The European Union Common Agricultural Policy

A critical over view

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Abstract

The Common Agricultural Policy (C.A.P.) has currently reached a critical point. The forthcoming negotiations within the World Trade Organization (W.T.O.) and the noticeable tightness in the Union's finances during the past 20 years set the framework for its future reform.

The present article constitutes an effort to approach the attempted C.A.P. reform from the point of view of Greece, a small country, where the agricultural sector is important for the national economy, dominated by Mediterranean products, and whose production covers approximately 4.5% of the corresponding Community production.

Résumé

A l'heure actuelle, la Politique Agricole Commune (P.A.C.) atteint une phase cruciale. Les futures négociations au sein de l'Organisation Mondiale du Commerce (OMC) et la rigueur des finances de l'Union européenne au cours de ces 20 dernières années, ont fixé le cadre d'orientation de ladite réforme.

Le présent article essaie d'analyser cette tentative de réforme de la PAC du point de vue de la Grèce, un petit pays dont le secteur agricole joue un rôle important pour l'économie, où les produits méditerranéens dominent, et dont la production agricole couvre approximativement 4,5% de la production correspondante de la Communauté.

1. Introduction

The Common Agricultural Policy (C.A.P.) is the first, in terms of implementation time, and perhaps the only common policy which has been adopted and pursued by the European Union.

Over more than 40 years the C.A.P. has allowed to achieve the goals set out by its inspirers, but at the same time it has raised significant problems as the huge cost that European citizens have to bear to support the farmers' income.[1]

Consequently, a constant effort is made to apply the CAP. mechanisms. to the market data so that the agricultural sector might not operate in isolation from the financial developments.

2. The integration of the agricultural sector in the field of activity of the Common Market

The destruction of the economies in the European countries involved in the World War II forced them to increase their agricultural production in order to:

- ensure food sufficiency,
- restore their balance of payments.

This one-way strategy, along with the creation of the Common Market in 1958 (for reasons irrelevant to agriculture)[2] that led to the establishment of a market tantamount to that of the USA, and with the political segregation of Europe, which deprived Western Europe from important wealth-producing resources, allowed the six EEC countries, for the first time, despite the big differences and disparities between their agricultural sectors, to exploit the advantages and complementarities of their agricultures.

France and Germany, which were the pillar countries of the European edifice and the C.A.P. had complementary interests[3]. France, a country with great reserves of cereals since 1953[4] and federal Germany, a divided country with its rich lands (in Eastern Germany) cut off, and therefore extremely deficient in food products. But the remaining four countries also displayed comparative advantages. For instance, Italy had its Mediterranean products, Belgium and the Netherlands their animal products - the Netherlands in particular, practicing agriculture conversion, relied on the advantageous port of Rotterdam[5].

The Community had 65 million ha of farmland and 17,5 million farmers to ensure foodstuffs to 150 million people[6]. This meant that agriculture employed a high percentage of the European population, which, given the above characteristics of the sector and the more general economic environment of that time, corroborated the view that the implementation of a Common Agricultural Policy was the necessary means to better distribute labour (application of the principle of the comparative advantage in Europe), to reduce consumer prices and to transfer resources to the industrial sector[7]. What had a catalytic ef-

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[1] D. Bourdaras (2000): p. 119.
[2] For an extensive presentation of the reasons why the agricultural sector was included in the Treaty of Rome, see V. Panagou (2001).
[3] V. Panagou - Th. Papaelias (2001a), pp. 87-110.
[4] J. Loyat et Yves Petit (1999), p. 9.
[5] V. Panagou (2001), pp. 209-237.
[6] A. Ries (1981), pp. 46-47.
[7] V. Panagou, Th. Papaelias (2001c), pp. 167-180.

fect for the integration of the agricultural sector in the EEC foundation treaty was the confrontation with the U.S.A., which had 400 million ha and 4 million farmers at its disposal, to ensure foodstuffs to 200 million people[8].

3. The main CAP mechanisms

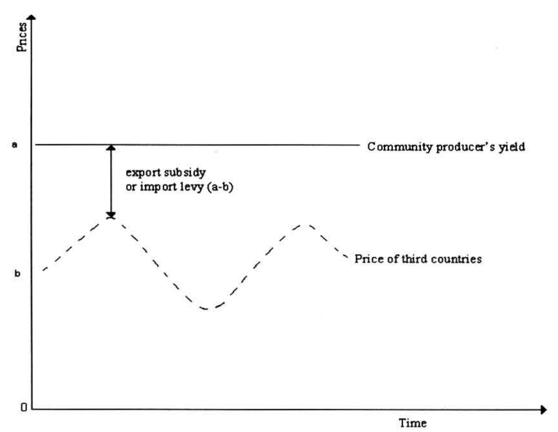
Since the C.A.P. was first implemented in 1962 and during the whole decade, its mechanisms have concerned the markets of agricultural products.

These mechanisms consist in a number of measures entitled "Market sector of agricultural products or sector of guarantees or pillar I"[9]. This concerns the yearly management of agricultural production. The problem lies in the very low level of international prices that changes daily, compared to an acceptable European level of stable producer prices. Accordingly, three alternative adjustments are applied[10]:

- The classical support system.
- The system of direct production aids.
- The mixed system.

3.1 Classical System

Fig. 1



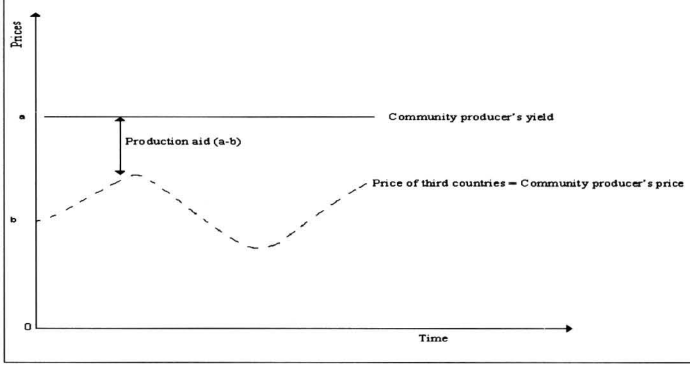
According to the classical system, the CAP mechanisms are involved only in foreign trade. In the case of imports, variable levies and duties are imposed, while in the case of exports we have export subsidies. Thus, if the international price of wheat is a= 100 €/tonne and the desired price for the Community producer is b= 150 €/tonne, the difference of 50 €/tonne (a-b) is imposed as import levy or export subsidy. The importer's cost is 100+50= 150 €/tonne (a). The community producer will not sell below that price. The import levy varies because international prices change daily. In contrast, the producer's yield is quite stabilised.

[8] J. Loyat et Yves Petit (1999), p. 10.
[9] V. Panagou, C. Tsountas (2002), p. 694.
[10] For an extensive analysis of pillar I of the C.A.P. see D. Bourdaras (1989) pp. 41-42, D. Bourdaras (1999) pp. 6-8, V. Panagou, Th. Papaelias (2001d), pp. 201-228.

3.2 System of production aids

According to the system of production aids, foreign trade is not subjected to barriers or subsidies. Thus, the producers price is equalised with the price of the third countries (b). However, the Community budget intervenes and grants an aid per tonne for the whole spectrum of production (a-b), and as a result, the producer's yield reaches the desired level (a).

Fig. 2

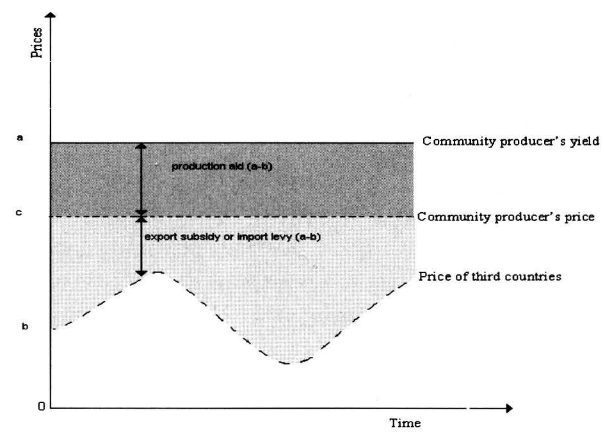


Example:
international cotton price=producer price=200€/tonne (b)
production aid=800 €/tonne (a-b)
producer's yield=200+800=1000 €/tonne (a)

Finally, mention should be made of the application of a mixed system, which combines the classical system with production aids.

3.3 Mixed system

Fig. 3



In this case import levies or export subsidies (c-b) are applied, and as a result the cost of the imported product (b) rises to level (c). This level (c) determines the price of the Community producer. Moreover, the Community budget subsidises every quantity produced with an aid (a-c) and thus, the producer's gross yield is formed at level (a).

According to the classical system, the Community budget is involved only in the foreign trade of agricultural products, covering expenditure during the export and collecting levies during the import. It is the Community consumer who is encumbered with the high prices which the barriers at the external frontiers entail. In contrast, in the case of production aids, the Community producer enjoys the low international prices. The market sector is the most important in the framework of the CAP and therefore it monopolises the farmers' interest. It absorbs 90% of the Community's agricultural expenditure. *In this section every national action or expenditure is prohibited, because it would disrupt the competition between the Member States and would lead to the C.A.P. collapse.*

4. The first realisation of the CAP dead ends

The implementation of the C.A.P. mechanisms since its creation (1962) has determined the preference and presentation of the Community on the markets of third countries. It ensured farmers a market for their products regardless of their output level, which had the following effects:

- Stabilisation of prices, which allowed a risk reduction and the elimination of any sense of competition among the farmers,
- Domestic prices aligned with the high intervention prices, which allowed the achievement of productivity profits,
- Production increase without taking into consideration the final demand and the ensuing increase in the reserves and in subsidised exports,
- Increase in fiscal expenditure to the benefit of more productive farms.

The expenditure for the support of markets in the six (6) Member States recorded a four-fold increase between the years 1960 and 1968[11].

5. The Mansholt Plan[12] as a first essential effort to the CAP reform

The Mansholt Plan[13] pinpointed precisely the inevitable increase in future Community expenditure due to the price policy pursued. Moreover, it inferred that the problem affecting the Community agriculture was structural. As a consequence, the CAP should no longer rely on price policy only, but it should also involve at the same time a structural policy. For this reason, the plan suggested the adoption of a long-range programme, with the aim of creating "modern production units" through selective investment plans. As units of reference, farms of 80 to 120 ha for the large cultivations were used, or 40 to 60 milking cows or their equivalents concerning other kinds of production.

The Plan also envisaged a reduction in the agricultural population by 5 million during the 1970s through measures of early retirement and professional reorientation. In this way, the reclaimed land would be used for restructuring the farms which would remain active. However, since the modern production designed in this way would lead to a further production increase, the Plan estimated that 5 million ha should be withdrawn from agriculture and 4 million should be submitted to afforestation. The animal milk-producing population had to be reduced by 3 million milking cows through slaughtering or reorientation to meat-producing population.

The submission of the Mansholt Plan caused strong reactions in the Community countries although it had carried out an accurate diagnosis of the problems affecting the Community agriculture and suggested measures towards the right direction. The corollary of the debate triggered by the Mansholt Plan (which was never adopted) was the adoption of the three socio-structural directives[14] for investments in 1972, to encourage the farmers' withdrawal from agriculture and farmers' training.

These three directives formed the core of the C.A.P. structural sector or pillar II, which includes measures related to the production factors (labour, i.e. the product, land, capital) and not to agricultural production. The enactment of the CAP structural sector (pillar II)[15] was followed by the adoption of a series of measures not related to agricultural production nor to the production factors. They are related to partial adjustments in the sectors of veterinary, plant protection, seed production, food safety etc. The Community's effort consists in the harmonisation of pre-existing national policies so as not to create problems with the intra-community trade. As a rule, the Community budget is not encumbered with these regulations. These measures are covered by a sector entitled "other measures".

6. The further CAP evolution

The further C.A.P. evolution is a function of two factors: the deep transformation of agriculture during the last 40 years and the function of the CAP itself. The transformation of agriculture and of the role it has to play in the economic framework[16], has to fulfil the following requirements:

- Reduction of employment in agriculture,

[11] J. Loyat et Yves Petit (1999), p. 11.

[12] The plan took its name from the Dutch Sicco Mansholt, who served as a Community Commissioner of Agriculture from 1958 to 1973. He was the man who negotiated, as a Commissioner, the establishment of the first Common Organisations of the Market (C.O.M.) between 1958 and 1962.

[13] Le plan Mansholt, Le rapport Vedel (1969).

[14] V. Panagou, C. Tsountas (2002), pp. 740-741.

[15] For an extensive and detailed analysis of the measures of structural policy of the E.U. see V. Panagou (1989) pp. 404-465 and V. Panagou, C. Tsountas (2002) pp. 695 and 738-745.

[16] The new role that the agricultural sector is invited to play in a modern economy is extensively analysed in the following articles: V. Panagou, Th. Papaelias (2001b), pp. 101-114, V. Panagou, Th. Papaelias (2001c), pp. 167-180

- Restructuring of holdings as a result of technological and biological progress,
- Increased interaction with the other economic sectors.

The transformation of agriculture is a result of the economic flourishing that characterised advanced countries, but at the same time it represents measure to achieve that prosperity. This development leads to an increase in incomes and a concurrent reduction in food expenditure. Agriculture cannot follow the development rate of the economy without risk of overproduction. It becomes imperative to find new markets and control production in order to avoid the equalisation of supply and demand through the price mechanism. The pressure for price reduction, which becomes acceptable only through the productivity increase of production factors (mainly labour), becomes a one-way street. The reasoning is simple: improved yields on more lands for a smaller amount of labour entail a price reduction with a concurrent income increase. But since land constitutes the main limitation to agricultural production, the result is the farmer's withdrawal and the need to find employment outside agriculture. This development is facilitated if the economy is sound and creates job vacancies.

While the place of agriculture in the national economy is limited in relative terms, it becomes increasingly a sector that produces raw materials for manufacturing. Therefore, food industry offers a way out to agricultural products, but its demands, in terms of quality, standardisation and prices, support the farmer's dependence and the restrictions he is encumbered with.

The manufactured products allow a higher added value, which, however, does not reach the producers of raw materials. This situation explains the decline of agriculture in GDP and the concurrent increase in the participation of the food industry.

The CAP function from the beginning of the 1970s was significantly affected by the transformation of agriculture and its role in the economic framework. During the 1980s the E.U. changed and its deficit in many agricultural products turned into surplus (output increased by 2% annually, while consumption increased by 0.5%)[17]. This resulted in the accumulation of substantial reserves, in the region of tens of millions of tonnes, which demanded substantial credits as export subsidies in order to be sold on the foreign market. The agricultural expenditure of the Community budget increased from 5 billion dollars in 1975 to 41 billion in 1997[18] and 46.5 billion in 2000. However, the increase in production and in the consequent expenditure was not the result of the activity of all the Union farmers. Only the big producers continue to increase their production significantly. For some products, 10% of Community producers cover 60% of the supply. The agricultural expenditure of the Community budget is also unequally distributed, since 20% of the producers receive 80% of Community aids[19].

It can generally be said that productivity increased, the farmers' standard of living was ensured, food sufficiency was obtained and consumer prices were not unreasonable. However, the situation is not the same as far as the market balance and regional development are concerned. Inequalities still remain at Community level.

Under these conditions, a critical attitude against the CAP developed with time, both inside and outside the Union.

Inside the European Union, the Member States that clearly contribute to the budget or that have a limited agricultural sector, react to the high expenditure entailed by the CAP implementation. Anyone who pays wants to know why they pay, who receives the money and what the results of financial expenditure are. Consumers also react in front of the prices they are invited to pay, compared to international low prices. Food safety, from the point of view of public health and environment protection also raise questions. Outside the European Union, its international partners react when they see their share constantly shrinking on the international and Community markets due to the increase in the Community output.

7. The 1980s adjustments

During the 1980s agricultural incomes remained, on average, lower than those in other sectors, with significant divergences between regions and production systems of production[20]. The cause of this phenomenon was the price policy followed and the subsequent Community enlargement.

Since the Mansholt Plan recommendations were not adopted , the E.U. followed the easier way of sectoral adjustments with the introduction of quotas and thresholds, of financial discipline and complementary measures.

7.1 Quotas - Thresholds

"Quotas" and "thresholds" were applied to production.

Quota: output limit that is allocated to each Member State and then to each producer. Excess production is not supported (e.g. milk, tobacco, sheep/goat meat).

Threshold: the maximum output limit or land that is allocated to each member state. If production exceeds the threshold, it is still supported, but the guaranteed prices or aids are reduced for all (olive oil, cotton, durum wheat).

7.2. A' Delors Package - Budgetary Discipline - B' Delors Package

- With the first Delors Package (1988), the resources of the Community budget increased from 1% to 1.2% of the Community GDP. In the first ERDF, the credits for agricultural structures were increased.

[17] V. Panagou, Th. Papaelias (2001d), p. 223.
[18] Commission Européenne (Rapport 2000), pp. 155-163.
[19] V. Panagou, Th. Papaelias (2001d), p. 223.
[20] J. Loyat et Yves Petit (1999), p. 15.

- Budgetary discipline[21] in credits in favour of the market sector (yearly change no bigger than 74% of the yearly increase in GDP) which resulted in the reduction in agricultural expenditure as a percentage of the Community budget from 75% to 45% approximately22.
- With the second Delors Package (1992), the resources of the Community budget increased from 1.2% to 1.27%[23] of the Community GDP. And in the second ERDF, credits were increased in favour of the agricultural structures sector.

7.3 Complementary measures

The complementary[24] measures of the Common Organization Markets consisted in land freeze (every producer who accepted to withdraw from agricultural production 20% of their cultivated land for a period of at least 5 years, received a subsidy) and in the granting of early retirement to farmers over 55 who decided to abandon agriculture.

8. The 1992 CAP reform: an essential change of policy[25]

8.1 The measures

In view of resuming the Uruguay Round26 negotiations, which had begun in 1986, the then Agriculture Commissioner Mac Sharry initially suggested:

- the reduction of guaranteed producer prices (until then, the classical system was applied: import levies, export subsidies).
- the introduction of production aids, in order to avoid a reduction in the producers' income (modification of the applied policy from a classical system to a mixed system). The aids would be full in the small holdings and would progressively decline in the larger ones. The aids would not be connected to the yearly output but to the production factors. This meant that the output of the produced cereals and oilseeds would not be subsidised, but the aid would concern the number of hectares sown with these crops. Similarly, the volume of the produced beef would not be subsidised but the number of the animals by which it was produced. For the calculation of the aids, the yield of cereals per hectare or meat per animal would be fixed (historical data). Thus there would be a partial disconnection of aids from the output.
- the fields of application: cereals, oilseeds, beef.

Finally, the Council adopted the Commission Proposals with one exception: the new aids are the same for small and big producers and would not decline for larger holdings.

8.2 The review

The 1992 CAP reform yielded the following results:

- Modification of the terms of the public support to agriculture. From the support through policy price we moved to the support through direct aids through the budget, which makes the support more transparent.
- The percentage of plant products in the total of agricultural expenditure increases.
- The allocation of payments between Member States does not affect the North-South hierarchy.

9. The Uruguay Round Agreement - 1994[27]

It was agreed that:

- support should be reduced,
- export subsidies should be reduced ,
- import duties-levies should be reduced.

Despite all the agreed reductions, the European Union did not make any essential commitment due to some adjustment that it elicited during the negotiations.

Until then, within the GATT, the agricultural policy measures were ascribable to:

- The "green" box; concerning measures which do not distort international trade, such as most structural policy measures, e.g. incentives to young farmers or compensations for natural disasters. There is no reduction obligation for the green box.
- The "yellow" box; concerning measures that distort international trade, such as export subsidies, import levies or production subsidies. It was decided to reduce the support provided by these measures.

However, the European Union succeeded in enacting a new box:

- The "blue" box; which concerns the aids per ha of cereals and the aids per animal as decided in the framework of the 1992 CAP reform.

The commitments made for the reduction concerned only the yellow and not the blue box (neither the green, of course). Thus, the reductions of the guaranteed prices applied by the European Union to cereals and beef are admeasured (decrease in support), but the new aids per hectare or per animal (increase in support) that were decided in the framework of the 1992 CAP reform are not admeasured. Therefore, this process leads to a fictitious and not real support reduction for the European Union (see fig.5 below).

By support, which is statutory term within GATT or WTO and not an abstract one , we mean the total sum of:

- the product of the output multiplied by the difference between domestic - international prices, and

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[21] V. Panagou, C. Tsountas (2002), pp. 747-748.
[22] Commission Européenne (Rapport 2000), pp. 155-163.
[23] D. Bourdaras (1999), pp. 10-11 and V. Panagou, C. Tsountas (2002), p. 747.
[24] V. Panagou, C. Tsountas (2002), pp. 742.
[25] V. Panagou, C. Tsountas (2002), pp. 716-717.
[26] With the name "Uruguay Round" we refer to the round of negotiations in the frame-work of the General Agreement on Tariffs and Trade (G.A.T.T.), which started in 1986 and ended on 15-12-93 with the adoption of the Final Act in Geneva. It was signed on 15-4-94 in Marrakech by the representatives of 122 countries. Since 1995 GATT has been substituted by the World Trade Organisation (WTO).
[27] D. Bourdaras (1999), pp. 11-12, D. Bourdaras (2000), pp. 48-49 and V. Panagou, C. Tsountas (2002), pp. 732-733.

• the total of production subsidies.

In Fig. 3 (mixed system), the support is illustrated in the shaded area. The difference of levels c and b illustrates the difference between domestic - international prices that burden the consumer. The difference of levels a and c illustrates the production subsidies that burden the budget. Commitments for support reduction concern both elements.

10. The Agenda 2000[28]

It was decided to further reduce the price of cereals and beef, with a concurrent partial increase of aids granted per hectare or per animal. The same adjustment was also decided for milk (reduction in guaranteed prices, introduction of aids per animal), but from 2005 onwards. The funding of the CAP structural measures (except for the Objective 1 regions) will burden, in the future, the European Agricultural Guidance and Guarantee Fund (EAGGF) - Guarantee Section. The EAGGF - Orientation Section has since then funded only the Objective 1 regions. Finally, higher expenditure limits of EAGGF - Guarantee Section were adopted for the period 2000-2006, far *more restrictive than those of the "budgetary discipline" of 1988.*

11. The decisions of the European Council of Brussels (2002)

The European Council decided[29]:

• The progressive introduction of production aids for the 10 new Union Members, from 2004 to 2013.

• The establishment of expenditure ceiling for the market sector (pillar I) from 2007 to 2013, as follows:

a) 2006: the ceiling which had been decided in the framework of Agenda 2000,

b) following that: a yearly 1% increase on current prices.

The current situation is characterised by:

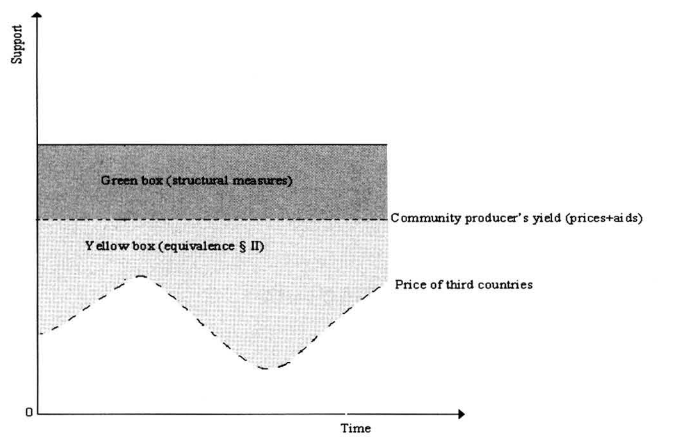
• the limited expenditure ceiling that will be applied for market measures (pillar I) up to 2013 for the 25 Union Members.

• the WTO suggestion[30] (suggestion by Harbinson, President of the WTO Agriculture Committee) for a further support reduction which was issued in February 2003.

Schematically, the situation is as follows:

a) Until 1994 (Uruguay Round at GATT level) there had been no international commitments for support reduction in the agricultural sector. However, the support was calculated for each OECD member. The support was differentiated into the green box and the yellow box (Fig. 4). The green box concerned structural policy measures (pillar II). The yellow box concerned support measures the agricultural products markets (pillar I), as illustrated in figures 1, 2, 3.

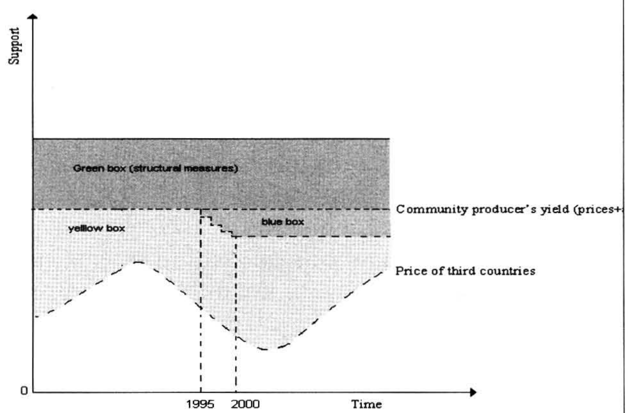
Fig. 4



b) In 1994, in the framework of the Uruguay Round, it was decided, at first, to reduce the yellow box through specific commitments and timetable. However, the creation of the blue box was allowed (Fig. 5) which includes aids that are not connected to production (per kg of produced product) but to the land (per hectare) or to the animal units (per head of animal).

c) With the 1992 CAP reform and the Agenda 2000, the European Union turned the guaranteed prices and aids of certain products (cereals, oilseeds, beef and milk from 2005 onwards) from aids per kg into aids per hectare or per animal. These aids were included in the permitted blue box. The yellow box was automatically diminished. Thus, the European Union managed to comply with the obligation for support reduction (by definition, support=yellow box for the Uruguay Round negotiations), while the real overall support remained the same, as illustrated in Fig. 5).

Fig. 5



d) Since 2000, negotiations started within WTO for a further reduction in the support provided to the agri-

[28] V. Panagou, C. Tsountas (2002), p. 717, D. Bourdaras (2000), pp. 50-51.
[29] Conseil Européenne de Bruxelles (2002), Conclusions de la Présidence, p. 5
[30] S. Harbinson (2003)

cultural sector of the contracting countries. In February 2003 the suggestions of the responsible WTO agency (Harbinson's suggestions) were announced. This time the WTO suggested a reduction not only of the yellow but also of the blue box. By 31.3.2003, all contracting parties ought to have agreed upon potential modifications to Harbinson's suggestion. Should no decision be reached by 31/3/2003, the agriculture file would be included on the agenda of the WTO Ministers 'meeting, which will be held in Cancun, Mexico in September 2003. Eventually, the contracting parties could not even deal with Harbinson's suggestions before 31/3/2003, perhaps due to the serious issues of international politics that arose in the meantime (war in Iraq) and as a consequence, the final decisions will be taken in Cancun in September 2003.

e) Conclusion: The CAP should be reformed so as to become compatible with two restrictive elements:
- financial tightness in the European Union until 2013,
- the support reduction within WTO

12. The European Commission suggestions

In January 2001[31] The European Commission suggested the adoption of the following measures:
- Complete disconnection of aids from production for various products and their replacement by new, uniform aid per crop.
- Progressive aids reduction. Refund of part of the savings in favour of structural policy (pillar II or agricultural development measures).
- Sectoral adjustments per product.

More specifically:

a) Disconnection of aids from production - Introduction of new, uniform aid per holding.
Many of the current aids per product will be replaced by a uniform aid per holding. The height of aid will depend on the aids received by the holding in the past (2000-2002). The aid will be granted to the holding regardless of the kind and amount of agricultural production. The only obligation of the holding will be the fulfilment of "right agricultural practices", which means compliance with the guidelines concerning environment protection, food safety, animal health etc., as well as keeping agricultural land in a good condition to avoid fallow.

b) Progressive aids reduction
Aids will gradually be reduced between 2006 and 2012 to 19%. However, the amount of reduction will be fully refunded to holdings which receive yearly up to 5.000 €, while a percentage of 6.5 (net reduction 19-6.5=12.5%) will be refunded to holdings which receive from 5,000 € to 50,000 €. Six per cent of the total burden of 19% for larger holdings or of 12.5% for medium holdings will be refunded through the structural policy (pillar II) in Member States.

c) Sectoral adjustments
A series of adjustments per product is suggested, the most important being the drastic support reduction of durum wheat from 344 €/hectare to 250 €/hectare. As an offset, a new aid will be granted, of 40 €/hectare for quality improvement (net loss 54 €/hectare x 617,000 hectare = 33 million € for Greece).

[31] Commission Européenne (2003).

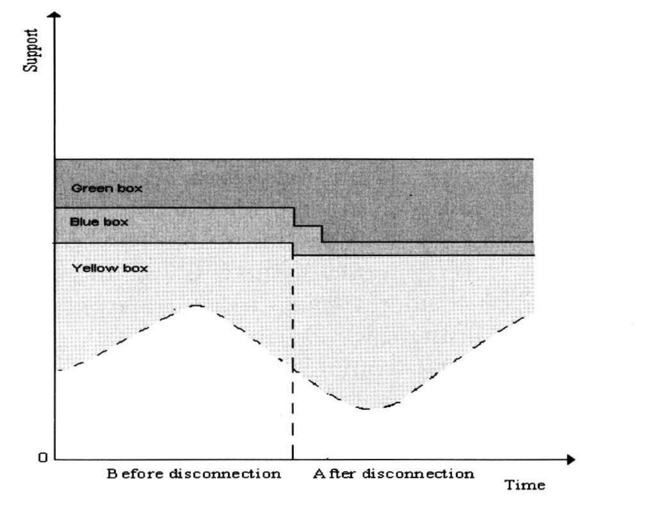
13. Criticism of the European Commission Proposals and position of Greece

With its suggestion, the Commission focuses on the two restrictive factors in the current situation:
- the WTO suggestion for concurrent reduction of the yellow and the blue box,
- the budgetary tightness at the European Union level.

More specifically:

a) Disconnection
The disconnection of aids from production will transfer these aids from the yellow and blue box to the permitted green box:

Fig. 6



Therefore, the current WTO round of negotiations will close without a real support reduction, as illustrated in the previous figure (Fig. 6).

However, this disconnection may pose two risks:

a1) The exodus of marginal holdings from the production process. The less profitable holdings up to now, with a high production cost, will receive the new uniform aid based on historical individual data. Their owners will turn to other activities, outside the agricultural sector.

a2) The production disorganisation.
Example: cotton and corn (competitive crops).
Up till now, the producer's expected gross yield per hectare for the two products has led to a relative balanc

in the Greek market.

The expected gross yield per hectare is:

For corn:	
from producer price:	
0.14674/kg x 10,000 kg/ hectare	1467.4 €/hectare
from aid:	645.6€ €/hectare
Total	2113.0 €/hectare
For cotton:	
from producer price:	
0.234€/kg x 3000 kg/ hectare	702 €/hectare
from aid:	
0.528€/kg x 3000 kg/ hectare	1585 €/hectare
Total	2287 €/hectare

The gross yield per hectare for the two products is comparable and has led to a balance in the supply. In recent years, 200,000 hectares of corn and 400,000 hectares of cotton have been cultivated. If aids are disconnected from production and are collected by the producers per year, regardless of the kind of cultivation, only the market price will affect the producer decision about the crop to select. Obviously, everybody will select corn (1467.4 €/ hectare) and no one cotton (702 €/ hectare). Corn production will triple from 200,000 to 600,000 hectares, while cotton production will be reduced to zero, leaving ginning houses without object for labour. There will be chain reactions in other sectors (transports, banks, insurances). On the other hand, the big supply in corn will compress producer price, forcing farmers to turn massively to another cultivation (e.g. potatoes) next year and so on. A solution to this problem can be the partial disconnection of aids, e.g. at a percentage of 50%. Old aids will be received at a percentage of 50% based on the current specific cultivation. Indirectly, in other words, there will be a reason for the producer to remain on the same kind of cultivation as the one he grew in the past. This approach is already suggested by the Commission in the case of durum wheat and rice (crop specific element).

Another alternative solution would be the administrative obligation of the producers not to cultivate in the future products they did not cultivate in the past, as a condition to be eligible for the new uniform aid (a similar adjustment is already being applied to the land under compulsory set-aside).

b) Progressive aids reduction and sectoral adjustments

Given that an exemption is suggested from 5000 € and then a differentiated treatment between small and large cultivations is introduced (returns above or below 50,000 €) the initially unpleasant reduction of aids constitutes the least painful solution to the budgetary problem for countries like Greece.

However, the Brussels Summit Council, besides the new expenditure ceiling until 2013 and the progressive introduction of aids for the 10 new Member States, made a special reference to the disadvantaged areas: "The needs of producers who are in the disadvantaged areas of the current European Union should be protected".

However, the European Commission's suggestions do not include any element in favour of the producers of the EU-15 disadvantaged areas.

On these grounds, it would be advisable for the Greek part to pursue:

- the increase in the 5.000 € exemption
- the greater escalation of reductions, that is the legislation of more than two scales - according to the Committee. returns below or above 50,000 €- with very low reduction percentages at the first scales and much higher percentages at the last ones. Moreover, the exemption of Mediterranean products from the aids reduction, with the excuse that expenditure in favour of these products, which as a rule concern Objective 1 regions, has remained stable since 1990, while the expenditure for the rest of the products constantly increases (8 billion € for Mediterranean products and from 15 to 24 billion € for cereals and beef).
- the increase in the suggested special aid for durum wheat (from 40 €/hectare) and the increase in the Greek milk quota.

c) Partial Conclusion

The Commission's suggestion for a disconnection of aids from production and for the differentiated reduction of aids is a logical result of the restrictions imposed by W-TO and the European Union finances. However, the Commission's suggestions allow several improvements :

- not to destabilise the various branches of production,
- not to burden small producers or producers of Mediterranean products.

Questions are also raised by the gap that is highlighted in the European Commission's suggestion (lack of suggestions for the time being) as for the future of the other products, such as olive oil, tobacco, cotton, fresh fruit and vegetables and sugar.

14. General Conclusion

The European Union Common Agricultural Policy has currently reached a critical point. It has to face two essential restrictions: the very hard WTO logic, which it will face during the September 2003 negotiations in Cancun, Mexico, as it is crystallised in Harbinson's suggestions (aids reduction included in the blue box, too) and its own financial restraints. The restriction imposed by the WTO is dominant. If negotiations in the framework of the WTO lead to a disagreement between the E.U. and the U.S.A. and the Cairns countries (Canada, New Zealand, Brazil etc.), there is no urgent reason in further promoting the disconnection of aids from production. However, the progressive aids reduction should take place in order to protect the Community agriculture from financial suffocation. If, in contrast, the WTO negotiations do not lead to a breakdown, the disconnection will represent a sine qua non condition for the survival of the Community agriculture.

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