Additional spending on food tends to emphasise convenience, or

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5 Income elasticity of demand for a product is defined as the percentage change in demand for the product in response to a one percent increase in income. In case of food, demand expands less rapidly than income, i.e. people buy less food as their incomes rise.
improving the quality and variety of food. Such changes in demand do not lead to marked increases in demand for goods at the farm gate. (b) Technological innovations do not produce dramatic improvements in agriculture as it does in industry. Normally technological innovations enable output to increase without a corresponding increase in the volume of resources employed, in the case of agriculture: labour. This additional output directly adds to consumption. Alternatively, output can be held constant and the existing resources shifted to the production of other goods. However, this does not happen in the agricultural sector, as labour mobility in this sector is very low. This is because of the poor opportunities that exist for farm people in other occupations. Other resources committed to agriculture also have a low second hand value. Moreover, the market is unable to absorb such rapid increases in output and this shift in relative productivity between labour and capital inevitably means that the value of labour is falling. (c) The marginal productivity of agriculture is zero, which means, if the marginal farmer is removed from the land then there is no change in the total productivity. Conversely, if one more farmer is added to the land then again there is no change in total productivity. All these factors together tend to keep farm incomes low. 

Thirdly, agriculture is price and market unstable. Agricultural products, by definition, are price inelastic in nature, i.e., quantity purchased of agricultural products is relatively unresponsive to price. Therefore, increase in the quantity produced, when

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placed in the market, results in a fall in the aggregate incomes of the producers. Moreover, once produced, the costs of storing these products or processing them into more durable forms are considerable. Similarly, agricultural products are market unstable as they are dependent on the weather and are subject to biological hazards.¹⁰

Fourthly, since agricultural production is prone to fluctuations caused by the weather, plant and animal diseases, and other natural and man made calamities, one can never be assured of a secure supply of food year after year. In Europe, self sufficiency in food occupied top priority even in the mid-1950s as the memories of “people forced to eat tulip and daffodil bulbs” in Netherlands, and the starved population of “Germany’s war-ravaged cities”, could never be erased from the minds of the people.¹¹ The only food surpluses available, immediately after the war, were in the United States and Canada, purchasable only in the scarce currency, dollars. Hence, being self-sufficient, and not having to rely on imports, became an important policy of the West European nations.

Lastly, agricultural activities involve certain social costs, which the governments are forced to acknowledge and, therefore, take action. For instance, extensive agricultural activity may bring about changes in the countryside, like change in its appearance, or adversely affect the varied wild animal and plant life. Similarly, there could be

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alterations in the water table resulting from land drainage, extensive use of water for
irrigation purposes, or pollution of streams by agricultural chemicals.\textsuperscript{12}

As a result of all these factors, governmental intervention in the agricultural sector had
become a norm in almost all countries of Western Europe. By the time the EC came
into existence each of the Six had developed agricultural policies to suit the
characteristics of its own agriculture and its own over-all economic policies.

\textbf{AGRICULTURAL INTEREST OF THE SIX}

As mentioned above, the Six had developed policies to suit the characteristics of their
respective agricultural sectors. Out of the Six, Belgium, Luxembourg and Germany
were the predominantly industrial countries. In 1955, only 9.3 percent, 19.4 percent
and 18.5 percent of their respective populations were engaged in agriculture\textsuperscript{13}. The
Gross National Product derived from agriculture, for all three, in 1955 was less than
10 percent\textsuperscript{14}. These three States were also large net importers of agricultural products.
Belgium and Luxembourg were fairly self-sufficient with respect to sugar, milk and
dairy products, butter, beef and veal, and pig meat, but almost 62 percent of their
demand for cereals and 33 percent for wheat could not be met by domestic production,
in 1966-67. In case of Germany, the country was not 100 percent self-sufficient in any
of the listed products.

Another characteristic feature of agriculture in these three countries was that they all
had high-cost peasant agriculture with relatively high levels of productivity. All three

\textsuperscript{12} Marsh, n.7, p.40
\textsuperscript{13} Appendix, John S. Marsh and Pamela J. Swanney, \textit{Agriculture and the European Community}
\textsuperscript{14} Appendix, ibid., p.79

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pursued policies of market intervention. As a result, it was in the interest of these three member states to keep agricultural prices high. The Deutscher Bauernverband (DBV), the major farmers' union in Germany, was in favour of a protectionist agricultural policy. They saw to it that high import levies were imposed on the products in which there was the possibility of achieving self-sufficiency. Germany was also against practices in other Member States, which kept the production costs artificially low, which eventually meant low prices of agricultural products.

In Italy, its huge population was heavily dependent on agriculture. In 1955, 40 percent of its population was engaged in agriculture. However, the contribution of the agricultural sector to the country's GNP was only 20 percent. The need to relieve the labour force off land was urgent. However, the Italian labour force was highly unskilled and so could not be absorbed in the other sectors. In any case, the Italian economy as a whole was faced with unemployment problems. It was imperative for Italy that her labour force be allowed to migrate to other European countries whose remittances would ease her international payments problem. The Italian agriculture was also characterised by the lowest productivity and income level among the Six.

In spite of low productivity and income level, based entirely on the strength of the farming fraternity, the Confederazione Nazionale dei Coltivatori Diretti (Coldiretti), the Italian agricultural pressure group, exercised control over the government. In 1958, the Coldiretti had a membership of over 80 percent, which meant that they

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could directly influence the election to the lower house.\textsuperscript{16} As a result, the interest of the farmers was taken care of by means of direct government intervention in case of wheat, rice and sugar beets, "for which there were fixed prices for the compulsory delivery of a set portion of the crop".\textsuperscript{17} For products like wheat, feed grains, milk products, wine and olive oil, there were semi-official marketing cooperatives. Imports were regulated. High tariffs were imposed on imports of most agricultural products.

The Netherlands was the only country among the Six where a relatively low percentage of the population was dependent on agriculture for their livelihood and still was self-sufficient in almost every product except wheat and feed grain.\textsuperscript{18} It's milk, milk products, and meat producing sectors were large, and prominent. These were the surplus producing sectors in the country, which in turn made Netherlands the only net exporter of agricultural products among the Six. At the same time, it also meant that the Dutch required huge quantities of feed grains to support their milk and meat sectors, and, since their production of feed grains was negligible they depended heavily on cheap imports.

The Stichting voor de Landbouw, the organisation that represented the agricultural sector as a whole, unlike the Coldiretti, did not depend on its numerical strength to influence political decisions on agriculture. However, the Stichting stressed the importance of maintaining their large number of small farms and the role of exports in the Dutch economy.\textsuperscript{19}

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\textsuperscript{16} Milward, n.3, p.249
\textsuperscript{17} Leon N. Lindberg, \textit{The Political Dynamics of European Economic Integration} (Stanford: Stanford University Press, 1963), p.224
\textsuperscript{18} Appendix, Marsh and Swanney, n.13, pp 80-1
\textsuperscript{19} Milward, n.3, p.242
Other features of agriculture in the Netherlands were that agriculture was fairly modern, organised and maintained a low price level. The government maintained a strict control through semi-official marketing boards that established and administered minimum, fixed and guaranteed prices for most products.20

Agriculture was a very important profession in France. No other country had succeeded in maintaining nearly half of its population in rural occupations. "To strengthen the rural home, to guard the peasant holding against violent change, to preserve the traditional agricultural arts, [were] as much national aims as [was] the supply of material."21 The French were proud of their archaic methods of farming and in spite of that they were self-sufficient and in fact had huge surpluses.

Agriculture in France is also a vocal profession. Statesmen and others on every possible occasion declare themselves as protectors of peasant rights.22 The basic customs law was clearly intended to be protective. Further, the agricultural sector was organised into associations. There were numerous syndicates, which functioned as collectives for buying material both for production and for consumption. The elaborate legislation of associations for agricultural activity was indicative of the French policy to foster the growth of the syndicates and cooperatives and to make them the organisation through which the influence of the government may be brought to bear.23

20 Lindberg, n.17, p.224
THE TREATY OF ROME AND AGRICULTURE

The Logic of Inclusion of Agriculture

The Treaty of Rome was a delicate balance of the national interests of the contracting parties. As a result, if Germany found the prospect of free trade in industrial goods inviting, France felt the same about a free Community agricultural market. Anything less than free trade in agriculture was not acceptable to France. As a result, a 'deal' was struck between France and Germany that Germany could reap the benefits of free trade in industrial products and gain free access into the markets of the other member states, especially France and France would enjoy free trade in agricultural products and gain inroads into the German market.\(^{24}\)

Moreover, in the 1950s itself, due to the policies adopted by the government, there emerged a sizeable surplus in agricultural production in France. The Monnet Plan of the late 1940s identified modernisation of agriculture as the key sector for investment, which increased the volume of public investment pumped into the agricultural sector. Consequently, the first increases in production were visible by early 1950s in case of wheat and sugar beet. The Monnet Plan also envisaged an increase in the volume of agricultural exports by 1952 so that the French balance of payments deficit on total commodity trade could be covered. However, it was extremely difficult to dispose these surpluses in an overall protectionist environment. Besides, it was only in Europe that the prices of almost all agricultural products were high, so, it was imperative for the French to tap the European market.\(^{25}\)

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\(^{25}\) Milward, n.3, p.265
In their quest to find a European answer to their surplus problem, the French embarked on numerous projects. In 1950, the idea of a Franco-Italian Customs Union was launched. However, at the discussion stage itself the proposal was shelved as France feared Italian agricultural competition. The widespread fear in France was that with the underpaid labour and aggressive marketing practices of the Italians, the French market would be flooded with cheap products, especially fruits, table wines and flowers.\(^26\) In 1950 itself, France proposed another project called the European “Green Pool”. The project envisaged a common organisation of the main agricultural markets in Western Europe. The products identified were wheat, wine, sugar and dairy products - the products that were in excess supply in France. Further the “Green Pool” would include the agricultural resources of all member states and the member states would work together to export surpluses and import products in short supply in the Community. In short, the “Green Pool” was to be a project wherein all the West European countries would work together to dispose off French surpluses with the added bonus of pooling of resources of all members for the French farmers. The proposal was sent to various European governments; however, the project could not take off because of British opposition. Britain rejected any form of supranationality, common policies, and common fixed prices. For Britain, the interest of the consumers by way of keeping food prices low was most important. On 16 March 1953, the first European Conference on the Organisation of Agricultural Markets was held. Here again British and Continental views clashed and there were no results.\(^27\) As a result, it was clear to France that Britain would prove to be a hindrance in its quest to find a

\(^{26}\) Hans Peter Muth, *French Agriculture and the Political Integration of Western Europe* (Netherlands: A. W. Sijthoff-Leyden, 1970), p.76
vent for its surpluses and that it would have to go ahead without Britain. Hence, extension of the Common Market to agriculture was the most viable solution and it was extremely vital for France that the rest of the five accepted it.

Therefore, at Messina, France used her political clout and successfully negotiated in her favour with respect to the future Treaty of Rome. France got the others to agree on extending the common market to agriculture, the need for a common agricultural policy, the need for certain escape clauses (minimum prices, long term commodity agreements and countervailing duties) in the Treaty, a transition period wherein French agriculture could adjust gradually to the conditions of an international economy, the harmonisation of the conditions of production, the free circulation of labour and capital, special arrangements for Francophone Africa and commodity agreements with Britain instead of British membership in the common market. In the final shape of the Treaty, all these demands made by France, were granted implicitly or explicitly.

The Treaty Provisions

The Treaty of Rome grants agriculture a privileged place. Agriculture forms the subject of Title II, Part II, “Foundations of the Community”. It is therefore treated in a specific title and it is also legally one of the European Community’s foundations, together with the free movement of goods (Title I), the free movement of persons, services and capital (Title III), and transport (Title IV). The Treaty states that “the common market shall extend to agriculture and trade in agricultural products.

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27 Ibid., pp. 76-8
'Agricultural Products' means the products of the soil, of stock farming and of fisheries and products of first-stage processing directly related to these products.\footnote{29} Further, it states that "the operation and development of the common market for agricultural products must be accompanied by the establishment of a common agricultural policy among the member states."\footnote{30} The Treaty does not call for the establishment of a common industrial policy but it does for a common agricultural policy. The common agricultural policy is considered to be indispensable to the Community building process. Many are of the view that if there were no common agricultural policy there would be no Community.

The objectives of the common agricultural policy were: (a) to increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilisation of the factors of production, in particular labour; (b) thus to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture; (c) to stabilise markets; (d) to ensure the availability of supplies; and (e) to ensure that supplies reach consumers at reasonable prices.\footnote{31} In order to attain these objectives the Treaty required the establishment of a common organisation of agricultural markets.\footnote{32} Further, to enable this common organisation to attain its objectives the Treaty provides for one or more agricultural guidance and guarantee funds to be set up.\footnote{33} As required by the Treaty, a single fund, the European

\footnote{29} Article 38(1), EEC Treaty
\footnote{30} Article 38(4), EEC Treaty
\footnote{31} Article 39, EEC Treaty
\footnote{32} Article 40(2), EEC Treaty
\footnote{33} Article 40(4), EEC Treaty
Agricultural Guidance and Guarantee Fund (EAGGF) was established in 1962. In 1964 it was divided into two sections: a guidance section and a guarantee section. The former concerned agricultural market policy, such as intervention and export subsidies; the latter concerned structural policy.

Interestingly, most of the CAP spending falls under “compulsory expenditure” of the European Community Budget, which implies that, the European Parliament is merely entitled to propose modifications regarding proposals concerning agricultural spending. The final decisions regarding agricultural expenditures are made in the Council by the agricultural ministers of the member states.

The agricultural sector enjoys a special status regarding competition policy too. The Competition Policy involves rules concerning undertakings (Articles 85-90), dumping (Article 91) and state-aids (Articles 92-94). These rules on competition “apply to production of and trade in agricultural products only to the extent determined by the Council within the framework of Article 43(2) and (3) and in accordance with the procedure laid down therein, account being taken of the objectives set out in Article 39.” In addition, the Treaty provided the agricultural sector with certain escape clauses. Firstly, if the progressive abolition of customs duties and quantitative restrictions between member states may result in prices likely to jeopardise the attainment of the objectives set out in Article 39, each member state shall, during the transitional period, be entitled to apply to particular

34 Regulation 25/62, OJ 1962, 991/1
35 Council Regulation 17/64, OJ sp. Ed. 1964, 586/103
36 The Treaty of Rome divides the European Community budget into ‘compulsory’ and ‘non-compulsory’ expenditure. Compulsory expenditure is ‘expenditure necessarily resulting from the Treaty or from acts adopted in accordance therewith’ (Article 203(4), para 2, EEC Treaty). The European Parliament may make amendments to proposals concerning non-compulsory expenditure.
37 Article 42, EEC Treaty
products, in a non-discriminatory manner and in substitution for quotas and to such an extent as shall not impede the expansion of the volume of trade provided for in Article 45(2), a system of minimum prices below which imports may be either temporarily suspended or reduced; or allowed, but subjected to the condition that they are made at a price higher than the minimum price for the product concerned.38

Secondly, until national market organisations were replaced by any form of common organisation, "trade in products in respect of which certain member states have arrangements designed to guarantee national producers a market for their products; and are in need of imports, shall be developed by the conclusion of long-term agreements or contracts between importing and exporting member states."39 Finally, "where in a member state a product is subject to a national market organisation or to internal rules having equivalent effect which affect the competitive position of similar production in another member state, a countervailing charge shall be applied by member states to imports of this product coming from the member state where such organisation or rules exist, unless that state applies a countervailing charge on exports."40

Preparing The Common Agricultural Policy

As required by the Treaty of Rome, the Commission convened a Conference on Agriculture at Stresa in Italy in July 1958. The Stresa Conference handed to the Commission the mandate to prepare the Common Agricultural policy. It identified specific areas for the Commission to consider, notably the escape clauses, structural

38 Article 44(1), EEC Treaty
39 Article 45(1), EEC Treaty
40 Article 46, EEC Treaty
policy and the problem of surplus.\textsuperscript{41} The Commission, under the leadership of Commission Vice-President Sicco Mansholt (former Dutch Minister of Agriculture) prepared a draft proposal by late 1959.

Broadly, the policy outlined by Mansholt envisaged a Common Market wherein there would be free trade in agricultural products between Member States i.e., there would be no tariffs, quantitative restrictions or other measures hindering trade. The main components of the CAP were to be a price policy and a structural policy. The underlying principles of a price policy were: (1) common prices\textsuperscript{42}, which followed logically from the removal of barriers to intra-Community agricultural trade; (2) common financing, wherein Member States agreed that all agricultural support measures would be jointly financed by the Community budget; and, (3) Community preference. This component was stressed by net exporting countries, especially France. The thrust being third countries should not have a competitive advantage in the Community. As a result, imports from third countries had to suffer a variable import levy.\textsuperscript{43} Though the Plan proposed a system of common pricing, it did not


\textsuperscript{42} The system of common pricing involves the fixing of intervention prices. The first such intervention price is the 'target price', which is a theoretical price calculated at the wholesale level in the geographical area of greatest deficiency in the Community. From the target price is derived the intervention price and the threshold price. The intervention price is a price set usually 5-10\% below the target price. If the market price falls to this intervention level then an intervention agency will purchase the produce and store it. Therefore, intervention price is nothing but a guaranteed minimum price. From the target price, a threshold price is calculated by allowing for transport and distribution costs. The threshold price is the price below which imports cannot enter the Community. To ensure that imports do not enter the Community at a price less than the threshold price, a variable import levy is imposed. This levy is the difference between the threshold price and the world market price.

\textsuperscript{43} Ken A. Ingersent and A. J. Rayner, \textit{Agricultural Policy in Western Europe and the United States} (Cheltenham: Edward Elgar Publishing Limited, 1999), pp. 151-2

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outline common prices for the various products but simply stated that prices must be brought to the same level by the end of the transition period.

The main thrust of the Mansholt Plan, however, was structural reform. Mansholt emphasised the need for consolidation and grouping of landholdings, increasing the efficiency through mechanisation and fertilizers, some farmers give up farming, land set-aside, industrial development of rural areas and improved education in rural areas in order to achieve an overall development of the agricultural sector and to obtain a healthier balance between demand and supply. He also proposed the establishment of a European Fund for structural improvement in agriculture. But, as it turned out, structural policy was to play only a subordinate role in the Community’s agricultural budget.

Agricultural Politics and a Franco-German Tandem

In agricultural politics, it has been observed that a Franco-German tandem is indispensable. Whenever there is a conflict of interest between the two that cannot be mediated, the outcome is deadlock and crisis in the Community. When, in contrast, they agree to oppose a given project, it is invariably blocked. When the two governments reach a common position in favour of the given project, it is adopted by the Council and becomes Community policy. Franco-German tandem, further needs to be tempered with inter-governmental bargaining and reciprocal concessions or side-

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44 Duerr, n.41, p.155
payments, to secure the support of the other, smaller Member States. In most cases, when a ‘new’ project is introduced, it generally lacks settled principles and a time limit for adoption as policy. As a result, if there is a conflict of interests among Member States, over the project, which cannot be resolved, the Community resolves to postponement of the contentious project. Furthermore, if a particular project is not widely acceptable to all Member States, and there is one Member State known to be vigorously opposed to the project, then it has been observed that the others prefer to keep quiet but covertly support the one standing up to say ‘no’ by means of showing sympathy or by granting concessions. The history of agricultural politics is replete with instances highlighting all these tendencies.

Conflict Over the Organisation of the Common Agricultural Market, 1961-62

On 10 May 1960, the Council of Ministers decided to speed up the timetable for transition to a full Common Market. All the Member States, especially Germany, welcomed this move. France too viewed it as highly beneficial for its industrial sector. But the slow progress in the organisation of the common agricultural markets was worrying as well as putting enormous pressure on the French government. As the French farmers resorted to demonstrations, strikes and protests, France, with the support of the Netherlands, put forward the condition that transition to the second stage for industrial Common Market should be accompanied by an equal progress in


48 Ibid., p.178

49 Duerr, n.41, p.160
the agricultural sector. The two made it quite clear that if these conditions were not met then they would not hesitate to veto the transition to the second stage altogether.

Germany, on the other hand, was not in favour of speeding up the agricultural agreement. The Germans wanted a common agricultural policy to be instituted first before any sort of liberalisation could be introduced. They also demanded equalisation of competitive conditions in the Community i.e. other Member States give up practices such as export aids and differential prices for basic agricultural products.50

This German stance was based on its poor agricultural competitive position, as compared to other Member States and because of the pressure exerted by the DBV. When the German population (farmers) rejected the Christian Democratic Union in favour of the Free Democrats in the elections, the government became even firmer.

Though the Mansholt Plan appeased France, it antagonised Germany further. For wheat, coarse grains, sugar and dairy products, the Plan proposed the establishment of European Offices to administer systems of target and intervention prices in order to make support purchases on the internal market; and to provide external protection by means of variable levies and import certificates.51 The Germans found variable levies for grain and products based on grain conversion offensive. They wanted a more flexible system that would ensure higher prices and higher protection. The Plan further proposed that contributions to the EAGGF would be in proportion to a country’s share of agricultural imports from the outside world. This meant that the maximum burden would be on Germany and the Netherlands. But, as the Dutch hoped

50 Lindberg, n.17, p.244
51 Ibid., p.240
to gain in the dairy products sector, they did not oppose the Commission’s proposal. Germany, on the other hand, opposed it vehemently.

The Mansholt Plan had not included any specific recommendations regarding price harmonisation. France demanded a commitment in the form of a timetable and a criteria but Germany opposed it. As a result, the issue was postponed to be considered in the future. Furthermore, the Plan had envisaged the Commission to be responsible for the administration, regulation and day-to-day management of the Common Agricultural Policy. Only the Benelux countries were in favour of this proposal. France suggested a series of inter-governmental steering committees, composed of national and Commission representatives to make decisions. But, Germany insisted that the Council alone take decisions.52

Germany and France adamantly stuck with their respective positions and the result was deadlock. As the date for transition to the second stage approached, negotiations in the Council and at bilateral/multilateral levels reached a frantic high. During the crisis, Italy negotiated a reciprocal concession for itself in the form of a better deal regarding structural funds. The Netherlands also demanded and succeeded in extending the levy system and market regulations for dairy products. Finally, after “twenty-three days during which 140 hours of negotiations, two heart attacks, and one nervous breakdown among the participants took place”53, France and Germany reached an agreement on a ‘package’ of regulations for cereals, cereal-based livestock products, pig meat, poultry, eggs and fruits and vegetables. Subsequently, the

52 Ibid.

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Community had to resort to such tactics as ‘clock-stopping’ to enable the EC to move into the second stage on the exact date, i.e. 14 January 1964.\textsuperscript{54}

The 1962 organisation of the common agricultural market was a compromise between the two big Member States – Germany and France. A compromise, wherein by common consent, France gained most and gave away least.\textsuperscript{55}

The French Veto of British Membership, 1963

The development of the European Economic Community, the opportunity of the mass market which this has created for European industrialists, and the spur that this has given them to competitiveness and efficiency, present the British economy with great challenge. Whether or not we go into the Common Market we shall have to face the competition of very efficient industries throughout Western Europe ... in the long run an island placed as ours is, where our need to export to other people which will always be greater than their need to export to us, cannot maintain the high standards of life that we want for our people in an isolated protected system.\textsuperscript{56}

When Prime Minister, Harold Macmillan addressed the House of Commons in August 1961, he was drawing his countrymen’s attention to the benefits Britain could reap from the industrial Common Market. Agricultural policy in the UK was fundamentally different from EC’s CAP. Britain’s policy was based on the objective of providing adequate food supplies to the consumers at stable and reasonable prices. The producer would be compensated by production subsidies or deficiency payments financed


\textsuperscript{55} Richard McAllister, From EC to EU: An Historical and Political Survey (New York: Routledge, 1997), p.26

mainly by taxpayers. Britain secured supplies for its consumers at prices determined competitively in international trade. As a consequence, food prices in Britain were relatively low. When Britain applied for membership of the EC, it was aware that its agriculture would have to bear the cost of membership, but it was in Britain's political and economic interests to be a part of the Community.

The British application for membership happened when within the Community the politics of organisation of CAP and debates on political cooperation were at their zenith. The Netherlands was always keen to include UK in the integration process. In the context of political cooperation, the Netherlands was particularly keen that Britain be a part of it. This was mainly because the Dutch feared that such a cooperation would undermine the Atlantic Alliance at the same time emphasise the Franco-German alliance within the EC. Furthermore, they foresaw France defending the European view at the North Atlantic Council, i.e. becoming the de facto leader/spokesperson for Western Europe. As a result, British application was a moment of profound joy for the Dutch. Their Minister for Foreign Affairs, Joseph Luns summarised the link between political cooperation and British application thus:

The Netherlands are all in favour of a united Europe .... This Europe should be based on supranational principles and on integration .... The French conception, on the other hand, is based on the old idea of an alliance between the states, a Europe of the fatherlands. We think that this plan should be rejected, but are willing to make concessions provided that Great Britain would be involved.

57 David Colman, "Agricultural Policy", in Simon Bulmer, Stephen George and Andrew Scott, eds., The United Kingdom and EC Membership Evaluated (London: Pinter Publishers, 1992), p.29
59 Cited in Ibid., p.153
German support could have helped the British, but Chancellor Adenauer was “infuriated” with Britain over the Polaris missile issue. He “saw in the Polaris offer an Atlantic plot to set in concrete the second-class status of Germany as a non-nuclear power in the Atlantic Alliance.” Moreover, Adenauer was completely in President de Gaulle’s thrall and de Gaulle knew it. As a result, de Gaulle, with great ease, vetoed the British application.

Among the various reasons cited by de Gaulle for the veto, agriculture featured predominantly. At the Press Conference, where he declared the veto, he said:

Indeed, it is obvious that agriculture is an essential element in our national activity as a whole. We cannot conceive of a Common Market in which French agriculture would not find outlets in keeping with its production. And we agree further that, of the Six, we are the country on which this necessity is imposed in the most imperative manner. This is why ... we were led to pose the entry of agriculture into the Common Market as a formal condition. This was finally accepted by our partners, but very difficult and very complex arrangements were needed and some rulings are still outstanding.

England thus asked in turn to enter, but on her own conditions. The nature, the structure, the very situation that are England’s differ profoundly from those of the continentals ....

The Financing of the CAP and the French Boycott of the EC, 1965-66

The financial regulations adopted in 1961-2 were valid up to 1 July 1965. It was time to make long-term financing arrangements for the CAP. The Benelux countries, the most zealous supporters of supranationalism, put forward the condition that the democratic control at the European level must be strengthened before there was any

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settlement on the financing of the CAP. Accordingly, the Commission President, Walter Hallstein presented the Commission’s outline proposal on 24 March 1965. The crux of the proposal was: (1) the agricultural and industrial Common Market should be completed by mid-July 1967. From that date the proceeds of the agricultural levies should be payable direct to the Community. The industrial import duties, also payable direct to the Community, should be phased in over a few years. (2) The European Parliament be granted a more influential role in the procedure for establishing the Community budget. The former meant that the Community would have its ‘own resources’ which it could use to fund the farm expenditures and the latter meant that while the European Parliament would play a role in the Budget, the Commission would become a kind of government of the Community.62 A preliminary draft on the Budget, prepared by the Commission, would first go to the Council. The Council could make changes if required by qualified majority vote and then send it to the European Parliament. If the Parliament approved it, or if it failed to give an opinion in a month’s time, then the Budget would be adopted. But, if the Parliament did make amendments, then the draft would return to the Commission. If the Commission agreed with the Parliament’s amendments then the Council would have to adopt the Budget by five-sixth majority on a one country one vote basis. On the other hand, if the Commission disagreed, then the Council would decide by four-sixth majority for the Commission against the Parliament. In all other cases, the Parliament’s amendments would stand.63

62 McAllister, n.55, pp 32-3
The Member States more or less agreed with the long-term financial agreements but disliked the Commission's institutional proposals. President de Gaulle immediately rejected the package. Though the other Member States, including Germany, were not happy with the proposal, they chose to keep quiet. But Germany resented France’s reaction to the proposal. In fact, Germany was adamant that concessions over CAP would not be made unless there were simultaneous French concessions on other issues.64 Talks between the two governments at the Franco-German Summit failed, so too did the subsequent Council session, which culminated in a standoff between France, on the one hand, and, on the other, the Commission and the rest of the Community. As a result, the French government decided to boycott the EC organs. The boycott jeopardised the Community from July 1965 to January 1966. The deadlock was resolved only after six months when a compromise was worked out.65

The Second French Veto of British Membership, 1967

In 1967 Britain applied for membership of the EC once again. The British Prime Minister, Harold Wilson was certain that “once Britain [was] a member, we shall be able, as an equal partner, in our interest and equally in the interest of the Community to help determine the direction, the pace and the developing institutional arrangements of the Community.” On the other hand, he was resigned to the fact that Britain would have to adopt CAP as it was and that meant “considerable adjustments.”66

64 Webber, n.45, p.51
65 Famously known a the Luxembourg Compromise; it was decided that the Member States would try their best to agree on any issue and where vital interests were involved Member States would continue discussion till unanimity was reached. In short, majority voting was shelved and unanimity became a norm.
This time, the other Member States tried to devise methods of putting pressure on France to accept the British application. While the Benelux countries suggested co-operation outside the subjects covered by the Treaty of Rome; the Germans suggested a trade arrangement with Britain. Britain was open to all such ideas provided they would lead to membership. But, France refused to relent. For Germany pursuing such a line meant jeopardising Franco-German bilateralism, which was probably why it chose to give in to France’s tactics. And, as is well known, President de Gaulle once again unilaterally vetoed Britain’s application. Once again agriculture featured predominantly in his Press Conference.

It is well-known that these [agricultural] regulations are designed to enable the Community to feed itself from its own produce and to compensate, by means of what are known as financial levies, for any advantage which the various States might derive from imports of cheaper commodities from elsewhere. Great Britain is very largely fed by produce purchased at low cost all over the world and, in particular, in the Commonwealth. If she submits to the rules of the Six, her balance of payments will be crushed by the levies and she will, on the other hand, be forced at home to bring the price of food up to the level adopted by the Six, to raise her workers’ wages correspondingly and to charge correspondingly more for her manufactured goods which will be that much more difficult to sell. She clearly cannot do this. But, on the other hand, to bring Britain into the Community without her being really bound by the agricultural regulations of the Six would amount automatically to disrupting the system and therefore to upsetting completely the balance of the whole Common Market and robbing France of one of her chief reasons for being a member.

**CAP and the Communities’ Budget**

When the UK, Ireland and Denmark acceded to the EC in 1973, the details of the CAP system had already been settled by the founding Six. So also were the details of the

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Communities’ Budget. There is an inherent umbilical link between the organisation of the CAP and the Communities’ Budget, especially for France. Only after the major market mechanisms had been established, and the details of financing of interventions out of the Communities’ funds were agreed, did France accept the system of ‘own resources’. And, only after the system of ‘own resources’ was accepted did France allow Britain to become a part of the Community.

Soon after Britain’s accession, it realised that it paid huge amounts as import levies, as it was a major importer of agricultural products. At the same time, it lost out on the benefits of export refunds, as it was not a major exporter of foodstuff. Furthermore, Britain’s gross contribution to the Communities’ Budget was much more than its percentage share of the Community GNP. Britain considered these to be vital issues hampering its national interest. As a result, successive governments have fought bitterly with the other Member States to rectify the problem.

In 1975, Prime Minister Harold Wilson demanded renegotiation of the terms of accession and also the peoples’ acceptance by way of a referendum. At the first formal European Council Meet at Dublin, a financial mechanism for refund of excess gross contributions was devised. But, the conditions for such a refund were so “onerous”

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70 Paul Taylor, The Limits of European Integration (London: Croom Helm Ltd., 1983), p.246

71 Colman, n.57, p.34


73 The Member State must be a net contributor; its rate of economic growth must not be more than 120 percent of the Community’s average; and, it must be experiencing a deficit on its balance of payments. If the State qualified then its rebate would be the difference between its total payments to the Budget and its percentage share of the Community’s average GNP; but the refund could not
that Britain never did benefit from it. In 1978, during negotiations for the European Monetary System (EMS), Britain again tried to get the other Member States to reduce its contributions to the Budget. But, the others did not entertain Britain, due to which Britain chose to remain outside the EMS. Once Margaret Thatcher came to power, she changed the tactics from demanding a reduction in Britain’s contribution to the Budget to stressing on the shortfall in receipts from the Budget and on the excessive net contributions. After bitter disagreements, when Mrs Thatcher demanded, “our money back”, a formula for rebates was agreed whereby Britain would be returned a sum equal to a third of its contributions. This formula was to apply till the first quarter of 1983. By the end of 1982, the issue came up for renewal. It coincided with one, the Falkland crisis, and, two, the annual EC agricultural price settlement. While Britain wanted the Community to agree on its rebates in return for Britain agreeing to the settlement of agricultural prices, the Community expected Britain to agree to the price settlement in return for the support extended to Britain on the Falkland Crisis. Both camps were not ready for a compromise. At the May 1982 Council of Agricultural Ministers Meet, Britain invoked the Luxembourg Compromise, which was rejected by the other Member States. France, normally an avid supporter of the Luxembourg Compromise, now rejected Britain’s move claiming that agricultural prices for one year could not be a vital national interest for Britain.

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73 See Chapter Five
75 Taylor, n.69, p.239
76 See Chapter 4
At the Stuttgart European Council in 1983, it was decided that a permanent solution to the British problem was essential. But, at the very next session, President Mitterrand made it clear the idea was not to find a permanent solution but to confront the problem with an ad hoc measure. This was understandable as agriculture is very dear to the French and having a ceiling on CAP expenditures would mean a ceiling on the benefits to France. Finally Germany proposed a flat rebate of one billion ecu each for the years 1984, 1985 and 1986. Britain obviously rejected the proposal as it was expecting 1.5 billion ecu per annum. The drama culminated with Britain threatening to withhold its contributions to the 1984 Budget. Finally, at Fontainebleau a compromise was arrived at and Britain accepted one billion ecu for the year 1984, and then 66 percent of the difference between Britain’s VAT contributions to the Budget and its receipts from the Budget in 1985 and future years.77

The British problem highlighted the dominance of agriculture in the Communities’ total expenditure. The Fontainebleau European Council for the first time acknowledged Germany’s position as the largest net contributor to the Budget. A rebate was granted to Germany by way of reducing its contribution to the British rebate to two-thirds of its VAT share.78 Between 1988-93, while the positions of Britain and Germany worsened, the Netherlands graduated from being a net beneficiary to a net contributor. By 1995 it became the largest net contributor.79 What used to be a British problem now started to be a general problem. Ireland, Greece,

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77 George, n.71, pp 153-9
78 Bernhard Friedman (German member of the European Court of Auditors since 1989), “A German View of Budgetary Reform”, in The Philip Morris Institute For Public Policy Research, Do We Need a New EU Budget Deal (The Netherlands: The Philip Morris Institute, 1995), p.53

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Portugal, Luxembourg, Spain, Denmark and Belgium are the largest beneficiaries even though Denmark, Belgium and Luxembourg are among the richest members of the Community. The 1990s also saw Italy and France become net contributors. An atmosphere of dissent has arisen as the British camp has become bigger. Germany and the Netherlands have publicly complained about their contributions. As a result, it is becoming more and more evident that Member States perceive transfers to the Budget as national contributions. As long as France, Italy and the Netherlands benefited from the Budget, there was no dissent but as roles have reversed they seem to be going the British way, which they had condemned in the 1980s.

**Is Agriculture in a Common Market?**

In a Common Market separate national arrangements are substituted by common arrangements, which in turn ensures a degree of protection against third-country suppliers on the one hand, and, on the other, free trade within the Common Market. While this entails forces of competition to squeeze out relatively high cost producers, it also leads to price harmonisation and free movement of goods. Does this hold in the case of agriculture? A survey of the life of the Common Agricultural Policy proves otherwise.

**Competitive Free Trade**

Economic theory says that *ceteris paribus*, if all producers produce relatively homogeneous products and if the goods are allowed to move freely, then over a period of time the price rests at the equilibrium price. This equilibrium price is the price at which demand for the good equals supply; also at this price the producer breaks even, i.e., his marginal cost equals marginal revenue. This ensures the elimination of high cost producers or uneconomic holdings from the production process. In the European
agricultural Common Market, this is not the case. This is because firstly, in the EC, agricultural prices are not allowed to adjust on their own; the Council of Agricultural Ministers administers them. Secondly, the high cost producer continues to produce as he is insulated from any free play of the market. On the one hand, the national policies are aimed at providing structural aids to such producers and, on the other; the EC’s intervention prices and export restitutions provide the producer with minimum guaranteed returns. The net result is that there is no economic efficiency in the agricultural Common Market.

**Price Harmonisation**

As mentioned above, administered common prices form the backbone of the Common Agricultural Policy, implying that one price exists across the Community. At the same time, price integration implies that price changes in one region must cause price changes in the other regions also. When a test for one price was done on basic products covered by intervention arrangements, wheat and milk, it was found that there was no price harmonisation. G. Zanias has attributed this to the existence of monetary compensatory amounts (MCAs) and non-tariff barriers. Similarly, when a test for price integration was done for lamb, it was found that though price shocks in one region eventually was fully transmitted to price changes in other regions, there

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83 A sheepmeat regime for the EC was introduced in October 1980
was a long lag in the transmission.\textsuperscript{4} The long lags indicated a slow response to price incentives by actors in the market. This is ascribed to the presence of non-tariff barriers, among other things.

\textit{Monetary Compensatory Amounts}

Since the European Community did not have a common currency, an accounting device was created called the Agricultural Unit of Account (AUA). The purpose of AUA was to translate common prices to national currencies using reference rates, called the green rates of exchange.\textsuperscript{5} The international currency stability at the time ensured that the green rates were identical to the exchange rates declared to the IMF. As a result, truly common prices existed throughout the Community.

In 1969, however, the French franc started to depreciate and finally was devalued by 11.1 percent. An equivalent devaluation of the green rate would have meant a 12.5 percent increase in French institutional prices, which in turn spelled inflation.\textsuperscript{6} This was not acceptable to the French Government. As a result, the Council of Agricultural Ministers allowed France an interim period of two years to phase in the 11.1 percent devaluation of its green rate. The existence of two rates brought about a serious distortion. Depreciation of the franc implied that French products became cheaper for the other Member States, especially the strong currency ones. Taking the case of Germany, it was found that German traders imported cheaper French grains in large quantities, which in turn started to flood the German markets. Excess supply meant


\textsuperscript{5} The green rate for each national currency is the exchange rate at which CAP prices fixed in AUA are actually translated into the different currencies of the Member States.

prices in Germany fell. In fact they touched intervention price. On the other hand, as French grain moved into German intervention, an artificial shortage was created in France, which in turn meant rise in prices in France. In short, it was profitable for France to sell its products in other Member States’ markets i.e., exports became more attractive and imports less. To counter this distortion, a levy was imposed on French exports and a subsidy was given on its imports. These levies and subsidies formed the first MCA.

The same year, Germany revaluated its D-Mark by 9.29 percent. The German Government was also not willing to revalue its green rate, as it would mean an 8.5 percent fall in the CAP prices received by German farmers. In the German case, this distortion had the exact opposite effect of the French one. Imports became more profitable and exports less. As a result, a levy was imposed on imports and a subsidy on exports.

These arrangements were to be short-term solutions, but in the course of time, they became permanent. Differing green rates suited the Member States as it introduced the element of national choice in the Community’s common price system. Even within a single Member State, different green rates were used for different products. Moreover, different rates could apply to different products at different times. As a result,

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87 Ibid., p.263
88 Agra Europe, n.81, p.2
89 For example, during 1989 the UK had different green rates for pigmeat, milk and milk products, beef and veal, crop products, and sheepmeat. These rates applied from 1 May 1989 or, if the 1989-90 marketing year for the product began after 1 May, from the start of the marketing year. See Francis Snyder, New Directions in European Community Law (London: George Weidenfeld and Nicolson Ltd., 1990), p.113
regardless of common CAP prices, green rates allowed Member States to fix national prices according to their interests, which meant food prices were far from harmonised.

Germany had always favoured higher prices. The existence of positive MCAs allowed Germany to fix national support prices at a desired higher level without having to persuade other Member States to do the same. In terms of economic welfare, Germany would have benefited from the dismantling of MCAs altogether. This was because the income gain of the German farmers by way of positive MCAs was much less than the increase in welfare of the consumers and the savings in its contribution to the Communities' budget, if all MCAs were dismantled.90 But Germany insisted that MCAs not be dismantled. This is evidence enough of the importance attached to the marginal incomes of farmers in the German society. For sharply depreciating currency countries like Britain, Italy and France, the fact that common prices were denominated in ECUs was beneficial as it meant increase in the real incomes of the farmers.91 By the same principle, the farmers of the strong currency countries experienced only small proportionate changes in their real incomes. As a result, it became a “political necessity to give German and Benelux farmers at least some proportionate increase in their prices”92, which in turn meant a much higher overall level of average price increase than is justified for the weaker currency countries as they adjusted their green rates to the leading currency—the D-Mark.

In March 1984, the Council adopted Regulation 855/84 on the calculation and dismantlement of MCAs. It was decided that all new creation of positive MCAs

90 Stefan Tangermann, “Germany’s Role Within the CAP: Domestic Problems in International Perspective”, Journal of Agricultural Economics, September 1979, Vol. XXX, No.3, p.251
should be stopped for a trial period. All green rates of exchange were to be aligned with the strongest Community currency, the D-Mark so as to create a “strong currency system”. At the same time, a new agricultural ECU was created which was set 3 percent higher than the old EMS ECU. Thus all existing negative MCAs were increased by this proportion and positive MCAs similarly reduced. This was termed the “switchover system”. The Commission was allowed to adopt “transitional measures necessary for ... avoiding disturbances following the revaluation of the representative rates of the German mark and the Dutch guilder as at 1 January 1985.” Accordingly, Germany was granted a partial relief from the payment of VAT. At the June 1984 Fontainebleau Summit, a political compromise was reached at which increased the VAT relief granted to the German farmers and also extended the period to which it applied. The legal base of this decision was Article 93(2), EEC. A French farming enterprise, supported by FNSEA brought an action for damages claiming that, as a result of the state aid, German produce flooded the French market causing prices to fall and hence also profits. Further, it claimed that dismantling of MCAs could not be termed “exceptional circumstance.” But, the Court said the exceptional

92 Agra Europe, n.81, p.8
93 If the D-Mark were to be revalued, agricultural price support levels in Germany would remain unchanged, so no new positive MCAs would be created there. But in weak currency countries, the German revaluation would convert directly into a green rate devaluation and either higher market prices or new negative MCAs. See G.H. Peters, “The Relevance of Macroeconomics to Agricultural Problems”, in Jeffery L. Round, ed., The European Economy in Perspective (Wales: University of Wales Press, 1994), p.124
96 “On application by a Member State, the Council, may acting unanimously, decide that aid which that State is granting or intends to grant shall be considered to be compatible with the common market, in derogation from the provisions of Article 92 or from the regulations provided for in Article 94, if such a decision is justified by exceptional circumstances...”
circumstance was the loss of income of German farmers, due to dismantling of MCAs, which was higher than the VAT relief originally granted. Similarly, in *Meggle Milchindustrie GmbH and Co. KG v Council of the European Communities*, the Court maintained that MCAs did not distort trade and that “although it is not without certain drawbacks, the adoption of the system of ‘green’ exchange rates is justified by the requirements of the CAP.” In *Richard Pool v Council of the European Communities*, Richard Pool, a British farmer claimed that the “... arrangements, which enable the UK government, for short-term political reasons, to favour the consumer and the Irish government to favour the producer are illegal. This system of pricing is arbitrary because it results in purely national pricing and is clearly unlawful; the clearest demonstration of this is that the UK and Ireland, which used to enjoy free trade, no longer do so, despite the fact that they continue to share a common currency.” The Court dismissed the case saying Pool could not prove that he had suffered loss because of the present arrangements. If he sold his products in Ireland, which he did not, then he would have been compensated by way of MCAs. Therefore, the Court implicitly recognised the continued use of MCAs as a means of national pricing.

**Protectionism**

The Agricultural Common Market is based on the principle of complementarities, which in turn is a delicate balance between the interests of producers and consumers.

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7 Snyder, n.89, p.116
10 In the original Six, German markets complemented the French farm surpluses, and Italian Mediterranean products complemented the North European temperate products. Expansion brought...
If the principle of free movement of goods so much as affects the domestic producer adversely, Member States do not hesitate to violate Community regulations and resort to protectionism. Along with MCAs, protectionism is a major factor hampering free trade in agricultural products in the Community. This is mainly because of the inherent need of the Member States to protect their domestic interests. Sometimes, the single-minded pursuit of national interest in this regard is reminiscent of the old aggressive nationalism that characterised the Great Powers of Europe in the past. A major part of the 1970s, for instance, was dominated with the "lamb wars" between the UK and France, which is a glaring example of Member States resorting to unfair means to protect their narrow national interests.

In 1972, the UK sheepmeat industry could cater to only 42 percent of the domestic demand. The shortfall was met by way of imports from New Zealand. The imports were mainly in the form of frozen meat. The British imports were so substantial that it could export its own fresh meat. In fact, almost 43 percent of the French lamb imports was from Britain. As French wholesalers imported the inexpensive lamb and goat meat in large quantities from the UK, the French market place was flooded, and it threatened to knock out of business France’s own uncompetitive sheep meat production. As a consequence, the French government set up a number of tariff and non-tariff barriers on the import of British sheepmeat. The National Cattle and Meat

the UK that was again an importer. Greece, Portugal and Spain catered to the increasing demand for Mediterranean fruits and vegetables. In turn, they generated demand for meat and dairy products from the North. See Keith S. Howe, "The European Agricultural Industry", in David A. Dyker, ed., The European Economy (Essex: Longman Group UK Ltd., 1992), p.331


102 In Community terminology sheepmeat includes sheepmeat and goatmeat.

103 Snyder, n.89, pp 79-80
Trades Board of France administered a threshold price. Imports were authorised only when a certain reference price quotation in France reached or exceeded the threshold price. In addition, a surcharge, the amount of which varied according to the domestic quoted reference price of sheep on the French market, was imposed on imports of live animals for slaughter and of fresh or refrigerated mutton and lamb carcases.\textsuperscript{105} In turn, the UK government pressed the Commission to take France to court, which the Commission did under Article 169. The French delegation argued that the abolition of its national organisation, at a time when a national market organisation based on deficiency payments still existed in the UK, would mean inequality in the field of competition.\textsuperscript{106} The Court, however, found France guilty on all counts. The French government declared the next day that it had no intention whatsoever of executing the judgement.\textsuperscript{107} In fact, in June 1980, France announced a cut back on lamb imports from Belgium, Holland, Germany and Ireland to 70 percent of the tonnage imported in May 1980.\textsuperscript{108} On the one hand, Finn Olav Gundelach, the EC Commissioner for Agriculture, expressed his disappointment with the French, and, on the other, all Member States unitedly condemned France. But France refused to comply.

Britain forced the Commission to begin new proceedings against France, this time non-compliance with its duty under Article 171. This prompted France to change tactics. It allowed lamb and mutton imports from the UK without any quantitative restrictions but subjected such imports to the requirement of a licence, which had to

\begin{footnotes}
\item[106] Snyder, n.89, p.76
\item[107] Rasmussen, n.104, p.339
\end{footnotes}
be obtained beforehand. Also, a charge of FF 8.50 per Kg of meat, which was at that time about 70 percent of the British price, was imposed. These measures made imports entirely uneconomical. The Commission wanted the Court to issue an interim order requiring France to end all quantitative restrictions on import of sheepmeat from the UK. But, the Court refused, saying that such a ruling would be no different from the previous one. However, according to Rasmussen, France had already refused to comply with the Court’s ruling. Another ruling of the same effect was no guarantee of France’s compliance. Another refusal would simply put the authority of the law at stake and aggravate the climate of confrontation. As a result, the Court refused to issue an interim order.

France, over the years, continued to block British meat on some pretext or the other, either that British meat did not meet the health and hygiene standards or that British cattle was infected with mad cow disease. According to Professor Loukas Tsoukalis of the London School of Economics, France is a country that has very high health standards. It is very concerned about the welfare of its people and so such bans were issued whenever there was any doubt. But, the fact that such assertions were made by the French only after being condemned by the other Member States, the Court and the Commission for taking recourse to practices equivalent to customs duties or quantitative restrictions within the meaning of Article 12 and 30 of the EEC Treaty, makes the French obsession with health and hygiene suspect.

109 Vivekanandan, n.101, p.216
109 Rasmussen, n.104, p.346
111 In an Interview in London on 17 October 2000.
It is another matter that a decade later Britain did report cases of the bovine variant of Transmissible Spongiform Encephalopathies (TSE) in its cattle, called the Bovine Spongiform Encephalopathies (BSE). And, the British government responded to this development in a manner that was not too different from its French counterpart. On the basis of the Report of the Committee of Experts, chaired by Sir Richard Southwood, the government concluded that the cattle were the “dead-end host” and not a threat to humans.\textsuperscript{112} As a result, on the one hand regulations that should have been imposed were not, and on the other, Britain continued to assure its people as well as the Community that its beef was safe. However, in 1990, the EC introduced limited export restrictions on British beef. France felt the threat to humans was considerable enough to take unilateral measures and imposed a complete ban.\textsuperscript{113} Germany also implied that its Federal Health Agency would take unilateral measures but subsequently the Ministry of Health and Agriculture jointly prepared a set of demands for the Commission in order to ensure consumer safety throughout Europe.\textsuperscript{114}

In Britain, another Committee chaired by Dr. David Tyrell FRS, came out with the Report that BSE did not really affect human health. The government on its part to show a drop in the number of cases added some of the 1993 cases to the previous years’ cases. Similarly, the government introduced a procedure in April 1994 whereby


\textsuperscript{113} G. P. E. Walzenbach, “Convergent Co-ordination Patterns in the French and German Core Executive: The Case of the BSE Crisis”, West European Politics, July 1999, Vol.22, No.3, p.68

\textsuperscript{114} Ibid.
the compensation paid to farmers was reduced by £170 per cow suspected of BSE.\textsuperscript{115} These measures discouraged farmers from reporting the cases.

At the Community level, the Health and Agriculture Council and the Standing Veterinary Committee (SVC), continued to maintain limited export bans on British beef. Only in 1996, when Britain admitted threat to humans and to the link between BSE and CJD (Creutzfeldt–Jakob Disease), did the Commission wake up to the need for amendments of the previous legislation. France and Germany unilaterally imposed complete ban on British livestock. Most of the Member States took unilateral emergency measures. These were considered to be legal, as no action had been taken at the Community level.\textsuperscript{116} On 26 March 1996 the SVC voted with a 14 to 1 majority in favour of an export ban on all British beef and beef by-products. The British reacted vigorously to this decision. They saw the ban only as a measure that would cause great economic damage to the British beef and beef products market. Prime Minister John Major made a personal telephone call to the Commission President Jacques Santer. There was a national attack on the EU heightened by the BBC and the written media. Furthermore, Britain started to block most of the Community’s internal decision-making processes in a number of policy areas. Short-term national interest took precedence over animal and human health.

These are just two examples that became quite well known. There are numerous other instances where Member States have defied Community regulations to protect their


short-term national interest. Since, agricultural products have a very short shelf life and are more prone to contaminations, it is relatively easy for Member States to use non-tariff barriers such as standards to keep other country products out of their market. Standards can be very restrictive as they prevent the sale of even slightly different products. For example, frankfurters in Germany must contain 100 percent meat, and all meat products must contain more than 50 percent meat.\footnote{Consumers in the European Community Group, 1992 (London: CECG, 1989), p.4} This means frankfurters/sausages from the UK can never enter the German market, as they never have 100 percent meat. Similarly, in Germany the Weingesetz (Wine Law) states that champagne-type bottles and stoppers may only be used for sparkling wines and certain wines made from fruits other than grapes, or from rhubarb, malt or honey. The law effectively keeps out grape wines from France, a surplus product there. For example, a partly fermented grape juice, marketed under the name Pétillant de raisin, and sold in France in a champagne-type bottle with a mushroom shaped cork with a metal cap wired to the bottle, was not allowed into Germany. The Court stated that the German legislation allows the use of such bottles for sparkling fruit based beverages which under no circumstances could be called champagne or sparkling wines; and on that count keeping the French product out amounts to discrimination.

Similarly, Belgian law authorises, in the interests of hygiene and public health, to regulate and supervise the importation, export, processing, transportation of, and trade in fish, to require a health control and inspection to be carried out on fish. In NV United Foods and PVBA Aug. Van der Abeele v Belgian State, the plaintiffs claimed that such measures amounted to quantitative restrictions, and health dues meant a
charge having an effect equivalent to a customs duty. The Court also ruled that "an inspection levy for health inspection of imported fish determined and imposed without objective justification in accordance with particular criteria concerning the nature or condition of the goods, which are not comparable to the criteria used in fixing the pecuniary charges on domestic products of the same kind, must be considered as a charge having an effect equivalent to a customs duty, prohibited by Articles 9, 12 and 13 of the EEC Treaty."

France is known to have imposed technical visa requirements, which was officially to ensure that imports confirmed with French health requirements, labelling procedures and performance specifications but in effect the visa system provided an effective barrier to imports. Similarly, France had completely banned advertisement of alcoholic beverages distilled from grain, while it was permitted for other beverages including rum and brandy. This measure effectively discriminated against the sale of British whisky and gin in France. Germany had resorted to a duty on imported spirits payable immediately whereas that payable on domestically produced spirits had six months deferment. In 1983 Greek authorities adopted measures whereby fresh beef and veal could be imported only in the form of carcasses or half-carcasses and no quarters. In addition, the proforma invoices had to describe in detail the quality of the carcasses imported and indicate the name and code numbers of the slaughterhouse

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120 PRO/TN (68) 3, "Trade Negotiations Committee: General Agreement on Tariffs and Trade, Industrial Products Committee, Inventory of Non-Tariff Barriers", 9 April 1968.
121 Ibid.
122 Ibid.
from which the meat was purchased. These are all simply means adopted by Member States to keep imports from other Member States out of their economies to protect their own products.

Reform of the CAP

Can CAP be called a successful policy? In the light of the objectives laid down in the Treaty of Rome, the answer is yes. Since the adoption of the CAP, productivity levels across the Community have increased, incomes in the farm sector have improved, markets have stabilised and there is more than a continuous and assured supply of foodstuffs. However, these objectives have been fulfilled at a cost. (a) Productivity: Though the EC enjoys a much larger supply of food at lower unit resource cost than in 1958, in the period up to the 1992 Reforms, productivity increases never exceeded the increase of agricultural productivity outside the Community. Also agricultural production in the Community has not grown as fast as industrial production since 1973. A process of modernisation of agricultural sector would have meant more people moving off the land and therefore a smaller number of farmers working on bigger farms. This would have increased productivity considerably. But, the Community’s price support system maintains even the marginal farmer in agriculture. (b) Income level: Agricultural incomes have increased considerably but they have only kept in line with incomes in activities outside agriculture. Further, the price support system tends to favour large farmers. For several major commodities the farmer

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125 Ibid.
126 Preamble to Proposals for the Reform of the CAP, EC Commission, Brussels, July 1991
does not even receive the intervention price, the minimum he ought to receive.\textsuperscript{127} The export refunds also never reach the farmers. The big operators get it and they also manipulate the system to get more from the Commission.\textsuperscript{128} Furthermore, economic theory says, a subsidy will ultimately be allocated to factors of production according to their elasticity of supply, with the biggest gain going to factors with the lowest supply elasticity. Accordingly, land, with the lowest elasticity of supply has been the major beneficiary of support. Land values and rents have risen enormously in the Community.\textsuperscript{129}

(c) Stability and secure supplies: The CAP has had astounding success in providing stability and in securing supplies. The EC long surpassed the objective of self-sufficiency and has been plagued with over production. Surpluses have grown mainly because of the price support system. Intervention prices guarantee a minimum price to the producers; with the returns increasing as the number of units produced increase. The rebates and subsidies available for export of foodstuffs also encourage producers to produce more. The price system, further maintains even the marginal farmers. It makes machinery, chemicals, fertilizers and bank loans easily available to such farmers, which in turn adds to production. Oversupply also arises due to “joint-supply”.\textsuperscript{130}

(d) CAP and Consumers: Right from the beginning it was obvious that this

\textsuperscript{127} This is because of the way the EC’s intervention system works. For example, the intervention stores do not buy milk straight from the farmer; they buy only butter and milk powder processed from milk. This means that the farmer first sells to the dairy, which subsequently sells to intervention. At the same time, milk producers will be many in number whereas dairies will be few. In times of over-production the producers compete with one another to sell to the few buyers thus depressing their returns. The dairy on the other hand gets the guaranteed price set by the EU.

\textsuperscript{128} For example, the French Company, Inter-Agra exported huge amounts of surplus wheat, beef, milk powder, butter and wine to the Soviet Union between 1970 and 1985. The Commission paid export subsidy equal to the original price at which the Commission had bought the surplus from the EU market. In addition Inter-Agra extracted an additional subsidy in the form of transport cost to the USSR from the Commission.

\textsuperscript{129} Howarth, n.53, p.64

\textsuperscript{130} For example, when demand for dairy products rose in the Community the production of milk went up naturally but it also meant farmers started to keep more cows, which reproduced every year. These
objective would clash with the objective of raising farm incomes. Since the EC has concentrated on the latter the consumers have got a raw deal. They end up paying twice for the CAP, once through higher food prices and again as taxpayers.

All the above factors imply that there were certain inherent fundamental flaws in the CAP that needed reform. As early as 1967 the man who first drafted the CAP was recalled to propose a reform of agriculture. In 1962 itself Mansholt had stressed the need for structural reforms. But, it was in the interest of the Member States to ensure increase in the farm incomes, which remained the main focus of the CAP. While structural reforms were conveniently sidetracked, commodity price support became the major instrument of the CAP. The 1968 Memorandum on the Reform of Agriculture in the EEC or the Mansholt Plan once again emphasised the need for radical reform of agriculture. Mansholt proposed: (a) small farmers must give way to "modern agricultural enterprises" of 18-20 hectares and/or 40-60 dairy cows; (b) between 1970 and 1980 at least 5 million people should be encouraged to leave agriculture with the incentive of either early retirement or retraining; (c) by 1980 about 5 million hectares of land should be transferred to alternative uses such as forestry and recreation; and, (d) dairy herd should be cut by about 3 million cows and farmers paid "slaughter premium" in return.

The Mansholt Plan was by far the most radical reform proposal but it remained just that. The Council of Agricultural Ministers failed to adopt it under pressure from the calves could be kept for future milking or for beef. Hence, demand for dairy products caused an increase in production of beef.

132 Marsh and Swanney, n.13, pp 40-1
farm lobbies in their respective countries. France was proud of the rural character of its agriculture and for Germany preserving the "family farm" was the main goal of agricultural policy. The 1973 Memorandum Agriculture 1973-1978 suggested farmers themselves should bear a proportion of the financial responsibility for disposing surpluses. The 1975 Stocktaking of the Common Agricultural Policy echoed the same sentiment. As a result, a co-responsibility levy on milk was approved by the Council with effect from 1977. The 1980s opened with the Reflections on the Common Agricultural Policy. It ended with the warning "it is time to act". Reflections was followed by the Report on the Mandate, which proposed that the rate of growth of agricultural spending should be kept below the rate of growth of the Communities own resources. The 1981 Guidelines for European Agriculture for the first time introduced the concept of production objectives that were set for 1988. The idea was not to deal with existing surpluses but to contain future production increases to not more than the expected rise in consumption.

The 1983 Common Agricultural Policy: Proposals of the Commission re-intensified the pressure to restrict price guarantees in order to relieve pressures on the budget while emphasising the need to protect the incomes of small farmers. The 1985

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133 Tugwell, n.21, p.220
135 Ingersent and Rayner, n.43, p.238
136 Ibid., p.239
138 Ingersent and Rayner, n.43, p.243
139 Fennell, n.137, p.62
Perspectives for the Common Agricultural Policy highlighted with regard to production the most urgent need to review the cereals sector, and with regard to outlets for the surplus, the need for exports to be more competitive and for farmers to take financial co-responsibility. The Subsequent White Paper, A Future for Community Agriculture favoured price restraint to quota restrictions in order to deal with surpluses. The Price Support Reforms of 1988 introduced the concept of "stabilisers" that would provide automatic reductions in the prices paid for grain, oilseeds and pulses if production in a particular year exceeded the guarantee threshold. It also proposed an acreage set-aside scheme.

Outcome of the Reform Proposals
The only significant reforms that took place till 1990 were the quotas on Community milk output, the co-responsibility levy on cereals and the decision to modify beef support arrangements. Small family farms continued to be the defining feature of farms in the Community, expenditure on the price support mechanism of the CAP continued to be the single most largest component of the Communities' Budget, the surplus continued to mount and the EC continued to finance its storage and disposal by way of export refunds. So, why is it that reforms have not been implemented? The answer lies in the national interests of the Member States.

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144 Swann, n.124, pp 258-9
First and foremost, the earliest Commissioners, who were there since the creation of the EC, had idealistic attitudes towards European integration. The subsequent Commissioners, as well as their staff, were and are increasingly conscious of their separate national identities and loyalties. Furthermore, most of the Commissioners for agriculture have come from agricultural backgrounds. Several previously held office as Minister of Agriculture in their own country. As a result, they are more inclined to be protective of the farming interests. And, as mentioned earlier, agriculture is a pampered sector in almost every Member State, and increasingly nationalistic Commissioners protect these interests in Brussels.

Secondly, the farm lobby is much better organised and more vocal than other groups like the consumer forum. They are also quite powerful and complacently placed as far as subsidies from the EC and national governments is concerned. As a result they prefer status quo. Whenever there is a proposal for reform, they manage to form strong coalitions opposing change. But, in order to have reform demands removed from the agenda, the farm lobby has to make certain concessions. These concessions may be moderate changes, such as quotas on milk production. But policy paradigms remain the same.

Thirdly, and most importantly, although it is the Commission that initiates and is primarily responsible for all proposals regarding agriculture, the final authority for the proposal to be accepted lies with the Council. The Council consisting of Agricultural Ministers of the Member States is the ultimate personification of national interest.

145 Averyt, n.2, pp 84-6
146 Ingersent and Rayner, n.43, p.265
These Ministers are aware and are driven by the interests of the farming community of their respective countries. Further, they are more concerned about the electoral gains back home. As a result, they ensure the protection of national agricultural interests. Moreover, although the Treaty of Rome had envisaged the Council decisions to be passed by qualified majority vote, in actual practice, the Luxembourg Compromise ensured that decisions were taken only by way of unanimity.\textsuperscript{14} Every member state has the right to veto any proposal if it affects its vital interests. On the one hand, this means decision-making is time consuming, and, on the other, for every decision there is a corresponding "reciprocal concession" involved. Concessions further raises commodity support price levels, which further exacerbates overproduction and increases the cost of disposal.

The 1992 Reforms

The 1992 Mac Sharry Reform was initiated in the background of internal pressures as well as external pressure by way of the GATT Uruguay Round. Mac Sharry suggested reduction of price support levels for the cereals sector. The farmers would be compensated for their loss of revenue through a system of acreage payments. Compensation would be modulated i.e. small farmers would be compensated in full but big farmers only partially. Compensation would further be linked to a land set-aside scheme.\textsuperscript{149} The Commission expected support from the liberal States – the UK, the Netherlands and Denmark – as they have always been in favour of economic


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openness. But, Britain was not so liberal as to accept modulation. The average farm size in the UK is 69 hectares as compared to the EC average of 16.5 hectares. This would imply that the producers in the UK would be significantly harder hit.\textsuperscript{150} In France, the farmers vehemently opposed both price reduction and land set-aside. They took to the streets and crippled Paris with a general strike. The magnitude and relative success of the strike suggests government support. In Germany, price reduction is anathema and as a consequence the Germans too rejected the proposals outright. The Commission then came back with a watered down version of the reform, wherein modulation was entirely done away with. This measure ensured Britain’s support but France and Germany continued with their protests. Germany finally agreed to land set-aside but not to price reduction. France on the other hand agreed to accept price reduction but not land set-aside. Finally a compromise was reached whereby there would be price reduction up to 29 percent (30 percent being the German threshold) and there would be a compulsory land set-aside of 15 percent, which would be fully compensated\textsuperscript{151}. In order to secure the support of Ireland, Italy, Portugal, Greece and Spain, it was decided that small farmers need not set aside their land and their farmers would be fully compensated for the price reductions. Further, the Mediterranean products – fruits, vegetables, olive oil and wine – were to remain untouched by reforms.\textsuperscript{152}


\textsuperscript{152} Ibid., p.397
Conclusion

During 1996, the 1992 CAP reform was finally implemented and also extended to other products not included in the original package. However, this reform package was not destined to live long.\(^{153}\) In fact as early as 1995 the Commission initiated a debate by way of the Agricultural Strategy Paper.\(^ {154}\) Subsequently, it proposed the option of developing the 1992 approach while stressing on an integrated approach to develop the rural areas. This option was suggested in its Agenda 2000.\(^ {155}\) But the fact of the matter is the guarantee expenditure of the EAGGF continues to consume a significant proportion of the EC Budget. Yes, some of this increase can be attributed to the expansion of the Community but it is also true that if expansion increased the total utilised agricultural area in the EC by nearly 40 percent then the volume of final output has increased only by less than 20 percent. The guarantee expenditure is high solely because the original Six had ensured that their northern temperate agricultural products like cereals, dairy products, beef, sugar, etc enjoyed high guaranteed price.

The CAP was one of the earliest Community internal policies. It was hailed as a step forward towards an “ever closer union among the peoples of Europe”. But right from the beginning, instead of moving towards that goal, it has been ridden with national considerations. Starting with the very extension of the Common Market to agriculture, to ensuring high guaranteed prices for the North European temperate products, to undermining structural reforms in favour of price policy, is evidence of the fact that


\(^{154}\) The Strategy Paper outlined three possible solutions to the policy problem: status quo, a radical reform, and development of the 1992 approach. The maximum support was for the first option.
national interest enjoys precedence over Community interest. A pattern can be detected here. Guaranteed prices were established for cereals, wine, sugar and dairy products – the very products in surplus production in France. The original Mansholt Plan for structural reforms in agriculture was deliberately undermined, as adopting the Reforms would have meant that farmers either give up farming entirely or partially. This in turn would have meant an attack on the basic fabric of the French economy. However, if the Mansholt Plan had been adopted then the surplus problem and budget imbalances problem faced by the Community could have been avoided. But because of national considerations, price policy got precedence over structural reforms. The guarantee price adopted for various products was higher than the national prices existing in France implying that the French farmers would get guaranteed higher returns for producing more and more. Further, the farmers could claim export restitution from the Community for disposing off the very products for which they had been subsidised once by way of guaranteed prices. This was an obvious drain on the Community’s resources. When there was a proposal to increase the powers of the European Parliament regarding the Communities' Budget, France boycotted the Community for almost six months. The link between the Communities’ Budget and CAP, which had been skilfully crafted by France to suit its interests, could not be undermined by granting even limited powers to a supranational institution, such as the European Parliament. The French government would oppose any proposal that could adversely affect French farming interests – be it the Kennedy Round negotiations or the Uruguay Round. Paris acquiesced only when it reached an agreement with Bonn.

A Franco-German tandem has been a characteristic feature in matters especially related to agriculture. This is not to say that France alone resorted to national considerations. It is only that France was always the major beneficiary of the CAP but also the one to aggressively guard national interests.

The support prices, though higher than the French national prices were lower than the German price level. Further, Germany was the major contributor to the Communities’ Budget. In other words, the German farmers were in effect subsidising the French farmers. But the introduction of MCA in 1969 and its continued existence allowed Germany to fix prices at the desired higher level. Any attempt to dismantle MCAs was fiercely fought by Germany.

As prices are administered for agricultural products in the Community and as the products may be classified as largely homogeneous, it must necessarily follow that the price of a product must be uniform throughout the Community, except for transport cost. But this is not so in the EC. The price of the same product varies considerably across the Community. This is because of the widespread use of MCAs and non tariff barriers.

The fact that Member States’ contributions to the budget were scaled to their food imports made Italy in the initial years a major contributor, as it was contributing up to the maximum level of 28 percent. This seemed unfair considering Italy’s relative economic weakness. Similarly, almost immediately after accession, Britain became a net contributor to the budget owing to its small farming sector and huge imports from third countries. Britain was aware that this would happen even before joining the EC. Britain had accepted this as the price it would have to pay for being a part of the EC.
At the time of negotiation, Britain realised it could not negotiate a change in its favour. But, once it was in, it raised this issue. Renegotiation followed by a referendum failed to solve the problem. Finally, Britain called for a permanent solution i.e. reform of the budgetary imbalance. Britain linked every possible policy issue to the problem of budgetary imbalance thereby hampering the decision-making process. While reduction of its net contributions was perceived as a vital national interest in Britain, the other Member States condemned Britain's attitude. However, as other Member States like the Netherlands, France and Italy too joined Britain as net contributors, voices of dissent were heard from these quarters as well.

The CAP needs to be reformed urgently. It is still the largest consumer of the Communities' Budget. This has to change especially because the EC attained its goal of self-sufficiency in the 1960s itself. Since then it has been accumulating surpluses. But all efforts to reform the CAP have been consistently thwarted. In the light of the ensuing expansion of the Community, the Member States are now willing to consider reforms, as it will be impossible to extend CAP in its existing form to the new members. John Marsh had predicted that CAP would be the explosive that finally wrecks all hopes of European Unity. It has not done so yet but it still has the potential.