THE ECONOMIC AND SOCIAL
RESEARCH INSTITUTE

Memorandum Series No. 166.

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Paper read to CIBA-Geigy Crop Protection Distributors Conference, Berkeley Court Hotel

Dublin, January 19 1984

January 1984

Price IR£2

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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.* So also have the Germans who are heavy contributors to the EEC budget. More recently unsaleable surpluses have become the major problem.

Criticisms of the CAP

The main criticisms which have been advanced against the CAP are as follows (O'Connor et al 1983):

(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;

* In recent years the UK has been receiving large refunds of its budgetary contribution on the basis of various arguments

(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 into the EEC 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;

(6) in addition to these criticisms, 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 current CAP crisis has come about mainly as a result of the surplus disposal problem. During the last two decades the advance of technical progress in agriculture has been rapid. The long term trend of increase in the volume of agricultural production in the Community has been 1.5 to 2.0 per cent per annum while consumption has increased by only about 0.5 per cent a year. Consequently, the Community has become more than self sufficient for many of the principal products and has come to rely increasingly on exports, or on subsidised sales within the Community for the disposal of its production.

After a relative stabilisation of expenditure from the Guarantee Section of FEOGA in the period 1980 to 1982 during which less was spent than provided for in the budgets, mainly because of the favourable conjuncture on world markets, an abrupt change has been experienced in 1983 when expenditure is expected to be about 30 per cent higher than in the preceding year. Table 1 shows the development of this expenditure including the share represented by each product sector since 1975. The rate of growth of this expenditure taken over a period of years is higher than the rate of increase in the Community's own resources and the Commission in a recent document (Bul. Supplement 4/83) says that something drastic has to be done now: "The situation cannot be remedied

Table 1: Trend of Gross FEOGA Guarantee Expenditure on Main Products since 1975 (a)

Year	Cereals	Sugar (b)	Oils and Seeds	Fruit Vegs.	Wine Tobacco	Milk (b)	Beef Veal	Sheep Pigs Poultry	Other incl. MCAs	Total
					Million ECUs					
1975	589.3	271.2	187.8	72.6	341.8	1193.7	923.3	66.3	866.5	4,512.5
1976	655.9	229.3	247.1	185.1	319.2	2277.7	615.9	44.1	1001.8	5,576.1
1977	629.9	598.4	268.5	188.2	295.1	2924.1	467.7	62.9	1386.8	6,821.6
1978	1112.5	878.0	324.8	100.7	279.8	4014.7	638.7	83.1	1225.0	8,657.3
1979	1563.8	939.8	606.0	442.8	287.3	4527.5	748.2	184.4	1123.9	10,423.7
1980	1669.5	575.2	687.3	687.3	608.8	4752.0	1363.3	254.6	694.2	11,292.2
1981	1921.4	767.5	1025.4	641.1	821.2	3342.8	1436.9	430.0	726.8	11,113.1
1982	1824.5	1241.8	1213.8	914.2	1193.2	3327.7	1158.6	467.3	1030.4	12,371.6
1983 (c)	2474	1433	1644	1089	1306	4723	1479	665	1156	15,969
1984 (d)	2590	1417	1873	1045	1333	5006	1399	676	1161	16,500
					Percentages					
1975	13.0	6.0	4.2	1.6	7.6	26.5	20.5	1.5	19.2	100
1976	11.8	4.1	4.4	3.3	5.7	40.8	11.0	0.8	18.0	100
1977	9.2	8.8	3.9	2.8	4.3	42.9	6.9	0.9	20.3	100
1978	12.8	10.1	3.8	1.2	3.2	46.4	7.4	1.0	14.1	100
1979	15.0	9.0	5.8	4.2	2.8	43.4	7.2	1.8	10.8	100
1980	14.8	5.1	6.1	6.1	5.4	42.1	12.1	2.3	6.1	100
1981	17.3	6.9	9.2	5.8	7.4	30.1	12.9	3.9	6.5	100
1982	14.7	10.0	9.8	7.4	9.6	26.9	9.4	3.8	8.3	100
1983 (c)	15.5	9.0	10.3	6.8	8.2	29.6	9.3	4.2	7.2	100
1984 (d)	15.7	8.6	11.4	6.3	8.1	30.3	8.5	4.1	7.0	100

(a) EC 9 up to, and including, 1980, EC 10 since then.
(b) Expenditure before co-responsibility levies.
(c) Preliminary
(d) Forecast on basis of milk super-levy

Source: EC Bul. Supplement 4/83.

by short-term palliatives or economies of an ad hoc nature. Only determined action to adapt the CAP in a rational long-term framework can serve to place the agricultural policy in a sound economic and financial context for the coming years."

Towards this end the Commission has made a number of proposals for the different sectors but the most serious as far as Ireland is concerned is the introduction of the milk super-levy about which we have heard so much in recent months. The proposal is that a levy of about 70p per gallon be enforced in the 1984/85 budget on all milk deliveries in excess of those in 1981. In making this proposal the Commission said (op cit, pp. 11 and 12) that there is increasing recognition that the critical state of the international dairy situation calls for more severe measures than have been taken so far. The market imbalance has deteriorated greatly in 1983. Total milk deliveries are forecast at about 104 million tonnes and if we add to this a further 2 million tonnes of whole milk equivalent imported, aggregate supplies come to 106 million tonnes. This compares with EC consumption in 1983 of about 88 million tonnes leaving a balance of 18 million tonnes to be disposed of on third country markets or used for animal feed within the Community.

World market prospects, however, do not indicate the possibility of further significant increases in Community exports and the cost of subsidised disposal on the Community's own markets has reached very high levels. The surplus situation is therefore now very serious. Stocks of butter and of skim milk powder in intervention and private storage on the 15th December 1983 were 866,000 and 1,006,000 tonnes respectively and according to O'Dwyer (November 1983) it has become almost impossible to dispose of these stocks anywhere. But even if markets could be found, the milk price for 1984/85 (in the absence of other instruments) would have to be abated by as much as 12 per cent of the 1983/84 level in order to dispose of the surpluses. A measure of this kind could evidently have grave and immediate effects on the revenues of producers while there would be some delay before the full effects on production was achieved. Indeed some commentators maintain that in order to keep FEOGA guarantee expenditure at present levels through a price policy a real price reduction of up to 20 per cent would be necessary (Sheehy, 1983). It is fairly obvious that the super-levy would be preferable to a price drop of this amount, but unfortunately the Commission also say (op cit, p. 12) that the quota system should be accompanied by a restrictive price policy. What restrictive means in this context is anybody's guess but it goes to show that the super-levy alone is not the only bad news. In addition, there are suggestions for curtailing expenditure on various other products through the imposition of what are called guarantee thresholds or quotas but I do not propose discussing these here. Suffice it to say now that we have not heard the last of quotas and super-levies. There appears to be a determination not to support the production of supplies in excess of EC requirements.

Suggestions by Irish Commentators regarding the Milk Levy.

Most Irish commentators would agree that the European Community is facing a severe financial crisis and the growing imbalance between supply and demand of farm products cannot be defended indefinitely. However many would argue that certain of the anomalies which have clearly exacerbated market imbalances should be eliminated before artificial restraints on production are considered. It is claimed that the combined effects of imported low cost feeds, high priced milk in some countries as a result of positive MCAs and large concessionary butter imports have had significant effects on milk imbalances within the Community, Let us examine these anomalies.

Generally speaking higher yields rather than larger herds have accounted for most of the increase in Community production (AFT, 1983) but Ireland is exceptional in this regard. By Community standards Irish specialised dairy farms are average sized, grass based,low cost businesses. The high yields per cow in the Continent are due to heavy meal feeding presumably 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 kg of milk to that of 100 kg of feed was 1.04 in West Germany and 1.16 in the Netherlands (countries having positive MCAs and close to the deep-sea ports of Hamburg and Rotterdam) compared with 0.82 in France, 0.9 in Belgium, 0.85 in UK and 0.81 in Ireland. As a result meal fed per cow is almost three times as high in the Netherlands as in Ireland. Also because of posisive MCAs, milk prices in West Germany, the Netherlands and Uk are annually abott 9.5p, 6p and 7p per gallon respectively higher than if Green and market exchange rates were equalised in these countries. Such favourable conditions provide continuing incentives for higher yields in the countries mentioned as the following 1982 figures for yield per cow in kg show: Ireland, 3314; UK, 4803; Netherlands, 5,156; France, 3,761; West Germany, 4,545; EEC 9, 4,181.

Despite these yield figures however, a look at the overall growth in milk production in the different EEC countries given in Table 2 shows that in the period 1970 to 1982 the greatest percentage growth in production took place in Ireland (75.3%). The Netherlands also showed a high growth rate (60.1%), but in Germany despite high milk and low feed prices growth at 28.8% was lower than in France (38.1%).

In the period 1978 to 1982 when the EEC prudent price policy regime was in operation the greatest increase of 13.0% occurred in France followed closely by The Netherlands at 12.5%, Germany at 10.4% was down the line despite her favourable price levels. The UK increase of 5.8 per cent was low also and was much less than the Irish rise of 8.7 per cent. Hence, it would appear that except in the Netherlands positive MCAs and cheap imported feeds do not appear to have had as much impact on output as is sometimes thought. Changes in policy therefore in regard to these items would not be likely to have

Table 2: Milk Delivered to Dairies 1970 - 1982 [(a)]

Country	1970	1975	1978	1979	1980	1981	1982	% Increase 1970/1982	% Increase 1978/1982
	000 tonnes								
Germany	18,371	19,367	21,443	22,050	22,948	23,032	23,670	28.8	10.4
France	18,788	21,604	22,965	24,021	25,182	25,395	25,940[c]	38.1	13.0
Italy	6,957	6,944	7,543	7,894	8,117	8,114	8,344[c]	20.0	10.6
The Netherlands	7,734	9,782	11,000	11,245	11,444	11,818	12,379	60.1	12.5
Belgium	2,654	2,770	2,976	3,039	3,048	3,077	3,096	16.7	4.0
Luxembourg	202	236	246	254	262	262	272[c]	34.7	10.6
UK	11,936	12,965	15,058	15,093	15,157	15,062	15,930	33.5	5.8
Ireland	2,785	3,308	4,492	4,611	4,556	4,514	4,881	75.3	8.7
Denmark	4,280	4,718	5,124	5,025	4,917	4,837	5,017	17.2	-2.1
Greece	na	658	788	816	806	922	870[c]	na	10.4
Total Ten	73,710[b]	82,353	91,635	94,048	96,437	97,033	100,399	35.0[b]	9.6

(a) Including buffaloes', goats' and sheeps' milk

(b) Excluding Greece

(c) Estimated na Not available.

Source: EEC Dairy facts and figures, Milk Marketing Board, Thames Ditton Survey 1983.

very dramatic effects.* Despite this, however, MCAs of all kinds should be phased out as they distort competition seriously.

The curtailment of cheap butter imports from New Zealand would have some effect on milk balances and would certainly affect Irish sales in the UK but in the context of 866,000 tonnes of surplus butter a reduction of 80,000 tonnes from New Zealand would be small. There is however a strong case for phasing out these imports when we consider that over the past three years the UK has imported as much butter from New Zealand as the EC sold off cheaply to the USSR (Irish Times 9/1/84).

Other imports are covered to a considerable extent by GATT rules making it difficult to do very much about them. The EC is one of the largest trading blocks in the world and if it hopes to export agricultural and industrial products it has to import similar products from other regions. There is, therefore, no simple solution to the surplus problem. The only option is to reduce production to manageable levels.

In these circumstances we might well ask how strong is the Irish case for special treatment? There is no doubt but that it is very strong as the following points show:

(1) The Treaty of Rome says that in working out the CAP, account shall be taken of the fact that in the weaker states agriculture constitutes a sector closely linked with the economy as a whole. Now the Irish dairy industry, both on and off farm contributes about 9 per cent of GNP, it employs close to one in ten of those at work and accounts for 10 per cent of total exports. It is five times more important to the Irish economy than the average figure for the Community as a whole and must therefore receive special treatment. Indeed the dairy industry is as important to Ireland as the petrol and natural gas industry is to the UK, the chemical, petroleum and natural gas industries combined to the Netherlands and the automobile, textile and the non-ferrous mineral industries combined to Germany.

* It could, of course, be argued that if milk prices were lower in Germany and UK, growth in production would be slower than it has been in these large producing zones.

(2) Due to its historical development the dairy industry in Ireland still lies behind the norm throughout the EC to the extent that average yield per cow in Ireland is only 80 per cent of the Community average. It will be at least ten years before Ireland reaches the average Community level of development. In these circumstances a system which would freeze production would be against Community principles of regional convergence. Furthermore, Ireland acceded to the Community with the legitimate belief that while traditional manufacturing industry in Ireland would suffer from the dismantling of trade barriers (which in fact has happened) the loss would be balanced by the ability of Irish agriculture to compete and grow without artificial constraints. It has done this up to now but a quota on milk production would halt national growth because dairying is the really dynamic sector of Irish agriculture. It would also curtail expansion of the beef sector because of the relationship between beef and milk production.

(3) It is estimated that the imposition of this levy system would result in a saving of 1,300 m ECU for the Community as a whole. Because of the base year chosen (1981) 130m ECU of this would arise in Ireland. This country would therefore be asked to make up 10 per cent of the Community savings though she produces only 5 per cent of Community milk.

(4) Since our milk output is less than 5 per cent of the Community total an Irish derogation from the levy would have little effect on overall milk supplies. An increase of 15 per cent in the Irish 1983 output would amount to only 342,000 tonnes or 0.3 per cent of total Community deliveries.

These are all telling points and there is no doubt but that we will inevitably receive concessions as a result of our position. The main thing however is to get the budget question settled as quickly as possible, because time is of the essence in our case. A delay in coming to some agreement about the budget can have the following effects which would no doubt be welcomed by some member states.

(1) Milk prices will remain at their 1983 levels, which, in a period of inflation means a real price drop without a reduction in costs.

(2) The Community may have to impose an across-the-board co-responsibility levy to dispose of present stocks. This could be as high as 10 per cent of the guide price and when combined with the price freeze could mean a very large real price reduction by next June.

(3) With or without these measures there may be a decision to curtail intervention buying of dairy products at certain levels or for certain periods. If this were to happen the bottom would fall out of the market and there would be little which the government or anybody else could do about it.

The upshot of all this is that the longer we go without reaching a settlement the greater the reduction in real price levels and this is something which will hit Irish dairy farmers more than anybody else. As shown above, the milk/feed price ratio in Ireland is lower than in any of the northern European states and with feed prices and other costs increasing all the time we need milk price rises rather than reductions to stay in business.

These matters place Ireland in a real dilemma. We must not hold up the proceedings too long or we may lose more than we gain. On the other hand an easy capitulation by us will not necessarily bring about a settlement. In the ultimate analysis we are very small pawns in a big power game and when the major contestants decide to settle they will do so regardless of Ireland's views. However, we must continue to keep plugging away at the justice of our case and try, if possible, to align some of the big powers on our side. There are strong rumours now that France has come to agreement with Germany on MCAS and that she intends to settle the budget question during her term of the Presidency even it it means telling some of the recalcitrant members that they are free to leave the Community if they cannot agree with majority decisions.

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