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The European Community's Common Agricultural Policy Predicament: Exacerbation by Spain and Portugal's Entry and Proposed Solutions

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I. Introduction

The Common Agricultural Policy (CAP) is one of the most significant and comprehensive programs embarked upon by the European Community (EC or Community).[1] It is easily the most comprehensive of all Community policies both in the scope of its application and institutional involvement and in the detail of its provisions. Through CAP the Community seeks not only to control but to actively manage the agricultural market. Currently about ninety percent of the EC's agricultural products are covered by CAP.[2]

Agricultural prices are fixed each year at a common level for the Community as a whole, taking into account the rate of inflation and the need to discourage surplus production of certain commodities. When market prices fall below this level, the Community intervenes and buys the surplus, which is then stored until prices recover. Thus, farmers are assured of receiving a certain price for their products regardless of the quantity they produce.[3]

CAP also provides farmers with export subsidies which enable them to sell produce at competitive world market prices. Finally, import duties are imposed on agricultural products from non-EC countries, making EC-produced agricultural products more competitive locally.

CAP funds come from the Community budget, which is maintained through three main sources: (1) agricultural levies,

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1. CAP came into being on March 25, 1957 when the Treaty of Rome, establishing the European Economic Community, was signed. Treaty Establishing the European Economic Community, *signed* March 25, 1957, 298 U.N.T.S. 3 (effective Jan. 1, 1958). An English translation is located at 1 COMM. MKT. REP. (CCH) ¶ 151 (1971).

2. Bentil, *Attempts to Liberalize International Trade In Agriculture and the Problem of the External Aspects of the Common Agricultural Policy of the European Economic Community*, 17 CASE W. RES. J. INT'L L. 335, 354 (1985) (the only major farm products not covered by CAP are potatoes and agricultural alcohol).

3. 1 EUROPA WORLD YEARBOOK 143 (1989).

(2) duties on imported manufactures through the common customs tariff, and (3) a value added tax on consumer expenditures in member countries.[4]

Section II of this paper explores the major problems arising from CAP, such as high CAP costs, agricultural overproduction, high consumer costs for agricultural products, sinking farmer income, and complaints from non-EC countries. Section III discusses the exacerbation of these problems by Spain and Portugal's accession to the Community in 1986. Section IV covers attempts by the Community to solve these problems. Section V reviews obstacles to a solution of CAP's problems. This article concludes in section VI by proposing solutions to these problems. After all, CAP should be a driving force, instead of an increasing barrier, to further Community integration.

II. Major Problems Arising From CAP

Although CAP has experienced marked successes and continues to be a driving force behind EC integration, a number of significant problems have emerged.

A. *The Budget Crisis*

The Community is currently experiencing a budget crunch chiefly due to uncontrolled CAP farm spending.[5] In 1986 the Community faced a budget shortfall of over $1.8 billion.[6] Since 1970 the total EC budget has grown at about twenty-two percent per annum, "almost entirely a consequence of the growth in the costs of agricultural support."[7] CAP currently consumes over two-thirds of the annual Community budget.[8] This money is going to three main areas: export subsidies, price supports, and surplus storage costs.

Export subsidies to farmers account for approximately fifty percent of all Community agricultural spending.[9] Furthermore,

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4. A. Buckwell, D. Harvey, K. Thomson & K. Parton, The Costs of the Common Agricultural Policy 15 (1982) [hereinafter The Costs of CAP].

5. *EEC's Dairy Surplus: Curdling*, Economist, Aug. 30, 1986, at 45-46. *See also EEC: Farm Policy: Bust*, Economist, Mar. 1, 1986, at 50. The EC was limited to raising $44 billion for 1988, yet it committed to spending at least $51 billion. L.A. Times, Dec. 3, 1987, at IV4, col. 1 [hereinafter L.A. Times].

6. Reuters, Apr. 21, 1986 (LEXIS, Nexis library, Wires file) [hereinafter Reuters].

7. The Costs of CAP, *supra* note 4, at 2-3.

8. Europa World Yearbook, *supra* note 3, at 143.

9. *Id.*

price supports are costly because the Community is obliged to buy farmers' products at the intervention price in order to prevent prices from falling when surpluses develop. Finally, tremendous costs are associated with storing the huge agricultural surpluses generated by CAP. Nearly a fifth of Community spending on agriculture goes to storage and destruction of food surpluses.[10] The alternative to storage—selling surpluses off at bargain prices—is also very costly. For example, through a period of eighteen months between 1987 and 1988, the Community lost over 3 billion European Currency Units (ecus)[11] bringing its butter and milk-powder surplus down from 2.2 million tons to less than 500,000 tons.[12]

B. *Agricultural Overproduction and Higher Consumer Prices*

The policies of CAP have resulted in an explosion of agricultural production which has outstripped consumer demand. In most EC agricultural sectors, the long-term production growth trend is two percent per annum while consumption is rising at a mere 0.5 percent per annum.[13] Furthermore, the rise in food consumption will continue to slow because of a decline in the growth rate of the EC population,[14] leading to massive agricultural surpluses.[15]

CAP's policies have also raised the price to EC consumers of agricultural products. Import tariffs and guaranteed prices make

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10. L.A. Times, *supra* note 5, at IV4, col. 1. The cost of such storage is estimated at 38 dollars per second. Reuters, Apr. 21, 1986 (LEXIS, Nexis library, Wires file).

11. Ecus act as reserve assets and a means of settlement in the Community. Each participating currency has an ecu-related central rate used to determine bilateral exchange rates. Its value is determined by a weighted average of the currencies of all member states. A. DALTROP, POLITICAL REALITIES: POLITICS AND THE EUROPEAN COMMUNITY 169-71 (1989). The U.S. Dollar to ecu conversion rate is a little less than one-to-one. COMMISSION OF THE EUROPEAN COMMUNITIES, THE AGRICULTURAL SITUATION IN THE COMMUNITY, 1988 REPORT at Table 18 (1989) [hereinafter AGRICULTURAL SITUATION IN THE COMMUNITY].

12. *EEC Farm Surpluses: Lakes Deep, Mountains High*, ECONOMIST, Aug. 6, 1988, at 50. The Soviet Union is the biggest taker. Other ideas being considered to help remedy agricultural surpluses can be found in the example of milk surpluses. Ideas include simply destroying the oldest stocks (at a cost of 3,000 ecus per ton), using it as animal feed, using it as axle grease or as additives in paints and soaps, or processing it into a neutral oil. *EEC's Dairy Surplus: Curdling*, *supra* note 5, at 46.

13. AGRICULTURAL SITUATION IN THE COMMUNITY, *supra* note 11, at Table 164.

14. BULL. E.C. Supp. 4-1988, at 17.

15. For example, in 1986 there were stored cereal surpluses of 16 million tons, stored beef surpluses of 800,000 tons, and stored butter surpluses of more than a million tons. Reuters, *supra* note 6.

internal EC prices higher—often much higher—than they would otherwise be. This is a disguised transfer of resources from consumers to farmers.[16]

C. *Decreasing Farm Income*

Despite guaranteed prices on production, the real income of farmers in several EC countries—including France (the biggest agricultural producer in the Community), Britain, and West Germany—is falling.[17] The establishment of CAP has encouraged an excessive number of farmers to remain on the land because of ensured prices, and there is simply not enough money to go around.[18] Full-time farm work is not available in many areas of the EC, especially the Mediterranean areas.[19] This situation will undoubtedly worsen as the EC budget becomes more and more pinched.

D. *Complaints from Non-EC Countries*

CAP policies cause much resentment among countries outside the Community. For products subject to Community import duties, imports increased by a mere 14.2% between 1975 and 1984 while exports rose by 255.6%.[20] CAP has undermined the international agricultural trade of various non-EC countries by poaching their traditional overseas markets, giving rise to trade disputes between the Community and many of its major trading partners.[21] Non-EC states believe that the EC is "dumping subsidized exports to the long-term detriment of their own farmers."[22] Moreover, there is every reason to believe that fur-

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16. The total EC consumer cost, calculated by comparisons with world market prices, is estimated at about 40 billion ecus per annum. INTERNATIONAL STUDY GROUP AT THE INSTITUT FÜR EUROPÄISCHE POLITIK, COMMON AGRICULTURAL POLICY, EUROPEAN INTEGRATION AND INTERNATIONAL DIVISION OF LABOUR 33 (1987) [hereinafter EUROPEAN INTEGRATION]. For a discussion of the misallocation of economic resources caused by CAP, see THE COSTS OF CAP, *supra* note 4, at 5.

17. *Throwing Money at Farmers*, ECONOMIST, Jan. 8, 1983, at 68-69 (farm income in France, Britain, and West Germany fell by about 20% between 1974 and 1981; in Ireland it fell by 15%).

18. BULL. E.C. Supp. 4-1988, at 17.

19. *Id.* at 21 ("Almost half the farms in Germany are run on a part-time basis.").

20. EUROPEAN INTEGRATION, *supra* note 16, at 8. *See also* BULL. E.C. Supp. 4-1988, at 27.

21. Bentil, *supra* note 2, at 336-37.

22. *Throwing Money at Farmers*, *supra* note 17, at 68. The most vigorous complaints come from cereal-exporting developed countries like the U.S., Canada, and Australia. EUROPEAN INTEGRATION, *supra* note 16, at 11.

ther unification of Europe will lead to increased trade disputes with non-EC countries.[23]

III. Exacerbation of These Problems by Spain and Portugal's Entry

Although welcomed as a step in the right direction and as a triumph for the Community as a whole, the 1986 entry of Spain and Portugal into the Community caused—and continues to cause—much concern among the other member countries. Their entry has increased the number of EC farmers by fifty percent and has brought further overproduction of certain agricultural products.[24] In addition, their entry has also placed an added financial burden on the already overburdened EC budget. Finally, the expansion has exacerbated trade disputes between the Community and some of its trading partners.

A. *More Overproduction*

Spanish farmland covers an area equal to one-third of the combined farmland of the ten pre-1986 EC members.[25] Spain is the world's largest producer of olive oil, fourth largest producer of dried fruit and almonds, and sixth largest in citrus fruit.[26] Before 1986, it was also the largest exporter of farm produce to the EC after the United States and Brazil.[27] There is great fear among the Mediterranean members of the Community because of the sheer size of Spanish agriculture and because Spain's Mediterranean crops account for a third of its total farm output and are cheaper than French, Italian, and Greek crops.[28]

The main areas of concern are wine, fruits and vegetables,

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23. Zupnick, *EC-US and 1992: A Prelude to Trade Wars?*, 2 Eur. Aff. 111, 114 (1989).

24. A. Daltrop, *supra* note 11, at 176.

25. *Business Brief*, Economist, Sept. 28, 1985, at 74.

26. *Id.*

27. *Id.*

28. *Id.* The wine, fruit, and vegetable farmers of these countries have led an anti-Spain lobby and have shown that they are prepared to fight Spanish infiltration of their markets by overturning and blocking Spanish lorries at the frontiers. *Id.* French customs officials have in the past refused to admit authorized Spanish tomato imports, halting in one week at the northern border town of La Junquera some 1,000 Spanish trucks carrying 1.5 million crates of tomatoes. The French complained that Spain's tomato prices were below the minimum set by the French government. Reuters, Nov. 11, 1986 (LEXIS, Nexis library, Wires file).

and olive oil.[29] In 1984, Spain and Portugal produced 44 million hectolitres of wine.[30] This was to be added to the EC's total of 165 million hectolitres[31] (roughly 16.5 billion bottles).[32] In 1984, production was expected to overspill consumption by twenty to twenty-five percent, and this was *before* the entry of Spain and Portugal.[33] Further, the EC, already suffering an olive oil surplus, had its output increased by sixty percent by Spain's accession.[34] Spain and Portugal's entry also increased the previous supply of fruits and vegetables dramatically.[35]

B. More Spending

The entry of Spain and Portugal further taxes the Community's budget due to a substantial increase in price supports, export subsidies, and aid to farmers.[36] Spain and Portugal's entry increased the EC expenditures by fifteen to twenty percent.[37]

One substantial budgetary repercussion has already been seen with the adoption of the controversial Integrated Mediterranean Program.[38] In order to appease Greek concerns over the entry of Spain and Portugal, the Community agreed to an aid package which included $4.4 billion over seven years for Greek, French, and Italian farmers who were threatened by competition from Spain and Portugal. Of that total, Greece was to receive

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29. Dagtoglou, *The Southern Enlargement of the European Community*, 21 COMM. MKT. L.R. 149, 158 (1984).

30. *Raise a Glass to the Next Two Members*, ECONOMIST, Dec. 8, 1984, at 41.

31. *Id.*(this is the total as of 1984).

32. *Id.*

33. *Id.*

34. *Business Brief*, *supra* note 25, at 75.

35. In 1987, Spain was second only to Italy in production of fruits and vegetables. AGRICULTURAL SITUATION IN THE COMMUNITY, *supra* note 11, at Tables 200 & 202. Fresh fruits and vegetables accounted for 42% of Spain's agricultural exports in 1986. *The Grain in Spain*, ECONOMIST, Oct. 17, 1987, at 90.

36. *Now the Twelve*, TIME, Apr. 8, 1985, at 50 ("Already plagued by serious budgetary troubles—last year's deficit was an estimated $2 billion—the Community will have to come up with an additional $1 billion.").

37. Dagtoglou, *supra* note 29, at 157.

38. The real push for the Integrated Mediterranean Program began in December of 1984 when Greek Prime Minister Andreas Papandreou announced his intention to veto Spanish and Portuguese accession unless the EC agreed to a new plan to assist Mediterranean farmers who would be hurt by competition from Spanish and Portuguese farm products. N.Y. Times, Dec. 5, 1984, at A1, col. 3. Papandreou demanded $5 billion in aid over five years, $2 billion of that going to Greek farmers. This demand infuriated many Community members who argued that the Community could ill afford such extravagance and that Greece was already receiving $750 million per year more from the EC than it contributed. *Greek Threat*, TIME, Dec. 17, 1984, at 58.

$1.4 billion and agreed in return not to veto the accession.[39] Thus, even before Spain and Portugal's accession in 1986, their entry was costing the Community.

Added products from Spain and Portugal also mean a further drain on the Community budget. Spain's excess of olive oil alone doubles the cost of supporting olive growers.[40] Spain and Portugal's addition to the existing wine, fruit, and vegetable surpluses (especially wine) means added storage and destruction costs as well as added price support and export subsidy costs.

The Community's budget is further stretched by the addition of poor Spanish and Portuguese farmers whom CAP is helping support. In Spain fifteen to twenty percent and in Portugal thirty percent of the labor force works on the land.[41] Parts of Spain's agriculture are competitive with the Community, but much of it is outdated and inefficient.[42] Portugal's agriculture is even worse.[43] Beginning in 1986, the Community awarded Portugal a special ten-year aid program worth 700 million ecus in order to help push Portugal's large farm population into a competitive position vis-a-vis the Community.[44] The Community is also giving Portugal $550 million over ten years to help improve its agricultural structure.[45] Not only that, but Spain has been given $300 million to modernize its antiquated infrastructure[46] and has become part of a 420 million ecu project for developing less-favored agricultural areas.[47]

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39. N.Y. Times, Mar. 31, 1985, at A1, col. 6.

40. *Expansio Ad Absurdum*, ECONOMIST, Jan. 11, 1986, at 14.

41. *Id. See also The Grain in Spain*, *supra* note 35, at 91 ("Spain also has more farms than any member state except Italy.").

42. *Business Brief*, *supra* note 25, at 74.

43. *Big is Bad, Small is Worse*, ECONOMIST, Oct. 18, 1986, at 54. Almost one-quarter of Portugal's workforce is in agriculture, yet it earns just nine percent of the Gross Domestic Product, and productivity in some sectors is a mere fifth of that in more developed EC countries. Because of low farmer productivity, prices guaranteed to farmers are 40% higher than in other EC countries. Reuters, May 30, 1988 (LEXIS, Nexis library, Wires file).

44. AGRICULTURAL SITUATION IN THE COMMUNITY, *supra* note 11, at 21. Some 85% of Portugal's farming sector—including fresh fruit and vegetables, wine, beef, pork, eggs, and poultry—is thought to be unable to compete on equal terms with other Community produce. *Portugal and the EEC: Still Haggling*, ECONOMIST, Aug. 11, 1984, at 44.

45. *Portugal and the EEC: Still Haggling*, *supra* note 44, at 44.

46. N.Y. Times, June 19, 1988, at L14, col. 1. Spanish farmers stand to gain directly from EC handouts on special Community schemes to help Mediterranean areas and hill farmers (where Spain qualifies on both accounts). The amount of aid farmers receive from Community resources is once again that which they receive from their national government. *Business Brief*, *supra* note 25, at 74.

47. AGRICULTURAL SITUATION IN THE COMMUNITY, *supra* note 11, at 93 (1989).

C. *Increasing Complaints from Non-EC Countries*

The 1986 expansion has caused increased discord between the Community and its trading partners. For example, there was a major bilateral row between the United States and the EC on United States demands for compensation for lost grain sales to Spain as a result of Spain's entry into the Community.[48]

IV. Current Attempts by the Community to Solve its CAP Problems

Anticipating difficulties arising from Spain and Portugal's accession, the Community initiated steps to minimize such problems. Spain and Portugal have been forced to accept some difficult conditions as the price of entry.

A. *Spanish Conditions*

The Act Concerning the Conditions of Accession of the Kingdom of Spain and the Portuguese Republic and the Adjustments to the Treaties calls for the elimination of import duties between Spain and the Community over a seven- to ten-year period, depending on the product.[49] Special transitional measures have been provided for fruits and vegetables, which did not even begin phasing into the EC arrangements until 1990.[50] And while the rest of the Spanish economy is being phased into all the EC arrangements within seven years, the agricultural sector is being phased in over ten years.[51] Furthermore, a quota is being imposed on the output of Spanish wine so that Spain cannot get guaranteed prices for more than the equivalent of 27.5 million hectolitres of table wines. No more than 23.75 million hectolitres of which can actually be sold as wine—the rest is distilled into alcohol. Spain is having to drain away half of its own wine sur-

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48. The United States Administration, refusing to negotiate through normal GATT (General Agreement on Tariffs and Trade) channels, threatened the EC with retaliation in the form of a 200% tariff on specified EC goods unless a satisfactory solution could be found. Zupnick, *supra* note 23, at 114.

49. Act Concerning the Conditions of Accession of the Kingdom of Spain and the Portuguese Republic and the Adjustments to the Treaties, art. 75(1), June 12, 1985 [hereinafter *Act*].

50. *Id.* arts. 131-153. This arrangement enrages fruit growers in Valencia because they claim it puts them at a disadvantage not only against the Italians, French, and Greeks, but also against outsiders such as Israel. *Europe's Southern California*, ECONOMIST, Mar. 1, 1986 at 22, 25-26.

51. *Act*, *supra* note 49, art. 75(2).

plus (3 million hectolitres in 1985) and cut production by ten percent.[52]

B. *Portuguese Conditions*

The current timetable for Portugal calls for a transition period of four to six years (depending on the product) for products exported to the EC.[53] Fresh fruits and vegetables, wine, beef, pork, eggs, and poultry are excluded from CAP altogether for the first five years and will be included step-by-step over the following five years. The remaining fifteen percent of Portuguese agricultural products are subject to a seven-year transition period.[54]

C. *General Attempts at Reform*

Because the Community has begun to realize that CAP cannot continue without reform, a number of steps furthering reform have been taken. Unfortunately, these measures are insufficient in light of CAP's titanic problems. Current measures can be divided into two categories: production reform and budgetary reform.

1. *Production reform*

Production reform began in 1984 when the EC ministers of agriculture adopted proposals for making the agricultural sector more responsive to the level of supply and demand. They agreed to phase out Monetary Compensation Amounts (MCAs)[55] and to impose lower milk production quotas in most countries. These milk production quotas were subsequently extended to 1992.[56] Guaranteed prices for many agricultural products were frozen

52. *Business Brief*, *supra* note 25, at 75. Note however that Italy is making concessions as well to help out the wine problem. Bettino Craxi, Italy's Prime Minister, "agreed to a scheme for the compulsory purchase of surplus wine at half price or less for distillation into industrial alcohol. This would happen if prices became too low or production too high." *Raise a Glass to the Next Two Members*, *supra* note 30, at 41.

53. *Act*, *supra* note 49, art. 243(1)(a).

54. *Id.* arts. 308-18 & 324-29.

55. Monetary Compensation Amounts are added or deducted in agricultural exchanges between member states to take account of fluctuations between the reference rate of exchange ("green" currencies) and the real rate. In practice, the MCA system has led to wide variations in prices and has proven disadvantageous to any country with a weak currency that is a net exporter of agricultural products. EUROPA WORLD YEARBOOK, *supra* note 3, at 143. *See also* BULL. E.C. 1-1984, point 1.1.4.

56. EUROPA WORLD YEARBOOK, *supra* note 3, at 144.

between 1984 and 1987 as farmers were forced to accept lower prices for their above-quota production.[57] A guaranteed threshold of 160 million metric tons per year was imposed on cereals from 1988 to 1992, with excess production penalized by a cut of three percent in the guaranteed intervention price for the following year.[58] Guaranteed thresholds were imposed on oilseeds and protein crops, and subsequent meetings between the ministers of agriculture established similar limitations on the production of wine, sugar, fruits and vegetables, tobacco, olive oil, cotton, and mutton.[59]

The Community has also taken steps to reduce the amount of land under cultivation. In February of 1988, the EC Council agreed to adopt a "set aside" scheme whereby farmers are compensated for withdrawing their land from cultivation.[60] In April of 1988, a scheme encouraging early retirement of elderly farmers was adopted.[61]

Finally, at Britain's insistence, the EC has been trying to reach agreement on radical reforms in CAP that would put specific limits on the amount of subsidies paid to producers.[62] A myriad of other reforms have been proposed by the Commis-

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57. *Id.* at 143. *See also Throwing Money at Farmers*, *supra* note 17, at 69.

58. EUROPA WORLD YEARBOOK, *supra* note 3, at 143.

59. *Id.* at 144. A general ban has also been placed on all new planting of vines until August 31, 1990 to help cut the over-supply of table wine. R. FENNELL, THE COMMON AGRICULTURAL POLICY OF THE EUROPEAN COMMUNITY 171 (1987).

60. COMMISSION OF THE EUROPEAN COMMUNITIES, XXIIND GENERAL REPORT ON THE ACTIVITIES OF THE EUROPEAN COMMUNITIES 1988 271 (1989). Such a "setting aside" measure is binding on the Member States but optional for farmers. For a farmer to qualify for aid, his reduction must average at least 20% on his individual holding over a period of five years. This scheme aims at a 20% reduction in actual production. *Id.*

61. AGRICULTURAL SITUATION IN THE COMMUNITY, *supra* note 11, at 85 (farmers are eligible under the plan if farming is their chief occupation, they are over 55 years of age, and they permanently cease all farming activities). Other measures have been proposed. For example, in 1986 the EC Executive Commission recommended that free market forces be allowed to play a greater role in order to boost the competitiveness of EC farm products. The Commission wanted to cut agricultural price supports and export subsidies and reduce the ever-increasing food surpluses, which were costing the Community 10 billion ecus a year. The step was not taken because of a 5.1% drop in farm revenues in 1985. Xinhua, Feb. 6, 1986 (LEXIS, Nexis library, Wires file).

62. Britain's former Prime Minister Margaret Thatcher said that she would accept nothing less than an "unbreakable guarantee" to strictly limit farm spending. L.A. Times, Dec. 3, 1987, at IV4, col 1. Community leaders later agreed on rigorous controls—binding under law—being applied to Community agricultural expenditures. L.A. Times, Feb. 13, 1988, at I7, col. 1.

sion[63] and others, but sufficient action to solve the problem has yet to be taken.[64]

2. *Budgetary reform*

In February of 1988 the Council of the EC agreed upon a legally-enforceable ceiling on agricultural expenditures.[65] Total expenditures for each year are to be limited to 1.2% of the member country's total annual GNP by 1992.[66] The package agreed to at the February conference also provides for an increase in each country's national contribution to the EC budget.[67]

D. *Current Attempts Inadequate*

These reforms are a step in the right direction; nevertheless, more needs to be done. Despite current efforts at reform, agricultural productivity continues to rise,[68] Spain and Portugal's entry is expanding production, increases in consumption are slowing, and financial resources are exhausted.[69]

V. OBSTACLES TO A SOLUTION

Solutions to CAP's problems must be applied to a real

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63. *See, e.g.*, BULL. E.C. Supp. 4-1988, at 15; BULL. E.C. 7/8-1983, point 1.1.5 and 1.1.6.

64. R. FENNELL, *supra* note 59, at 110.

65. The annual rate of increase in spending on agricultural guarantees is not to exceed 74% of the year's increase in the Community's gross national product. BULL. E.C. 2-1988, point 1.1.1 *et. seq.*

66. EUROPA WORLD YEARBOOK *supra* note 3, at 150.

67. L.A. Times, Feb. 13, 1988, at I7, col. 1.

68. BULL. E.C. Supp. 4-1988, at 15.

69. EUROPEAN INTEGRATION, *supra* note 16, at 18-19. *See also* BULL. E.C. Supp. 4-1988, at 25. A good illustration of the inadequacy of the Community's current reforms is found in the milk production area. The quotas on milk production, instituted in 1984, have not done the job; they were set too high. In 1986, EC cattle still produced about eight million tons of milk beyond what its citizens could consume. *EEC's Dairy Surplus: Curdling*, *supra* note 5, at 46. Despite the quota system within the milk sector, the degree of self-sufficiency was only reduced from 123% to 115%. EUROPEAN INTEGRATION, *supra* note 16, at 21. This was worsened by the EC Commission's decision to allow farmers who could not fill their quota to transfer them to fellow farmers who could, thus allowing overproducers to circumvent the penal 75% tax on excess output which was introduced along with the quotas. *EEC's Dairy Surplus: Curdling*, *supra* note 5, at 46. Surplus butter is being dumped into cold storage at a rate of 100,000 tons a month! *Id.*

On the other hand, in 1986 and 1987 milk quotas were further reduced which helped to remedy this crisis situation considerably. However, as a result of these quotas, farmers switched from milk to beef production, which is not subject to any quota and is protected by guaranteed prices. Now the Community is suffering from a record 800,000 ton beef surplus. *EEC Farm Surpluses: Lakes Deep, Mountains High*, *supra* note 12, at 50.

world setting—a setting which presents a number of obstacles. First, with the accession of Spain and Portugal, the number of EC farmers increased to eleven million.[70] With these numbers, EC farmers carry a great deal of political clout, and proposals adverse to them will be difficult to push through.[71] Also, the farming community is generally considered an important part of the EC lifestyle and must therefore be treated with tact and sensitivity.

Second, revision of the agricultural provisions of the Treaty of Rome will be difficult because of the difficulty in achieving agreement by all member states to a new set of provisions.[72] Although the Treaty of Rome provides that most decisions shall be made by a qualified majority, the member countries agreed, in the "Luxembourg Compromise" of 1965, that on issues important to one or more of the member countries the Council should try to reach unanimity.[73] Since then, virtually every agricultural price policy has been made unanimously.[74] Consequently, if a member country deems a proposed change in CAP adverse to its interests, it can block its implementation.

Third, once the Community is committed to the support of a particular agricultural commodity, it is thereafter politically difficult to withdraw support. In fact, the Community has never even considered such a move.[75]

Fourth, there are other policy factors involved. Each member state must worry about its home market and its home constituency as well as about establishing security through agricultural self-sufficiency.[76] Member states believe that, if they are not producing a surplus of a particular product, they have every right to increase their production; they simply do not entertain the idea that one state should reduce production in favor of another member state enjoying a comparative advantage.[77] Finally,

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70. Xinhua, *supra* note 61.

71. *See* L.A. Times, Feb. 13, 1988, at I7, col. 1 ("France, for instance, has more than one million farmers, whose political muscle is strongly felt throughout the country.").

72. Fennell, *A Reconsideration of the Objectives of the Common Agricultural Policy*, 23 J. COMM. MKT. STUD. 257, 259 (1985).

73. C. RUNGE & H. VON WITZKE, THE MARKET FOR INSTITUTIONAL INNOVATION IN THE COMMON AGRICULTURAL POLICY OF THE EUROPEAN COMMUNITY 6 (1986).

74. *Id.*

75. Fennell, *supra* note 72, at 261.

76. Community decisions are made against a background where "usually at least one government perceives itself to be in the critical 'pre-election' state in which unpleasant changes must be avoided." EUROPEAN INTEGRATION, *supra* note 16, at 52.

77. Fennell, *supra* note 72, at 270. *See also* EUROPEAN INTEGRATION, *supra* note 16,

there is the time factor. Any major change in CAP will require a substantial implementation period. Therefore, any recent or soon to be implemented proposals will probably not bring about any immediately appreciable change. This fact, however, coupled with exigent circumstances, provides a compelling reason to begin making major changes as soon as possible.

VI. Proposed Solutions

The ultimate goal of the Community should be to make its agricultural sector much more free-market oriented. This would ultimately save the Community large amounts of money and reduce its agricultural overproduction problem. However, transitional steps must first be taken to help the farming community ease toward a more competitive market for their goods. These transitional steps would help streamline the EC agricultural system and create an agricultural sector capable of competing with the world. Once the agricultural sector has made the transition to a more free-market system, the transitional devices could be removed, allowing the free market to take over to a greater degree.

A. *Transitional Steps—Tackling an Inefficient System*

Stronger steps should be taken toward solving the Community's overproduction problems and preparing the EC agricultural market for more open competition. These steps include fostering a different attitude in the Community toward agriculture, expanding existing guarantee thresholds on production, imposing a stricter quota system, limiting guaranteed prices on production, liquidating much of the existing agricultural stocks, and turning rural land to non-agricultural uses.

A new philosophy regarding agriculture should be fostered among the agricultural population of the Community. This new philosophy should place more responsibility on producers. The market should be allowed to determine choices for the mainstream farmers. This will undoubtedly force farmers to be more efficient or leave their farms, but this is a price that is unavoidable.[78]

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at 64.

78. It is said that the argument that the redundant farm population should leave the land and seek occupation in other sectors is an entirely unrealistic solution under the conditions prevailing in parts of Italy. This is because there are hardly any alternative

More specifically, present guarantee thresholds on certain products could be expanded. These thresholds set a limit on the amount of production for which farmers can receive a guaranteed purchaser. If a farmer's production in a given year exceeds this threshold, the Community could do one of two things: simply refuse to purchase the excess, or reduce the intervention price by one to five percent for the next year, depending on the abundance of the product.[79]

Also, a new system of quotas could be imposed on agricultural production. These quotas should be based on historic levels of production and the abundance of the product. Production exceeding a given quota could be dealt with by either taxing farmers to pay for the cost of disposing of surpluses or imposing a production levy to cover the cost of exporting the surplus. If these taxes or levies are insufficient to cover the disposal or loss on exports costs, the unsecured part of the loss could be carried over to the next market year.[80]

The practice of limiting guaranteed prices on production could also be expanded, especially for products in extreme overabundance such as wine, dairy products, and olive oil. Such limitations would have to be analyzed and applied differently to each sector of production, depending on the level of overproduction and policy concerns. Taking such analysis into account, the guaranteed prices could be either increased more slowly than the present rate, completely frozen, or, in extreme cases, actually reduced.

Surplus stocks of a number of products (including milk,

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employment outlets in non-agricultural activities locally and further emigration is hampered by the industrial recession in the traditional immigration centers. Podbielski, *The Common Agricultural Policy and the Mezzogiorno*, 19 J. COMM. MKT. STUD. 331, 338 (1981).

79. This solution has already been attempted with some agricultural products. The most important sector in which it was introduced was cereals. However, owing to German intransigence, it proved impossible to implement the system as intended. The guaranteed threshold is also used for rape seed, sunflower, soybeans, cotton, fresh tomatoes, and certain processed fruits. Similar curbs exist in the tobacco and olive oil sectors. R. FENNELL, *supra* note 59, at 105-06.

80. The EC has already developed a quota system, albeit an inadequate one at present. For example, quotas exist on the production of sugar, milk (discussed *supra* Section V), and certain fruits and vegetables. However, as discussed previously, the existing quotas are insufficient to stem the current tide of over-production. R. FENNELL, *supra* note 59, at 121-22, 136, & 163-64. There are certain disadvantages to a quota system. Quotas require comprehensive administrative regulations, increase distributional conflicts, and are difficult to revoke since quota owners will fight to defend their allotment. EUROPEAN INTEGRATION, *supra* note 16, at 73.

butter, wine, alcohol, and beef) could be reduced or entirely liquidated.[81] This would be done by either selling off the surpluses at bargain prices, converting them to alternative uses where possible, or simply destroying or giving them away. Although this would cost the Community a substantial one-time sum, it would help ease current pressures against overproduction and would save money in the long term by eliminating the costs of selling surplus stocks at bargain prices[82] and reducing storage costs.[83]

Finally, an intensified effort could be made to reduce the amount of land under cultivation and the number of farmers cultivating it. First, an outgoer scheme could be introduced whereby farmers who voluntarily and permanently cease production would be compensated with retirement pensions co-financed by the Community.[84] Second, the current set-aside scheme, whereby farmers are compensated for setting aside their land from production, should be intensified with emphasis on setting aside land producing those products that are in extreme oversupply. And third, farmers could be encouraged to convert their production to non-surplus products or to non-agricultural activities such as tourism, farm-related crafts, and forestry.[85]

Many of these proposals could be adopted. However, they must be implemented gradually over several years. If the Community deems it necessary to buttress farmers' incomes during the transition, it should do so through direct payments (as is done in the United States), rather than guaranteeing prices to farmers. This would lead to less market manipulation. Farmers must be kept abreast of decisions in order to reduce uncertainty, allow a reaction time, and influence expectations.

The above steps toward a solution would not only help de-

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81. AGRICULTURAL SITUATION IN THE COMMUNITY, *supra* note 11, at 27.

82. *See* text accompanying note 11.

83. *See* text accompanying note 10.

84. Such an outgoer scheme has been developed to some extent. For example, by May 1989, almost 450,000 hectares had been set aside from farming in the Community. Germany and Italy have set aside approximately 150,000 hectares each and the United Kingdom approximately 55,000 hectares, 12,700 of which are in Scotland. However, at a Community level, with countries such as France having set aside only 15,000 hectares, the EC still has a long way to go. Origin Universal, July 3, 1989 (LEXIS, Nexis library, Wires file). Because about one-half of Europe's farmers are 55 or older, and about one-half of these have no successors, this step could meet with real success. The proportion of elderly farmers over 55 is even greater in the south. BULL. E.C. Supp. 4-1988, at 27.

85. Many of these proposals have been or will be adopted to an extent by the Community. What is needed, however, is an intensification of these efforts. AGRICULTURAL SITUATION IN THE COMMUNITY, *supra* note 11, at 86-87.

crease production but would also provide the EC budget with a much needed respite. The resulting decrease in supply would counter the effects of decreasing aid to farmers by leading to an increase in unsubsidized agricultural prices and a healthier farm sector.

B. Lowering Import Duties

Once the above transitional steps have had some time to affect EC agricultural production, a serious attempt should be made to lower existing import duties, slowly and consistently. The success of this proposition depends in great part on the cooperation of the rest of the trading world. Lowering tariffs on agriculture will best be accomplished by negotiating, through GATT,[86] reciprocal, multilateral tariff reductions in countries trading with the Community.

At the most recent round of GATT negotiations (the Uruguay Round), EC trading partners wanted the EC to go much further toward eliminating all tariff support in the long term.[87] The EC must begin taking these recommendations more seriously and realize that its agricultural duties are high relative to most of its trading partners.[88] Community leaders should look at competing imports in the overall agricultural context and try to achieve an equitable balance, while progressing toward complete barrier-free trade. This would result in a more efficient EC and world economy, concentrating on production of agricultural goods in which each country enjoys a comparative advantage.

C. Reducing Export Subsidies

Export subsidies should gradually be reduced toward near-complete elimination with an eye to negotiating reciprocal concessions from the EC's major trading partners. Again, this step should be implemented after the above transitional steps have had time to take effect. Such reductions should take into account a myriad of product-specific policy and practicality considerations. This move should proceed gradually and be accom-

86. General Agreement on Tariffs and Trade.

87. Origin Universal, *supra* note 84. However, the demand for zero import levies has been dropped, in part because the EC's largest trading partner, the United States, does not seem willing to go along with total abolition of tariff supports, just as the EC is unwilling.

88. *See* text accompanying note 21.

panied by a flow of information to farmers so that transition and displacement can occur as smoothly as possible.

It must be noted when discussing reductions of import tariffs and export subsidies that agriculture is a unique area and that complete elimination of duties and subsidies is probably unrealistic and not necessarily a worthy goal. Many countries deem maintaining a degree of agricultural self-sufficiency an important strategic objective. Also, many people feel a certain affinity to the land and consider having at least some domestic agricultural production an integral part of statehood. The Community itself must decide when intervention into its agricultural sector has been curtailed enough.

D. *Overcoming Obstacles to a Solution*

In overcoming the above obstacles to a solution, Community leaders can take a number of steps. In response to farmer clout, consumer clout could be recognized and emphasized. In 1987, farmers made up only eight percent of the Community's working population compared with twenty-one percent in 1960.[89] Furthermore, farming's contribution to the Gross Domestic Product of the Community was down to 3.4% in 1988 from 5.4% in 1970.[90] Community consumers are thus subsidizing a shrinking farming minority whose contribution to the economy is also shrinking. Farmers' clout is disproportionate to their numbers and it should therefore be emphasized to both consumers and farmers that changes in CAP are not only necessary but proper.

An information campaign could be implemented to consolidate popular support in all member countries for changes in CAP. This campaign must awaken Community members to the facts: the Community is close to bankruptcy, two-thirds of its budget is going to CAP, EC agricultural prices average well above those of the rest of the world, the farming sector is straining under the burden of too many farmers whose income is decreasing in real terms, and the farming sector is producing huge surpluses that must be stored, destroyed, or sold at bargain prices.

Furthermore, steps could be taken to change the unanimity

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89. AGRICULTURAL SITUATION IN THE COMMUNITY, *supra* note 11, at Table 96. In the space of 20 years (1965-1985) the Community's agricultural labor force declined by almost one half. BULL. E.C. Supp. 4-1988, at 19.

90. BULL. E.C. Supp. 4-1988, at 17.

voting requirement with regard to CAP decisions. One of two things could be done. First, an exception could be carved out of the Luxembourg Compromise whereby any proposed changes in CAP could not be vetoed by any one country but would be subject, rather, to a qualified majority or a simple majority vote. Or second, responsibility for CAP's budget could be transferred to either the Council of Agricultural Ministers, the Council of Finance Ministers who are directly responsible for the budget, the EC Commission, or partially to the European Parliament, who would deny approval if price adjustments violated a predetermined budget constraint.[91] The need for extreme compromise in order to get a unanimous vote to pass a proposal would thus be bypassed and the necessary steps could be taken. Of course, this would involve a substantial submission of national sovereignty to the Community.

VII. Conclusion

The time for easy solutions and minor adjustments is past; Community leaders must take brave steps in order to avoid an agricultural and budgetary catastrophe. Because Community farmers are not economically strong enough at present to compete and prosper without the CAP crutch, the above propositions are transitional, long-term steps and should not be implemented too quickly. Nevertheless, there is no reason why changes cannot be made and the situation corrected.

Also, EC leaders must deal with the realities of popular support and political backlash when making tough decisions regarding CAP. Precisely because of the long period required for change and the political volatility of the issues, the Community must begin solving the tough problems now. Otherwise these problems will bankrupt the Community or force the abrupt cessation of agricultural supports.

Christian Henrie Jensen

91. For a more comprehensive discussion of these proposals, see C. Runge & H. Von Witzke, *supra* note 73, at 27-29.