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A REVIEW OF THE COMMON AGRICULTURAL POLICY AND THE IMPLICATIONS OF MODIFIED SYSTEMS FOR IRELAND

R. O'CONNOR, C. GUIOMARD and J. DEVEREUX

BROADSHEET No. 21 *OCTOBER, 1983*

O'Connor, Guiomard and Devereux • A REVIEW OF THE COMMON AGRICULTURAL POLICY • October, 1983

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Price IR£5.50

(Special rate for students IR£2.75)

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Printed by Argus Press, Malpas St., Dublin 8

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DUBLIN, 1983

ISBN 0 7070 0060 2

Acknowledgements

We are greatly indebted to the Department of Agriculture, the Department of Finance, the Central Statistics Office, Coras Beostoic agus Feola (CBF), An Bord Bainne and the Office of the Commission of the European Communities, Dublin, for making available hitherto unpublished statistical material and for help and guidance from various officials of these organisations. In particular we wish to thank Mr Dermot Murphy, Dr E. A. Attwood, Mr T. F. Mockler and Mr J. O'Mahony of the Department of Agriculture, Mr J. Fitzpatrick and Mr M. Hanley of the CSO, Mr N. Simms and Mr J. McKenna, An Bord Bainne, and Messrs P. Moore and A. Cotter, CBF. We are also greatly indebted to Professor K. A. Kennedy, Professor D. Conniffe of The Economic and Social Research Institute and Mr J. Durkan formerly of the ESRI for reading earlier drafts and for helpful comments. Finally, we would like to thank the clerical staff of the ESRI for typing various drafts of the paper and Ms M. McElhone for preparing the manuscript for publication. The authors alone are responsible for the final draft and any errors or omissions are their sole responsibility.

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General Summary

The first chapter of this paper discusses the reasons for heavy government involvement in agricultural production and trade throughout the world and concludes that the answer is basically related to what farmers produce — food. Food is a basic primary want and rightly or wrongly there seems to be an innate fear that without market intervention supplies will be erratic and so sometimes scarce.

Other reasons put forward for agricultural support in Ireland are

(a) protection of employment in the industries dependent on farming and in the smaller towns where farmers spend their money

(b) balance of payments considerations because agricultural exports usually have a very low import content

(c) prevention of the rural exodus. Average incomes in agriculture are usually much lower than in other sectors. Hence, unless farm incomes can be maintained, the so called "flight from the land" will be hastened and pressure placed on urban amenities. Off farm jobs will also have to be produced for those leaving the land.

Most economists would agree that some level of agricultural support is necessary but a majority would probably claim that the levels in common use both in the EEC and in many other developed countries are excessive; that the high levels of support have brought about unsaleable surpluses and that more emphasis should in future be placed on supply/demand considerations. The current debate relating to the EEC Common Agricultural Policy (CAP) hinges very much on this argument.

CAP Mechanisms

Since its inception the CAP has endeavoured to adhere to three basic principles:

(1) Common prices achieved by common organisation of the market across member states:

(2) Community preference achieved among member states behind a tariff wall of protection against imports from non-member states:

(3) Common financing involving sharing the costs of the CAP on a Community basis.

The Community attempted to give these principles practical expression in the market regulations which now cover most of the major agricultural commodities. The basic philosophy underlying the Community arrangements is that the market itself should provide the producers' return. The means to achieve this are:-

(a) support buying aimed at guaranteeing a minimum level of prices at wholesale level,

(b) the regulation of imports from non-member countries, and

(c) export subsidies on produce in excess of EEC market requirements.

The CAP price support system and the various other EEC policies require considerable sums of money which are provided from three sources:

(1) Receipts from import levies under the CAP and from co-responsibility levies. These accounted for about 12.5 per cent of revenue in 1980.

(2) Receipts from the common external tariff on non-CAP goods from third countries. These made up about 34.5 per cent of revenue in 1980.

(3) A contribution not exceeding one per cent of an imputed VAT levy in each member state. This yielded the balance of revenue (i.e., 53 per cent in 1980). To date the total VAT revenue has not been used up in any year but it is expected that it will all be needed in 1983. After that, further

revenue will be required or expenditure will have to curtailed.

Of the total EEC expenditure in 1980, the FEOGA guarantee section (the price support system) accounted for 71 per cent, while the guidance section, which deals with structural reform, made up only 2.4 per cent of the budget. Social and regional policy accounted for about 9.3 per cent of payments;[1] while the remaining 16 per cent went for administration, research and development co-operation and certain repayments to member states.

The largest contributors to the budget in 1980 were Germany (29.6 per cent), the UK (20.8 per cent), France (19.2 per cent) and Italy (12.6 per cent). Ireland (0.9 per cent) was the smallest contributor except for Luxembourg. With regard to receipts from the budget, France (28.1 per cent) was the largest beneficiary followed by Germany (20.1 per cent), Italy (17.9 per cent), the UK (12.4 per cent) and The Netherlands (11.4 per cent). Despite our very small contribution, Ireland received 5.7 per cent of the budgetary payments in 1980. When receipts are deducted from contributions Germany and the UK are seen the be the main net contributors, all the other countries except Belgium and Luxembourg being net recipients. The UK subsequently received a rebate of £860 million sterling which significantly altered the balance between contributions and receipts. It continued to receive rebates of a smaller magnitude in the following years.

Development of Irish Agriculture since Entry to the EEC

The period 1970 to 1978 was the most prosperous in the history of Irish farming. Real agricultural prices had been rising since 1970 in anticipation of EEC entry and they continued to rise thereafter until 1978. The volume of agricultural output

[1]In 1981 and 1982 guarantee payments fell to about 60 per cent of the budget while social and regional policy expenditure increased to about 15 per cent.

also increased in this period, growing by almost 36 per cent or 3.9 per cent per annum. This is the highest measured growth ever achieved by Irish agriculture over such a prolonged period.

In 1979, however, the tide turned. The rise in agricultural prices in that year was only 5.8 per cent compared with a rise in input prices of 12.5 per cent. As a result, income per agricultural worker at current prices fell by 9 per cent or by 20 per cent in real terms. The 1979 decline was followed by a more severe drop in 1980 as a result of a further fall in real prices of about 18 per cent. Over the two years 1979 and 1980 the drop in real income per worker was about 34 per cent and when interest payments are deducted the overall decline over the two years was about 48 per cent. Since then incomes have improved somewhat as a result of improved real prices and a number of special EEC payments, but nevertheless conditions in agriculture are still depressed, compared with the mid-1970s.

The reason for the decline in farm incomes is easy to understand. Up to 1978 prices for farm products more than kept pace with inflation as a result of transitional increases and Green £ devaluations. In 1979, 1980 and 1981 no further transitional increases were available and the prices fixed in Brussels, which are related to average European inflation, did not keep pace with Irish inflation rates. As a result Irish farm incomes declined seriously. This is a peculiar situation. Normally high inflation is associated with currency devaluation but in this case, because of our high borrowing rate, the IR£ held steady within the EMS. The result has been that farmers were not able to obtain relief through Green £ devaluations. Nor are conditions likely to improve greatly in future years. Because of budgetary pressures the EEC has been adopting what is called a prudent price policy in recent years (declining real price levels) and this policy is likely to continue.

Contrary to popular opinion, Irish food prices are not very much out of line with other prices. In 1976 Irish real retail food prices were less than they had been in 1960 or indeed in any of the intervening years. Food prices rose above the general retail

price level in 1977, 1978 and 1979 but declined again in 1980, 1981 and 1982 when they were 12 per cent below the 1960 level.

Monetary Benefits from the CAP

Though Irish farm incomes declined seriously between 1978 and 1982, nevertheless Ireland gained considerably from the CAP even in those years. In the absence of EEC membership, conditions would probably have been much worse than they were. The effects of the CAP on our economy have been considered under two headings:-

(1) the budgetary effect which is the net transfer of resources from Brussels to Ireland and

(2) the trade transfer effect which arises because, on trade with other Community members, prices for commodities protected by the CAP are higher than on world markets.

The direct budgetary transfers are easily measured from published statistics. Transfers (in current prices) grew from £86m in 1975 to £371m in 1979 before declining to £282m in 1981. Estimation of the trade transfer effect is more complex since an appropriate standard must be found against which to measure the gain from EEC prices. World prices, although they are far from being a completely satisfactory benchmark, are used in this study. Net Irish exports are multiplied by the difference between Irish and world prices to give the estimated trade transfers. The results show a gain from trade of IR£145m in 1975 rising to IR£405 m in 1979 and declining to IR£276 m in 1981. When the budgetary and trade figures are aggregated[2] the benefits rise from IR£226m in 1975 to IR£703m in 1979 but decline to IR£558m in 1981.

The CAP also involves large domestic transfers: producers gain and consumers lose from high agricultural prices while taxpayers lose by having to contribute to the EEC budget. The

[2]In aggregating the two figures ACAs and MCAs have to be netted out (see Chapter 4, Appendix C).

magnitudes of these transfers during the period 1975 to 1981 show that consumer losses have been substantial, around IR£205 m in current prices in 1978 and 1979, but producer gains amounted to about IR£950 m in the same years.

Criticisms of the CAP

Since its inception, the CAP has been subjected to continuous and heavy criticisms. These include the following: (1) the high prices have led to surpluses which are expensive to dispose of, (2) the surpluses and their disposal costs are growing alarmingly, while consumption is almost static, (3) the CAP favours better-off farmers and thus fails to satisfy the objective of income equity, (4) surplus disposal disrupts international trade, and (5) the CAP takes so much of the total EEC budget that there are not sufficient funds for the proper development of social and regional policies.

Counter-arguments have, of course, been advanced against these criticisms. Although there have been surpluses, the Commission maintains that prices are not out of line with those in industrialised countries like the USA and Canada. It admits, however, that the problem of surplus disposal has now got out of hand and represents rises in expenditure which can no longer be justified. This applies in particular to milk, processed fruit and vegetables, and even beef. Many of the difficulties with surpluses arise from concessionary imports of beef, lamb, sugar, maize gluten and soya beans as well as cereal substitutes such as manioc. Indeed, some commentators argue that if these imports were reduced the problem of surplus disposal would be eased considerably.

It is very difficult, however, to change the treatment of concessionary imports without breaking GATT (General Agreement on Tariffs and Trade) regulations and having countervailing powers applied against industrial exports. It may

be possible to obtain some reductions but, in general, the surplus problem cannot be solved by curtailing concessionary imports. An increase in VAT payments would help considerably to ease the EEC budget problem but the French, British and Germans say they will not increase their payments unless changes are made in the CAP. Unfortunately they all want different changes and it is almost impossible to obtain agreement.

Among the changes proposed are the following:-

(1) *Income supports financed wholly or partly by national governments.* This was not taken seriously by the Commission up to now but opinions are changing, particularly in relation to income supports for small farmers.

(2) *Prudent price policies:* this policy has been in operation in recent years and as a result real prices have declined every year since 1976, except for 1982. It is likely that this policy will continue in an effort to control output and keep expenditure within present budget limits. It seems to be the most important instrument of the Commission in CAP reform.

(3) *Co-responsibility:* this is the payment of a levy by producers on production of certain commodities so as to defray the cost of surplus disposal. Currently there is a levy on milk of 1.5 to 2.0 per cent of the target price and also a levy on sugar sales. These levies cost Ireland about IR£20 million per annum in recent years. In 1979, when the EEC budget was under considerable strain, the Commission decided that the uniform levy on all milk was insufficient and that a supplementary or "super-levy" should be introduced to fund the disposal of additional milk beyond a certain basic quantity for the Community as a whole. Each farm or creamery was to be given a quota and the "super-levy" at the rate of about 50p per gallon was to be charged on all production in excess of quota. This meant that extra production would have been worthless. The recommendation for a super-levy was rejected by the Council of Ministers at the time but the idea has recently been

proposed again and there is now strong pressure for its introduction.

(4) *Quotas:* the idea of quotas has been mentioned by numerous writers as the only sane method of controlling surplus production and, indeed, the super-levy applied at farm level would in fact be a quota. In some past documents the Commission has said that it does not favour quotas and certainly most member governments are opposed to them on the grounds that they would freeze production at existing levels. Nevertheless, if surpluses continue to pile up and opposition from third countries to dumping continues, there may be little option except to introduce quotas on certain products, particularly milk.

The effect on Irish farm incomes of the above policies compared to a policy of "no restraint" (maintenance of 1982 real prices) has recently been examined by Professor S. J. Sheehy of University College, Dublin. He concludes that in order to maintain real prices at their 1982 level, the EEC budget would have to increase almost three-fold in real terms by 1990. This would be out of the question and, therefore, whether we like it or not, some other regime will have to be adopted. When the other options were examined Sheehy found that if the budget is to remain at more or less its present level, farm incomes would be reduced less by a quota system than by either price reductions or across-the-board co-responsibility levies. On the basis of his assumptions, massive price reductions would be required to control production. Hence, prudent price policies alone will not be sufficient and it looks as if some form of production curtailment will be necessary in the coming years.

As a result of exceptionally high surplus disposal costs, it is expected that the budget will be exhausted by the end of 1983. The Council has therefore asked the Commission to suggest a package of realistic proposals for the curtailment of agricultural expenditure. The proposals which were recommended by the Commission to the Council on the 28th July 1983 advocate the introduction of a milk super-levy on deliveries to dairies in excess

of 1981 amounts. The introduction of this system would have very serious implications for Ireland. We are more dependent on dairying than any of the other member states. This enterprise has a greater growth potential than any other and it is still very underdeveloped relative to that in other countries. The Agricultural Institute has pointed out that expansion of milk production in Europe is due more to increased yields than to increased cow numbers. These yields in turn are due to the availability of low priced imported cereal substitutes from third countries, positive MCAs (which give farmers in Germany, The Netherlands and the UK very high prices for milk) and high national aids which, in many cases, are illegal. It argues, therefore, that these anomalies should be rectified before artificial barriers on production are introduced.

We agree entirely with these views but we are also aware that it will not be easy to do much quickly about the various anomalies which have arisen. Some concessions will, therefore, have to be made. However, because of our high dependence on farming and on our low level of development we should argue for special conditions for Ireland and, if necessary, use our veto powers to obtain a higher threshold than the 1981 level which was exceptionally low.

Introduction

This paper describes the evolution of the Common Agricultural Policy (CAP) and the various policy instruments used in its implementation. It discusses the benefits to the Irish economy from the CAP and attempts to quantify these benefits using methodologies developed by a number of other research workers. The paper goes on to describe the attacks which have been made on the CAP over the years and the changes made in response to these criticisms. It considers in detail the pressures on the EEC budget at the present time and the suggestions which have been proposed for dealing with these. The most important of these proposals are outlined and those which might best suit the Irish economy are examined in more detail.

The paper is divided into six chapters. The first headed "Public Policy and Agriculture" describes the agricultural problem and its causes, and outlines the policies which have been used in developed countries for dealing with this problem, i.e., price and income supports, deficiency payments, etc. The second chapter deals with the evolution of the CAP from the foundation of the EEC. It describes its structure, the policy instruments employed in its administration, the advent of floating exchange rates, and the introduction of MCAs and green money changes. The chapter concludes with a short discussion of the MCA system.

Chapter 3, entitled "Developments in Irish Agriculture since EEC Membership" outlines the projections made by the government prior to entry and the outcome of these projections both in the early years up to 1978 and in more recent times when agricultural incomes went into decline. The causes of the

current agricultural depression are also discussed. Continuing with the Irish situation Chapter 4 attempts to estimate the monetary benefits from the CAP for the Irish economy as a whole. An estimate is made of (a) the budgetary effect of the CAP, i.e., the net transfer of resources from FEOGA to Ireland and (b) the net trade transfer effect resulting from trade at relatively high prices with other Community members. An estimate is also made of the gains and losses as between producers, consumers and taxpayers.

Chapter 5 outlines the criticisms which have been advanced against the CAP in recent years. These include the generation of surpluses as a result of high prices, the disruptive effect of surpluses on world markets and the use of an undue amount of funds for surplus disposal leaving very little available for social and regional policies. This chapter also shows the amounts spent on the support of different products and the contributions of the different member states towards the EEC budget. The chapter ends with a short discussion of the enlargement of the community from 9 to 12 members by the admission of Greece, Spain and Portugal.

Chapter 6 examines the various solutions which have been put forward for solving the problems of the CAP and selects the options which are considered feasible. It then reports the results of other researchers concerning the effects of each option on the EEC budget and on Irish producer and consumer surpluses. The options examined are (1) a continuation of present policies; (2) a lowering of prices in order to curb production; (3) an increase in co-responsibility levies and (4) the introduction of a quota system.

Chapter 1

Public Policy in Agriculture

Among different academic disciplines, as well as in urban and rural areas, considerable conflict surrounds discussion of agricultural prices and farmers' incomes. Where such a conflict exists it is usually a good idea to return to first principles so as to put the subject in context.

In doing this we must ask the basic question as to why there is such high government involvement in agricultural production and trade throughout the world. Ultimately, of course, the prime reason is a political one but that is not a complete answer. What is it that drives the politicians to intervene? It cannot be entirely due to the magnitude of the farm vote or to the strength of the farmers' lobby. If these were the reasons we would expect a declining interest as farm population declines, yet this is not the case. If anything the level of interest tends to grow.

In our opinion the answer is basically related to the nature of the demand for, and the supply of, farm produce. Farmers produce food which is a basic human want and rightly or wrongly there seems to be an innate fear that without market intervention supplies of this commodity could become erratic and so at times scarce. This is not an entirely far fetched idea when we consider the nature of the demand for food which is both income and price inelastic. As people get richer they do not consume much more farm produce than heretofore, nor do they place a higher value on it. They will probably eat more meat and less bread but overall quantities remain fairly stable. Hence, demand for food increases at little more than the rate of popula-

tion growth in developed countries and large shifts in the price of foods relative to other goods are unable to alter this tendency to any appreciable extent. Though a change in food prices will not affect consumption very much, a change in the quantity produced will affect prices considerably. If an agricultural commodity is scarce its price can rise considerably; if it is very plentiful the price can fall very low. Unfortunately, because of weather and other conditions there are large changes in the production of agricultural products and, hence, large price swings. For example, the average price of potatoes in Ireland rose from £27 per tonne in 1973 to £104 per tonne in 1976, dropped to £41 per tonne in 1978 and rose to £124 per tonne in 1979. And even though cattle prices are protected by the CAP, average calf prices at Bandon mart in Cork dropped from £47 per head in April 1972 to £10 per head in 1975 and rose again to £30 in 1976 and to £45 in 1977 while prices of 9–10 cwt. bullocks at marts fell from £160 per head in October 1973 to £122 per head in October 1974 and rose again to £195 per head in October 1975.

Over the years the application of improved technology has led to a steady increase in the volume of food produced in developed economies. Paradoxically, this has led to a lowering of farm incomes from the market, because farmers as a whole are penalised for output increases. As a result of the nature of the demand for food they usually receive less total revenue for a large than for a small crop and are thus victims of the progress they have helped to create. In the past some groups have tried to circumvent this by organised curtailment of production but in all cases they have been singularly unsuccessful. Generally it was not possible to enforce sufficient control of production to force up market prices except for short periods. Suggestions are sometimes made that if general quotas were introduced high prices could be maintained. The difficulty with this suggestion is the problem of administering quotas on a sufficiently widescale basis and of getting people to obey the rules. There would no doubt also be strong opposition from consumer groups.

Under the classical assumption of perfect competition, the effects of increased productivity facing an inelastic demand should lead to a rapid fall in the return to resources employed in agriculture and to an equally rapid shift of these resources out of farming. Though this may be an economically optimum situation governments seem to have been unwilling to permit this *laissez faire* solution for various reasons. Some of these are listed below:

(1) There is the self sufficiency consideration which even in peace time is by no means trivial. Few countries, and with good reason, like to be over dependent on other countries for many of their basic foods.[3]

(2) There are a number of food industries using agricultural raw materials which give considerable employment. Hence, maintenance of a reasonable level of growth in the volume of agricultural output is necessary if the level of employment in a number of such industries is to be maintained. In turn these industries provide further employment through multiplier effects.

(3) Balance of payments considerations can be put forward as another reason for supporting agriculture, either because of import saving or because agricultural exports have usually a low import content.

(4) Traditionally, average income per worker in agriculture has been considerably lower than that in other sectors. Hence, for reasons of social policy as well as for equity considerations governments everywhere have intervened in agriculture so as to support farm incomes and stem the rural exodus.

It must be kept in mind, of course, that the cost of supporting people in farming and in rural areas generally is not trivial. In 1972, the year before Ireland entered the EEC, the cost of state

[3]For a discussion of this point see Ritson (1980).

expenditure in relation to agriculture was about £113 million or 6.5 per cent of the national income in that year. In 1979 the net subvention from FEOGA,[4] most of which goes in one way or another to rural areas, was estimated at about £371 million (see Table 4.1) while there were further payments of £224 million from the national exchequer. The latter accounted for about 3.0 per cent of the national income in that year.

The above discussion indicates why special policies have to be introduced for agriculture in developed countries and how expensive these policies are. Economists would, of course, argue that every policy introduced should be appraised in some way to determine its costs in relation to the benefits expected and to consider alternatives if the benefit/cost ratio is unfavourable. Few could argue against this procedure and, indeed, if it were carried out in all cases, there are many schemes which would never have been initiated.

In practice, however, it is difficult to make realistic benefit/cost analyses of all projects. The ramifications of the benefits are so diverse that it is impossible to appraise them with any reasonable degree of accuracy. Also, there are social costs and benefits which it is impossible to appraise in financial terms. At the end of the day, therefore, there is always a judgement to be made, essentially a political judgement. The decision to pay heavy state aids to agriculture in pre-EEC days was not always easy to justify and was indeed questioned on many occasions. (See Report of State Expenditure in Relation to Agriculture (1970) and O'Connor (1969/70).) Still, successive governments rightly or wrongly persevered with the subsidisation policies, both for agriculture and manufacturing industry. Other policies could have been adopted and possibly justified on one ground or another, but even today no one can prove conclusively whether it was right or wrong to support agriculture or protect industry to the extent undertaken.

[4]These are the French initials of the European Agricultural Guarantee and Guidance Fund.

In the previous section we indicated that, at the end of the day, policies for agriculture are based on political judgements. These judgements should not, however, be ill informed. The *pros* and *cons* should be researched and presented to the decision-maker, as well as the likely consequences of any action taken.

In considering the criteria for agricultural policy, the first point to be made is that policies for the sector make little sense in isolation. The aim must be to relate development in agriculture and the allocation of resources in agriculture to development and resource allocation in the rest of the economy. In line with this objective, the first aim should be to maximise, subject to various constraints, growth in employment and in real national income per head of the whole population. This implies allocating resources to agriculture and to other sectors in such a way as to achieve this. More specifically, it entails the encouragement of efficiency in the use of resources and the avoidance of under-utilisation or unemployment of resources.

The second aim, which can be considered a constraint on the first, is the desire to achieve a greater equality of income on equity grounds. The presence, side by side, of a small number of very rich people and a large number of very poor people is not generally acceptable in modern times. But it must also be kept in mind that the problems of redistributing income from the rich to the poor are amongst the most difficult that can be encountered, and if such policies are enforced to extreme lengths, violent social upheavals will ensue. In this area, therefore, as indeed in many others, moderation must be the keyword.

Thirdly, there appears to be a consensus that some degree of stability in general price levels and hence, in food production, is desirable and should be an aim of any economic policy. We have shown above the huge variations which occur in agricultural prices. Such variations could lead to great instability in food production and could cause grave hardship to consumers. Policy must aim, therefore, to minimise such instability if at all

possible by stabilising prices. In this connection Ritson (1980) says "The aim of stabilising domestic markets is perhaps the most popular and least contentious of all agricultural policy objectives. Everyone seems to agree that overcoming the 'problem' of instability is a prize worth fighting for, and few seem to detect many costs involved in achieving it."

Summary of Policy Goals

In deriving policy goals for agricultural programmes, there appear to be four broad aims, namely, growth, efficiency, equity and stability. It must be realised, however, that to some extent these goals are in conflict with one another and that some reasonable balance needs to be struck between them.

For example, income distribution and efficiency are not always consistent aims. Large farmers with plenty of resources are usually the most efficient, whereas small farmers are generally less so. Conway (1976) has shown that reasonable progress has been achieved in Ireland by the larger and more commercialised farmers. At the other end of the scale, farms with less than 50 acres, having fewer than one labour unit, have made little contribution to overall expansion in agricultural output in recent years. If, therefore, we go for efficiency we must concentrate on the larger and better-off farmers whereas if we go for income distribution we may have to neglect the efficient in order to help the inefficient and in the process obtain little or no increase in output. In practice, of course, governments must arrive at a compromise between the conflicting goals.

With regard to stability, a few points need to be made also. Though stability of employment for all workers in the national labour force is a very important goal, we concentrate here on price stability because it is of most relevance for farmers; the latter do not worry too much about unemployment *per se* since they themselves can at least exist during periods of depression. As has been shown above, prices are the main problem and price

stability is strongly favoured by farmers since it contributes greatly to stability of income. Moderate price stability is also favoured by economists on the grounds that it leads to allocative efficiency which in turn leads to economic growth. Kaldor (1963) says that guaranteed prices announced prior to the time farmers make production decisions can greatly reduce uncertainty and this reduction can contribute to a more efficient use of agricultural resources.

While a generalised system of administered prices may, in theory, offer a superior alternative to free market pricing this may not be true in practice. Pricing to establish allocative efficiency requires that the prices be established on the basis of supply/demand criteria. This means that prices must be set at market clearing levels taking one year with another. In practice, however, prices for some products tend to be set at higher than market clearing levels, resulting in resources being channelled into production of commodities for which there is no effective demand. Inefficiency in resource allocation and product mix may thus become widespread.

Farm Income Support Policies

Considerable variations exist between the type of agricultural policies in operation in different countries and between those for different commodities within countries. Some of the more important of these policies are discussed below.

Price Supports

The most common method of supporting farm incomes in all countries, and the one most favoured by farmers, is some form of price support system.

The criteria used in fixing support prices are never clearly defined, nor are any of the people concerned in price fixing

negotiations too anxious to have clear principles enunciated. The economist would probably argue that the price should be fixed at a level which will bring forth the required supply and not at such a level as to bring forth an unsaleable surplus. The farmers' representatives would probably argue that the price for an important commodity should be such as to give average farmers a reasonable level of income and if this is greater than the market clearing level then the government should subsidise exports of surpluses. The government will probably also be concerned with the level of farmers' income but it will also have to think in terms of food prices to consumers and of the cost of surplus disposal. With such diverse interests involved, the price-fixing process becomes a matter of haggling until eventually a bargain is struck which usually depends on a number of factors.

Price support systems have, of course, their advantages and their disadvantages, with the advantages usually stressed by the farm lobby and the disadvantages by consumers and economists. The main disadvantage is that the prices fixed are seldom related to supply/demand considerations and are usually well above market clearing levels. As a result, there are practically always unsaleable surpluses which cost further money to dispose of. Also, fixed prices are very inefficient instruments for redistributing income and in many cases the effect may be perverse, i.e., they may increase income inequality. If the price fixed is aimed at adequately compensating the average sized farmer, then the small farmer is not getting sufficient, while the large farmer is over-compensated. This can be avoided by using a tiered price system (i.e., by giving higher prices for the first x units of produce delivered and lower prices for subsequent units). This type of system is difficult to administer for many products, but even for products like milk where it can be administered easily, there are usually fierce objections to its implementation by large farmers. The latter claim that it is a bar to efficiency and that if the government wish to give extra compensation to small farmers it should do so through direct income supports rather than by reducing the prices paid to the

most efficient producers. This was the argument used against a multi-tiered milk price system introduced in Ireland in the late 1960s which was later abandoned.

Among the advantages of price support systems, particularly from the farmers' point of view (and apart from the obvious one of raising farm incomes) are:-

(1) The amount of subsidy obtained through a given price support system is difficult to determine with any degree of accuracy because no one can be certain what the price level would be in the absence of the support. So called "world" prices are a very imperfect guide. These are usually the prices ruling for surplus produce resulting from high domestic prices in various countries. The level of support in a price system is, therefore, not visible. On the other hand, support systems which involve direct subsidies are visible. The amount involved can be readily computed and governments can be criticised for giving subsidies to large farmers when there are great numbers of very poor non-farmers on, or near, the poverty line.

(2) A farmer being compensated through the price system can say that he is not in receipt of any government hand-outs, that he is being paid by consumers for his produce and that if the price were lower he would not produce, or would be unable to produce.

(3) Finally, if there are guaranteed prices, a good deal of the risk and uncertainty involved in farming is eliminated. This, in turn, enables more efficient use of farm resources. As Johnson (1947) says

> If expectations are uncertain a farmer may be influenced in his decision in many ways but most particularly through his liquidity system. Capital rationing may thus play a significant role in influencing choice of factors either directly (some factors may be considered too risky by lending agents to serve as collateral) or indirectly through the imposition of certain types of risk sharing contractual relationships or through inefficient diversification.

On the basis of these effects, he argues that "the great degree of instability in the general price level must be reduced to a minimum".

With regard to the management of price fixing methods, various arrangements are in operation depending on circumstances and on the commodity involved.

In Ireland since the 1930s, the home market for important products like milk products, pigmeat, sugar beet, etc., was confined to home producers with small subsidies being paid on exports. Under the Anglo Irish Free Trade Area Agreement in 1966 the UK government paid a subsidy on certain quantities of Irish beef and lamb exported to the UK. The Irish Government decided to support from the Exchequer at the same level any elegible quantities in excess of these amounts.

Under the EEC system, prices are supported in various ways: through variable import levies which can be raised or lowered depending on internal market prices, through *ad valorem* customs duties, through intervention buying, or grants for private storage so as to take products off the market in periods of glut, through export refunds to enable surplus disposal abroad, through subsidies to manufacturers, through consumer subsidies, denaturing premiums, withdrawal subsidies, etc.

Constraints on Price Policies

The above discussion applies to largely open-ended commitments, whereby governments or the EEC support whatever price levels are agreed, regardless of how the market goes. This can often be a very costly undertaking and for many commodities, particularly those in permanent oversupply, the commitment has to be constrained in some way. The most common constraint where applicable, is a quota or contract system for some given level of output.

The advantage of quotas or contracts is that they are for specific quantities to supply a given demand. Large surpluses are thus avoided. Their disadvantages lie in the method of allocation. Who makes the allocation? Who gets a quota and

how are decisions made about the magnitude of each farmer's quota? Normally those in production, before the quota is introduced, are given an allocation on the basis of previous production but new entrants cause problems and it is difficult to devise satisfactory methods of dealing with them.

Deficiency Payments System

Under this system, which operated in the UK up to 1973 (and which is also a price support system) guaranteed prices were fixed for home production of major products of a certain standard sold at specified markets. There was no intervention in these markets, however, and imports of comparable products were allowed free of duty or at very low rates. In the case of cattle, average prices for the guaranteed commodities were calculated for each market each week and the average from all the markets was taken as the average national market price for that week. The difference between this price and the guaranteed price was the deficiency payment per unit sold for the week concerned and farmers selling standard produce in that week were paid this amount per unit on presentation of sale dockets. It paid a farmer to get the best price possible at the market because the deficiency payment was a constant for all farmers. Somewhat different methods applied for milk, cereals, pigs, etc., depending on the way the market operated for these commodities but essentially the objective was the same for all produce, i.e., a free market with guaranteed prices for home producers. The scheme as it operated in the UK was fairly open-ended up to 1964 but as a result of the Agriculture and Horticulture Act of 1964 a system of voluntary control of imports was introduced, while guaranteed payments were related to specific or standard quantities.

A scheme such as this is very suitable for a food importing country, like the UK, with a small farming sector. Its free market is supplied with food from all over the world at low prices while its own farmers are paid out of general taxation on the basis of their sales. In addition, normal marketing and distribu-

tion is not interfered with and the problems of storing and disposing of surplus produce are avoided. As a consequence, produce may be sold in a more orderly manner in a difficult marketing situation while the overall return to home producers is assured for a period ahead.

The major disadvantage of a deficiency payments scheme is that it is not very suitable for countries with large agricultural sectors and small food import requirements. In such countries the budgetary costs would be exceptionally high unless severe restrictions were imposed on the level of the deficiency payments. These payments would also be visible and would thus be subject to debate and criticism by consumer groups. The Review Body which reported in 1976 on the beef intervention scheme in Ireland (Prl. 5769) compared the costs for the EEC as a whole of the intervention system, with a deficiency payments arrangement for cattle and beef, and concluded that the budgetary cost of the latter could be up to four times greater than the former to achieve a similar degree of price and income support for producers. Furthermore, if the intervention system were changed to a deficiency system, the burden of payments would probably be shifted also. Under the intervention or price support system, food consumers in the EEC pay the biggest share of the farm price supports. Under a deficiency payment scheme, the burden would be shifted to taxpayers. Some would argue that this is as it should be, that taxpayers should help to reduce food prices for the poorer non-taxpayers. But if the sums involved are very large, as they would be within the EEC as a whole, the taxation bill would become oppressive and some states might find it impossible to collect them, particularly if a high proportion were going to subsidise well-to-do farmers and consumers in other countries.

Direct Income Support

Economists usually favour direct income payments from the government as being the most equitable method of supporting farmers' incomes.

As might be expected, farmers dislike such supports as they can be branded as hand-outs or doles. These are unflattering terms for large farmers who are often local leaders. And if the supports are paid at the local labour exchange they may be unacceptable to many. Also, like all government payments, they are visible and thus become sources of conflict between urban and rural people.

The advantage of direct income payments is that they do not interfere with the market or with the allocation of resources and also do not increase food prices to consumers. Indeed, if anything, they may tend to reduce prices. With income available from the state, farmers can afford to increase investments, thus increasing production and lowering prices.

Headage Payments

In recent years, within the EEC, cattle headage payments as a form of income support have become popular. These have certain advantages for the Community in addition to supporting incomes. If such payments are in operation, prices at the annual review can be kept lower than they otherwise might be; food is thus made cheaper to consumers and the cost of disposing of surpluses is reduced since the subvention for the latter is the difference between EEC intervention and so-called "world" prices. Also the headage payments bypass the interactions of support for joint products such as milk and beef. However, these payments, unless they are constrained in some way, have the disadvantage that the biggest farmers get the greatest benefit. Also, while in theory they can be used to shift production from products in surplus to those which are more scarce, it is difficult to prove or disprove their having had such substitution or incentive effects in Ireland. There is, however, scope for using headage payments to increase the equity of the farm support system, by paying them in disadvantaged areas, or confining them to the smaller farms.

Unfortunately if used on a very wide scale, headage payments

can be as expensive for governments as deficiency payments, and for the EEC, at any rate, they must be used selectively. A means of reducing headage grants is to pay them on extra animals in a herd such as calved heifers or calves of certain breeds. This will succeed in producing extra animals of the type supported for a short time, but unless the payment system is linked with some scheme covering the whole farm, the exercise may be of doubtful value. In order to reap short-term gains, some farmers will increase livestock numbers beyond their means of supporting such animals, particularly in winter. Markets, therefore, become glutted with unfinished cattle in autumn, prices drop and there is general dissatisfaction. Hence, when a payment scheme for extra livestock is introduced, it should be linked in some way to a winter feed production programme. An animal quality standard might also be introduced though this may be difficult to administer and some would argue that, in general, the market will take care of quality.

Price Equalisation Schemes

Policies which were considered to have merit in past years in many countries were price equalisation schemes organised by the producers themselves, the objective of which was to equalise prices over the business cycle. To operate the schemes, funds were created through the payment of levies by farmers when prices were good, with disbursements made out of the fund, in times of poor prices. Unfortunately, all such schemes seem to have been unsuccessful. The funds collected in good times were never sufficient to meet the outgoings in bad times so that the payments to farmers dried up long before the need for them ceased.

The discussion in this chapter indicates the options and difficulties facing governments and supranational institutions, like the EEC, in designing policies for agriculture. In the next chapter we indicate how the European Community is coping

with these problems through the Common Agricultural Policy (CAP). This chapter traces the evolution of the CAP, the mechanics of its operation, its financing and the problems which have arisen as a result of varying inflation rates in the different member states.

Chapter 2

Evolution of the CAP and its Mechanisms

Introduction

The Treaty of Rome, establishing the European Economic Community, was signed in 1957. The original six signatories were West Germany, France, Italy, Belgium, The Netherlands and Luxembourg. The first enlargement of the Community took place on 1 January 1973 when the United Kingdom, Ireland and Denmark became members after a long negotiation period during which France was initially reluctant to allow UK entry. It was expected that Norway would have joined along with the other three in 1973 but its application was withdrawn as a result of a national referendum. It seems that the majority of Norwegian people were unwilling to accept the proposed Common Fisheries Policy which would allow fishermen from any member state free access to the waters of all other member states (Beach to Beach Policy).[5]

The second enlargement of the Community to embrace Greece, Spain and Portugal is currently under way. Greece joined on 1 January 1981 and it was expected that the other two countries would join in January 1984. France, however, is now blocking Spanish entry and there will, therefore, be some delay about further enlargement.

The Evolution of the Common Agricultural Policy

Throughout the post-war period, European agriculture has been undergoing an enormous structural transformation from

[5]This policy has since been modified to the extent that each member state is allowed an exclusive coastal band extending 6 to 12 miles from national base lines.

basically a traditional activity towards a modern, capital intensive, high technology industry. When the European Economic Community was formed, farming still played an important role in the Community's economy, employing over 16 million people and producing 21 per cent of its aggregate GDP. However, as Table 2.1 shows, the agricultural labour force was in very rapid decline in all Community countries and because of the sheer size of the sector this decline posed problems of adjustment for the economies concerned. In those years it was possible to employ those leaving agriculture in other sectors and so the unemployment rates did not increase, except slightly in France where the rate went from 0.9 per cent in 1958 to 2.1 per cent in 1971. In all the other EEC countries there was a decline over the 1958–71 period. In Italy the unemployment rate went from 6.1 to 3.1 per cent. In West Germany from 3.0 to 0.7 per cent. In Belgium from 3.3 to 1.7 per cent and in The Netherlands from 2.4 to 1.4 per cent. Compared with present day rates these are very low figures.

Table 2.1: *Employment and GDP arising in agriculture in the EEC for selected years*

	Employment in Agriculture		*% of labour force*		*Agriculture as a % of GDP at current prices*	
	1958	1971	1958	1971	1958	1971
	(000)	(000)	%	%	%	%
West Germany	3,978	2,144	15.5	8.2	7.1	3.2
France	4,455	2,750	23.7	13.4	10.6	6.2
Italy	6,800	3,588	34.9	19.4	20.0	7.7
Belgium	310	162	8.9	4.3	7.3	3.5
The Netherlands	495	320	12.7	6.9	22.2	5.4
Luxembourg	22	11	16.8	8.1	8.7	3.7
Total EEC	16,060	8,975	22.5	12.2	20.7	5.02

Sources: Eurostat: Population and Employment 1950–1976, National Accounts various issues.

Prior to the establishment of the Community, all the countries concerned were faced with basically the same set of problems; low agricultural incomes and a rapidly declining agricultural labour force. All had widespread agricultural support policies though of different kinds depending on their farm structures and the economic conditions which they faced.

Table 2.2 examines the degree of self-sufficiency for the major agricultural products in the Community countries in the period 1956–1960. Only France and The Netherlands were major agricultural exporters.

Table 2.2: *The degree of self supply for major agricultural products 1956–1960*

	West Germany	*France*	*Italy*	*Belgium Lux.*	*The Netherlands*	*Total EEC*
			per cent			
Total Wheat	70	109	95	68	32	90
Husked Rice	—	52	143	—	—	83
Barley	65	123	48	47	39	84
Maize	2	105	79	1	—	64
Sugar	92	118	163	113	100	104
Beef and Veal	87	102	75	96	106	92
Pigmeat	94	101	94	106	146	100
Eggs	58	96	84	103	222	90
Butter	94	106	81	96	180	101

Source: Eurostat: *The Agricultural Situation in the Community* (1975).

In Table 2.3 data are presented on the size distribution of agricultural holdings within the Community in 1960. Farms generally were very small. However, the aggregate figures conceal large differences between countries. West Germany, Belgium and Italy in particular, had very small farms, a

problem worsened by considerable fragmentation of holdings. French farms, on the other hand, were much larger. Because of the widely differing conditions in European agriculture, it is not surprising that the agricultural policies adopted by Community members in the pre-EEC period varied a great deal. As a broad generalisation, countries can be fitted into one of two groups.

Table 2.3: *Farm structure: the proportion of agricultural holdings 1 hectare and over by size group in 1960*

Hectares	*West Germany*	*France*	*Italy*	*Belgium*	*The Netherlands*	*Luxembourg*	*Total EEC*
				per cent			
1 under 5	45	26	68	48.5	38	32	46
5 under 10	25	21	19	26.5	27	18	21
10 under 20	21	27	8.5	18.0	23	26	18
20 under 50	8	21	3	6.0	11	22	11
50 and over	1	5	1.5	1.0	1	2	4

Source: Marsh and Swanney (1980).

The agricultural importing countries, i.e., West Germany, Italy, Belgium and Luxembourg had adopted policies of import substitution, maintaining farm prices through various import controls, while at the same time encouraging increased domestic production through input subsidies, etc. In contrast the exporting countries, France and The Netherlands, were forced to evolve explicit price support systems through export subsidies accompanied by production controls (Tracy, 1964). While differing in detail both sets of policies were fundamentally protectionist and interventionist in nature. In an important sense, the agricultural policies that the EEC was to adopt represented a continuation at the Community level of these national policies.

In the industrial sector, the creation of a European common market involved the phased removal of all tariffs and quotas on intra-Community trade, and the imposition of a common external tariff on trade with third countries. The process, which began in 1958 when all tariffs were cut by 10 per cent, was completed successfully by mid-1968. Industrial trade liberalisation was accompanied by some easing of restrictions on the movement of labour, and the first steps were made towards the dismantling of non-tariff barriers. These successes were achieved in an international climate generally conducive to trade liberalisation. Due to GATT regulations, tariff and quota levels were quite low and the high rates of economic growth within the Community combined with the rapid expansion in world trade meant that few serious problems of adjustment arose.

The difficulties faced by the Community in easing the restrictions on agricultural trade were more daunting. Multilateral attempts at tariff reductions in this field through GATT had achieved very little. The reasons for this failure are complex. To begin with, as stated above, agriculture was protected almost universally, not only by the usual apparatus of tariffs and quotas but by a wide diversity of government aids such as support prices, input subsidies, etc. Once such support is given, it can be extremely difficult to withdraw, as interest groups become entrenched. This problem was exacerbated by the continuing low levels of income in agriculture even with high levels of protection. Governments were accordingly loath to take measures which would reduce farm living standards even further.

Agriculture, in fact, was excluded from the European Free Trade Association (EFTA) which was set up in 1959. This, however, was never a realistic option for the EEC. The Community was intended to be much more than a customs union and was seen as the first step towards eventual European political and economic union. The omission of agriculture, or indeed of any sector, would have made nonsense of such an ideal. Any arrangement which excluded agriculture, then a large sector in

the Community, would have prevented union status. At the political level, France and The Netherlands saw the formation of a common market in agricultural goods as providing them with some measure of compensation for the dismantling of industrial protection. The other countries gave concessions on the agricultural front in exchange for export markets for their industrial products. Indeed, the creation of the CAP has been seen as virtually a precondition for any move towards European unity.

The Treaty of Rome

The Treaty of Rome establishing the EEC was signed in 1957. In Article 38 of the Treaty, provision was made for a Common Agricultural Policy (CAP). The objectives of the CAP were set out in Article 39 as follows:

(a) To increase agricultural productivity by promoting technological progress and by ensuring the rational development of agricultural production and the optimal utilisation of the factors of production, in particular, labour.
(b) To ensure a fair standard of living for the agricultural community.
(c) To stabilise markets.
(d) To ensure the stability of supplies.
(e) To ensure that supplies reach consumers at reasonable prices.

In Paragraph 2 of Article 39 it was further stressed that due account should be taken of the social structure of agriculture and the disparities between the various regions. The aims are expressed in a very general manner which leave the articles open to very wide interpretations, i.e., what constitutes a "fair" standard of living or a "reasonable price" is very much a matter of opinion. Also there are possibilities for conflict between the objectives.

The Treaty directed that the commission organise a conference of member states to "compare their existing agricultural

policies and to formulate a statement of their resources and needs". The conference of agricultural experts from government and other quarters met at Stresa in 1958 and laid down a set of more specific objectives. These have been summarised by Butterwick and Rolfe (quoted in Marsh and Ritson (1971)) as

(1) To increase trade in agricultural produce between member countries and with third countries, and to eliminate all quantitative restrictions.
(2) To maintain a close correlation between structures and market policies.
(3) To achieve a balance between supply and demand, avoiding the encouragement of surpluses and giving scope to the comparative advantage of each region.
(4) To eliminate all subsidies tending to distort competition between one country or region and another.
(5) To improve the rate of return on capital and labour.
(6) To preserve the family structure of farming.
(7) To encourage rural industrialisation to draw away surplus labour, eliminate marginal farms and to give special aid to geographically disadvantaged areas.

The EEC Commission undertook to devise a policy which would give effect to these resolutions. The Commission's proposals appeared in 1960 and were adopted with some modification to form the Community's Common Agricultural Policy (CAP). There are three principles which underlie the CAP, namely:

Market Unity: that there should be a single market for any commodity coming under the CAP and a common system of marketing and pricing used throughout the Community.
Community Preference: that producers inside the Community should be always more favourably placed than competing overseas suppliers.
Financial Solidarity: the commitment of the Community to finance jointly the operation of the CAP.

The origins of these principles are somewhat obscure as they are contained neither in the Treaty of Rome nor in the Stresa conference resolutions, but Fennell (1979) has recently traced their source to a 1960 resolution of the Council of Ministers.

The CAP covered two areas:

(a) The market and prices policy was concerned with supporting markets for agricultural products. The Community adopted a price support system for nearly all agricultural products. The products currently supported (1983) and the mechanisms by which they are supported are listed in Appendix 2A. (For further details see Fennell, 1979).

(b) The structural policy attempted to improve the structure of agriculture.

The Market Policy

By the end of 1960 the Council of Ministers had agreed in principle the mechanism through which agricultural markets would be supported. Starting with the common policy for cereals which was initiated on 1 January 1962, the price levels for the main agricultural products were harmonised stage by stage. By 1968 the process was completed for most commodities and there was almost completely free agricultural trade within the Community. The details of support systems vary greatly from market to market but all the systems share some common features. Heidhues *et al* (1978) propose a very simple schema to illustrate the salient features of the Community's support mechanisms.

The Community first sets a target price for each product coming under the policy. This is intended to act as a guide price for producers. In markets where the EEC does not produce enough to meet its own needs (Market A in diagram) the price is maintained by a variable import levy. A threshold price is established below the target price level. Importers are then charged a

levy equal to the difference between the threshold and the world price level. The levy will vary inversely with the world price, but the result is that imports can only enter the Community at or above the threshold price.

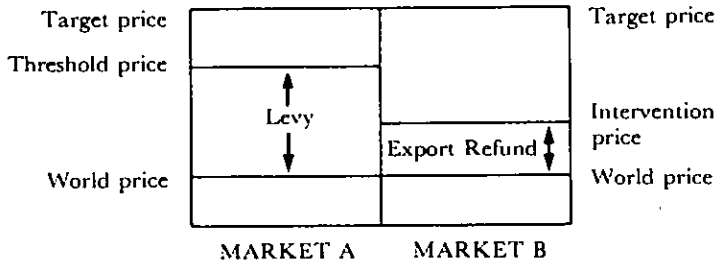


Figure 2.1: *Community systems of price support*

If the Community is self-sufficient in a commodity (Market B) import levies cannot be used to maintain its price. The Community establishes an intervention price at which it supports prices by removing some supplies from the Market. The EEC has to bear the costs of storage and disposing of these supplies.

Surpluses are disposed of in a number of ways. They are sold on the world market which requires a unit export subsidy equal to the difference between the intervention and the world price, they can be stored until market conditions improve, or they can be transformed into a non-competing food product (termed denaturing) and then sold on the EEC Market.

In one respect the system of variable import levies and export subsidies is very different from the national systems of tariffs and quotas which it replaced, in that it allows the Community to maintain a constant agricultural price level irrespective of developments on the world market. The EEC plays little part in adjusting supply and demand on the world market even when the disturbances originate in the Community. Indeed, some

authors, Johnson (1979) and Swinbank (1980) have suggested that the CAP is responsible for aggravating the instability of world markets.

It is important to note that there is a substantial EEC trade in products which escape the variable levy system, for example, oilseeds (soya bean, etc.) and manioc (Harris, 1975). The implications for the EEC of this trade is explored in more detail in Chapter 5.

The CAP apparatus established a marketing framework which, in principle, could have been quite liberal when compared with the national systems of largely quantitative controls which it replaced. The formation of the CAP allowed free trade in agricultural products within the Community, potentially allowing regions to specialise according to their comparative advantages (as determined by weather, soil, etc.) and resulting eventually in increased productive efficiency and expanded consumer choice.

Choosing the Common Price Level

Prior to the introduction of the CAP European farmers faced what was, in effect, six different national price levels. Table 2.4 presents the prices received by EEC farmers for selected products in 1961/62 and after the transition to common prices in 1968/69. Prices were, on average, highest in West Germany and lowest in France in 1961/62. Differences in price levels were quite large for some products, i.e., 50 per cent in the case of sugar and 29 per cent for wheat.

Choosing the common price levels for agricultural products was probably one of the most difficult tasks faced by the Community during its formation. The process posed a particular dilemma for the major food importers (i.e., West Germany and Italy) as high common prices would have involved them making large transfers to the net agricultural exporting countries. On the other hand, any reduction in farm price levels was bound to

Table 2.4: *The harmonisation of European agricultural prices 1961/62–1968/69: Unit prices received by producers for selected commodities.*

	Target Prices	*West Germany*	*France*	*Italy*	*Belgium*	*The Nether-lands*	*Luxem-bourg*
				UA/Tonne			
Wheat							
1961/62	—	104.3	80.8	107.5	92.0	83.2	99.8
1968/69	106.25	96.5	93.3	106.6	95.6	98.9	96.0
*Sugar beet**							
1961/62	—	17.3	11.5	14.8	11.9	14.1	—
1968/69	17.0	16.7	16.2	18.8	17.0	17.5	—
Milk							
1961/62	—	n.a.	71.1	74.8	66.2	71.3	91.0
1968/69	103.0	96.3	84.3	104.7	83.6	95.2	102.6
Beef							
1961/62	—	506.0	423.3	519.7	466.6	486.2	476.2
1968/69	680.0	628.8	658.5	704.8	667.0	726.5	612.2

Source: EEC Commission — Agricultural Markets, July 1978.
*Sugar beet corrected to standard 16% yield of sugar.

be strongly resisted by their farmers. The prices which eventually emerged were inevitably a political compromise between the member states.

Cereal prices were fixed at roughly an average of the existing price levels, but the common price levels for the other main products were set towards the upper end of the spectrum. As Table 2.4 indicates, most Community farmers appeared to receive quite a large increase in price as well as having all quantitative restrictions removed. However, over the seven year period inflation meant that the nominal price increases were in fact real price decreases in many instances.

It is also apparent from the table that quite large divergences in prices between countries existed in 1968/69, as they do to this day. Reasons for this are complex but they include differences in product quality, transport, storage and processing costs and after 1969 monetary factors (i.e., differences between central and "green" rates of exchange) as explained later (pp. 33 *et seq.*).

Not only were prices higher under the CAP than they had been under most national regimes but as Table 2.5 indicates, the average EEC price level was well above that prevailing on the world market. Another feature of the table is the large swings in the price ratio between the two periods shown, an indication of the volatility of world prices.

Table 2.5: *European Community prices as a percentage of world prices for selected products, 1968/69 and 1971/72*

	1968/69	*1971/72*
	per cent	*per cent*
Common Wheat	195	209
Durum Wheat	214	254
Husked Rice	138	205
Barley	197	185
Maize	178	176
Sugar	355	186
Beef and Veal	169	133
Pigmeat	134	131
Eggs	137	162
Butter	504	171
Olive Oil	173	153
Oilseeds	203	147

Source: Commission of the European Communities. *Agricultural Situation in the Community* 1975 Report, (page 174).

The high price levels within the Community combined with the continuing rapid pace of technological progress had the

largely foreseeable effect of stimulating production within the Community, (see Table 2.6) and resulted in changing the Community from a net importer of many foods into an important surplus producer. Particularly troublesome were the large surpluses of butter, wheat and barley, which from the inception of common pricing placed large demands on the agricultural budget.

Table 2.6 *Degree of self-sufficiency for selected agricultural products of the European Community 1956-1960 and 1970-1971*

	1956-1960	*1970-1971*
Total Wheat	90	112
Barley	84	110
Grain Maize	64	68
Rice	83	112
Sugar	104	122
Butter	102	124
Eggs	90	99
Beef and Veal	92	81
Pigmeat	100	99
Vegetable Fats and Oils	19	31

Source: Commission of the European Communities. *Agricultural Situation in the Community* 1979 Report.

Financing the CAP

Since the costs of the CAP account for a very high proportion of the EEC budget it is best to discuss CAP financing in the context of total Community expenditure. Prior to 1971 the activities of the EEC were financed from three sources (see Fennell, 1979):

(1) The proceeds of a levy on certain agricultural products imported from third countries,

(2) proceeds from an internal levy on sugar production in the Community in excess of stated quotas and

(3) payments made by member states based on a series of fixed keys or percentages based on GNP in the different states.

The third item in this group was considered to be an interim source of funds because the Treaty of Rome had made provision for the replacement of the fixed key contributions by the development of what it called the Community's "Own Resources" which should accrue to the Community as of right. Under a decision of the Council in 1970 (Council decision 70/243) "On the replacement of financial contributions from member states by the Community's Own Resource," agreement was reached that as from 1971 the Community would move to a new financial base over the coming years. This decision provided for three main sources of revenue namely:

(a) agricultural levies, made up of 90 per cent[6] of the charges arising from trade with non-member (third) countries within the framework of the CAP, together with the internal sugar levy, i.e., items (1) and (2) above,

(b) ninety per cent[6] of the proceeds of the common customs duties which are applied to imports from third countries of industrial goods and agricultural commodities not included in the CAP and

(c) a given percentage of an imputed VAT revenue of member states (not exceeding 1 per cent). An imputed rather than an actual assessment is used so that the basis of payment is uniform for each country.

It took a number of years for the complete "Own Resources" budget to become effective. The agricultural levies accrued to the Community as from the start of 1971. A proportion of the Customs Duties accrued the same year and the remainder were added over the following four years. But it was not until 1979 that the VAT contributions were operative in all countries and the system of "Own Resources" was complete.

[6]The remaining 10 per cent was retained by the member states to cover the administrative costs of collection.

FEOGA

The European Agricultural Guarantee and Guidance Fund commonly known as FEOGA after its French name (Fonds Européen d'Orientation et de Garantie Agricole) was set up in 1962 to finance the CAP. The fund was divided into two branches, the Guarantee and Guidance sections. The Guarantee section was responsible for the market and price support systems, while the funds from the Guidance section were available to support structural improvement in agriculture. Total Community expenditure under both headings increased very rapidly throughout the 1960s (Table 2.7) from 38 million UA in 1962/1963 to 2,433 million UA six years later. Nearly all of the growth was accounted for by the Guarantee section. Most of the rise up to 1968 can be attributed to the coming into operation of common prices whereby expenditures which had been previously borne by the member governments were now paid by FEOGA. Increases in expenditure were concentrated in the final years of transition 1967-69. But even after the latter date with common prices achieved, the rapid growth in Guarantee expenditure continued. These further increases were a consequence of the growing Community surpluses at high support prices. In 1968-69 expenditure on three commodities, sugar, cereals and dairy products absorbed over 65 per cent of the total agricultural budget.

Structural Policy

Structural policy has been defined by Marsh and Swanney (1980) as any attempt by a government to influence directly farm employment, farm size or the distribution and quality of the capital employed in agriculture. In practice this covers a very wide variety of policies which perhaps can be best classified under two headings, measures designed to improve farm structure in a narrow sense, through increasing farm size and withdrawing labour, and measures to increase agricultural output

Table 2.7: *FEOGA expenditure for selected years 1962/1963 to 1968/1969*

	1962/1963	*1964/1965*	*1966/1967*	*1968/1969*
Guarantee Section		*UA Millions*		
Grains	28.0	126.8	136.5	666.0
Rice	—	0.8	0.7	18.2
Vegetable Fats and Oils	—	8.0	79.3	260.8
Poultry	0.2	1.3	2.9	5.7
Eggs	0.6	1.2	0.7	1.8
Beef and Veal	—	—	—	22.0
Pigmeat	0.1	7.7	15.3	42.2
Dairy Products	—	25.2	131.7	624.0
Fruits and Vegetables	—	—	0.1	47.0
Sugar	—	—	3.4	302.0
Processed Products	—	—	—	20.0
Total Guarantee	28.9	171.0	370.6	2,009.7
Guidance Section				
Total	9.1	54.6	123.5	285.0
Special Section				138.3
Total FEOGA	38.0	225.6	494.1	2,433.0

Source: Rickard (1970).

through input subsidies (on fuels, fertilisers, etc.) capital grants and interest subsidies.

In pre-CAP days member countries had followed different national policies in these fields and a large amount of attention was paid in the discussions setting up the CAP to the serious problems of European agricultural structures. Despite these difficulties, agreement on a genuine structural policy did not

emerge. Provision was, however, made for a Guidance section in the agricultural budget, and from 1964 onwards, funds were to be made available from this source to help finance projects designed to improve farming or marketing structures. Between 1964 and 1966 a limit was fixed on expenditure from this source to one-third of that of the Guarantee section. With the rapid growth in the agricultural budget this should have translated into a large increase in the funds for the Guidance section. However, this was forestalled when in 1967 a ceiling of 285 million UA was placed on the latter.

From the creation of the CAP, structural policy was the poor relation of market and price policy. The principle of common financing was never extended to cover it, as only a small proportion of expenditure (usually 25 per cent, though more in the case of Italy) was financed by the Community, the balance coming from national budgets. While the fund may have been ostensibly designed to aid the areas within the EEC with severe problems, Table 2.8 indicates that the amounts actually paid out seem to have been more closely related to the budgetary contributions of

Table 2.8: *Assistance provided by the guidance section 1964–1971*

	Total received	*Per cent of total*
	UA (million)	
West Germany	167.8	18.3
France	219.0	23.9
Italy	407.0	44.4
Belgium	58.5	6.4
The Netherlands	52.2	5.7
Luxembourg	12.0	1.3
Total	916.6	100.0

Source: Official Journal of the European Communities.

member states. Italy may have benefited the most but it was also a large net contributor to the agricultural budget.

The attempts made to upgrade structural policy during the 1960s (notably the Mansholt Plan) largely ended in failure. This is perhaps not all that surprising. Given the large divergences in structure the countries were bound to find it rather difficult to agree on a common policy, and to this must be added the reluctance of many countries to countenance the large transfers of resources across national boundaries that a Community policy would have entailed.

In the absence of a common structural policy national aids to agriculture continued. From 1962 to 1967 the total expenditure on agriculture in the Community more than doubled (Table 2.9). Most of the market supports in the latter year were financed by FEOGA while expenditure under the other headings was borne by the national governments.

The continuance of high levels of national aids was probably inevitable given the failure to design a structural policy at the Community level. The CAP could not lessen demands for national aids to agriculture given that low income problems persisted. In addition, so long as national contributions to the Community budget were based on factors which are different from those which determined expenditure on the CAP, it was perceived by member governments to be in their national interests to encourage increased production through structural measures, though for the Community as a whole such a process was bound to be self-defeating.

The MCA System and the Departure from Common Prices

The CAP was designed in the context of a world monetary order where exchange rates were stable and expectations were that they would remain so. Farm product prices were fixed in terms of a common currency or unit of account (initially equal to the US dollar) and these prices were translated into national currencies at the relevant exchange rates.

Table 2.9: *Estimated total public expenditures on agriculture in the EEC in 1960 and in 1967*

	Social measures		*Market support*		*Structural policy*		*Other measures*		*Total*	
	1960	*1967*	*1960*	*1967*	*1960*	*1967*	*1960*	*1967*	*1960*	*1967*
					Million US dollars					
West Germany	42.2	340.6	224.2	455.9	313.4	623.4	150.9	100.6	730.7	1,520.5
France	284.4	679.9	154.2	612.2	143.5	586.1	111.3	179.0	693.4	2,057.2
Italy	32.8	52.5	11.3	156.1	347.5	585.6	89.9	129.0	481.5	923.2
Belgium	15.6	29.7	21.0	60.5	2.8	15.2	14.5	7.4	53.9	112.8
The Netherlands	2.5	4.1	78.2	230.0	49.9	81.9	3.0	6.9	133.6	322.9
Luxembourg	0.6	2.8	7.0	4.3	1.2	4.5	0.6	0.6	9.4	12.2
Total EEC	378.1	1,109.6	495.9	1,519.0	858.3	1,896.7	370.2	423.5	2,102.5	4,948.8

Source: Rickard (1970).

Towards the end of the 1960s increasing divergences in economic performance appeared between EEC members. One early consequence of this was the decision of France to devalue the franc by 11.1 per cent in August 1969 which was followed by a German revaluation of 9 per cent in September. The French devaluation lowered the value of the franc against the unit of account (giving more francs per UA) and should have had the immediate effect of raising French intervention and hence French food prices. This situation, however, was not acceptable to the French government at the time because of the inflationary effects.

The French, therefore, asked for a derogation to leave the rate of exchange for agricultural purposes between the UA and the franc at the pre-August 1969 level and so leave agricultural prices unchanged. This meant that there would now be two exchange rates between the franc and the unit of account, a market or central rate which applied to all non-CAP products and an agricultural or "green rate" which applied to CAP products. This concession was agreed to by the Council of Agricultural Ministers on the condition that French prices would be restored to Community levels in two years.

Under this arrangement France continued to set intervention prices at the levels prevailing before the devaluation, i.e., below the common prices expressed in francs at the devalued rate. This option was exercised in full for many of the major commodities, though for some products prices were aligned immediately with the full common levels. The commodities where French prices were now lower than common prices posed difficulties for the intervention system and threatened to create distortions in Community agricultural trade. Irving and Fearn (1975) use sugar to illustrate the difficulties which arose.

After the French devaluation the intervention price of sugar in Germany was 849.2 DM per tonne while the intervention price in France remained at the pre-devaluation level of 1,048.14 frs per tonne. If a French trader exported sugar to Germany and sold it there at the German intervention price, he

would receive 849.2 DM per tonne which could be changed into 1,179.15 frs at the new exchange rate of 1 DM = 1.3885 frs, i.e., a profit of 131 frs to the exporter. To equalise prices within the Community, therefore, and particularly to prevent speculators from selling French products into intervention in other member states, it was necessary to levy a charge on French exports. The amount of this levy, known as a monetary compensatory amount (MCA), was equal to the difference between the intervention price in France and the Community intervention price. This levy was paid by the exporter not alone on CAP products exported from France to other member states but also on these products exported to third countries. Such levies paid on exports are referred to as negative MCAs.

The opposite situation faced West German agricultural exports to France. As French prices were effectively lower than West German prices, the West German exports would become uncompetitive, hence to preserve the position of exporters, a subsidy was received on exports to France equal to the difference between French and EEC intervention prices. This subsidy was paid to the West German exporter by the importer.[7] Similarly for other EEC exporters to France at the time.

When the West German Mark was revalued upwards against the dollar in October 1969, the West German Government was reluctant to allow its farm prices to decline to the full extent of revaluation. The arrangements that had been made for France were applied in reverse and West Germany was allowed to gradually adjust its farm prices downwards. In this case, West German MCAs took the form of a levy paid on all West German imports and subsidies received on all West German exports of CAP products. These became known as positive MCAs.

Initially the MCA system was seen as a purely temporary expedient. However, international economic developments were to intervene and the next decade saw the MCA system

[7]Prior to the 1 July 1972 MCAs were national payments. Since that time the payments are made into and out of EEC funds, though special arrangements for collection and offsets can be made between countries with negative MCAs.

extended to the rest of the Community. MCAs were a complex addition to an already intricate CAP, placing further financial burdens on the Community's agricultural budget. Perhaps most importantly, they allowed an end to be put to common pricing which had been only a brief interlude lasting from 1967 to 1969. Throughout the 1970s, therefore, the Community was to return to a system of separate national price levels with counterbalancing MCAs paid into and out of Community funds.

The formation of the European Monetary System (EMS) in 1979 was an attempt at returning to common prices. On the introduction of the system, MCAs were reduced in most member states and their levels were fixed so long as exchange rates remained fixed within the EMS. Though the UK did not join the system a combination of green exchange rate devaluations and a strengthening currency turned substantial negative MCAs into positive ones between 1979 and 1982. But with a weakening of the £ sterling a zero rate emerged in February 1983 and a negative rate in mid-March of that year.

The figures in Table 2.10 show that positive MCAs have been maintained since 1978 in West Germany and The Netherlands, the countries with strong currencies in the EMS. MCAs have been abolished in Ireland since 1979 and in Denmark for all dates shown except 1982. In France MCAs were negative at all the dates except 1981 and 1982 when they were zero. MCAs were positive in Belgium up to 1981 but they have been negative since then. Italy has had negative MCAs on all the dates shown while a negative rate has now emerged in Greece.

Though the EEC Commission does not favour the MCA system and would like to see it phased out entirely, there are many who would argue that the system has saved the CAP on numerous occasions in the past through its effects on prices, particularly negative MCAs, which enable a country to keep its food prices below the Community level. There are times when it may not be politically feasible for a country to have very high food prices and the MCAs, by allowing for different green and central rates of exchange, can be used to prevent this happening.

Table 2.10: *Monetary compensatory amounts for main products* payable as at 1 March 1978–1983 (percentages)*

Country	*1978*	*1979*	*1980*	*1981*	*1982*	*1983*
Ireland	-4.2	-3.0	0	0	0	0
Denmark	0	0	0	0	-1.8	0
France	-21.5	-10.6	-3.7	0	0	-5.3
West Germany	+7.5	+10.8	+9.8	+8.8	+8.0	+8.4
Belgium	+1.4	+3.3	+1.9	+2.2	-8.1	-3.1
The Netherlands	+1.4	+3.3	+1.9	+2.2	+4.0	+5.4
United Kingdom	-25.1	-28.2	0	+18.2	+8.1	0
Italy	-16.5	-17.7	-6.7	-1.0	-4.9	-2.3
Greece	—	—	—	0	0	-10.5

*The same rate does not apply for all products within certain states. In recent years particularly, there are different rates within some countries for milk, wine, pork and poultry products. The variation in rates within countries is usually small.

Source: Official Journal of the European Communities, different issues.

They accomplished this in France in 1969 and on many occasions in the UK since then.

Indeed at one stage, when the £ sterling was devaluing, the difference between the central and the green exchange rate in the UK was as high as 36 per cent. Had the government been forced to bring the two rates into line at the time the resulting increase in food prices could hardly have been tolerated. In the opposite situation, positive MCAs in West Germany (because of a very strong currency) enable the government to pay higher prices to farmers than would otherwise be the case.

A disadvantage of MCAs is that they are paid only on products covered by the CAP. They do not apply to farm inputs like fertilisers, oil, machinery, certain feeds and various other farm materials. Thus, though farmers in weak currency countries may be paying heavy MCAs on exports of agricultural products they receive no compensatory rebates on the imports of their production materials. Similarly in countries with positive MCAs farmers receive subsidies on their agricultural exports

but do not have to pay levies on the imports of their agricultural inputs.

A further disadvantage of MCAs as far as Ireland is concerned is their effect on smuggling. When the UK had lower prices than those obtaining in the Republic a tax was payable on exports from the UK to Ireland so as to equalise prices in the two countries. Traders, however, thwarted this objective to a considerable extent by smuggling produce from Northern Ireland without paying the MCA tax. Norton (1983) has established that in 1977, 1978 and 1979, when the UK had higher negative MCAs than the Republic, the unrecorded movements of live pigs into the Republic were 299,000, 285,000 and 198,000, respectively.

In more recent years when the UK had higher prices than the Republic and an MCA tax was payable on exports to the UK, smuggling was in the opposite direction. In these years there were reports of heavy unrecorded movements of cattle from the Republic into Northern Ireland resulting in scarce supplies at meat factories in the Republic and boom conditions in Northern Ireland plants. This large scale smuggling leads to great business instability, particularly in the case of livestock. When the movements are from South to North, meat plants in the South are hard hit and some have to close down. When the movements are in the opposite direction Northern plants have scarce supplies.

If the same agricultural price levels obtained in the two parts of the island (as indeed was envisaged when the Common Market was founded) smuggling would cease. In spite of the practical and political problems of achieving this objective the aim must always be to move in that direction.

Certain anomalies arise from time to time in regard to the application of the MCA system, whereby countries deliberately apply the rules in such a way as to make illegal gains on trade with other countries. These and many other similar anomalies eventually become ironed out (very often through litigation) and for that reason they are not a fundamental threat to the future of the CAP. We refrain therefore from discussing them here.

Appendix 2: *Commodities according to the main measures applied under the price and market regimes*

Product	*Measure*														
	Target price	*Guide price*	*Norm price*	*Basic price*	*Intervention price*	*Withdrawal price*	*Minimum price*	*Production aid*	*Deficiency payment*	*Threshold price*	*Sluice-gate price*	*Reference price*	*Variable levy*	*Supplementary levy*	*Customs duty*	*Export refund*
Common wheat	x				x					x		x	x			x
Durum wheat	x				x			x[a]		x			x			x
Barley	x				x					x			x			x
Rye	x				x					x			x			x
Maize	x				x					x			x			x
Rice	x				x					x			x			x
Sugar:																
white	x				x					x			x			x
beet				x			x									
Oilseeds:																
colza	x				x				x							
rape	x				x				x							
sunflower	x				x				x							
soya beans		x					x		x							
linseed		x							x							
castor		x					x		x							
cotton		x					x		x							
Peas and field beans	x[b]						x		x							
Dried fodder		x						x	x							
Fibre flax and hemp								x								
Milk products:																
milk	x															
butter					x					x			x			x
skim milk powder					x					x			x			x
cheese[c]					x					x			x			x
Beef:																
live		x														
meat					x			x[a]					x		x	x
Sheepmeat				x	x				x				x			x
Pigmeat				x	x						x			x		x
Eggs											x			x		x
Poultry											x			x		x
Fish		x			x[d]	x						x			x	x
Silkworms								x								
Fresh fruit & veg.				x		x						x			x	x
Live plants															x	
Olive oil	x				x			x	x[e]	x			x			x
Wine		x			x[f]		x					x			x	x
Hops								x							x	
Seeds for sowing								x				x[g]				
Tobacco			x		x				x					x	x	

(a) certain regions only: (b) activating price: (c) Italy only: (d) sardines and anchovies only: (e) olive oil consumer subsidy: (f) wine storage contracts and distillation: (g) hybrid maize only.

Source: Fennell, 1979, brought up to date from *Green Europe 1981*; Nos. 188 and 189.

Chapter 3

Developments in Irish Agriculture since EEC Membership

After a prolonged period of negotiation three new members — the UK, Ireland and Denmark — joined the European Economic Community on the 1st January 1973 bringing the number of members from six to nine. This new alliance was probably the most important event in Irish history since independence. As Sheehy (1980a) has said:

> The agricultural industry had struggled through the 1960s in the adverse circumstances familiar to all food exporters in that period of over supply. Between 40 and 50 per cent of Irish Agricultural Output was exported and four-fifths of this went to the UK, one of the lowest priced food markets in the world. Though certain preferential treatment was available on that market, particularly since the Anglo Irish Free Trade Area Agreement in 1966, nevertheless returns were not very attractive. Farmers' incomes were under constant pressure and successive Irish Governments were obliged to help by increasing State aid to the industry. Between 1960 and 1970 Government expenditure on farm price supports grew from 3.6 to 19.5 per cent of aggregate farm income and in the latter year the price support bill accounted for 2.6 per cent of GDP at factor cost. But even this considerable increase in State support was insufficient to maintain the relative income position of farmers: the ratio of average per capita income in farming to average industrial earnings fell by 7.3 per cent over the decade (p. 297).

With this background it is not surprising that EEC membership was warmly welcomed. In a country where one-fifth of the labour force was employed in agriculture and a further large proportion was engaged in industries and services dependent on

agriculture the prospects within the high priced community market were exciting.

In a referendum on the issue in 1972 four-fifths of the Irish electorate voted in favour of EEC entry even though it was realised that some non-agricultural industries would be very hard hit by free trade.

The prospects for agriculture within the EEC presented in a government White Paper in 1972 (Stationery Office, 1972) projected a doubling of aggregate income from farming between 1970 and 1978[8] arising from

(1) an increase of one-third in the volume of Gross Agriculture Output;
(2) an increase of one-third in the real prices received by farmers, as a result of adjusting Irish prices to the higher EEC support levels;
(3) an improved output/input price ratio because of a lesser impact on input than on output prices;
(4) a fall of 22 per cent in the farm labour force so that real income per capita was projected to increase by about 156 per cent or by about 12.5 per cent per annum between 1970 and 1978.

The Outcome

Developments in Irish agriculture since 1970 are given in Table 3.1. This table shows that the volume of gross output increased by about 36 per cent between 1970 and 1978. This was in line with the projections. Real agricultural prices (output prices deflated by the consumer price index) rose by about 43 per cent which was higher than the projection of one-third. Not all of this increase was due to the EEC price alignment. A high proportion was due to further common price increases over the period and to Green £ adjustments. However, regardless of its make-up the overall increase in the real price index was very impressive, at least from the farmers' point of view.

[8]Prices had risen considerably after 1970 in anticipation of entry, hence the period since 1970 is usually associated with EEC membership in Ireland.

Table 3.1: *Selected data relating to output, incomes and prices*

Year	Total income arising in agric.	Nos. employed in agric.	Income per agric. worker	Earnings per industrial worker*	Agric. as % of ind. earnings	Consumer price index	Real Income Per Worker		Volume of gross agric. output	Agric. output price index	Agric. input price index	Output/ input price ratio	Real agricultural prices
							Agric.	Industrial					
1970	100	100	100	100	0.85	100	100	100	100	100	100	100	100
1971	110.3	96.6	114.2	116.5	0.84	109.0	104.8	106.9	106.4	107.1	108.5	98.7	98.3
1972	151.9	94.3	161.0	133.9	1.03	118.4	135.9	113.1	111.9	130.0	116.2	111.9	109.8
1973	191.2	91.6	195.9	161.1	1.04	131.9	148.5	122.1	112.8	170.0	142.7	119.1	128.9
1974	177.4	89.4	198.4	191.9	0.88	154.3	128.7	124.3	114.7	172.4	200.0	86.2	111.7
1975	250.7	88.2	284.2	249.7	0.97	186.5	152.3	133.8	121.5	220.8	235.2	93.9	118.4
1976	281.8	85.9	328.1	299.3	0.93	220.1	148.5	136.0	116.3	277.5	272.2	101.9	126.1
1977	382.6	84.4	453.3	351.2	1.10	250.1	181.2	140.3	127.3	339.8	330.9	102.7	135.9
1978	429.6	83.7	513.3	402.4	1.09	269.1	190.5	149.5	135.5	384.2	344.9	111.4	142.8
1979	383.3	82.1	466.6	464.0	0.86	304.8	153.0	152.2	134.4	406.7	388.1	104.8	133.4
1980	358.3	78.7	455.0	548.3	0.71	360.3	126.1	152.2	133.5	395.9	443.6	89.2	109.9
1981†	407.5	74.5	546.6	638.4	0.73	433.8	125.9	147.1	130.6	470.5	509.2	92.4	108.4

*All workers in transportable goods industries (from quarterly inquiry of Industrial Earnings employment and hours worked).
†Preliminary
Source: Central Statistics Office, Dublin.

The output/input price ratio improved by about 11 per cent between 1970 and 1978 but during two of the years since 1972 (1974 and 1975) it was less than in 1970. The declines in these years were due to the increase in crude oil and rock phosphate prices in 1973 and to the cattle crisis in 1974.

The improvement in real per capita incomes projected in the White Paper did not materialise. Though the nominal rise was about 413 per cent the real rise was only about 91 per cent compared with the 156 per cent projected. This result can be attributed to the less than expected movement in the output/input price ratio and to a labour force decline much less than expected (i.e., 16 per cent as against the White Paper figure of 22 per cent).

Taking everything into consideration, however, the period 1970 to 1978 was the most prosperous in the history of Irish agriculture. In addition to the substantial absolute increases which occurred in farmers' incomes, these incomes also rose relative to incomes of other workers. In 1970 income arising per person engaged in agriculture was only about 85 per cent of the earnings of persons employed in transportable goods industries whereas in 1978 it had risen to 109 per cent of average industrial earnings.[9] The volume of agricultural output increased also during this period. Gross output increased by 35.5 per cent between 1970 and 1978 or by 3.9 per cent per annum. This is the highest measured growth rate ever achieved by Irish agriculture over such a sustained period.

In 1979, however, the tide turned. The rise in agricultural output prices in that year was only 5.8 per cent compared with a rise in input prices of 12.6 per cent and of 13.3 per cent in the consumer price index. The terms of trade had started to move against farmers. But this was not the only problem. A very late Spring necessitated increased supplementary feeding of grazing stock and hence heavy extra costs. Acceleration of the disease eradication programme caused a reduction in milk output in

[9]Comparisons of this kind relate only to persons at work in industry. The industrial unemployed are excluded.

some of the main dairying counties. There was a substantial fall in cattle prices in Autumn and this coupled with poor harvest weather heralded the beginning of the recession in agriculture. Income per agricultural worker at current prices fell by 9 per cent, or by 20 per cent in real terms. In the same year earnings of industrial workers rose by about 15 per cent in nominal terms or by about 1.5 per cent in real terms.

The 1979 decline was followed by a more severe recession in 1980. In that year output prices declined by 2.7 per cent despite a price rise granted in Brussels for our main products of about 3 per cent. In the same period input prices rose by 14.3 per cent and inflation by about 18 per cent. Along with these unfavourable trends the weather again proved inhospitable. Milk intake at creameries declined by 2.6 per cent. Heavy Summer rainfall affected hay making thus leading to increased meal feeding in Autumn and Winter. Harvest weather was again poor and there were heavy grain losses.

The effect of these factors was a decline in 1980 in real income per worker of 18 per cent and over the two years 1979 and 1980 of 34 per cent. In compiling the figures no account is taken of interest on capital borrowed for farm purposes. This borrowing has increased substantially in recent years, as have interest rates, so that if interest charges were taken into account the decline in farmers' incomes would be much greater than the above figures indicated. Sheehy (1980b) has put the decline in real per capita family farm income (i.e., income from self employment less interest charges and depreciation of buildings, deflated by the consumer price index) over the two years 1979 and 1980 at about 50 per cent. Recent revisions to the employment figures which declined more than estimated earlier would reduce Sheey's figure to about 48 per cent.

The downward slide was halted in 1981. Agricultural output prices increased by almost 19 per cent which was slightly higher than the increase in the consumer price index (18.4 per cent) while input prices rose by only 14.8 per cent. Despite these price effects the volume of gross output declined, even though the

amounts of inputs used increased, and the overall result has been hardly any change in real per capita income arising in agriculture over the two years. Thus, over the three years 1979 to 1981 there had been no real recovery in the farm income situation. In 1982, however, as a result of favourable weather and a price rise of 10 per cent the volume of gross output is estimated to have risen by 3.5 per cent but real per capita income was only slightly higher than in 1981.

The process by which farm incomes have become eroded in recent years is easily explained. Up to 1978 (as the figures in Table 3.1 show) prices for farm produce more than kept pace with cost prices and general inflation, because of transitional price increases and Green £ devaluations. As a result farm incomes increased. With the ending of the EEC transitional period in 1978 and Ireland's joining the EMS in 1979 further high output price rises were not available whereas cost prices continued to increase because of high inflation rates. Price rises agreed in Brussels, which are based to some extent on European inflation rates and on pressures from member states which are net food importers, were not sufficient to counteract inflation rates in Ireland and so the results were inevitable. This is a very peculiar situation. Normally high inflation is associated with currency devaluation but in this case the IR£ had held steady within the EMS.[10] The result was that farmers had been unable to obtain relief through Green £ devaluations as these are only available when the central currency devalues. Farmers had, of course, been demanding currency devaluations to compensate them for non-agricultural price rises but the financial authorities were unwilling to devalue the IR£ so long as it was able to hold within the EMS. The argument against devaluation was that it would do no more than give temporary relief to farmers. Inflation would increase as a result of high import prices and pressures would mount for increased non-agricultural wages to counteract this effect. This would fuel the inflation further and

[10]An alignment of the EMS took place in March 1983 when the IR£ was devalued by about 4 per cent.

there would be demands by farmers for further devaluations to compensate for this, and so on until the country slid into an era of hyper-inflation.

Despite the arguments against devaluation, Irish farmers when compared with their European counterparts, feel that they have been unfairly treated since Ireland joined the EMS, (Lucey, 1982). Table 3.2 which gives the changes in prices received by farmers compared with inflation rates shows that in the 9 Community states average real farm prices declined by 8.7 per cent between 1978 and 1982. When we look at the individual countries we find that real prices declined in all except Belgium where they rose by less than 1 per cent. The decline was much greater in Ireland than in any of the others. The last column of the table shows that over the four years real farm prices in Ireland declined by 27.1 per cent. Italy fared poorly also, the Italian real farm price drop over the period being 15.1 per cent. The decline in France was 11.4 per cent and in UK 10.3 per cent.

Commenting on the problems facing EEC farmers since 1978 Murphy (1983) states that the differential national inflation rate theory is too simplistic. He says that under normal exchange rate developments, the divergences arising from differing inflation rates should be more or less neutralised. What has been surprising about the period since 1978 is the great extent to which this failed to apply. Devalued currencies, in terms of own country inflation relative to the Community average, gave very sizeable benefits to farmers in Germany, Belgium, Luxembourg and Denmark. The opposite applied in the Irish case. He says that because the exchange rates did not reflect the inflation rates the MCAs distorted the position at national level.

He concludes that the experiences of the past four years have been abnormal and that the most likely outcome for the future is a return to normality. If this happens the development of real support prices in Ireland could be given a significant boost through green rate devaluations while the position in Germany and perhaps its neighbouring countries would deteriorate. This

would constitute a reversal of the pattern obtaining since 1978.

Because of the different price requirements of member states due to different inflation levels the EEC Heads of State in November 1981, requested the Commission to study "the particular problems of farm income arising from differential rates of inflation". The Commission's report on the subject (Com (82) 98) showed that in the period 1979 to 1981 Ireland had the worst record, as regards farm income of the nine Community states and it concluded that "difficulties for agriculture may arise if a member state with a relatively high rate of inflation does not devalue its currency and so is unable to obtain an additional increase in agricultural prices through a green devaluation".

Table 3.2: *Average increase in prices received by farmers compared with inflation rates in different EEC states 1978–1982*

Country	*1978/79*		*1979/80*		*1980/81*		*1981/82*		*1978/82*
	AP	*CP*	*AP*	*CP*	*AP*	*CP*	*AP*	*CP*	*RP*
	Percentage increase								
Germany FR	1.4	4.1	2.4	5.6	5.6	5.6	5	5.3	-5.9
France	6.7	10.7	5.6	13.6	11.1	11.0	13	12.0	-11.4
Italy	9.4	15.7	13.4	21.3	12.1	19.0	18	16.4	-15.1
The Netherlands	1.7	4.2	4.1	7.0	8.5	6.0	9	5.9	-0.9
Belgium	1.2	4.5	3.1	6.7	9.5	6.5	15	8.7	+0.8
Luxembourg	2.2	4.5	4.5	6.2	5.6	8.1	14	9.3	-1.9
UK	10.4	13.3	5.6	17.9	10.7	11.0	13	8.6	-10.3
Ireland	5.1	13.2	-2.3	18.2	18.6	18.0	13	17.1	-27.1
Denmark	1.7	7.6	11.0	12.4	11.3	10.0	14	10.1	-5.4
Eur 9	6.2	10.6	6.9	13.8	10.5	12.3	13	10.5	-8.7

AP = Prices received by farmers. CP = Consumer prices. RP = Real Prices, i.e., AP/CP.
Source: Agricultural situation in the Community 1982 and Eurostat *CPI Monthly Bulletin*, various issues.

Because of the inherent risks associated with a unilateral devaluation and of the difficulties involved in controlling infla-

tion, Irish farmers are now in a very vulnerable situation and unless Murphy's expectations turn out to be true, special packages will continue to be needed at future price reviews in order to tide Ireland over its current difficulties. However, given the problems of obtaining EEC agreements on policy matters it is not easy to get and maintain such special measures. A number of short-term aids have been received in recent years both from the national government and the EEC. These include increased headage payments for beef cows, Winter fodder grants, rates remission, remission of disease eradication payments, a beef headage payment for the state as a whole, a calved heifer subsidy scheme and interest subsidies on farm loans. These are helping to counteract inflation of input prices but the ultimate solution must be to bring inflation under control. If we can do this, farmers will be in a better position to cope with current problems and weather the proposed CAP changes which now appear almost inevitable.

There is, however, one problem with which Irish farmers will have to continue to live. Irish prices for several important commodities are lower than in other member states while input prices tend to be higher. These price levels are attributable to such factors as peripheral location, which increases transport costs, and seasonality of supply due to our grassland economy which in turn is related to weather conditions. There are, of course, quality factors as well. Some of these are due to management and can be improved but others are related to the nature of the climate and are both difficult and expensive to change.

A recent Agricultural Institute study (Keane and Pitts 1981) which quantified the differences in milk prices as between member states, showed a gross difference of 16.5 pence per gallon in the prices received by Dutch and Irish farmers. Of this difference, quality accounted for 5.5p, collection and processing 2.9p, location, product mix and marketing 2.2p, and other factors for the remaining 5.9p. For cattle there are wide price differences also. Irish prices are consistently lower than all others. The weekly reports issued by the Department of Agri-

culture and CBF (Irish Livestock and Meat Board) show differences of up to 20 per cent between Irish and Belgian cattle prices and of about 10 per cent between West German and Irish prices. Irish prices are usually about 5 per cent lower than those in the UK. Again some of these differences are due to location and climatic factors which are difficult to counteract but others are of our own making such as conformation and quality of animals, and could be dealt with by better management practices (O'Connell *et al.*, 1979).

On the other hand, feed and many other input prices are higher in Ireland than elsewhere so that the cost price squeeze operates to a greater extent here than abroad. Indeed, even if there were common prices in all the EEC states, Irish output prices would be lower than elsewhere and input prices would be higher.

Intervention Buying

Because of the low market prices obtainable, Irish producers have recourse to intervention selling for a high proportion of their output. Since EEC entry the bulk of intervention buying has been in the beef sector but there have also been significant purchases of skim milk powder as well as some butter and barley. The volume of intervention intake varies considerably depending on market price movements, fluctuations in supplies, and on ordinary commercial demand.

Figures for intervention purchases since 1973 for beef, skim milk powder, butter and barley are given in Table 3.3.

This table shows that from the commencement of intervention buying of beef in this country in late 1973 up to the end of 1982, the Department of Agriculture (which is the Irish intervention agency) purchased a total of 807,000 tonnes (carcass equivalent) of beef.

Figures for beef intervention purchases as a proportion of total slaughterings and exports,[11] which are given in Table 3.4,

[11]The exports include meat sold out of intervention.

Table 3.3: *Irish intervention purchases 1973-1982*

	Beef		*Skim milk powder*		*Butter*		*Barley*	
Year	*Quantity* ('000 t)	*Value* (£m.)	*Quantity* ('000 t)	*Value* (£m.)	*Quantity* ('000 t)	*Value* (£m.)	*Quantity* ('000 t)	*Value* (£m.)
1973	2	1.6	—	—	—	—	—	—
1974	122	82.7	—	—	—	—	—	—
1975	137	111.2	59	28.7	—	—	—	—
1976	71	69.7	56	29.5	—	—	—	—
1977	91	112.4	23	16.3	—	—	—	—
1978	86	120.1	29	21.5	—	—	—	—
1979	89	132.3	9	6.8	3	5.3	—	—
1980	102	161.0	—	—	—	—	0.4	0.04
1981	47	81.9	7	6.7	—	—	8.0	1.00
1982	60	116.7	67	65.1	13	31.2	101.0	12.70
Total	807		250		16		109.4	

Source: EEC Support for Agricultural Prices in Ireland Department of Agriculture Information Series No. 21. March 1983.

show that for the years 1974 and 1975 about 34 per cent of total slaughterings were sold into intervention. Between 1976 and 1980 purchases averaged about 23 per cent but in 1981 and 1982 when slaughterings were low the proportion going into intervention fell below 20 per cent of the total kill. In addition to sales into intervention there were also direct sales to third countries on which export refunds were paid.

The proportion of skim milk powder which went into intervention varied from 44 per cent in 1975 to zero in 1980, but rose again to 48 per cent in 1982 when the world recession bit deeply and the USA unloaded large quantities on world markets at very low prices.

Butter sales into intervention were minimal up to 1982 but since then the British market for imported butter has contracted as a result of increased home production, the availability of low

Table 3.4: *Carcass beef intervention purchases, total slaughterings and exports 1974-1982*

Year	*Total slaughter-ing*	*Exports*	*Inter-vention purchases*	*Intervention purchases as % of*	
				Slaughter-ings	*Exports*
	'000 t carcass weight			*%*	*%*
1974	343	249	122	35.6	49.0
1975	420	327	137	32.6	41.9
1976	328	221	71	21.6	32.1
1977	385	310	91	23.6	29.4
1978	389	301	86	22.1	28.6
1979	387	279	89	23.0	31.9
1980	446	379	102	22.9	26.9
1981	316	258	47	14.9	18.2
1982	345	234	60	17.4	25.6
Total	3,359	2,558	805	34.1	31.5

Source: Central Statistics Office, Dublin 4.

priced concessionary imports from New Zealand and cross subsidisation of manufacturing milk from the liquid milk sector.[12] The loss of this market is very disturbing. It means that in future we will be adding to intervention stocks or obtaining export refunds, rather than selling on the EEC market.

The fact that butter was not sold into intervention in large quantities up to 1982 does not mean that we had an EEC market for all our production at the time. In those years butter and other dairy products were sold to third countries with the aid of

[12]This tactic which has been disapproved of by the EEC is now being challenged in the British courts by An Bord Bainne.

export refunds. Now it is becoming difficult to obtain such markets even with the refunds, due to the world recession and the unloading of stocks by other countries.

Intervention purchasing of barley did not take place until 1980 but it has been growing since then and reached 101,000 tonnes in 1982. This was about 11 per cent of total production in that year. In previous years the market price had been higher than the intervention price but in 1982 the market price dropped as a result of high Community production and increases in concessionary imports under GATT regulations. A scarcity, however, developed in Ireland in Spring 1983 and we had to import grain from West Germany.

Problems with Intervention and the Food Industry

It is often claimed that the availability of intervention hinders the development of the food processing industry, particularly for beef and milk. This is true to some extent. In the case of beef, factories tend to sell into intervention at guaranteed prices rather than compete for EEC or third country markets. This is especially true when the market price, after transport and other costs, is not much higher than the intervention price. Of course if intervention were not available, factories would have to find markets, but it cannot be assumed that in such circumstances there would be a greater amount of processing than at present; probably less, as some of the beef going into intervention is boned out whereas a very high proportion of direct exports are in carcass form.

The Irish beef industry faces many problems which make value-added processing difficult. The main one is a supply constraint caused by cyclical and seasonal variations, and competition from the live trade. Over the past decade the number of cattle slaughtered at Irish factories rose from 501,000 in 1972 to 1,355,000 in 1975, declined to 954,000 in 1976, rose to 1,309,000 in 1980 and dropped back again to 850,000 in 1981. It is difficult

to have a stable food processing operation with such variation. The problem, however, is not due to the intervention system, because the cyclical pattern pre-dates intervention.

Seasonal fluctuations in supply operate in addition to cyclical variations and are probably of greater importance. The weekly supply of cattle to meat plants in the peak period (usually late October) can be up to four times the level in the period of low supply in May, and this results in shut-downs and short-time working in Spring. It is impossible to supply retail outlets on a regular basis under these conditions and that is the nub of the problem as far as a food processing industry is concerned — irregular all-year round supplies.

The seasonality factor is not improved by the intervention system (which guarantees the same prices throughout the year) but neither is intervention entirely to blame. The bulk of cattle slaughtered at factories have always been prepared for sale off grass in Autumn, with much smaller numbers being sold in Spring and early Summer and the position has not changed very much over time.

The most serious impediment to the beef processing industry is, however, the live export trade. In recent years this accounts for about one-third of total exports and in some years has been greater than one half. The banning of these exports has often been suggested, but has been resisted by the government for several reasons; it is not allowed under the CAP, but even if it were, the government would be unwilling to ban live exports because of the effect it might have on cattle prices. The live export trade is, therefore, going to stay. However, factories, if they are so disposed, can make inroads into it by concluding special arrangements with farm producer groups. So far very little progress has been made in this direction. Farmers gain when cattle are scarce and factories when they are plentiful and nobody seems too anxious to change this situation.

If a good processing industry is to develop, the government must pay close attention to the EEC export refund system to ensure that there is equality in refunds as between live animals, carcasses and processed beef. In the past this was not always the

case and as a result the live exporters had an advantage over the dead meat traders. This anomaly has now been rectified but it must be kept under continuous review so as to prevent a recurrence.

With regard to dairy products, the intervention system is very often blamed for the failure to develop high value-added processing in Ireland and for the continued reliance on butter and skim milk powder which give the lowest return of all milk products. Furthermore, since these products are the ones in continual surplus it is becoming increasingly inadvisable to be too dependent on them. It is very important, therefore, for the industry to develop milk products which can be sold on their own merits without recourse to intervention or export subsidies. As a result of continuing research with new products such as certain varieties of cheese, UHT[13] products and a wide range of powders and butter oil, some success has been achieved in altering the product mix away from the main product, butter (from 61% of milk output in 1979 to 57% in 1981). But in spite of this the Irish product mix remains more limited than that of continental Europe because of our seasonal production pattern, smaller home market and distance from other markets.

Seasonality of milk production is the main problem since many of the products not presently produced require fresh milk on a year round basis. There are, therefore, difficulties in maintaining continuous supply to export markets of liquid milk, soft and fresh cheeses, flavoured milks, etc. Nevertheless, the trends in consumer preference cannot be ignored and Ireland must move towards a more even seasonal milk production pattern.

However, a change in the present pattern of production to one more like that of continental Europe would impose fairly heavy extra feeding costs at farm level. For that reason there is a reluctance to make such changes even though creameries are paying a good deal extra for out of season milk. But if milk surpluses continue to build up, change will be forced upon Irish agriculture and farmers should now think about making these changes.

[13]Ultra heat tested, e.g., long keeping milk.

Chapter 4

Estimation of the Monetary Benefits from the CAP for the Irish Economy as a Whole

In earlier chapters we have outlined the basic mechanisms of the CAP and its effects on prices, output and farm income in Ireland. It was shown that the principal result of the Community's farm policy has been to maintain European agricultural prices at a level above those which prevail on world markets. In general, for commodities in which the Community is less than self-sufficient (at Community prices) European farmers are protected against lower priced imports from third countires by means of a variable import levy which is collected at point of entry and goes to make up the Community's "Own Resources" fund. For commodities in which the Community is self-sufficient or in surplus (again at Community prices) prices are maintained by the subsidisation of exports (export restitutions) and by intervention (storage).

These, or indeed any other support price policy, result in a transfer of resources from non-agricultural consumers and taxpayers to agricultural producers. Under a domestically-financed policy regime the transfer would be from consumers and taxpayers to producers in the country concerned and there might be no net gain to the state. Under an EEC policy catering for countries which differ in the relative importance of their agricultural sectors, redistributions take place between agricultural importing and exporting countries, generally from the importers to the exporters.

Because of the high support prices, consumers in the import-

ing countries pay higher prices than they otherwise would for their food, both imported and home produced. Consumers in exporting countries also pay high prices for their food but this loss is a gain to producers and so it is not a national loss except to the extent that some home consumed food is imported. There is also a welfare loss resulting from the higher food prices but this loss, which is difficult to quantify accurately, is ignored here.

In general then, there is a gain to the net exporting countries as a result of the higher prices they receive for their exports and a loss to the net importing countries as a result of the higher cost of imports. The food importing countries may, of course, gain in other ways through access to non-agricultural export markets from which otherwise they might be debarred. It would be very difficult to quantify the gains and losses to all sectors of an economy resulting from EEC membership but it is possible to estimate in a rough way the impact of the Common Agricultural Policy, an exercise which is attempted in this chapter for Ireland for the years 1975–1981. We have omitted the years 1973 and 1974 because of difficulty with the data in those years, particularly cattle prices in 1974.

The effects of the CAP on an economy can be considered under a number of headings depending on the purpose of the exercise. These include budgetary effects, net trade effects, social welfare and balance of payments effects as well as the effects of transfers from consumers to producers. A number of studies of these effects on the Irish economy have been carried out to date by, for example, Attwood (1979), Morris (1980), Buckwell *et al.*, (1982) and Sheehy (1982/83) to mention but a few. The more sophisticated of these studies depend crucially on assumptions made regarding elasticities of demand and supply as well as on the differences between Irish and world prices for different commodities and on what might have happened if we had not joined the EEC. Because of this the results obtained by different authors often differ very widely. Results therefore tend, in many cases, to be confusing and for that reason we confine ourselves narrowly here to presenting what we call the resource

transfer effect which tends to be more straightforward than some of the other measures. The resource transfer effect has two components:

(1) The budgetary effect, which is the net transfer of resources from FEOGA to Ireland. These include export refunds on sales to third countries, net MCA receipts, headage payments, etc., and

(2) the net trade transfer effect which arises because, on trade with other Community members, prices for commodities protected by the CAP are higher than on world markets.

Popular discussion has tended to focus on the budgetary aspect of EEC transfers to the exclusion of the trade transfers. Indeed the debate about the UK contribution to Community finances has been conducted almost wholly at this level. In some respects this is quite understandable since net budgetary contributions are fairly clear (though not entirely so) whereas trade transfers are disguised through market mechanisms and are difficult to quantify.[14]

The important point which has to be made is that neither budgetary contributions nor trade transfers are meaningful when considered in isolation. Both must be combined to provide the economic effects of the CAP. For example, take two EEC countries, X and Y, who export an equal volume of agricultural produce and make the same contributions to the EEC agricultural budget. Country X trades completely with non-Community countries while Y exports to EEC members only. Country X would receive a large budgetary transfer (through export restitutions) while Y gets no such transfer. However, Y would obtain much higher prices than X on the market and so when budgetary and trade effects are combined both would be shown to receive approximately the same transfers. The sum of these two effects therefore (after making allowance for any double counting of ACAs and MCAs that may occur) gives the total effect.

[14]For more detailed discussion on these points see Ross (1979 and 1980).

The Budgetary Effect

The net budgetary effect of the CAP for any country is the difference between the gross receipts from FEOGA and the country's contributions to the agricultural budget. Figures for payments under the Guarantee section are published in the various Annual Reports of the Minister for Agriculture. Details of payments under the Guidance section have been published since 1980 and are available from the Department of Agriculture for earlier years.

Calculating national contributions to the CAP fund poses certain difficulties as the Commission does not earmark revenue from the various sources to any specific activity. National contributions to the CAP must, therefore, be imputed and we adopt the convention which most earlier studies have used. We include the total of the import levies on CAP products as a cost against the CAP but we include only a proportion of the VAT and customs duties. The proportions of the latter used to fund FEOGA are set equal to FEOGA's share in total Community expenditure. Thus, if the latter figure is say 60 per cent we assume that 60 per cent of the sum of the Irish VAT payments and customs duties paid to the EEC go to the CAP fund together with the whole of the import levies on CAP products.

Details of receipts and payments to FEOGA from 1975 to 1981 are given in Table 4.1. In all cases the figures relate to the amounts actually paid and received in the years in question. Funds, even though due in a particular year, are not included unless they are received in that year. The Guarantee section includes Export Refunds, which now account for the bulk of Irish receipts from this source, Accession Compensatory Amounts (ACAs) and Monetary Compensatory Receipts and Payments (MCAs). As explained in a previous chapter and in the footnote to Table 4.1 the ACAs and MCAs are border taxes paid within the Community, for the purposes of price regulation in the case of ACAs, and currency equalisation in the case of MCAs. It will be noted that the aggregate ACA figures for each

Table 4.1: *Estimated Irish receipts from, and payments to, the EEC guidance and guarantee funds 1975–1981*

	1975	*1976*	*1977*	*1978*	*1979*	*1980*	*1981*
				IR£ million			
Guarantee Section							
Export refunds	16.91	41.93	89.60	119.41	181.60	227.71	210.30
ACAs (1)	17.24	8.98	5.66	3.86	0.03	0.01	0.00
MCA receipts	5.27	32.94	135.10	141.59	78.93	27.03	0.20
MCA payments	-16.77	-39.46	-50.03	-21.76	-6.24	-0.23	-0.00
Other receipts	71.49	50.55	60.47	116.61	140.58	117.10	92.68
Total Guarantee Section	94.14	94.94	240.80	359.71	394.90	371.62	303.18
Guidance Section							
Farm modernisation scheme	—	0.28	0.87	1.60	2.67	3.87	8.60
Marketing and processing	—	—	—	—	0.05	4.17	12.20
Less favoured areas	—	0.28	4.13	5.06	9.00	9.97	14.00
Inshore fishing conversion	—	—	—	—	—	2.66	2.70
Maritime surveillance	—	—	—	—	7.88	4.46	5.60
Dairy herd conversion scheme	—	—	—	0.28	0.63	2.30	2.40
Animal disease eradication	—	—	—	—	1.01	2.61	—
Western drainage	—	—	—	—	2.56	2.50	6.40
Western package	—	—	—	—	—	5.25	2.70
Other	0.59	2.37	2.33	2.76	2.60	0.18	0.15
Total Guidance Section	0.59	2.93	7.33	9.70	26.40	37.97	54.75
Total Guarantee and Guidance receipts	94.73	97.87	248.13	369.41	421.30	409.59	357.93
Estimated contribution to FEOGA (2)	-8.29	-11.72	-16.79	-38.03	-49.72	-71.16	-75.57

Table 4.1 *contd.*

	1975	*1976*	*1977*	*1978*	*1979*	*1980*	*1981*
				IR£ million			
Net transfers from FEOGA	86.44	86.15	231.34	331.38	371.58	338.43	282.36

Sources: Annual Report of the Minister for Agriculture, Dublin Stationery Office, various issues and information supplied by the Department of Agriculture and the EEC Commission.

(1) These were payments made during the transition period which were used to keep Irish prices at their transitional levels. Ireland received ACAs on exports to the UK because Irish prices were higher than those in the UK. Ireland paid ACAs on exports to the original six states because their prices were higher than ours. Net ACAs were positive because our main trade was with the UK.

(2) Includes proportions of customs duties on imports of non-CAP products and VAT payments as well as all import levies on CAP products. (See text p. 59.).

year are positive. This is so because most of our trade was with the UK which had lower transitional prices than Ireland during the transitional period from 1973 to 1978. Hence, when we sold to the UK we received a lower price than we should and the balance was made up by payments of an ACA from Brussels of the difference between the Irish and the UK price.

Other receipts under the Guarantee section include aids for skim milk used in animal feed, certain intervention refunds, aids for private storage, measures to reduce butter fat surplus, and improve milk quality, less milk and sugar co-responsibility levies.

Some of these items present certain conceptual difficulties particularly the refunds in connection with intervention and with private storage schemes. These refunds are of two kinds, namely:

(a) Payment for costs of storage of products both inside and outside the state and

(b) refunds of losses on intervention sales.

It could be argued that these are just refunds of expenses already incurred by the government and that they should there-

fore be omitted. Some of these, i.e., refunds for storage of products outside the state belong to this category and have been omitted in preparing Table 4.1.

Refunds of payment for storage within the country are more difficult to classify. In the case of these it could be argued that if the resources used would have been otherwise employed in the absence of intervention or private storage, the refunds are not necessarily an EEC benefit. It is our opinion, and so however, that a storage industry (which otherwise would not have existed) has been built up around the intervention and private storage systems and we, therefore, consider that these refunds are properly included in Table 4.1.

Refunds of losses on intervention sales fall into two groups:

(a) losses on sales to EEC states including Ireland and
(b) losses on sales to third countries.

In theory the refunds of losses on sales to EEC states should be excluded from Table 4.1. The amounts of these refunds are credited to producers in a later section and their inclusion here involves double counting. The refunds of losses on sales to third countries on the other hand, which are the major items, are akin to export refunds and should be included in the Table 4.1. Unfortunately no breakdown is available for sales out of intervention on to EEC and third country markets and we cannot, therefore, make a distinction between them. Furthermore, no breakdown is given as between losses on sales out of intervention and other intervention costs prior to 1980. These data problems leave us little option except to treat all refunds of losses on intervention sales in the same way, either leave them all in or take them out; we have chosen the former course and included them in Table 4.1. This treatment may overstate somewhat the budgetary gains and lead to a certain amount of double counting in later sectors. However, the errors involved are not very large.

Table 4.1 shows that total Irish net receipts from the Guarantee section rose from IR£94 million in 1975 to IR£395 million in 1979 and declined to IR£303 million in 1981. The

declines in recent years have been mainly in MCA receipts which have been offset to some extent by increases in market price receipts.

The receipts from the Guidance section which were zero in 1973 and 1974 rose from IR£0.6 million in 1975 to IR£38 million in 1980 and IR£55 million in 1981 while total receipts from the Guarantee and Guidance sections went from IR£95 million in 1975 to IR£421 million in 1979 and declined to IR£358 million in 1981. Ireland's estimated contributions to FEOGA, including the imputed VAT payments and levies collected on imports, rose from about IR£8 million in 1975 to IR£76 million in 1981 and when these are deducted from the receipts, the net transfers from FEOGA to Ireland go from IR£86 million in 1975 to IR£372 million in 1979 and decline to IR£282 million in 1981.

Resource Transfers Through Trade

In assessing the resource transfers to Ireland resulting from trade at CAP prices we assume that world prices are the correct benchmark against which to measure the trade transfer effect, since these are the prices we would receive for exports and pay for imports in the absence of EEC membership or some arrangement with the UK. We could, of course, assume certain levels of administered prices but if we did this we would have to estimate the amount of export subsidies necessary to maintain such levels. This would force us back again to world prices, since international trade would take place at these prices. It is best, therefore, to work directly from world prices in an exercise of this kind.

It should, however, be stated that the selection of world prices has no normative significance whatsoever and in no sense suggests that a regime of free trade is a realistic prospect; nor does it in any way imply that world prices are in any sense the "right" prices. Indeed, because of the widespread government

intervention in agriculture everywhere, including the EEC, the quantities of agricultural products entering international trade are residuál ones and their prices are likely to be much lower than world prices would be under a regime of world free trade with no national supports and no CAP. Despite this, the prices obtaining on world markets outside the EEC represent the *de facto* situation and are the ones which agricultural exporters have to accept.

What must be determined, then, is the benefit which Ireland has received from the CAP compared with the situation which would have obtained if we had remained outside it, whether we used national aids to support agriculture or otherwise. In making these calculations an argument could be made for taking account of the benefits received from the UK treasury under the Anglo Irish Free Trade Agreement and other arrangements with the UK. This assumes that if we had not joined the EEC our arrangements with the UK would have continued, which they might or might not. In any case because of the difficulty of quantifying the value of our pre-EEC store cattle and store sheep links with the UK we have not carried out this exercise.

Choosing world prices as the benchmark involves the difficulty of selecting these prices for each commodity as there is no unique world price. There are also formidable problems posed by quality differences, transport costs and in estimating world prices for commodities which Irish traders did not export outside the EEC. There are hundreds of different commodities and it is almost impossible to get a consistent series of world prices for all. The same problems would, of course, arise if we used some other reference base.

Calculating Trade Effects

In calculating trade effects we ignore home produced products sold on the home market. If consumers pay higher than

world prices for these, the extra cost is an internal transfer between farmers and consumers and does not represent a net gain or loss to the country, except to the extent (as stated above) that there is some welfare loss resulting from the higher prices.

The value of exports to countries outside the EEC and imports of products covered by the CAP from these countries have already been dealt with. The gain to the nation from exports to third countries is represented by the export refunds given in Table 4.1, while the loss to the nation from the higher prices paid for imports covered by the CAP (i.e., the value of import levies on CAP products) is included in the estimated contributions to FEOGA also given in Table 4.1.

The calculations in this section relate to trade with other EEC states and the gains are the extra values of CAP goods exported to these countries over and above what would have been obtained for them (at world prices) if we were not members of the EEC; the losses are the extra costs of CAP goods imported from other EEC states valued at the difference between EEC and world prices.

Omitted from these calculations, however, are explicit entries for any extra farm costs incurred in producing the output at higher prices. There is no doubt but that cost prices in Europe and, hence, in Ireland increased as a result of increased output prices and some amount should by right be included for the extra costs of imported inputs. The magnitude of these costs, however, is not so great. Some of the extra payments by farmers accrued to non-farmers in Ireland (e.g., suppliers of farm materials and services and handlers of farm output) and are thus an internal transfer within the state. Others such as the extra costs of imported animal feeds covered by the CAP are taken into account in calculating the trade transfer effects, others such as high oil and rock phosphate prices would have occurred even if Ireland did not join the EEC and finally we have omitted from the trade transfers products exported for which the CAP give little or no protection but which increased in price, nevertheless, because of competition with CAP products, e.g., horses, wool,

potatoes, etc.[15] The omission of these is likely to balance to some extent the extra costs omitted.

The values in Table 4.2 were obtained by multiplying net quantities exported (i.e., exports less imports) to EEC countries by the estimated difference between Irish and world prices. The net export quantities which are given in the Food Balance Sheets in Appendix 4A were obtained from the CSO. The methods used to calculate the price differences used are discussed below.

Table 4.2: *Values of net trade transfers between Ireland and other EEC states 1975–1981*

	1975	*1976*	*1977*	*1978*	*1979*	*1980*	*1981*
				IR£ million			
Common wheat	0.45	-5.75	-6.39	-4.12	-4.73	-4.58	-1.79
Barley	-0.02	0.17	10.22	15.45	5.43	3.31	0.16
Maize	-3.01	-7.56	-12.67	-15.67	-14.32	-11.69	-4.15
Other cereals	0.00	-0.11	-0.36	-0.85	-0.45	-0.29	-0.03
Sugar	3.19	2.70	6.99	6.62	3.18	-1.15	0.49
Cheese	16.28	18.97	19.76	24.49	40.43	22.95	24.36
Butter	18.12	37.28	44.27	85.34	90.50	36.89	27.52
Skim milk powder	16.83	34.14	30.95	22.91	32.29	6.55	8.26
Other dairy (a)	5.93	6.33	35.97	31.53	21.81	13.37	6.83
Beef including net live exports	85.44	52.08	135.20	210.60	216.66	282.24	199.54
Pigmeat	-0.12	0.84	6.80	11.92	9.29	7.79	5.88
Sheepmeat (and goats)	1.89	0.55	1.30	4.97	6.01	9.29	9.25
Eggs	0.00	-0.15	-0.26	-0.12	-0.57	-1.32	-1.69
Poultry	0.00	0.28	0.42	-0.22	-0.23	0.28	-1.20
Total trade transfers	144.98	139.77	272.20	392.85	405.30	363.64	273.43

Source: Authors' calculations based on data contained in Appendix A.
(a) Other dairy products include whole milk powder, chocolate crumb, baby foods, casein, etc.

Earlier studies by Attwood (1979) and Rollo and Warwick (1979) relied on current rates of export restitutions and import levies to value inter-Community trade at world prices. Neither measure is wholly satisfactory, particularly for cereals. It has often been suggested that for many of these commodities import

[15]An estimate for sheepmeat has been incuded for all the years shown even though the EEC sheep policy was not introduced until 1980. Prior to that Ireland had a special arrangement for lamb on the Paris market because of EEC membership.

levies are pitched unrealistically high and export refunds unrealistically low. For example, in 1981 the import levy on barley was about IR£40 per tonne whereas the export refund on this cereal was only about IR£10 per tonne. The position was somewhat similar for wheat while for oats the levy was about IR£18 and the refund zero. For these reasons we have supplemented information on levies and refunds on cereals with data from other sources using the difference between Irish and world prices where available. We used the same procedure for pigmeat and sugar. For all these commodities world offer prices are available from the EEC Commission (Eurostat, various issues). These have the considerable advantage of being adjusted to take account of quality differences. For beef and dairy products we used export refunds, where available, adjusted to take account of MCAs and ACAs paid and received, i.e., net refunds. In all cases where price differences were used the Irish prices were assumed to be net of these payments so that the differences between Irish and world prices were equivalent to net export refunds. Net, rather than gross, refunds were used because the net figures were more readily available. The price differences used for the various commodities are given in Appendix 4B.

For all the estimates we were conscious of the errors which could occur from using the highly aggregated data available. Furthermore, the list of commodities is not exhaustive. A number of smaller items had to be excluded because of difficulties with the data. As far as we can ascertain the items omitted cover less than 5 per cent of exports and imports of products covered by the CAP. These omissions, which may tend to be counterbalanced by the omission of exports and imports of farm inputs not covered by the CAP, should not therefore greatly affect the outcome.

Table 4.2 shows that total trade transfers increased from IR£145 million in 1975 to IR£405 million in 1979 but declined to about IR£273 million in 1981. The decline in the last year was due mainly to a fall in the volume of beef exports and a narrowing of the differential between EEC and world prices. As might

Table 4.3: *Net resource transfer effects of the CAP 1975-1981*

	1975	*1976*	*1977*	*1978*	*1979*	*1980*	*1981*
Receipts (net of ACAs and MCAs) from:				*IR£ million*			
Guarantee Section							
Export refunds (Table 4.1)	16.91	41.93	89.60	119.41	181.60	227.71	210.30
Other receipts (Table 4.1)	71.49	50.55	60.47	116.61	140.58	117.10	92.68
Guidance Section (Table 4.1)	0.59	2.93	7.33	9.70	26.40	37.97	54.75
Total Above	88.99	95.41	157.40	245.72	348.58	382.78	357.73
Trade transfers (Table 4.2)	144.98	139.77	272.20	392.85	405.30	363.64	273.43
Estimated contributions to FEOGA (Table 4.1)	-8.29	-11.72	-16.79	-38.03	-49.72	-71.16	-75.57
Net resource transfers	225.68	223.46	412.81	600.54	704.16	675.26	555.59
Net resource transfers as a % of GNP at factor cost	6.74	5.65	8.45	10.30	10.40	8.80	6.30

be expected the big gains in trade are from beef and dairy products. In 1980 our net exports of beef to EEC countries were worth IR£282 million more than if we had sold them on non-EEC markets without refunds. The trade gains on dairy products in that year were about IR£80 million. In the previous year, however, the gain on dairy product sales was about IR£185 million compared with IR£217 million from beef. In the case of grain, the gain from exporting barley to member states in recent years did not compensate for the extra costs of importing wheat and maize from these states.

Combined Budgetary and Trade Effects

As stated above, neither the budgetary nor trade effects are complete in themselves. They must be combined to give the total effect, but in doing this both ACAs and MCAs must be excluded to avoid double counting. The reason for this is explained in Appendix 4C. Table 4.3 combines the results of the two preceeding tables to give the total net resource transfer effects on the Irish economy for the years 1975 to 1981. This table shows that total net resource transfers increased from

IR£226 million in 1975 to IR£704 million in 1979 but declined to IR£556 million in 1981. In 1978 and 1979 these transfers represented over 10 per cent of the Irish GNP at factor cost but by 1981 the proportion had fallen to 6.3 per cent of GNP.

Results from Other Studies

A number of studies using a similar methodology have been carried out for other EEC states and for Ireland in recent years. The two which are more nearly comparable are Attwood (1979) and Rollo and Warwick (1979). Both these studies give results very different from ours. Attwood found total net resource transfers of IR£228 million, IR£305 million and IR£566 million for the three years 1976–1978. These compare with IR£223 million, IR£413 million and IR£600 million for the same years from this study, very sizeable differences for 1977 and 1978.

Rollo and Warwick estimated resource transfers of £360 million and £506 million for 1977 and 1978, respectively compared with our figures of £413 and £600 million. The differences are mainly due to a wider coverage of commodities in our study than in the others and to the use of different pricing systems particularly for cattle. There is also some difference in the methods used in treating MCAs in the different studies when aggregating budgetary and trade effects.

The conclusion to be drawn from the results of the different studies is that figures for EEC trade transfer effects must be taken with extreme caution. The user would need to study carefully the methodologies and prices used and the items included and omitted before accepting any particular set of figures. But even then he should be sceptical of the results. There is no single world price for any commodity and hence the results depend very much on the prices taken. Export refunds would appear to be the best estimates of price differences for beef and dairy products but these refunds differ widely for the same commodity as between different countries. Furthermore, there is not an

exact correlation as between the refunds for live cattle, bone-in and boneless beef or between butter, skim milk powder and cheese. The best that can be said for trade transfer figures, therefore, is that they give rough orders of magnitude.

Distribution of Gains and Losses as between Producers, Consumers and Taxpayers

In the previous sections of this chapter we have shown that the CAP resulted in very large resource transfers to Ireland throughout the 1970s. It also had an important effect on the distribution of income within the country. Producers gained from the high EEC prices, consumers lost because they had to pay higher prices than before for food, while taxpayers lost by having to pay customs duties and VAT contributions to the EEC which before were retained at home. The import levies (which were not collected prior to EEC entry) are neutral as far as taxpayers are concerned but are a charge on either producers or consumers depending on whether the imports on which they are paid go for further production or consumption.

The figures given for net resource transfers in Table 4.3 represent very roughly the net gains to the state from the CAP. As stated above, however, gains to producers from home consumption have not been included since these are an internal transfer within the state. In order, therefore, to obtain total producer gain, we must add to the net resource transfers in Table 4.3 the extra cost of home consumption of products covered by the CAP which were consumed in the state by non-producers,[16] together with the customs duties and VAT contributions which were deducted in Tables 4.1 and 4.3. Import levies on CAP products are assumed to be paid entirely by producers and are not deducted.

[16]Produce covered by the CAP consumed in farm households (either unsold or purchased) is omitted entirely since the extra value of this food is neither a consumer loss nor a producer gain.

The extra cost of home consumption in any year (i.e., consumer loss) is obtained by multiplying the estimated quantities of the different CAP products purchased by non-farmers, by the estimated price differences given in Appendix 4B. The consumer loss obtained in this way is likely to overstate the true loss because even though we have excluded consumption in farm households we have been unable (because of lack of data) to do this for the households of many producers who are not farmers (see below). Welfare economists would also argue that a loss in welfare occurred due to high food prices which probably reduced demand for some foods and left less income available for expenditure on other commodities. To estimate such a loss, however, would require a number of uncertain assumptions regarding elasticities of demand and non-farm income effects. Hence we have ignored this welfare aspect.

The figures for producer gain and consumer and taxpayer losses are given in Table 4.4.[17] This table shows substantial consumer losses at current prices of around IR£205 million per annum in 1978 and 1979 and, of course, much more substantial producer gains reaching about IR£950 million in the same years. Both gains and losses have, however, been declining in recent years due to a slowing down in price rises at the annual EEC price reviews and to increases in world prices. These declines are very marked when the values are given in constant prices.

In addition to these gains and losses there is an indirect gain to the taxpayer which is not shown. If we were not members of EEC it is reasonable to assume that there would be a domestic national price support policy and in this event export refunds would have to be paid by the Irish taxpayer. The magnitude of these refunds would depend on the level of the support prices and we cannot, therefore, estimate what they would be, but can assume that they would likely be much greater than current payments to the EEC budget.

[17] As a check on the arithmetic it should be noted that the figures headed Net Resource Transfers in Table 4.4 are exactly the same as the Net Resource Transfers in Table 4.3.

Table 4.4: *Distribution of resource transfers between producers, consumers and taxpayers*

Year	Producer gain	Consumer Loss (a)	VAT and customs duties	Net resource transfers	At 1975 Prices*		
					Producer gain	Consumer loss	Net resource transfer
	IR£ million (Current Prices)				IR£ million		
1975	281.04	48.86	6.50	225.68	281.04	48.86	225.68
1976	327.37	94.31	9.60	223.46	277.46	79.93	189.39
1977	586.75	161.84	12.10	412.81	437.54	120.68	307.83
1978	837.63	204.86	32.23	600.54	580.45	141.96	416.15
1979	954.79	206.41	44.22	704.16	584.26	126.31	430.89
1980	935.59	194.87	65.46	675.26	484.27	100.86	349.52
1981	826.51	197.45	69.47	555.59	355.28	84.88	238.83

(a) In some years there were small EEC food subsidies but these have been ignored.
*Current prices deflated by consumer price index.

Apart from any errors in the data, the figures for gains and losses require careful interpretation. The first point to be made is that (as stated above) producers in this context cover many more people than farmers. Because CAP prices are fixed at wholesale levels, producers include food processors and their staffs and suppliers of farm materials of all kinds. Similarly, funds go to building and machinery contractors, transport firms, cold stores and so on. Thousands of people other than farmers, therefore, gain from the CAP. There are, of course, many losers as well because of free trade in industrial goods, but this aspect of the situation is outside the scope of the present study.

In the second place if Ireland were not a member of the EEC, producers' incomes would not be reduced by the amounts given for producer gains in Table 4.4. Food could not have been produced in Ireland at the world prices used in these calculations. Neither would food at these prices be available to consumers. In the absence of the CAP there would have had to be national policies such as we had prior to 1973; in that case food prices would be at much higher levels than the so-called "world" prices used in making these calculations.

Implications for Consumers

As indicated above there is a certain amount of artificiality about the level of the transfers from consumers to producers. Also the exercise gives maximum benefits to producers because we have compared EEC with world food prices. In considering the effect on consumers, however, we should really move away from world prices and look at other standards. What must be considered is — are EEC prices very much out of line with reality and if so what should a reasonable level of food prices be?

One suggestion would be to compare food prices with consumer prices generally or with certain sub-groups within the consumer price index, such as clothing, housing, etc., which are other basic human requirements. Economists would probably

argue against such a comparison but the ordinary lay person would see a certain logic in the exercise. If prices generally are going up why should food prices not follow more or less the same trend, particularly since the costs and living expenses of the food producer are related to the other prices?

A comparison of food prices with the general consumer price index and with some constituents of this index for the years 1960 to 1982 is given in Table 4.5. This table shows that over the whole period the general index rose from 100 to 822.4 whereas the price of food rose from 100 to 726.7. When the latter figure is divided by the former we find that the real price of food declined by about 12 per cent over these years (see also Figure 4.1). When we look at some of the individual constituents, however, we see that the indices for clothing and footwear, housing and household durables rose at slower rates than that of food, but the index for fuel and light rose at a much faster rate. The relationship between the individual indices is shown diagramatically in Figure 4.2. It should be noted that the indices given include indirect taxes and subsidies. If these were netted out, the magnitude of the indices would change somewhat but it should be borne in mind that a tax on one commodity tends to be reflected in the prices of other items and it could be argued that the index including the tax represents the *de facto* situation and is the one which should be used.

The indices in Table 4.5 have been broken down into two sub-periods 1960 to 1970 and 1970 to 1982. The rise in food prices between 1960 and 1970 is less than that for the "all items" index. In fact the real price of food declined over this decade by about 6 per cent. The rise in the prices of clothing, footwear and household durables was less than that of the food price index throughout the 1960s but in that period prices of fuel and light and housing rose faster than food prices.

The second period from 1970-1982 is of most interest for this exercise since it covers the period during which Ireland came under increasing EEC influence. Again this period can be divided into two sub-periods of contrasting trends: 1970-1978

and 1978 to 1982. During the first sub-period real food prices rose by about 10 per cent (see Table 4.5 and Figure 4.1) but since then they have declined by about 14 per cent so that over the whole period 1970 to 1982 real food prices have declined by about 6 per cent.

Again food prices rose faster than those of clothing, footwear, housing and household durables throughout the 1970s but by much less than those of fuel and light (see Figure 4.2). The housing index rose at a slower rate than any of the other indices over

Table 4.5: *Consumer price index classified by commodity groups and time periods*

Mid-August	*Food*	*Clothing footwear*	*Fuel and light*	*Housing*	*Household durables*	*All items*[1]	*Real food price index*[2]
		(a) *1960–1982*		*(1960 = 100)*			
1960	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1961	103.2	101.1	105.5	103.3	100.9	102.8	100.4
1962	105.6	103.9	110.3	107.7	102.9	107.4	98.3
1963	105.7	105.6	113.8	112.5	103.7	108.6	97.3
1964	115.5	112.6	121.5	119.2	109.7	118.4	97.5
1965	120.2	115.2	121.5	126.6	112.0	123.5	97.3
1966	123.1	116.7	122.3	133.3	113.8	127.9	96.2
1967	125.1	118.4	127.4	141.9	119.6	130.8	95.6
1968	131.5	120.5	131.6	151.6	122.0	136.8	96.1
1969	140.3	124.8	139.2	171.1	131.8	148.3	94.6
1970	150.6	136.7	153.8	186.8	142.1	160.7	93.7
1971	162.2	149.0	171.9	208.0	153.8	174.9	92.7
1972	184.4	163.5	189.9	230.0	165.8	190.4	96.8
1973	209.2	190.6	200.9	244.2	186.0	211.8	98.8
1974	243.9	229.9	318.6	267.3	225.7	249.7	97.7
1975	290.8	260.0	345.3	295.2	261.2	297.1	97.9
1976	338.5	289.7	402.5	346.5	293.1	353.1	95.8
1977	404.5	334.6	480.0	363.7	335.9	400.7	100.9
1978	447.0	372.8	490.7	316.2	367.9	433.7	103.1
1979	502.8	412.1	590.1	361.7	402.6	492.5	102.1
1980	560.1	471.9	835.7	437.8	467.9	585.4	95.7
1981	650.9	538.3	1046.8	494.9	543.5	703.1	92.6
1982	726.7	593.1	1173.9	584.9	599.9	822.4	88.4

Table 4.5: *contd.*

Mid-August	*Food*	*Clothing footwear*	*Fuel and light*	*Housing*	*Household durables*	*All items*[1]	*Real food price index*[2]
			(b) *1970–1982 (1970 = 100)*				
1970	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1971	107.7	109.0	111.8	111.3	108.2	108.8	99.0
1972	122.4	119.6	123.5	123.1	116.7	118.5	103.3
1973	138.9	139.4	130.6	130.7	130.9	131.8	105.4
1974	161.9	167.6	207.1	143.1	158.8	155.4	104.2
1975	193.1	190.2	224.5	158.0	183.8	184.9	104.4
1976	224.7	211.9	261.7	185.5	206.3	219.7	102.3
1977	268.6	244.8	312.1	194.7	236.4	249.3	107.7
1978	296.8	272.7	319.0	169.3	258.9	269.9	109.9
1979	333.9	301.5	383.7	193.6	283.3	306.5	108.9
1980	371.9	345.2	543.4	234.4	329.3	364.3	102.1
1981	432.2	393.8	680.6	264.9	382.5	437.5	98.8
1982	482.5	433.9	763.3	313.1	422.2	511.8	94.3

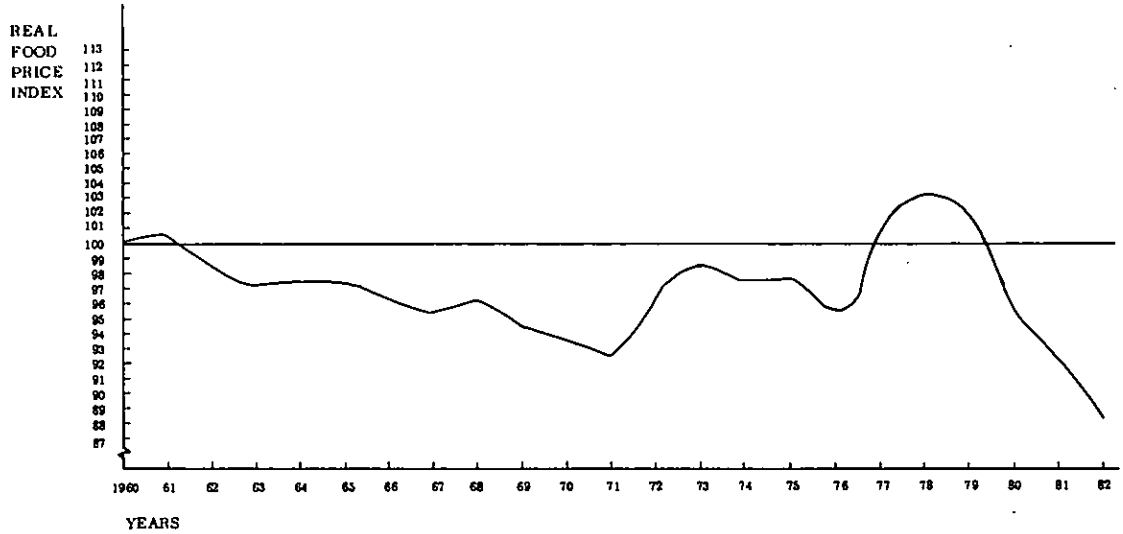
[1]The weights attached to constituents of the CPI, when calculating the overall price index, are as follows: food (30.5%), alcoholic drink (11.5%), tobacco (4.5%), clothing and footwear (10.7%), fuel and light (5.8%), housing (6%), household durables (4.8%), transport (13.2%), services and related expenditure (8%), other (5%). Only some of these constituents are given here.

[2]I.e. the food price index divided by the general consumer price index.

this period, in large part, because of the abolition of rates in 1977.

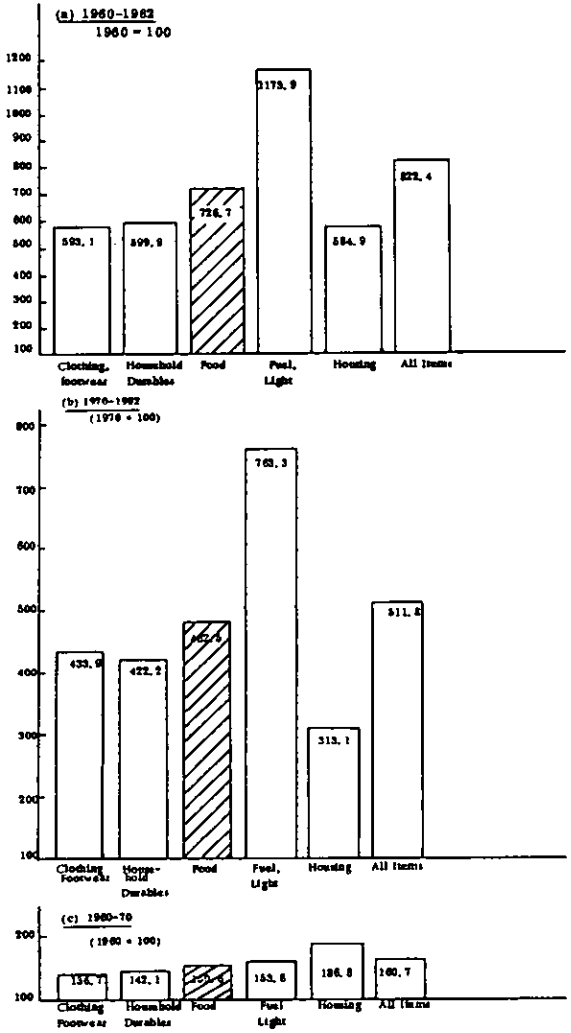
Different people will draw different conclusions from these figures but in our opinion the surprising thing is the slower rate of growth in food prices relative to "all items" since EEC entry. Hence, despite what have been regarded as massive food price increases within the EEC, the reality is that they have not kept pace with general inflation. This is an unexpected development as far as the ordinary person is concerned. We refrain from making any comment as to what a reasonable level of real food prices should be because we do not know. We would however venture to say that if all agricultural aids and price supports were withdrawn everywhere food prices might be higher and supplies much more variable than they actually are.

Figure 4.1: *Real food price index* 1960–1982*



*I.e., the food price index divided by the general consumer price index.

Figure 4.2: *Consumer price index classified by certain commodity groups and time periods*



Appendix 4A: *Food balance sheet ('000 tonnes)*

1975

Commodity	*Domestic production*	*Imports*		*Total supply*	*Exports*		*Net exports*		*Domestic use*
		EEC	*Total*		*EEC*	*Total*	*EEC*	*Total*	
Common Wheat	195	162	221	416	12	13	-150	-208	406
Barley	1019	63	71	1090	48	89	-15	+18	1034
Maize	0	275	419	419	1	1	-274	-418	394
Other Cereals	165	5	5	169	2	2	-3	-3	177
Sugar (white)	187	21	56	243	75	112	+54	+56	147
Cheese	60	1	1	61	56	57	+55	+56	7
Butter	86	0	0	86	53	54	+53	+54	37
Skim milk powder	135	1	4	139	93	108	+92	+104	16
Beef	564	19	19	583	442	488	+423	+469	90
Pigmeat	104	4	4	108	21	23	+17	+19	85
Sheepmeat	47	5	5	52	16	18	+11	+13	35
Eggs	39	3	3	41	0	0	-3	-3	41
Poultry	34	1	1	35	2	2	+1	+1	33
Milk*	672	0	0	672	0	0	0	0	672

*Includes buttermilk.

Appendix 4A: *Continued*

1976

Commodity	*Domestic production*	*Imports*		*Total supply*	*Exports*		*Net exports*		*Domestic use*
		EEC	*Total*		*EEC*	*Total*	*EEC*	*Total*	
Common Wheat	200	146	203	403	21	22	-125	-181	388
Barley	922	78	107	1029	84	122	+6	+15	909
Maize	0	201	505	505	2	2	-199	-503	515
Other Cereals	130	5	20	149	1	1	-4	-19	149
Sugar (white)	174	41	93	266	66	126	+25	+33	144
Cheese	49	2	2	51	53	56	+51	+54	8
Butter	101	2	2	103	59	64	+57	+62	40
Skim milk powder	164	2	2	166	103	142	+101	+140	23
Beef	385	22	22	407	262	297	+240	+275	80
Pigmeat	126	4	4	130	31	38	+27	+34	92
Sheepmeat	37	5	5	42	8	10	+3	+5	32
Eggs	39	2	2	41	0	0	-2	-2	41
Poultry	42	2	2	44	4	4	+2	+2	39
Milk*	670	0	0	670	0	0	0	0	670

*Includes buttermilk.

Appendix 4A: *Continued*

1977

Commodity	*Domestic production*	*Imports*		*Total supply*	*Exports*		*Net exports*		*Domestic use*
		EEC	*Total*		*EEC*	*Total*	*EEC*	*Total*	
Common Wheat	250	161	239	489	22	24	-139	-215	459
Barley	1452	19	21	1473	246	286	+227	+265	1197
Maize	0	201	272	272	3	3	-198	-269	299
Other Cereals	137	9	12	149	1	1	-8	-11	148
Sugar (white)	168	27	58	226	73	78	+46	+20	147
Cheese	54	2	2	56	38	38	+36	+36	8
Butter	107	1	2	109	43	51	+42	+49	39
Skim milk powder	145	2	2	147	73	161	+71	+159	20
Beef	460	32	32	492	385	414	+353	+382	78
Pigmeat	132	4	4	136	44	49	+40	+45	89
Sheepmeat	37	5	5	42	9	9	+4	+4	33
Eggs	38	2	2	40	0	0	-2	-2	40
Poultry	43	3	3	46	5	5	+2	+2	41
Milk*	653	0	0	653	0	0	0	0	653

*Includes buttermilk.

Appendix 4A: *Continued*

1978

Commodity	*Domestic production*	*Imports*		*Total supply*	*Exports*		*Net exports*		*Domestic use*
		EEC	*Total*		*EEC*	*Total*	*EEC*	*Total*	
Common Wheat	253	150	217	470	47	48	-103	-169	414
Barley	1396	15	15	1411	286	332	+271	+317	1093
Maize	0	213	247	247	4	4	-209	-243	242
Other Cereals	118	15	17	135	0	1	-15	-16	134
Sugar (white)	188	26	56	244	62	71	+36	+15	158
Cheese	50	2	2	52	41	42	+39	+40	8
Butter	130	1	1	131	72	83	+71	+82	40
Skim milk powder	169	1	1	170	47	145	+46	+144	25
Beef	473	25	25	498	385	408	+360	+383	79
Pigmeat	137	0	0	137	44	46	+44	+46	98
Sheepmeat	40	7	7	47	17	17	+10	+10	30
Eggs	37	1	1	38	0	0	-1	-1	38
Poultry	44	4	4	48	3	3	-1	-1	44
Milk*	643	0	0	643	0	0	0	0	643

*Includes buttermilk.

Appendix 4A: *Continued*

1979

Commodity	*Domestic production*	*Imports*		*Total supply*	*Exports*		*Net exports*		*Domestic use*
		EEC	*Total*		*EEC*	*Total*	*EEC*	*Total*	
Common Wheat	245	213	295	540	31	32	-182	-263	523
Barley	1438	16	17	1455	171	196	+155	+179	1255
Maize	0	250	271	271	3	4	-247	-267	279
Other Cereals	105	13	14	119	0	0	-13	-14	120
Sugar (white)	175	26	57	232	69	98	+43	+41	149
Cheese	58	2	2	60	60	60	+58	+58	9
Butter	132	2	2	134	74	119	+72	+117	39
Skim milk powder	148	0	0	148	52	173	+52	+173	3
Beef	426	39	39	465	315	353	+276	+314	78
Pigmeat	155	5	5	160	48	52	+43	+47	108
Sheepmeat	35	5	5	40	14	14	+9	+9	26
Eggs	35	4	4	40	0	0	-4	-4	39
Poultry	47	5	5	52	4	4	-1	-1	47
Milk*	642	0	0	642	0	0	0	0	642

*Includes buttermilk.

Appendix 4A: *Continued*

1980

Commodity	*Domestic production*	*Imports*		*Total supply*	*Exports*		*Net exports*		*Domestic use*
		EEC	*Total*		*EEC*	*Total*	*EEC*	*Total*	
Common Wheat	239	314	387	626	73	75	-241	-312	557
Barley	1523	39	39	1562	131	154	+92	+115	1394
Maize	0	284	299	299	12	13	-272	-286	284
Other Cereals	100	8	12	112	0	0	-8	-12	110
Sugar (white)	148	32	63	210	55	69	+23	+6	145
Cheese	49	2	2	52	36	37	+34	+35	9
Butter	124	3	3	127	46	90	+43	+87	42
Skim milk powder	136	0	0	136	24	130	+24	+130	0
Beef	539	20	20	559	356	489	+336	+469	82
Pigmeat	146	20	20	166	54	56	+34	+36	110
Sheepmeat	39	4	4	43	17	17	+13	+13	27
Eggs	33	10	10	42	0	0	-10	-10	42
Poultry	50	6	6	56	7	7	+1	+1	49
Milk*	637	0	0	637	0	0	0	0	637

*Includes buttermilk.

Appendix 4A: *Continued*

1981

Commodity	*Domestic production*	*Imports*		*Total supply*	*Exports*		*Net exports*		*Domestic use*
		EEC	*Total*		*EEC*	*Total*	*EEC*	*Total*	
Common Wheat									
Barley									
Maize				N. A.					
Other Cereals									
Sugar (white)									
Cheese	54	4	4	58	42	44	+38	+40	11
Butter	125	5	5	130	45	81	+40	+76	47
Skim milk powder	135	0	0	136	34	123	+34	+123	0
Beef	434	35	35	469	255	401	+220	+366	90
Pigmeat	139	26	26	165	51	53	+25	+27	112
Sheepmeat	40	6	6	46	18	18	+12	+12	28
Eggs	37	13	13	50	0	0	-13	-13	49
Poultry	45	10	10	55	6	6	-4	-4	49
Milk*	634	0	0	634	0	0	0	0	634

*Includes buttermilk.

N.A. Not available from CSO but estimated by the authors from Output and Trade Statistics.

Source: Central Statistics Office, Dublin.

Notes:

1. Meat trade figures include live animals as well as meat itself.
2. The figures do not always add up exactly because of stock changes which are not shown and which are sometimes very substantial because products put into intervention within the state are treated as stock.
3. Products put into intervention outside the state are treated as exports.
4. "Sheepmeat" includes goatsmeat.
5. Wheat includes soft and hard wheat; also, sorghum is added to maize.
6. "Other cereals" covers Meslin, Oats, Rye and Mixed Grains.
7. Domestic use includes Human Consumption, Industrial Uses and Agricultural Uses (Seeds and Animal Feed).
8. These balances do not contain data on "Other Dairy Products" which because of their diverse nature cannot be readily aggregated in quantitive terms.

Appendix 4B: *Difference* between Irish and world price levels 1975–1981*[1]

Commodity	*1975*	*1976*	*1977*	*Year 1978*	*1979*	*1980*	*1981*
				IR£ tonne			
Common wheat	-3	46	46	40	26	19	8
Barley and other cereals	1	28	45	57	35	36	6
Maize	11	38	64	75	58	43	21
Sugar	59	108	152	184	74	-50	22
Cheese	296	372	549	628	697	675	641
Butter	342	654	1054	1202	1257	858	688
Skim milk powder	183	338	436	498	621	273	243
Beef	202	217	383	585	785	840	907
Pigmeat	-7	31	170	271	216	229	235
Sheepmeat (and goats)	172	184.5	325.5	497	668	715	771
Eggs	0	75	132	115	143	132.5	130
Poultry	0	143	208	221	234	277	300

*Negative figure means that Irish prices were lower than world prices.

[1]For other Diary products the price differences for cheese, butter, and skim milk were used as appropriate.

Appendix 4C: *Effects of ACAs and MCAs on results when aggregating budgetary and trade transfers*

ACAs

let a = the EEC price per tonne of beef in, say, 1975
b = the Irish transitional price
c = the UK transitional price (lower than Irish price)
d = world price

(a - b) = the EEC/Irish ACA, i.e., the amount payable by Ireland on every tonne of beef exported to existing EEC full members (after allowing for MCAs)

(b - c) = the Irish/UK ACA, i.e., the ACA received on every tonne of Irish beef exported to the UK

(b - d) = difference between Irish and world beef prices. It is the net EEC refund, i.e., (a - d) - (a - b).

If we know b - d and multiply it by the amount of beef exported to other EEC countries, including the UK, we have the correct figure for the gain on beef exports as a result of our being members of the EEC. If, however, we were to add to this the ACAs on beef exported in 1975 included in Table 4.1 we would obtain an inflated figure. Hence, in any aggregation of budgetary and trade effects to obtain net resource transfer effects the ACAs must be excluded. This applies to all ACAs, not just to those on beef and applies in all cases where the refund used is the difference between Irish and world prices.

Assume transitional period is over but Ireland has not devalued her green rate so that green and central rates of exchange are not the same

Let a = EEC price
Let b = Irish price lower than EEC price
Let c = world price

a - b = Irish negative MCA payable on all exports both to EEC and third countries.

a - c = full export refund

b - c = net export refund, i.e., full export refund less MCA = export refund to which Irish exporter is entitled, i.e., Irish price less world price.

If x is the amount of beef exported from Ireland to another EEC country then the gain on beef exports from being a member of the EEC is

$$x(a - c) - x(a - b) = x(b - c)$$

i.e., the amount exported multiplied by the net export refund.

Since we have used net export refunds in calculating all our trade effects we have included the correct figures for these effects and if we were to add or deduct MCAs to, or from, these we would obtain inflated or reduced figures as the case may be. Hence, MCAs must be omitted in any aggregation of budgetary and trade effects to obtain net resource transfer effects.

Chapter 5

The CAP under Stress

Since the inauguration of the CAP in January 1962 there have been widespread demands from all quarters for its modification, but somehow it has managed to survive in more or less its original form. This is amazing considering the varying interests of the different members, and the trenchant attacks made upon it from time to time. As Josling *et al.*, (1981) say "it [the CAP] stumbles from one crisis to the next rescued mainly because of fear, well founded or not, that a collapse of the policy would bring about the demise of the Common Market itself".

Attacks on the CAP have taken various forms but it would be true to say that the major problem stems from the fact that among the member states there are gainers and losers. In particular, the balance of contributions into and receipts from the budget is a critical political factor. The price of food is another. The UK, which in pre-EEC days operated a cheap food policy, now finds that food prices have increased considerably while at the same time it has to pay heavy budgetary contributions to maintain these prices.[18] So also have the Germans who are heavy contributors to the EEC budget.

Criticisms of the CAP

The main criticisms which have been advanced against the CAP are as follows:

[18]In recent years the UK has been receiving large refunds of its budgetary contribution on the basis of various arguments (see p. 105, *et seq.*).

(1) The high prices generate surpluses which are expensive to dispose of;
(2) these surpluses and the cost of disposing of them are growing at an alarming rate compared with a static level of consumption;
(3) the CAP does not achieve income equity as between different farmers or different regions. Because of high prices those who receive the highest incomes are those who produce most, namely, the larger farmers on the better soils;
(4) the disposal of surpluses on the world market is disruptive of international trade; on the other hand, there are many complaints about duty free imports of agricultural products;
(5) in the situation where the budget has reached the upper limits of its existing capacity, funds for other EEC policies cannot be made available so that the evolution of the EEC is being retarded.

In addition to these ciriticisms, there is also the problem of the proposed enlargement of the Community by the admission of Spain and Portugal. These are relatively poor countries each of which will be a net beneficiary from the CAP placing further pressure on limited budgetary funds. The enlargement is also likely to change the emphasis of the CAP towards greater support for Mediterranean products — olive oil, wine and tomatoes — leaving less available for the support of northern European products — milk, beef, sugar, butter, etc. In addition, there is likely to be greater demand for farm structural aids since the new members have very poor structures over wide areas.

The above criticisms and the problems associated with Community enlargement are discussed below.

Surpluses and Disposal Costs

The figures in Table 5.1 show the degree of self-sufficiency within the EEC in selected agricultural products over the period 1973/74 to 1979/80. An interesting feature of this table is the

increase in self-sufficiency in the UK since that country joined the Community. Cereals have gone from 68 to 83 per cent, sugar from 30 to 46 per cent, butter from 19 to 47 per cent, cheese from 61 to 70 per cent, beef and veal from 70 to 78 per cent and vegetable oils and fats from 33 to 50 per cent. Pigment, however, has remained at the 1973/74 level. The effect of these increases means a contraction in the UK food market for Irish produce and a search for continental outlets which in many cases require different quality products — i.e., leaner meats, lighter lamb, unsalted butter, etc. There is, of course, considerable movement towards continental markets already but it looks as if this must be accelerated.

With regard to the overall EEC situation, Table 5.1 shows that in the 6 year period the degree of self-sufficiency within the nine countries has increased considerably and now quite a number of products are in surplus or near surplus. In particular sugar and some milk products are very much in over supply. Wine and pigmeat are dangerously close and due to seasonality are in surplus at certain times of the year. Beef and veal would be in surplus if concessionary imports under the GATT were included. The same is true for cereals if imports of cereal substitutes were included.

It is difficult to say whether or not the CAP has been entirely responsible for the surpluses and near surpluses but the Commission claims (EEC Commission, 1980) that it (the CAP)

> has shielded Europe from a physical shortage of foodstuffs and protected it from the speculative movements which sometimes affect the world markets in raw materials. We need only think of the dependence of Europe as regards energy, and of the vulnerability of supplies from overseas, in order to understand that an entity such as Europe with a population of 260 million cannot afford to rely on others for its food supplies and has the duty to exploit the richness of its soil.

Having said this, however, the Commission document goes on to say that the main difficulty encountered by the CAP after 15 years of operation is the lack of sufficiently effective regulatory

Table 5.1: *Degree of self-sufficiency in selected agricultural products 1973/74–1979/80[a] within the EEC*

Product	Year	West Germany	France	Italy	The Neths.	B-Lux.	UK	Ireland	Denmark	EEC 9	Greece	EEC 10
		per cent										
Total[b]	1973/74	81	169	66	30	44	68	68	102	92	80	91
Cereals	1979/80	89	173	71	28	50	83	85	108	101	102	101
Sugar	1973/74	98	146	67	119	208	30	105	138	91	na	na
	1979/80	125	200	93	156	247	46	113	187	125	92	124
Fresh fruit	1973/74	48	100	124	69	61	33	25	61	79	147	82
(excl. citrus)	1979/80	53	97	128	50	60	32	22	48	79	163	83
Wine	1973/74	60	98	118	0	10	0	0	0	99	na	na
	1979/80	45	104	137	0	3	0	0	0	105	na	na
Skim Milk	1973	183	157	1	60	195	186	753	172	137	0	143
Powder	1980	223	116	0	68	226	191	1270	99	115	0	115
Butter[c]	1973	114	117	65	548	106	19	203	325	101	83	98
	1980	130	119	69	313	99	47	299	221	119	70	119
Cheese	1973	87	115	82	243	47	61	600	258	102	100	103
	1980	93	115	79	229	40	70	604	421	105	92	105
Beef and	1973	90	111	53	115	90	70	555	268	91	71	96
Veal	1980	106	112	62	143	107	78	578	356	100	50	98
Pigmeat	1973	87	87	75	209	174	65	151	447	101	94	100
	1980	87	84	74	234	159	63	133	368	101	87	100
Veg. Oils	1973	96	63	80	130	66	33	15	138	77	na	na
and Fats	1980	116	65	70	122	89	50	14	95	82	na	na

(a) 3 year averages; (b) excluding rice; (c) including butter-oil.

Source: The Agricultural Situation in the Community 1982 Report, European Commission, Brussels.

mechanisms whereby the development of production is geared to the needs of the internal and external markets. Of the FEOGA costs which have shown rapid increases over the years those for milk, beef and processed fruit and vegetables represent rises in expenditure which can no longer be kept under control as the rules stand at present. For wine the trend is for output to rise while consumption continues to fall. Similarly for cereals and sugar, if annual variations are averaged the trend has been for Community production to increase rather faster than consumption.

The difficulty with regard to the milk surpluses stems from the fact that there is no internal or external market where disposal is possible at a reasonable price, and the scope for increasing food aid is limited. To get rid of stocks it has proved necessary to grant very high export refunds or subsidies for internal disposal. These refunds were up to 70 per cent of producer prices in 1980 but were reduced substantially in 1981 and 1982 as a result of an increase in world prices. There was a good deal of stockpiling, however, in 1982 and these stocks will have to be unloaded in 1983 at a very high budgetary cost.[19] The position at the end of 1983 is projected to be even worse than this. In a recent interview with M. Dempsey of the *Irish Farmers' Journal* (16 July, 1983) Commissioner Dalsager is reported as saying that by the end of the current marketing year the EEC will have a carry-over of 11 million tonnes of wheat against 6 million tonnes in 1982. There are nearly 3 million tonnes of sugar while total stocks of butter now stands at 568,000 tonnes and are still rising. The record for butter stocks was 599,000 tonnes in September 1979. The composition of FEOGA Guarantee section payments for different products in 1981, given in Table 5.2, shows that 30 per cent of total payments went for the disposal of milk products, 17.5 per cent for cereals, 7 per cent for sugar, 13 per cent for beef and veal, 5.7 per cent for fruit and vegetables and 9 per cent for oils and fats. Figures from the EEC Commission for 1979 show that the proportions in that year for milk were 43 per cent and

[19]This cost has been allowed for in the 1983/84 budget.

for cereals 15 per cent with beef and veal at 12 per cent.

The trend in total Guarantee section expenditure and in that of some of the main products since 1975 is given in Table 5.3. This table shows that total expenditure for 1981 was down slightly on that for 1980 although it included appropriations required to cover the accession of Greece and the operation — for the first time for a full year — of the new sheepmeat policy. Actually the share of gross Guarantee expenditure in the total budget came down from 72 per cent in 1979 to 63 per cent in 1981 (Table 5.5). Expenditure on milk disposal declined from 4.8 million ECUs in 1980 to 3.3 million ECUs in 1981 but is estimated to have risen to 4.2 million ECUs in 1982 when total Guarantee appropriations were 13.7 million ECUs compared with 11.1 million in 1981 (Table 5.3).

Because of the rise in the costs of surplus disposal in 1982 and 1983 the Commission, under pressure from the UK and Germany, continues to issue dire warnings about high price levels and their effect on production. It also says, however, that while prices fixed by the Community are generally higher than world prices they are not necessarily higher than prices in other major markets such as USA or Japan (Com. (81)608). The facts in this regard are that in 1981 the producer price for milk in New Zealand was 55 per cent lower than in the Community and in Australia 15 per cent lower. In the USA it was 15 per cent higher, in Canada 18 per cent and in Switzerland 55 per cent higher. For beef, producer prices were much lower in Australia and Argentina than in the Community but they were only slightly lower in the USA and they were more than twice as high in Japan. For wheat in 1980/81 the price was 30 per cent higher in the Community than in USA and 27 per cent higher than in Canada. The price of maize was 34 per cent higher in the Community than in the USA in that year also.

So-called world prices are, of course, much lower than those quoted above but world prices relate only to limited, often marginal, quantities, and it would be wrong to think that European consumers could be supplied for long at low stable

Table 5.2: *FEOGA guarantee expenditure by sector 1981 (Million ECUs.)**

Product	*Export refunds*	*Intervention*			*Total appropriations*	
		Storage	*Other*	*Total*	*Amount*	*%*
Cereals and Rice	1,223.5	407.9	311.7	719.6	1,943.0	17.5
Milk and milk products	1,886.3	298.1	1,158.3	1,456.4	3,342.7	30.0
Oils and fats	8.4	—	—	1,017.0	1,025.4	9.2
Sugar	409.2	344.3	14.0	358.3	767.5	6.9
Beef and veal	825.2	393.1	218.6	611.7	1,436.9	12.9
Sheepmeat	—	—	—	191.5	191.5	1.7
Pigmeat	132.6	—	—	22.0	154.6	1.4
Eggs and poultry	83.9	—	—	—	83.9	0.7
Fruit and vegetables	42.8	—	—	598.3	641.1	5.7
Wine	25.8	85.7	347.9	433.6	459.4	4.1
Tobacco	5.8	—	—	356.0	361.8	3.2
Fisheries	—	—	—	—	28.0	0.3
Other	—	—	—	184.5	184.5	1.7
Refunds for processed products	—	—	—	—	282.4	2.5
Total agricultural expenditure	4,643.5	1,529.1	2,050.5	5,948.9	10,902.8	97.8
MCAs	—	—	—	—	238.4	2.2
Total expenditure FEOGA Guarantee Section	—	—	—	—	11,141.2	100

*1 ECU = IR£0.59.

Source: 11th Financial Report on EAGGF (i.e., FEOGA) for the year 1981 Com (82) 439.

Table 5.3: *FEOGA guarantee section expenditure ('000 million ECUs)*

Year	Total Expenditure Gross	Total Expenditure Net[1]	Net expenditure as percentage of EEC Gross Domestic Product	Expenditure on main products: Milk	Beef/veal	Cereals	Sugar (net expenditure)[2]
1975	4.5	3.9	0.35	1.2	0.9	0.6	0.2
1976	5.6	4.4	0.35	2.3	0.6	0.7	0.1
1977	6.8	4.7	0.33	2.9	0.5	0.6	0.3
1978	8.7	6.4	0.41	4.0	0.6	1.1	0.5
1979	10.4	8.3	0.47	4.5	0.7	1.6	0.5
1980	11.3	9.5	0.47	4.8	1.4	1.7	0.1
1981	11.1	9.2	0.43[4]	3.3	1.4	1.9	0.3
1982[3]	13.7	11.0	0.45[4]	4.2	1.4	2.2	0.4

[1]Gross expenditure minus levies including sugar levy.
[2]Gross expenditure minus production levies and storage levies.
[3]Including Greece (appropriations).
[4](Provisional).
Source: Green Europe 1982 European Commission, Brussels.

world prices. Hence, even though the Community is being pressurised both from within and without to bring its prices into line with those on the world market it cannot do this. On the other hand, since world prices influence the level of export restitutions they have an important effect on budgetary costs. The export market is the only outlet available for additional production over and above internal consumption and such production will, therefore, realise no more than world prices. However, world markets are now in a difficult state because of the expansion of production and stocks in several important exporting countries (e.g., USA, New Zealand, Australia) and the slow economic growth worldwide. The Commission says (*Green Europe Newsletter* Dec. 1982) that the situation serves to underline the fact that, as Europe's exports of agricultural products develop in the long term, the Community needs to ensure that its agricultural prices are brought more into line

with those received by producers in competing countries, or that its agricultural producers participate more in the cost of exports. It serves also to emphasise the danger, of which the Commission has given repeated warnings, of maintaining guaranteed prices or subsidies for unlimited quantities of production not necessarily geared to the needs of the market.

The Commission goes on to say (ibid, p. 3) that

> the exceptionally high volume of production in 1982 is only the continuation of long term trends. It poses even more acutely the challenge which the Community has faced for a number of years in the agricultural sector; that is to re-orient the market organisations in such a way as to bring supply and demand into better balance and to ensure the most efficient use of the Community's economic and financial resources.

For these reasons the Commission pressed for, and obtained, very moderate price increases in 1983/84; in other words, there has been a return to the prudent price policies which operated in 1979 and 1980.

Income Equity

The third of the criticisms (listed on page 91) which may be directed at the CAP concerns the way in which the policies, based as they are on price guarantees, or product subsidies work to the advantage of the largest producers on the better soils who already have the most favourable production structures. In a Europe facing a long slow-down in its economic growth, voices are being raised in protest against public money being used, for the most part, to support the incomes of the richest farmers.

With regard to regional equity, it is claimed that the CAP has been of greater assistance to the regions which were already rich than it has to the least favoured areas of the Community. There are large differences in income and productivity between the agricultural regions of the Community; but worse still, in spite of some closing of the gap in certain regions in Ireland and

Northern Italy, these differences have increased during the 1970s. The richer Community regions, on account of the type of their production (cereals, milk and sugar) receive more substantial support than the less favoured regions which are largely in the Mediterranean area. Special consideration must be given to the latter area now that the Community has taken in Greece and is about to take in Spain and Portugal.

The question of equity between farm and non-farm families must also be considered. Because food is a basic necessity, low income households devote a larger part of their expenditure to it than do high income households. Therefore, when food prices are kept high, proportionally more income is transferred to farmers from the poor than from the rich consumers.

Disruption of World Trade

The CAP was formulated as an internal policy and to consider its repercussions on the rest of the world was not within the founders' terms of reference. Despite this, the world situation cannot be ignored. Like other trading countries the Community has an interest in avoiding disruption of the international trading system. If it causes too much disruption in agricultural trade, countervailing forces can be mounted against it on both the agricultural and non-agricultural fronts. However, despite the best of intentions, the sheer size of the Community's trade with the rest of the world inevitably implies that the CAP, because of its system of price supports, is disruptive of world trade. The Community is the world's largest importer and the second largest exporter (after the United States) of agricultural products. The high common prices established by the CAP tend to expand production thus reducing demand from the rest of the world. Export refunds enable the Community to sell on the world market at low prices thereby reducing world prices. Moreover, the variable nature of the import levy increases the instability of world prices. *Ad valorem* or specific tariffs allow

domestic prices to vary with world prices and the resulting variations in domestic supply and demand absorb part of the disturbances in the world market. Even a fixed import quota allows this to happen. The variable levy permits none of these effects. The purpose of the levy is to ensure that prices of goods imported into the Community remain constant; any change in world prices is counter-balanced by a change in the levy so that internal prices are unchanged. Hence, the variable levy is unique in blocking the transmission of disturbances from the world market, allowing the latter no buffering agent, and amplifying the problems there (Grant 1981).

The export refund system has created most of the opposition to the CAP outside the Community. Australia and New Zealand, in particular, complain of increased competition from subsidised exports of meat to Eastern Europe, North Africa and the Middle and Far East. Australia is also concerned about exports of cereals and sugar. Some of these apprehensions have also been echoed by the USA, Argentina and Brazil. There is, thus, sustained pressure within the GATT for a modification of the Community's export subsidies while the Reagan Administration has informed the EEC that the US will pursue an aggressive free market policy. Other countries are adopting similar tactics and indeed threatening countervailing action in many areas. In these circumstances the Community may be forced to modify the CAP in such a way as to cause the minimum disturbance to non-EEC trade, in particular to reduce subsidised exports through production quotas and to increase agricultural imports.

Ambiguities Regarding Imports of Substitute Products

Closely allied to the question of subsidised exports is the question of Community preference and the way in which it is allegedly being eroded by duty free or concessionary imports.

Community preference means that a member state should import a product from another member state rather than from a third country. This policy is operated through the variable import levy system which ensures that prices for goods produced in the Community are lower than those for similar goods imported from outside the EEC.

Not all agricultural products, however, are protected in this way and it is often argued that surpluses and budgetary costs could be reduced if greater preference were given to EEC farmers instead of diluting that preference in various ways as is happening now. Farm products which can be imported with concessionary or zero levies are:

(1) CAP products or ones which compete directly with CAP products such as butter and lamb from New Zealand, sugar from under-developed countries, beef from a number of countries including USA and Yugoslavia, maize gluten feed and soya beans.

(2) Products not covered by the CAP but which are substitutes for CAP products — the best examples of these are vegetable oils and fats which compete with butter and have caused a steep decline in butter consumption in recent years.

(3) Imports of cereal substitutes which are converted to animal feeds within the Community. These substitutes, the best example of which is manioc from Thailand, have increasingly displaced both imported cereals (maize) and cereals produced in the Community (common wheat and barley) and have caused switching from traditional types of fodder to these lower cost feeds, thereby increasing animal products already in surplus, particularly milk. In The Netherlands the cereal content of animal feed compounds is now 20 per cent or less compared with 70 per cent in pre-EEC days.

Imports to the EEC of products with concessionary or zero tariffs and levies in 1981/82 are given in Table 5.4. The table shows that concessionary imports of cereal substitutes in that

year were about 29 million tonnes. These compare with home production of cereals in the Community in that year of about 122 million tonnes and cereal exports of 14 million tonnes on which export refunds were paid. Concessionary imports of butter and cheese were 112,000 and 102,000 tonnes, respectively compared with respective exports of these products of 600,000 and 332,000 tonnes. Imports of sugar were 1.3 million tonnes, and fats and oils, 4.5 million. Imports of beef and lamb combined were 724,000 tonnes compared with beef exports of about 500,000 tonnes.

Table 5.4: *Imports to the EEC in 1981/82 of products with concessionary or zero levies*

Cereal substitutes[a]	*Quantity (000) tonnes*	*Other products*[b]	*Quantity (000) tonnes*
Soya bean	10,460	Butter[c]	112
Soya bean meal	8,000	Cheese[c]	102
Maize gluten	3,000	Sugar	1,300
Maize germcake	970	Vegetable fats and oils	4,500
Manioc	6,500	Beef and Veal	400
Other	235	Lamb	324
Total	29,165	*Total*	6,738

(a) Mainly duty free except for 6 per cent customs duty on manioc (all 1981/82 data).
(b) Reduced customs duties and levies payable on these depending on source.
(c) 1981 figures.
Source of data: Department of Agriculture and CBF.

The import of low duty feeds poses very complex problems for the EEC. The policy is favoured by some farmers and opposed by others. Manioc, in particular, has provided very cheap feed for livestock in The Netherlands and West Germany, where it can be transhipped easily from the deep sea ports at Rotterdam

and Hamburg. It is claimed that average milk yields and hence milk surpluses have increased substantially as a result of this cheap feed policy. Farmers in grain growing countries both within and outside the Community are opposed to such a policy as it makes it very difficult to obtain good markets for grain. It also carries implications for the budget, on the revenue side, because imported substitutes mean lost receipts from the variable levy on imported cereals, and on the expenditure side, because of the cost of disposing of cereals produced in the Community that are replaced by imported substitutes. These losses are variously estimated at, around, 1 billion ECUs per annum.

Another argument used against these imports is that proximity to the deep sea ports of Rotterdam and Hamburg gives farmers in The Netherlands and West Germany cheaper access to imported substitutes than other countries have and thus much lower production costs.

The response of the Dutch and German farmers is that:

(1) intensive methods enable low-cost production which is an objective of the CAP;

(2) cheap compound feed, particularly in The Netherlands, reflects, not the proximity to Rotterdam, but the competence of Dutch compound feed manufacturers and

(3) to change the treatment of these imports would be to upset existing trade and have countervailing powers applied against EEC industrial exports.

The Commission in its document "Reflections on the Common Agricultural Policy" (1980), says that any change in the CAP which substantially disturbed existing trade flows would seriously upset the balance which has existed between the EEC and third countries since the inauguration of the CAP. The EEC cannot expect to have an export market for its industrial goods, or to take advantage of the free movement of capital and services, and at the same time refuse to provide an instrument for some movement in agricultural produce between the EEC and third countries. However, in the same document the Commis-

sion indicated that it would be proposing measures that would arrest the excessive rise in imports of these substitutes and added that it is unjustifiable to criticise the operation of the CAP while leaving the door completely open to competing products for political and other reasons (ibid, p. 23).

The EEC Budget

As stated in Chapter 2, the Community modified its financial system in 1979 and its budget income now comes from three sources, namely:

(1) co-responsibility levies, levies on sugar production in excess of quota and levies from imports under the CAP, 90 per cent of which go to the Community, 10 per cent being retained by member states for administrative costs;
(2) receipts from the common external tariff on imports of non-CAP goods from non-member states, 90 per cent of which are also transmitted to the Community;
(3) a contribution from each member state not exceeding one per cent of an imputed VAT payment worked out on a common basis.

The last item is not handed out automatically. The Community gets only what it needs to balance its books. In 1979 the Community used 79 per cent of its possible VAT income. In 1980 it used 73 per cent because customs duties increased exceptionally. In 1981 it was expected to use up 95 per cent but this eventually worked out at 79 per cent because of an increase in world prices resulting in a reduction in export refunds. The estimate was for 92.5 per cent in 1982 (including Greece) and the upper limit reached in 1983. The Community must now find other income sources or curtail spending; drastic measures are being threatened.

The proportions of the total EEC budget obtained from different sources and spent on different items in the years 1977 to 1981 are given in Table 5.5. This table shows that in 1977 almost

half the budget receipts came from customs duties and tariffs but by 1981 this proportion had been reduced to little over one-third as a result of substantial increases in the VAT contribution. The latter payment made up about 54 per cent of the budget in 1981. In that year import and co-responsibility levies accounted for 7.1 per cent and the sugar levy for 2.5 per cent. As regards actual size, the budget is in fact very small when compared with Community GDP or with the size of the budgets in the member states. It is only about 0.5 per cent of the former and less than 3 per cent of the sum of all Community budgets.

On the expenditure side, Table 5.5 shows that Guarantee section payments as a percentage of the total budget varied between 70 and 74 per cent between 1977 and 1980 but declined to 63 per cent in 1981. In that year there was a substantial increase in expenditure on regional policy and further increases are planned. Whether these increases can be achieved is, however, another matter.

It should be kept in mind that the CAP cost, as usually calculated, does not take into account the fact that some of the revenue for the budget is generated within the policy (i.e., variable import and sugar levies) so that net expenditure on the CAP is less than gross expenditure. The EEC financial report for 1979 shows that whereas gross payments from the guarantee fund were 0.6 per cent of Community GDP, net payments after deduction of agricultural levies were only 0.48 per cent, i.e., 8.3 as against 10.4 million ECUs.

The distribution of contributions and receipts to the budget in 1980 by the different member states is given in Table 5.6. The largest contributors in 1980 were West Germany (29.6%), UK (20.8%), France (19.2%) and Italy (12.6%). Ireland (0.9%) is the smallest contributor except for Luxembourg. Looking at the receipts side, we see that France (23.1%) was the largest beneficiary, followed by West Germany (20.1%), Italy (17.9%), Belgium (14.6%), UK (12.4%) and The Netherlands (11.4%). Despite its very small contribution, Ireland received 5.7 per cent of the budgetary payments in 1980.

Table 5.5: *EEC Budgetary Receipts and Expenditures 1977–1981*

	Amounts					*Proportions*				
	1977	*1978*	*1979*	*1980*	*1981*	*1977*	*1978*	*1979*	*1980*	*1981*
Receipts	*Million ECUs*					*Per Cent*				
Sugar levies	232	377	460	505	464	2.4	3.0	3.2	3.1	2.5
Agricultural imports & Co-responsibility levies	1,329	1,686	1,706	1,520	1,310	13.9	13.6	11.8	9.4	7.1
Customs duties and tariffs	4,734	4,833	5,045	6,000	6,366	49.4	39.1	34.9	37.1	34.5
Financial contributions	3,149	5,331	7,040	7,256	9,888	32.9	43.1	48.7	44.8	53.6
Other receipts	140	136	196	901	407	1.5	1.1	1.4	5.6	2.2
Total Receipts	9,585	12,363	14,447	16,182	18,435	100.0	100.0	100.0	100.0	100.0
Expenditure										
FEOGA Guarantee Section	7,102	8,696	10,402	11,486	11,580	74.1	70.3	72.0	71.0	62.8
(of which MCAs and ACAs)	(na)	(1,023)	(770)	(277)	(168)	(na)	(8.2)	(5.3)	(1.7)	(1.0)
FEOGA Guidance Section	194	436	363	392	585	2.0	3.5	2.5	2.4	3.2
Social policy	190	559	557	769	725	2.0	4.5	3.9	4.8	3.9
Regional policy	400	525	699	723	1,947	4.2	4.2	4.8	4.5	10.6
Research: energy, industry, transport	234	294	293	379	320	2.4	2.4	2.0	2.3	1.7
Development Co-operation	270	381	495	642	796	2.8	3.1	3.4	4.0	4.3
Administration	561	777	864	939	1,038	5.9	6.3	6.0	5.8	5.6
Repayments to member states[a]	630	690	767	848	969	6.6	5.6	5.3	5.2	5.3
Other (Reserves, Exchange Rate Payments)	4	5	5	5	474	0.0	0.0	0.0	0.0	2.6
Total Expenditure	9,585	12,363	14,447	16,182	18,434	100.0	100.0	100.0	100.0	100.0
VAT paid as % of upper VAT limit	—	—	—	—	—	—	—	78.9	73.2	78.7

Source: Official Journal of the European Communities, various issues.

(a) Reimbursement of "Own Resources" collection costs and expenditure on Community Offices in member states. Special payments to UK are netted out.

Table 5.6: *Contributions to and receipts from the EEC budget 1980[a] before adjustment for UK rebate*

Member State	*Contributions to the EEC budget*		*Receipts from the EEC budget*		*Net budgetary receipts*
	Amount	*Per cent*	*Amount*	*Per cent*	
	million ECUs	*%*	*million ECUs*	*%*	*million ECUs*
West Germany	4,523.0	29.6	2,940.2	20.1	-1,582.8
France	2,926.3	19.2	3,372.4	23.1	+446.1
Italy	1,929.3	12.6	2,610.5	17.9	+681.2
The Netherlands	1,272.6	8.3	1,667.1	11.4	+394.5
Belgium	938.5	6.2	677.2	14.6	-261.3
Luxembourg	19.6	0.1	14.5	0.1	-5.1
United Kingdom	3,167.8	20.8	1,803.2	12.4	-1,364.6
Ireland	139.3	0.9	826.5	5.7	+687.2
Denmark	346.2	2.3	680.1	4.7	+333.9
Total EEC 9	15,262.6	100.0	14,591.7	100.0	+670.9[b]

(a) The figures for Ireland in this table differ from those in Table 4.1 in so far as they include total EEC payments and receipts and not just proportions attributable to the CAP.

(b) Amount not paid to member states, e.g., Administration and Overseas.

Source: Court of Auditors Annual Report, *Official Journal of the European Communities*, Series C. 31/12/'81.

When the contributions to and receipts from the budget are balanced against one another, the last column of Table 5.6 shows that West Germany (-1,583 million) UK (-1,365 million), Belgium (-261 million) and Luxembourg (-5.1 million) were the net contributors, all the other countries being net receivers with Ireland and Italy being the largest in that year.

As pointed out in the previous chapter, the budgetary contributions tend to be misleading when viewed on their own, nevertheless, they give a good idea of the nature of the problem and of the countries from which pressure for change is likely to come. Naturally the UK and West Germany are in the forefront of the reformers, spokesmen from these countries being particularly vocal, not only because of the budgetary costs but also because of the high food prices. One of the main criticisms advanced by UK commentators is that revenue is being raised from countries with below average income levels (the UK in particular) to finance more affluent countries like The Netherlands and France. The domination of agricultural spending is seen to be behind this imbalance.

As a result of the perceived inequity in the net national contributions the UK has argued for, and received, a number of annual rebates since 1980 to reduce its budgetary burden. The amounts involved were 1.2, 1.4 and 1.6 billion ECUs in the three years 1980-1982, respectively, on the assumption that the causes of the imbalance would be removed by 1983. Since the required reform of the CAP has not yet taken place, and the perceived imbalances have not been removed, the payment to the UK has been continued in 1983. The refund in that year, however, has been reduced to about 750 million ECUs (£450 m). The rebates have altered significantly the balance between the net contribution and beneficiaries as the orders of magnitudes in Table 5.7 show when compared with those in Table 5.6.

In order to put the budget criticisms in perspective, it is necessary to say that if the truth were told, it is not the actual magnitude of the EEC budget which is at issue, but rather the

distribution of payments and receipts as between member states, and the pattern of expenditure. The UK would probably not mind spending what it sends to Brussels on its own farmers but it is not enamoured with the idea of seeing this money go to Irish, French and Dutch farmers. Also if it had a free hand in such spending it would probably use the money, not to raise the price of food, but rather to keep prices down, as in pre-EEC years.

Table 5.7: *Net EEC budgetary receipts in 1980 and 1981 after adjustment for UK rebates*

	Million £ Sterling	
	1980	*(Forecast) 1981*
West Germany	-1,177	-1,260
UK*	-203	-56
France	+41	+102
Belgium	+115	+187
Luxembourg	+135	+164
Denmark	+174	+157
The Netherlands	+215	+81
Italy	+329	+215
Ireland	+372	+340

Source: The Economist Nov. 7 1981 p. 76 giving its source as the European Commission.
*Includes refund of £693 m in 1980 and £830 m in 1981.

The EEC Commission (1980) while admitting that expenditure on the CAP is very high in relation to other spending states (p. 11):

> that this is so because the CAP is almost the only policy which is really common with financial solidarity. If the Common Agricultural Policy occupies such an eminent place in the budget, this is merely because the Community has lacked the courage to introduce and pay for other common policies. Neither the share taken by agriculture nor the lack of own resources has ever been the true reason for holding back other policies.

Indeed in a more recent document (Com (81) 300) the Commission states that there can be no development of Community activities as long as the budget remains artificially limited by the current ceiling on its resources. It says that it will take the necessary steps to overcome this constraint even though this means the passing of separate resolutions on the VAT contribution in the parliaments of every member state. The total cost of the CAP, which corresponds to 0.5 per cent of Community GDP, is not excessive. Re-nationalisation would cost member states more. Every country needs an agricultural policy and it is worth remembering that the policies pursued by the Community's main competitors are just as costly. USA commentators might note this.

Finally, on the budget question, the Commission (1980) says that what is being assailed by the critics is not so much the total expenditure of 11 billion ECUs by the FEOGA Guarantee section, as the expenditure of 4.5 billion ECUs on milk products for which the market outlook is unlikely to improve in the near future, and the fact that the richer a farmer is, the more he gains from the CAP. Similarly for the agricultural regions. The regions with the highest agricultural incomes are those which incur the most expenditure. It is wrong to assess the CAP solely in terms of budgetary implications. The Common Agricultural Policy has assumed responsibility, by substitution, for expenditure formerly borne by governments and there is, in fact, no evidence that this has led to an increase in expenditure — if anything there has been a decrease in member states' total transfers of public funds to agriculture.

Thus, the solutions to be found to the problems of the CAP

must attempt to reconcile various constraints, whilst safeguarding the beneficial effects of this policy. One thing, however, is fairly clear, a decrease in agricultural expenditure is unlikely to solve the Community's budgetary problems.

Community Enlargement: Financial Aspects

The EEC Commission estimated the net financial implications of the accession of Greece, Spain and Portugal, by examining the effect on the budget, had these countries been EEC members in 1978 (Bulletin of the EEC, Supplement 3/78). In presenting the figures it stressed that as a result of the difficulties of analysis and the lack of precise statistics the exercise was surrounded by many uncertainties. Hence, the conclusions arrived at should be treated with extreme caution.

Budget expenditures and receipts for 1978 are given in Table 5.8 on the assumption that the three applicant countries were full members in that year and that they had adopted all the existing Community legislation. The upper section of this table shows that under 1978 conditions (which are not typical) accession of the three applicant members would increase budgetary expenditure from about 12.4 billion ECUs in the existing nine states to 15.0 billion in the enlarged 12. Budgetary expenditure of 2.6 billion ECUs would therefore be incurred on the three new members. The lower section of the table shows that the contribution of these members to the budget would be about 1.7 billion ECUs leaving an extra cost to the existing members of about 0.9 billion ECUs.

These figures do not take account of ACAs or MCAs and in view of their nature cannot incorporate the potential dynamic effects of the application of Community policies to the three countries. The figures in Table 5.8 represent a static situation at the start of the enlargement process and are, therefore, likely to be minima. Indeed, because of the structural situation obtaining in the applicant countries, considerable sums of money will have

to be made available to them, thus reducing the amounts which can be devoted to agricultural price supports throughout the Community or, alternatively, increasing present contributions so as to maintain present real support levels. Either alternative poses serious problems for existing members and most would wish that further enlargement be postposed for as long as possible — at least until the present recession has ended.

Table 5.8 *Estimated budgetary expenditure and receipts for an enlarged Community as at 1978* conditions and prices*

Item	*EEC 9*	*Greece*	*Spain*	*Portugal*	*Three applicants*	*EEC 12*
Expenditure			*Million ECU*			
FEOGA Guarantee	8,666	400	600	120	1,120	9,800
FEOGA Guidance	470	100	225	75	400	870
Social fund	570	40	100	110	250	820
Regional fund	580	105	190	125	420	1,000
10% refund	690	25	65	10	100	790
Others	1,382	50	200	50	300	1,680
Total expenditure	12,358	720	1,380	490	2,600	15,000
Receipts						
Customs duties	4,833	110	370	40	520	5,350
Sugar levies	2,063	110	300	90	500	2,560
VAT						
1978 levy (0.64%)	5,330	109	392	70	570	5,900
EEC 12 rate (0.77%)	1,020	22	78	14	114	1,134
Other revenue	136	—	—	—	—	136
Total revenue	13,382	351	1,140	214	1,704	15,000

*MCAs and ACAs are excluded.

Source: Enlargement of the Community, Economic and Sectoral Aspects, *Bulletin of the European Communities Supplement 3/78.*

Despite the economic problems, however, there are political considerations to be taken into account in relation to enlargement. When the three new countries asked to be admitted to the Community they were making a commitment which is primarily a political one. Their choice constituted an act of faith in a united Europe. The three countries have, therefore, entrusted the Community with a political responsibility which it (the Community) cannot refuse, except at the price of denying the principles on which it is itself grounded. These principles are

enshrined in the preamble to the Treaty of Rome, where the founders of the Community "being resolved to preserve and strengthen peace and liberty [called] upon the other peoples of Europe who share their ideals to join in their efforts". The Heads of present EEC states recently solemnly proclaimed their faith in this ideal which requires the Community to give a positive answer to the applicant countries (*Bulletin of the European Communities Supplement*, 1/78). It will be difficult, therefore, to escape from this commitment, but, of course, the negotiations can be drawn out as was done in the case of the first enlargement. Taking everything into consideration this may be the best course. The present situation is very difficult. The problem of unemployment has become very serious for all: the international monetary system is in turmoil, protectionist tendencies are growing sharper and divergencies within the Community are a cause of major concern.

The applicant countries will bring with them considerable regional problems and also produce pressure on the labour market, a situation which in the past has resulted in emigration to the Community. Such emigration, which during a period of full employment, facilitated growth in the Community, could now perhaps be regarded as unwelcome. In view of this range of difficulties, enlargement will place a serious handicap on the Community's momentum. On the other hand, the admission of the two new members will bring the budgetary situation to a head so that it will have to be solved definitely in one way or another. Perhaps it is the lever required to bring about enlarged contributions from the member states and resolve the question of the UK rebate.

Chapter 6

Suggested Solutions to the Problems of the CAP

The problems associated with the CAP have been discussed in some detail in the previous chapter. Taking into account these problems the adjustments to be made to the Policy (according to the Commission (Com (80) 800)) must reconcile three main objectives.

1. To maintain all positive aspects of the CAP and in particular its three main principles of
   (a) unity of the market through common prices
   (b) Community preference, mainly through variable levies and
   (c) financial solidarity through common FEOGA funds
2. To set up mechanisms whereby the financial consequences of production surpluses may be held in check.
3. To concentrate financial resources on the least favoured farms and regions.

Various suggestions have been put forward by academics and administrators for dealing with these problems. The more important of these are discussed in turn and their *pros* and *cons* outlined. Finally we discuss the proposals from the Irish point of view and suggest the options which we think would best suit this country.

Possible Changes in CAP

In view of the various criticisms which the CAP has weathered since its formation there are many who feel that it will continue to stagger from crisis to crisis in its present form

with only minor changes being made. Furthermore, some commentators (Josling *et al.*, 1981) feel that the 1 per cent VAT levy will be raised if, and when, it is needed to do so. However, three key member states, the UK, Germany and France, have stated that they will not raise the VAT levy unless changes are made. Unfortunately, all of these countries want different changes and so it will be most difficult to get agreement. Let us consider some of the suggestions which have been put forward for reform.

Income Supports

Among the more radical proposals put forward by academics in a number of countries is an income support programme financed wholly, or partially, by national governments and running in parallel with low Community prices. Such a proposal was not taken very seriously by the EEC Commission up to quite recently and indeed Josling *et al.*, (1981) say that "if it does gain support it will be because the Community mechanisms for reaching agreement have broken down. The threat of a return to national policies is an ever-present spur to the reaching of compromise positions". Be this as it may, however, a decision by the French Government to provide over 5000m frs to support French farmers' incomes in 1982 has aroused concern in the Commission and in other member states (*Green Europe*, 191, 1982).

There are fears that the income supplements which French farmers will receive may distort competition. Also, the scale of the assistance is causing farmers' unions in the other member states to cast a watchful eye at developments in France in the hope of claiming similar treatment for their own farmers.

There have been calls for the Community institutions to intervene but it is difficult to take any action. There are, after all, many ways in which member states can give a helping hand to their farmers and it would be quite wrong to think that every

measure of this kind is prohibited. Indeed, the Commission estimates conservatively that total national expenditure by the member states is already about double Community spending on agriculture (ibid., p. 1). A considerable portion of this national expenditure goes on implementing Community structural directives under which both the Community and member states make financial contributions. But by far the greatest share is spend on social security for the farm population although there are variations between countries in the scale of such expenditure and the form which it takes. This type of spending is hardly ever criticised although there is no doubt that it too can distort competition. The acceptability of social security spending as against income support is probably due to the fact that the former is given mainly on the basis of need to people who cannot attain acceptable income levels from their farms.

From the Irish viewpoint, income supplements and input subsidies from either national or EEC sources must be approached with great caution and must only be allowed for very grave reasons. National payments of this kind provide an excuse for low agricultural prices and are the thin end of the wedge towards a return to national policies. France, which has always been a strong CAP supporter should, therefore, be very careful about the introduction of such aid. It is a dangerous precedent which could lead to the complete erosion of the CAP.

Income supplements and input subsidies paid by the EEC would also be dangerous. They would have to come out of the budget, would therefore be visible and of necessity would be very small when spread over all farms, nevertheless, they would create excuses for low prices and ultimately for national policies.

Two-tier Financing

An alternative system which has been suggested is two-tier financing or the "price cocktail". Under this system the EEC would bear responsibility for common prices whose

development would be carefully controlled so as to keep within the 1 per cent VAT limit. Additional support, if desired, could be covered by the national budget of each member state.

The Commisssion is its 1980 document (Com (80) 800) (op. cit., p. 15) put forward numerous objections to this policy. It says:

1. It would herald the end of free movement of agricultural products, because the differences in the level of supports in member states would soon give rise to corrective measures at the frontiers.
2. Any price differentiation between member states would soon change the competitive situation at producer level and hence at the processing and marketing stages.
3. The difference in internal prices would give rise to differences in rates of levy on imports from non-member countries and make it impossible to treat these levies as own resources.
4. The "pseudo" solution would do nothing to remedy the production imbalances, because the major problem of the Common Agricultural Policy is not so much the costs, or their distribution among member states, as the absence of any corrective mechanism for adapting supply to demand in accordance with a basic principle of economic rationality.
5. Finally, as soon as Community financial solidarity was broken, through the introduction of two-tier financing, it would rapidly become impossible to fix any common price at all. Can one imagine Ireland accepting very high prices for beef if it had to bear the consequences, or France backing high prices for cereals, and so on?

The Commission goes on to say that a lasting Community solution to the present problems cannot be found in breaking the chain of free trade/the harmonisation of support systems/price unity and financial solidarity. A price cocktail would put a stop to one of the subjects of criticism — the unfair distribution of burdens and benefits — but would leave unanswered the other problems of the CAP.

In view of the trenchant denunciation of two-tier financing by the Commission it cannot be considered a viable option. There will, of course, always be some national supplementary financing, particularly when farm incomes in a country get out of line with other incomes. This will probably come in the form of headage payments or structural supports but hardly in the form of national price supplementation. In Ireland, with its relatively large agricultural sector, the scope for national supplementary financing is limited and particularly at the present time when there are severe budgetary constraints.

Feasible Solutions

Because the balance of interest among member states is so complex, radical reform tends to be rare and policies usually evolve gradually over the years and this is what is likely to happen now.

The major alternative reforms which have been proposed are:

1. Prudent prices, i.e., reducing real prices.
2. Prudent prices with income compensation for at least some farmers in the direct form of social welfare (dole) or in the indirect form of headage or acreage payments.
3. Prudent prices with co-responsibility levies imposed on all production.
4. Prudent prices with quotas including the introduction of a super-levy on quantities of individual products in excess of quota.
5. The Commission also suggests a new approach to external trade policy and
6. an adjustment of structural policy.

It is obvious from the above that prudent prices are the most important instrument of the Commission in CAP reform since they appear in most of the alternatives suggested.

Prudent Prices

Real producer prices for the EEC as a whole (nominal prices deflated by a price index) were relatively stable between 1970 and 1976, but since then up to 1981, as the figures in Table 6.1 show, they declined every year at an average annual rate of about 3.0 per cent. The decline was halted in 1982 thanks to a relatively favourable price review in that year as a result of low production in 1981. The 1982 situation was, however, unusual due to weather and other factors in 1981 and is not likely to be repeated. Hence, the prudent policy has been reintroduced again for 1983.

Table 6.1: *Changes in real prices received by EEC farmers 1976-1982*

Country	*1976*	*1977*	*1978*	*1979*	*1980*	*1981*	*1982*
West Germany	+4.0	-4.8	-5.3	-2.5	-2.9	-0.3	-0.3
France	+4.5	-0.6	-5.2	-3.6	-7.0	-2.0	+0.9
Italy	+4.8	+2.7	-2.8	-4.6	-6.4	-6.2	+1.4
The Netherlands	+3.9	-7.8	-7.7	-2.5	-2.7	+1.5	+2.9
Belgium	+7.2	-10.7	-7.8	-3.2	-3.4	+1.7	+5.8
Luxembourg	-0.07	-4.3	-4.1	-2.2	-1.6	-2.3	+4.3
UK	+10.4	-10.3	-10.5	-2.6	-10.5	-1.1	+4.0
Ireland	+6.9	+7.4	+4.5	-7.1	-17.3	-1.5	-3.5
Denmark	+3.7	-5.9	-4.1	-7.2	-1.1	-0.4	+3.5
Eur. 9	+5.5	-2.5	-4.4	-3.4	-6.1	-1.6	+2.3

Source: The agricultural situation in the Community, 1982 and Eurostat, CPI Monthly Bulletins various issues.

Prior to the 1983/84 price review, the Commission pressed for very moderate price increases (Villian 1983) and eventually the following rises (in ECUs) above the 1982/83 levels were adopted for the main North European products: cereals 3 per cent, sugar 4 per cent, rape seed 4 per cent, beef 5.5 per cent, pigmeat 5.5

per cent, sheepmeat 5.5 per cent and milk 2.33 per cent. The overall price increase for the Community as a whole in ECUs is estimated at 4.2 per cent but when values are given in national currencies there is considerable variation as between countries due to the importance of different products in their production and to Green rate adjustments. The average price rise for Ireland is 8.1 per cent whereas that for Germany is only 2 per cent. The rise in Greece is 14 per cent but that includes the alignment in Greek prices with common prices due to accession arrangements. Considering the recent fall in inflation in Ireland the agricultural price increase may almost keep pace with it in 1983. However, the outlook for future years is not very promising in this regard. The rate of FEOGA Guarantee section expenditure is now increasing more rapidly than potential "Own Resources" and it looks as if the prudent price policy will have to be continued. And even then other supplementary policies will have to be introduced.

Income Supports

To compensate somewhat for the prudent price policy, the Commission makes certain payments to member states either by way of cattle headage payments, payments to small producers on crops or produce, or payments under certain structural measures. For example, at the 1983/84 price review, the Council agreed to extend to 30 April 1984 beef headage payments to Ireland under the Guidance section of FEOGA. The value of this for one year is about IR£7 million. It also agreed to the continuation of 120 million ECUs of income support for small milk producers in the Community. Structural measures and special proposals are being worked out in respect of the Mediterranean region. As these aids do not increase food prices they appear more acceptable than price rises to countries like the UK and Germany, but as stated above they should be kept small and not be allowed to erode the price support system.

Co-responsibility

The Commission states (Com(80)800) that, in the long run, the adjustments to be made to the market organisation must be based on the principle, that in the present state of agricultural technology it is neither economically sound, nor financially feasible, to guarantee price or aid levels for unlimited quantities. Surplus production must be disposed of at low prices to third countries and this interferes with markets in these areas as well as being expensive for the Community. The Commission says that producers must be made more aware of market realities than they have been in the past. To this end production targets in terms of volume must be set for every sector at Community level. Once these are reached producers would be required to contribute to surplus disposal or the intervention guarantee could be reduced. This is known as the principle of co-responsibility.

At the time this report was written, the Commission was of the opinion that co-responsibility would maintain all the essential features of the CAP except absolute open-endedness. It stated that it should be a permanent feature and not just for a given marketing year and should be varied according to product. Also all the co-responsibility need not be paid for by producers. It should be shared in proportions to be defined between the Community and producers, with producers presumably paying the major portion.

The concept of producer co-responsibility is not new. It has been part of the CAP since its initiation. The first sugar regulation which came into operation in 1968 provided for a levy on Quota B sugar, that is, production above a basic Quota A level and below an upper ceiling at which all support ceased. The levy was imposed on sugar manufacturers and beet producers to recoup the cost of disposing of surplus Quota B sugar, but recently it has been extended to Quota A sugar as well. The current levy is 29.5 per cent of the intervention price on Quota B sugar (18,200 tonnes in Ireland) and 2 per cent of the inter-

vention price on Quota A sugar (182,000 tonnes in Ireland).

Co-responsibility at the rate of 1.5 per cent of the target price on all production was introduced for milk at the 1977/78 price review, after abortive attempts at its introduction by the Commission in the three previous years. This levy has remained in operation since September 1977. Currently it is at the rate of 2 per cent of the target price on sales in general including liquid milk, but reduced to 1.5 per cent on the first 60,000 kg per producer in the disadvantaged areas. In 1979, when the EEC budget was under considerable strain, the Commission decided that the uniform levy on all milk was insufficient and it recommended to the Council of Ministers a supplementary or super-levy to fund the disposal of additional milk beyond a certain basic quantity for the Community as a whole. Each farm or creamery was to be given a quota and the super-levy at a rate of something in the region of 50p per gallon was to be charged on all production in excess of quota. This meant that production over and above quota would be almost worthless.

The recommendation for a super-levy came before the Council of Ministers at the 1980/81 annual price review but was not agreed. The recommendation was that it be introduced the following year if production in 1980 grew by more than 1.5 per cent over the 1979 level. As things turned out world prices increased in 1980 and 1981 and it became possible to balance the budget without recourse to the milk super-levy. However, the Commission emphasised that it would recommend the super-levy or some other severe action if deliveries of milk in 1982 rose more than 0.5 per cent above the 1981 level. Since deliveries did, in fact, exceed this threshold in 1982, intervention prices have been curtailed in 1983 and the Commission has proposed that the super-levy be imposed in the 1983/84 budget. There was also an agreement to introduce co-responsibility for cereals in 1983/84 if production exceeded a certain level. The aim here was to reduce real intervention prices and this has in fact happened, since the nominal increase has been kept at 3 per cent. It seems that co-responsibility has now become a basic

feature of the CAP but up to this it has tended to be applied as a reduction in intervention prices rather than as a levy on production.

Though co-responsibility, no matter how applied, means in effect a reduction in farm prices, nevertheless, when applied as a tax on production it has advantages for the budget over a price reduction system. Suppose producer prices are reduced by the same amount under a price reduction and a co-responsibility system, (i.e., the reduction in prices being equivalent to the increase in the co-responsibility levy per unit). Producer incomes are reduced by the same amount under both these regimes but consumers and the budget are affected differently. Under the co-responsibility regime, consumer prices remain at the original high level while all of the levy goes towards surplus disposal and hence budget relief. Under the reduced price system, consumers get cheaper food but there is not as much relief for the budget as under the levy system. If, for example, the levy is 5 per cent, this proportion of the value of all production goes towards budget relief. If, however, prices are reduced by 5 per cent the budget relief is only 5 per cent of the value of exports, the remainder of the reduction going towards lowering consumer food costs.

In the long run, producers are better off with uniform co-responsibility levies than with reduced prices. With co-responsibility the strain on the budget is eased, and the producer can bargain for higher prices hoping that these can be extracted without too much trouble from a very large number of consumers. With reduced prices consumers gain while the budget continues to be under stress and demands continue for further price reductions to ease the budget. In the ultimate analysis, of course, the decision to introduce co-responsibility or reduce prices is a political one. Countries like the UK, with small agricultural sectors, tend to favour lower food prices whereas countries like Ireland, with relatively large agricultural sectors and high food exports, favour high agricultural prices since a large proportion of the high prices are paid by consumers in

other countries. However, since the countries with the smallest agricultural sectors tend to be the biggest contributors to the EEC budget their views are most likely to prevail; hence the movement towards the prudent price approach.

Quotas and Other Measures

Co-responsibility is only one way of controlling budgetary expenditure. The Community's financial responsibility might be limited to a pre-determined maximum volume (quantum) sold to processors or into intervention as is the case with sugar. This is, in effect, a quota system although in the past the Commission has stated that it does not favour quotas saying that they are too difficult to administer, too inflexible and would freeze production at the farm level (Com(80)10, p. 74). It has also stated that the introduction of co-responsibility does not remove the need for other specific measures, in particular measures to lessen the rigidity introduced by the intervention system and to give more impetus to market forces. There should be more rigid quality criteria for the admission of products to intervention, periods when intervention is prohibited during the year and minimum qualifying standards for the full intervention price. Some of these criteria have already been introduced for beef, as for example, the type of animal purchased and the time of the year when certain beef cuts are allowed into intervention.

The Commission has stressed that the adoption of this package of measures would allow the principles of the CAP to be preserved and would permit the price adjustments that are indispensable to the long-term safeguarding of the farmers' incomes. However, on matters of price adjustment, it has stated that attention will have to be paid to the existence of positive monetary compensatory amounts (internal prices higher than the Community level, in, for example, West Germany, The Netherlands and the UK), the maintenance of which over a long period leads to an increase in agricultural production.

At the time of the introduction of the EMS, it was agreed that any new MCAs would be phased out over a two-year period. This, however, has not happened (though some reduction was obtained at the 1983/84 review) and so those countries with the positive MCAs continue to pay higher prices to their farmers. There is a definite conflict here between the support of farmers' incomes, on the one hand, and the problem of generating surpluses, on the other. This problem is difficult to resolve but the aim should be to try and obtain a uniform policy between member states. All MCAs should, if possible, be phased out gradually and a common price system introduced.

External Policy

Action to improve the market organisation must also cover exports and imports. The Community is still the largest importer of agricultural products and has done its part in importing from countries heavily dependent on their agricultural exports, even in the case of products where there have been difficulties on the Community's own market. The Commission says that the Community will honour its obligations in this regard, many of which have been contracted in multilateral agreements, for the stabilisation of world agricultural markets.

At the same time, when new restraints must be imposed, particularly on the volume of certain kinds of livestock production, there must be more vigilance over the import of duty free feeding stuffs or similar products (see Table 5.4 for imports of cereal substitutes in 1981/82). The means of implementing this must be geared to the markets concerned and to the situation of the supplying countries. A voluntary export restraint (VER) has recently been negotiated with Thailand to curb EEC imports of manioc but it will almost certainly be impossible to reach a similar agreement about soya bean imports from the US. The Commission favours a lowering of Community grain prices to as to make internal feeds competitive with imports. This will be

difficult to achieve even though there is a commitment to introduce co-responsibility for cereals if production increases too much: The reduction in grain prices would have to be substantial and it would be resisted strongly by Community grain producers. There must, of course, be a balance between the price of animal products and cereal prices but such a balance has already been determined at the negotiating table and it will be difficult to alter it.

Exports, which have increased rapidly in recent years, also play an important role, both welcome and unwelcome, in the Community's external policy. If, however, the Community is to remain open to the rest of the world there must be a balance between exports and imports. If it must import agricultural produce it must also have the means to conduct an export policy.

To date exporting has been done on a rather *ad hoc* basis. Surpluses have been sold when the cost of storage became excessive and there has been no co-ordinated export policy. The Commission says that, for the future, the CAP must be provided with instruments similar to those enjoyed by major agricultural exporting countries, (USA, Canada, Australia, New Zealand) in particular, the ability to conclude long-term agreements, (Com(81)300). The idea of long-term agreements, though favoured by the Commission, has little prospect of success. In a world of over-supply, importers will be very reluctant to enter into such agreements. We feel, therefore, that *ad hoc* exporting will have to continue.

Structural Policy

The Commission has constantly stated that socio-economic policy is an indispensable component of the Common Agricultural Policy. It is largely by means of it that the Community can take account of the special characteristics of farming imposed by the structural and natural disparities between the different agricultural regions.

The Council has recently decided to intensify structural action in mountain, hill and less favoured areas and it has also taken the initial steps to implement the Commission's proposal to devote as many available resources as possible to developing the least favoured areas by co-ordinated action through Community and national means. A special package has been introduced for the West of Ireland and similar programmes are proposed for Northern Ireland, certain areas of Northern Italy, the French overseas departments, the outer Hebrides, the Lozere and South Eastern Belgium. Other programmes are being considered.

Programmes of this kind are important in their own right, and in so far as they also redistribute funds to major budgetary contributors such as the UK and West Germany, they lessen the grounds for criticism of the CAP in these countries. Unfortunately, the amount available for such programmes is small and becomes even smaller under conditions of low world prices when there is heavy expenditure on surplus disposal. We are, thus, thrown back continually on the need to reduce surpluses and to rationalise, to the greatest extent possible, the operation of the Guarantee section of FEOGA.

Effects of Different Options on the Irish Economy: The Buckwell et al., *Study*

Several attempts have been made to quantify the effects of suggested CAP changes at both Community and individual country levels; see, for example, Josling and Pearson (1982), Buckwell *et al.*, (1982) and Sheehy (1982/83). As the last two studies are of most interest to Irish readers we quote from their findings below.

The Buckwell *et al.*, study used computer simulation techniques based on 1980 data to study the effect of four possible reforms of the CAP: (1) a continuation of 1980 nominal prices into 1981 (a fall in real prices of 4.3 per cent), (2) price equalisa-

tion through the elimination of MCAs (a price fall of 2.9 per cent), (3) Community self-sufficiency brought about by an instant reduction in real prices of 13.5 per cent, and (4) a completely free market causing a price fall of 31.9 per cent.

It was shown that under Options (1), (3) and (4) the gains by consumers and taxpayers would outweight the losses by producers — resulting in a net gain — in West Germany, France, Italy, Belgium, Luxembourg, the UK and the Community as a whole. However, in Ireland, The Netherlands and Denmark the opposite would be the case: producers would lose more than consumers and taxpayers would gain.

Under Option (2), price equalisation, there would be no change in producer incomes in countries with no MCA's (France, Ireland, Italy and Denmark) and a reduction in farmer income in countries with positive MCA's (West Germany, The Netherlands, Belgium and the UK). However, losses to producers, where incurred, would be outweighed by gains to consumers and taxpayers.

At face value, these results suggest that for the Community as a whole, any of the options considered would be superior to the present system. However, the political acceptability of any of the proposals would be likely to depend more on their distributional effects (as between producers, consumers and taxpayers) than on their overall, net effect. The Buckwell study examines these distributional issues and finds that the per capita losses borne by producers are much greater than the per capita gains made by consumers and taxpayers. For example, the prudent price package (Option 1) in the EEC as a whole would benefit consumers and taxpayers by 46 EUA per head, but would cost each producer 365 EUA.

At the other end of the scale, a free market situation costing producers an average of 2,793 EUAs would only increase consumer and taxpayer income by 321 EUAs per head. These results go a long way towards explaining the resistance which has been observed towards many of the policies simulated in the analysis. The price reducing policies, in particular, while reduc-

ing farm incomes considerably would give very little extra average income to consumers and taxpayers.

The Sheehy Study

In the Sheehy study, four alternative policies were examined, namely:

1. No restraint — this illustrates the benefits to Ireland and the damage to the EEC budget of allowing unrestricted production at 1982 constant real prices. It is generally believed by the various commentators that real prices, in the foreseeable future, will not increase above the 1982 level and are more than likely to decline.
2. A policy of reducing real prices sufficiently to stabilise the EEC budgetary cost of agricultural supports at not more than 20 per cent above the 1982 level. The 20 per cent expansion in the budget was justified on the grounds that real revenue from VAT would grow as real Community expenditure grows over time.
3. A policy of raising the level of a uniform co-responsibility levy imposed on a regime of constant real prices so as to stabilise the budgetary cost as in (2) above and
4. a regime of quotas selected to maintain the 1982 budgetary situation as in (2) and (3) above. The quotas would apply to all CAP products so as to prevent switching from one product to another and thus building up surpluses where there are none at present. Within this regime real prices and co-responsibility levies would remain at 1982 levels.

   The impact of each of the policies chosen depends on certain circumstances namely:

   (a) The strength of world markets which were taken at two levels, a high price level corresponding to markets between 1980 and 1982 which required export refunds of 50 per cent of farm gate prices and a lower level corresponding to pre-1980 world prices

which required export refunds of 60 per cent of farm gate prices for current quantities and much higher levels for exports in excess of current levels.

(b) It was assumed that if real prices were held constant over time, EEC and Irish production would grow at 2 per cent per annum due to technological and structural change while consumption was assumed to grow at 0.5 per cent per annum.

It was also assumed that a 1 per cent increase in EEC exports would cause a 0.5 per cent decrease in world prices, hence the high cost mentioned at (a) above of disposing of extra exports.

(c) The degree of supply and demand response to prices and levies. As there is no agreement among economists concerning the supply responses, upper and lower bounds of 0.6 and 0.3 were taken. For demand the price elasticity used was -0.25.

All the above assumptions are crucial to the exercise. But even if some are not agreed the analysis is not entirely invalidated. It gives orders of magnitude, heretofore not available, which are of great importance for policy makers.

Analysis

The examination of options was carried out using conventional welfare economic analysis. For Ireland, the producer, the consumer and the nation were the three interests monitored. Changes in welfare were measured as changes in consumer and producer surplus, the latter being similar in concept to value added.

In addition, an off-farm linkage implication was estimated by assuming that a £1 volume change in farm output makes a 40p value added contribution off-farm in the input and processing industries. This value added was assumed to be independent of price change (but not of volume change consequent on price change).

In carry out the analysis the EEC budgetary situation in 1982 was first established. The net budget as defined (i.e., the cost of price supports less co-responsibility levies) was shown to be 12.55 billion ECUs. This was a crucial figure, as all the regimes examined were related to it in some way. The "no restraint" option showed how the budget would increase if present policies were continued while the other options were designed so as to ensure that the budget would not increase by more than 20 per cent of its 1982 value.

Results

"No Restraint" Regime

Under this regime and assuming favourable world markets, budget requirements for subsidising agricultural exports would grow from 12.550 billion ECUs in 1982 to 21.802 billion ECUs in 1990, an increase in real terms of almost 74 per cent. When weak world markets are assumed the position is much worse. The export subsidy stands at 73.8 per cent of the farm gate value and the budget requirement grows to 32.850 billion ECUs or 2.6 times the 1982 level.

Most people would agree that both these results would be utterly unacceptable to EEC governments. There is, therefore, no point in considering an unrestricted policy for the coming years. It may be possible to increase "Own Resources" somewhat in the future but not by the amounts needed for a policy of "no restraint". It seems, therefore, that whether we like it or not some other regime will have to be adopted. The implications of the other policies examined are given in Table 6.2.

Price Approach

Table 6.2 shows that if EEC budgetary expenditure is to be contained within 120 per cent of the 1982 figure through a price policy, real prices would have to decline by between 9 to 17 per cent depending on the state of world markets and taking the lower supply response as the more likely one. Under a price

Table 6.2: *Estimated changes in certain entities in 1990 as between a policy of no restraint and alternative options**

Policy option	Policy and assumptions: Levies as % of total revenue (1)	% change 1990/82 in: Real prices (2)	Output volume (3)	Consumption volume (4)	Change from no restraint option in 1990 (£ million): Producer surplus (a)	Consumer surplus (b)	Off-farm value added (c)	Budget drop (d)	National† welfare (e)
Strong World Markets									
Price drop	0.89	91.1	114.0	106.3	-213	+79	-27	+41	-120
Levy	4.65	100	115.9	104.0	-92	0	-11	+41	-62
Quotas	0.89	100	107.0	104.0	-29	0	-86	+41	-74
Weak World Markets									
Price drop	0.89	83.2	113.3	108.4	-398	+150	-50	+109	-189
Levy	9.62	100	114.1	104.0	-211	0	-26	+109	-128
Quotas	0.89	100	103.0	104.0	-57	0	-119	+109	-67

*Low supply relationships assumed

†National Welfare (e) = (a) + (b) + (c) - (d)

Source: Sheehy, op cit.

reduction policy and assuming strong world markets, producer surplus in real terms in 1990 would be IR£213 million less than it would be under a policy of "no restraint." If, however, we assume weak world markets in 1990 the decline in producer surplus in that year would be IR£398 million by comparison with the "no restraint" policy.

Because of the decline in producer surplus, off-farm value added would also decline by IR£27m or IR£50m, in strong and weak markets, respectively. Irish budget payments would also fall, but as a result of the reduction in food prices the consumer surplus would increase. The overall change in national welfare obtained by summing the changes in producer surplus, consumer surplus and off-farm value-added, and deducting budget changes, was a fall of IR£120m for the strong world market situation and a fall of IR£189m for the weak market situation.

On the whole, therefore, under the assumptions used, the solution of the EEC budgetary problem by a price reduction policy would involve major losses for Irish farmers, particularly on weak world markets. If the supply response to price changes was greater than that assumed, the situation would not be so bad, because in such circumstances smaller price reductions would be required to reduce surpluses. As might be expected, a price policy would not be quite so drastic for the nation as a whole as it would be for producers. Consumers and taxpayers would benefit from the reduced food prices and so offset somewhat the farm losses.

The Levy Approach

As with the price approach the extent to which co-responsibility levies must be raised to keep the budgetary situation constant depends on the assumptions about supply elasticities and levels of world prices. Demand response does not arise since consumer prices are not influenced by the levies. Assuming a supply of elasticity of 0.3, the figures in Table 6.2 show that by 1990 levy payments would reach the level of 5–10 per cent of the value of

output, depending on world markets, with real prices remaining at 1982 levels. This rate of levy would reduce producers' surplus by between IR£92 and IR£211 million below the no restraint level. These declines are about half of those estimated for the price option. Consumer surplus would be unchanged under this option but off-farm value added would fall by between IR£11 and IR£26 million and Irish budget payments would decline by from IR£41-IR£109 million, the same as under the price regime. National welfare would decline from the "no restraint" levels by IR£62 million under the strong world price assumption and by IR£128 million under the weak assumption. On the basis of these figures the levy approach is a much better option for Ireland than a prudent price policy. What is likely to happen, of course, is a combination of both options but in these circumstances Irish negotiators should press strongly for higher levies to provide budgetary scope for increased prices.

Quota Approach

Under a quota policy, producer surplus would decline by much less than under the price or levy strategies. The extent of the decline would depend on the supply response and the state of world markets. The lower supply response leads to a fall in producer surplus of £29m under strong world markets and £57m under weak markets. As with the levy regime there would be no change in consumer surplus. Off-farm value added would be reduced as would budgetary contributions. The effect on national welfare would be a reduction of IR£74m from the "no restraint" situation under the strong world market assumption and of IR£67m under the weak world market scenario.

As stated above, producers would lose less under a quota situation than under any of the other regimes but on strong world markets (and with a low supply response) the overall national welfare would be best served by a levy regime — a loss of IR£62m for the levy option as against IR£74m for quotas. On weak markets on the other hand the quota option is much superior to the other two from an overall national welfare point of view.

Comments on the Different Options

Naturally the preferable policy for Ireland would be the "no restraint" option. Such a policy would enable expansion to continue but it would also greatly increase the EEC budget under all the assumptions analysed. Sheehy says that "... most people in Ireland still seem to believe that this policy will materialise but this is wishful thinking. It is utterly in conflict with budget reality and is not feasible."

The second option of falling real prices is clearly not an acceptable option and if that policy were to be introduced, and continued, the demands by farmers for national aids throughout the Community could not be resisted. This we fear would spell the end of the CAP.

The remaining policies of co-responsibility levies and quotas appear to be the most feasible alternatives. Let us look first at the quota option. If this were to work, quotas would have to operate at the individual producer level, and while they could be made saleable to avoid freezing the individual farmer's production, they would still entail a degree of regimentation which many farmers would resist. The degree of resistance, however, might depend on the alternatives facing farmers. Sheehy says, that "... with the attractive option of no restraint ruled out and faced with the options of falling real prices or rising levies they might change their minds regarding quotas." Indeed, many of the good farmers who have almost reached their full potential may press for a quota system. It is an attractive option for them but will be very difficult for the government to accept. This is explained below.

The 1983 Commission Proposals

Since these studies were carried out, the EEC budget has come under considerable strain and is expected to be exhausted by the end of 1983. An increase in the VAT levy will therefore be

necessary in 1984 but several countries particularly the UK and West Germany have absolutely refused to increase the levy unless something drastic is done about surpluses. As a result the Commission has now put forward a new set of proposals.

The main proposals of interest to Ireland are:

1. To control the imbalances in the milk sector through the introduction of a supplementary levy analogous to that already suggested by the Commission in past years. A quota would be established for each dairy (milk plant) based on deliveries in 1981. All deliveries in excess of the quota would be subject to a supplementary levy calculated in such a way as to cover the full cost of disposal of the additional milk — about 70p per gallon.
2. The introduction of a special levy on milk from intensive farms, for example, those which deliver more than 15,000 kg per hectare of forage.
3. To suspend intervention for skim milk powder from 1 October to 31 March. During this period the aids for feeding powder to animals should be sufficient to maintain stability of the market.
4. The elimination of the special subsidy for butter consumption; there is little evidence of any additional butter consumed despite the very high cost of this subsidy.
5. Further regulations in regard to the import of cereal substitutes will be introduced. A levy on Community-produced cereals may also have to be applied to cover cost of surplus disposal.
6. For beef, further restrictions on intervention purchasing is suggested. The non-renewal of the calf premium is also proposed but the suckler cow premium is to be continued at its present level. The variable premium in operation in the UK is to be terminated. The present import concessions for beef from certain countries are to be examined and modified to suit circumstances as they arise.
7. For sheepmeat, it is recommended that the premium system should be modified, without radically changing the

market system, and there should be a limitation on the variable premium as applied in the UK. The possibility of a reduction in imports from third countries (New Zealand) is to be examined in conjunction with the introduction of a minimum import price.

8. If the Community introduces a supplementary levy on milk and, thus, an internal check on butter, it must introduce a non-discriminatory internal tax on the consumption of oils and fats other than butter, irrespective of origin. It is proposed that such a tax would yield £600 million ECUs per annum.
9. Any monetary compensatory amount introduced after the new regulations come into force should be eliminated in three steps: one-third on the introduction of the new monetary compensatory amount; one-third at the beginning of the next marketing year and one-third a year later. Existing MCAs would be dismantled by altering the green rate in two identical steps at the beginning of the two following marketing years and, finally
10. the Commission will carry out its obligations under the Treaty of Rome to ensure the free flow of trade between member states and will continue to examine closely all new and existing national aids to ensure that they are in accordance with the Treaty.

Most of these proposals have already been discussed but a statement by An Foras Talúntais (The Agricultural Institute) of the 19 August 1983 dealing with the effect on Ireland of the super-levy is worthy of mention.

The statement says, that if implemented at the level mentioned, this proposal would freeze production on existing farms at 1981 levels which were considerably below current 1983 production. Hence, in addition to a loss in current revenue on many farms, technical change related to scale would be seriously impeded. Quotas favour farms and regions that are already fully developed, while developing farmers or disadvantaged regions would be seriously affected. At processing level there would be

less incentive to introduce new products or win larger market shares from other processors.

In addition to these effects, the system would be particularly severe on both the Irish dairy industry and the national economy for the following reasons.

1. The contribution of the dairy sector to GNP is over five times more important in Ireland than the Community average and almost eight times more important than in the UK and West Germany. It is also more imporant than in France, The Netherlands and Denmark.
2. The sector is unquestionably the dynamic component of the aricultural economy in Ireland. Over the past 30 years the milk enterprise has expanded at an annual average rate of over 5 per cent as against less than 3 per cent for agriculture as a whole.
3. Curbing milk output would, in the short to medium term, curtail expansion in the beef sector and increase the cost of calves to this sector.
4. In 1981 Ireland accounted for less than 5 per cent of Community (9) deliveries and the Community average yield per cow was some 26 per cent greater than in Ireland. Some of the actual figures are:

   Deliveries (million tonnes): Ireland, 4.5; UK, 15.4; The Netherlands, 11.8; France, 25.0; West Germany, 23.0; EEC 9, 95.7.

   Yield per cow (kg): Ireland, 3,314; UK, 4,803; The Netherlands, 5,156; France, 3,761; West Germany, 4,545; EEC 9, 4,181.
5. Generally speaking, higher yields rather than larger herds have accounted for most of the increase in Community production but Ireland is exceptional in this regard. By Community standards Irish specialised dairy farms are average sized, grass-based and low cost businesses. The high yields per cow on the Continent are due to heavy meal feeding as a result of favourable milk feed price ratios brought about to some extent by centralised locations and

ready access to duty free and concessionary feed imports. For example, in 1982 the ratio of the price of 100 kgs of milk to that of 100 kgs of feed was 1.04 in West Germany and 1.16 in The Netherlands compared with 0.82 in France and 0.81 in Ireland. As a result, meal fed per cow is over three times as high in The Netherlands as in Ireland. Also as a result of positive MCAs, milk prices in West Germany, The Netherlands and the UK are currently (August, 1983) 9.5p, 6p and 7p per gallon, respectively, higher than if green and central exhange rates were equalised. These favourable conditions provide a continuing incentive for higher yields in the countries concerned.

The An Foras Talúntais document concludes by saying that there is general agreement that the European Community is facing a most severe financial crisis, and the growing imbalances between supply and demand in the case of farm products cannot be defended indefinitely. What is being argued, however, is that certain of the anomalies which have clearly exacerbated market imbalances should be eliminated before artificial constraints on production are considered. The combined effects of imported low-cost feeds and high-priced milk, aided by the positive MCAs, together with high levels of national aids have provided farmers in certain member states, with a significant incentive to expand milk production. These factors have directly aggravated existing regional income disparities in the Community and distorted the concept of equal opportunities for producers across the Community.

What is particularly serious for Ireland is that the proposed supplementary levy would strike at the single most dynamic and significant element in the agricultural economy, but also one which currently has a strong momentum of expansion. Serious adjustment problems would be encountered especially on small dairy farms striving to increase incomes and living standards. Finally, the estimated impact of the policies implied in the Commission proposals would in the absence of compensatory measures and regardless of their longer-term implications for

the industry, negatively affect farm incomes in Ireland by 10 to 15 per cent in 1984.

We agree entirely with these statements but we are also aware that it will not be easy to do much quickly about the various anomalies which have arisen. Some concessions will therefore have to be made. However, our negotiators should argue for special conditions for Ireland because of our high dependence on agriculture, particularly dairying, our low level of development and our difficult peripheral location. We should also use our veto powers to obtain a higher threshold than the 1981 level which was exceptionally low in this country. If we could obtain special quota levels such as our fishery negotiators obtained under the Hague Agreement in 1975 the super-levy idea would probably be better than any of the alternatives. Finally, if we cannot obtain special conditions for Ireland we should press strongly for a multi-tiered pricing system. Under such a system the larger producers (who are creating the surpluses) rather than the smaller ones would be penalised.

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