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DOES THE CAP FIT?
The regionalisation of the common agricultural policy

Abstract: This paper traces the development of regional farm policies under the aegis of the Common Agricultural Policy (CAP). It is suggested that policy's flexibility in respect of different regional circumstances has critically depended on its role in the European integration process. As long as the CAP has remained the cornerstone of this process, its common pricing policy has remained sacrosanct, despite its regressive features. Successive Community enlargements and evidence of widening regional farm disparities have prompted more spatially variable farm policy measures. Post-Maastricht, the principles established by these policy developments can conceivably be supported by the removal of common pricing.

Key words: agricultural policy, regionalisation, European integration.

1. INTRODUCTION

Uniformity versus diversity is the dilemma which has characterised the process of European integration, and nowhere is this conflict more apparent than in agricultural policy development. On the one hand, the economic and strategic importance of European agriculture has rendered the pursuit of functional integration by uniform agricultural policies both amenable and desirable. On the other, agriculture is possibly the most heterogeneous of industries, with physical, historical and cultural factors conspiring to produce marked regional variations in farm types and size structures.

Thus, the flexibility of agricultural policy in respect of different regional circumstances has largely depended on the significance attached to pursuing

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closer economic ties via 'common' agricultural policies and principles. Because of limited success at developing other common policies, the Common Agricultural Policy (CAP) has typically been regarded as the cornerstone of the integration process. The problem is that the policy has been dominated by a system of common price support which has exacerbated existing regional farm disparities. While successive Community enlargements have heightened awareness of this problem, it is only Maastricht's written commitment to economic union which has paved the way for a more spatially flexible farm policy to be introduced. Quite simply, the Community is not now likely to collapse if the edifice of common price support is dismantled.

This paper traces the regionalisation of the CAP by firstly, considering the role and significance of the policy in the integration process, and identifying those factors responsible for the choice of common policy instruments. The gradual emergence of regional support measures is evaluated in the context of both the CAP's reduced significance in the pursuit of integration, and the increasing evidence of widening agricultural disparities across the Community. The conclusion reached is that while expenditure on region-specific farm and rural policy measures remains relatively small, the principles by which the regionalisation of policy is set to proceed have been firmly established.

2. A COMMON PROBLEM – A COMMON SOLUTION

Agriculture was destined to play a pivotal role in the pursuit of European economic integration. Firstly, post-war developments had established that closer economic ties were more likely to be achieved through functional integration (by sector), than by political or federal integration (George, 1991). With the countries of continental Europe having similar farm structures and histories of agricultural protectionism, agriculture appeared particularly amenable to functionalist developments.

Secondly, the agricultural sector was of considerable economic and strategic importance in post-war Europe, accounting for over 20% of employment and 11% of GDP in the original Community of Six in 1957. Moreover, in the wake of inter-war illiberalism, any prospect of balancing the countervailing economic advantages of France (agriculture) and West Germany (industry) was particularly attractive (Tracy, 1982).

These factors also determined the choice of CAP policy instruments. The national agricultural policies of the Six already had a common characteristic –

income support via high consumer prices and intervention to balance supply and demand. As a result, common market organisations for agricultural commodities developed around this feature. A precedent of generous price guarantees was set as early as 1964, when high cereal prices were deemed necessary to appease the powerful German farm lobby.

Subsequent decisions concerning the levels and coverage of support were rooted in the need for compromise, and embodied potentially very uneven distributional consequences. The geographical origins of the policy ensured that the temperate crops of Northern Europe received greatest attention in the CAP's design. This commodity bias was reinforced by variation in the relative strengths of producer groups. Dairy farmers, for example, as the largest income-generating group of EC farmers, were able to use their collective power to ensure that the target price set for milk in 1968 was some 6% higher than the Commission had intended.

The bargaining process generally resulted in support prices being set at levels perceived as acceptable to the average farmer. This was formalised in 1972 as the 'objective method', where the average return to a unit of output was set on the basis of the costs incurred by the average farm in producing that output. This level of return provided a significant stimulus to production for larger, more commercial farmers, whilst simultaneously reducing the incentive for less efficient farmers to withdraw from the sector altogether.

The potential for the benefits of price support to be unevenly distributed was further increased when the principle of uniform community prices was severely challenged. Following French and German currency instability in 1969, a system of levies and subsidies on exports and imports – Monetary Compensation Amounts (MCA's) – were introduced to fill the monetary gaps between green exchange rates (which converted common institutional prices into national currencies), and actual exchange rates. These temporary expedients were made permanent with the collapse of the fixed exchange rate regime in 1971. The ability of member states to manipulate their green exchange rates, meant that a significant degree of discretion over farm prices was returned to national governments with vested interests.

Other elements of the 'common' policy were showing signs of strain. Achieving a consensus on annual price levels was made more difficult by the presence of the national veto. This was further complicated by the need to control the escalating cost of support. By 1972, European Agricultural Guarantee and Guidance Fund (EAGGF) expenditure accounted for two-thirds of the Community Budget, while revenue from import levies covered less than half of total spending (Commission ..., 1994a).

The rising cost of support emanated from the dramatic rise in EC farm production, which increased by over 16% in the first five years of the CAP alone. As well as high support prices and continued improvements in farm production techniques, the rise in output was also stimulated by fulfilment of the principle of common financing. With the institution of 'own resources' in 1970, the EAGGF financed all CAP expenditures out of national revenue from import levies and the common external tariff. In a classic example of the 'free-rider' scenario, each individual member state was given the incentive to over-produce in order to maximise the benefits from price support, safe in the knowledge that the costs of intervention would be shared between all member states.

The Mansholt Plan of 1968 recognised that the only way to both curb production excesses and secure future farm income improvements, was to encourage accelerated structural adjustment (Commission ..., 1968). However, in proposing a reduction in the existing agricultural area of five million hectares and the removal of five million farmers from production over the course of the 1970s, the plan was politically unacceptable. The latent fear of alienating national governments and farm lobbies posed a greater threat to the cohesion of the Community (still lacking any other substantive common policy), than did the strains within the CAP.[1]

3. THE FIRST ENLARGEMENT: ACCOMMODATION AND ACCULTURATION

The enlargement of the Community in 1973 to incorporate the UK, Denmark and Ireland could reasonably have been expected to encourage the CAP's movement away from inequitable common policy instruments. At the very least, enlargement increased the CAP's remit and the range of farm structures to be accommodated (table 1).

Table 1. The first enlargement: key farm indicators

Key farm indicators	1968 (EC 6)	1973 (EC 9)
Agriculture as % of GDP at factor cost	3.4%	5.3%
Agriculture as % of employment	11.0%	9.2%
Total utilised agricultural area	61.0 m ha	93.5 m ha
Total number farms	4.7 m	5.4 m
Average farm size	13 ha	17 ha
Minimum range farm size	5–30 ha	5–40 ha

Source: Commission 'The Agricultural Situation in the Community', various issues.

[1] The token response to the Mansholt Plan was the introduction of three socio-structural directives providing financial incentives for farm modernisation, the cessation of farming, and training for alternative employment (Council Directives (EEC), Nos 72/159, 72/160 and 72/161 – OJ L96, 1972, p. 1). Limited resources and their introduction at a time of world recession meant that these schemes had little impact on labour migration out of agriculture.

Yet enlargement did not prompt the EC to question the distributive efficiency of common prices. In fact, embracing a wider variety of economic circumstances and policy traditions at a time of increasingly national policy hegemony, made it all the more important for the Community to build on the one common policy it had succeeded in creating. Attempts at establishing a community-wide exchange rate regime, the 'snake-in-the-tunnel', degenerated into farce when general monetary instability and overly narrow bands of fluctuation meant that by 1977, only five member states remained in the arrangement, along with Sweden and Norway who had rejected EC membership. Progress towards the institution of common energy, transport and industry policies was also sluggish, owing to Council reluctance to harmonise national policy rules and member states' continued pursuit of self-interest. In these circumstances, the EC could not contemplate undermining common farm prices, and sought instead to shift the blame for the CAP's problems to member states' interpretations of its regulations (Commission ..., 1975).

Neither did enlargement challenge the inviolability of high support levels. The UK was expected to be in the vanguard of calls for reduced emphasis on price support, since with its relatively small agricultural sector (accounting for 2.9% of GDP) and high dependence on food imports, the aggregate gain from CAP support stood to be exceeded by the costs of importing from higher-priced Community sources. But having missed the opportunity of influencing the design of the CAP in its favour, the UK government had no option but to minimise the costs of adopting the policy, by quickly expanding production and staking a claim for financial reparation. Inveigled by the Community's maximum production philosophy, the UK had lost the incentive to force change by the time it was in a position to do so.[2]

The only attempt to graft UK policy on to the CAP which met with any notable degree of success was the institution of Less Favoured Area (LFA) support in 1975, which was modelled on British hill farm subsidies.[3] This represented the first real acknowledgement by the Community of any spatial variation in the economic costs and social importance of farm production. However, the policy developed with a number of flaws.

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[2] UK self-sufficiency in temperate farm products rose from 65% in the mid-1960s to 75% by 1980.

[3] Council Directive (EEC), No. 75/268 – OJ L128, 1975, p. 1. Payments are made to compensate for higher production costs in hill areas and/or maintain populations in areas where farming is of some wider socio-economic importance.

Firstly, with LFA support payments made per head of livestock of hectare of land, they contained the same production bias as price support. As a result, the policy has encouraged over-stocking, with the largest farms appropriating the greater share of its benefits (Clunies-Ross and Hildyard, 1992).

Secondly, the policy was based on the premise that redistributive support would offset any regional imbalances caused by traditional sectoral policies. This has meant that LFA payments have not been co-ordinated with any other policy instruments, and have been used as a blanket Community expedient to the problems of low-income farm regions.[4]

Between 1973 and 1980, total expenditure on CAP support schemes increased by 50% in real terms, yet the annual rate of increase in producer prices (8.4%) failed to keep up with the rate of increase in input prices (10.2%). As a result, aggregate farm income in Europe fell relative to non-farm income (table 2).

Table 2. Average real income per labour unit EC(9) 1967/68/69 = 100

Year	Agriculture	Economy as a whole	All employed persons
1967/68/69	100	100	100
1973	130	130	139
1980	120	141	148

Source: Commission 'The Agricultural Situation in the Community', various issues.

This general downturn in farm income masked considerable variation in the fortunes of particular member states, and regions within and between them. It was in this context that the EC commissioned a study into the regional impact of the CAP in 1981 (Commission ..., 1981a), which it followed up in a wider examination of the economic situation of the regions (Commission ..., 1984). These studies indicated that the introduction of commodity support for the produce of southern Europe (fruit and vegetables, oils and wine, and sheepmeat and goatmeat) had checked the growth in regional income disparities in the late 1970s. However, by 1981 farm income in the most productive regions of the Community, principally Northern France and Northern Germany, remained some four and a half times larger than that of the least productive in Northern Ireland and Southern Italy (table 3).

[4] 55% of the Community's utilised agricultural area qualified for LFA funds in 1992.

Table 3. Disparities in agricultural gross value-added per annual work unit: EC 9 = 100 (1976 prices)

Countries	1968/69				1976/77				1981			
	regional			national	regional			national	regional			national
	max.	min.	disp.*	average	max.	min.	disp.*	average	max.	min.	disp.*	average
Germany	191	79	29.4	145	203	87	30.6	125	187	85	29.9	113
France	241	70	35.5	105	264	73	36.6	107	228	67	31.6	105
Italy	96	29	24.9	65	92	28	25.8	65	94	29	24.6	68
Netherlands	270	154	19.4	210	272	164	16.6	215	248	162	15.9	210
Belgium	199	138	15.3	178	222	148	15.8	195	238	160	15.6	210
Luxemburg	–	–	–	100	–	–	–	85	–	–	–	90
UK	140	56	26.1	99	161	83	23.9	120	172	92	21.4	130
Ireland	77	33	27.4	56	73	27	33.1	53	76	18	38.1	46
Denmark	183	113	11.1	148	178	129	8	153	159	119	5.7	153
EC 9**	233	43	42.4	100	216	38	46.8	100	159	39	45.2	100

* Standard deviation weighted by number of annual work units.
** Maximum and minimum for Community = average of 10 regions with highest or lowest values.
Source: Commission ..., (1981a) and (1984).

4. THE SECOND AND THIRD ENLARGEMENTS: PIECEMEAL REFORM AND ESCALATING CRISIS

This recognition of the wide variation in regional farm problems did not provoke an equivalent degree of mitigating policy action. Despite further Community enlargement, it was the aggregate problem of market imbalance that posed the greater threat to the CAP's solidarity, and which became the focus of attention over the course of the 1980s. As early as 1981, the Commission rejected the idea of discriminatory price support across the Community:

> ... because the major problem of the CAP is not so much its costs or their distribution among the Member States, as the absence of any corrective mechanism for adapting supply to demand in accordance with a basic principle of economic rationality (Commission ..., 1981b, p.16).

The problem was that while it remained reluctant to force the introduction of such a mechanism, the Commission continued to propose generous increases in price support, which the Council of Ministers readily sanctioned.

The accession of Greece in 1981 and the Iberian enlargement of 1986, brought the need to take account of the spatial variation in farm circumstances sharply into focus. Firstly, a greater proportion of agricultural output in the new Community of Twelve was accounted for by the less heavily protected commodities of Southern Europe. Secondly, enlargement significantly increased the Community's range of socio-structural problems (table 4).

Table 4. The second and third enlargements: key farm indicators

Key farm indicators	1980 (EC 9)	1987 (EC 12)
Agriculture as % GDP at factor cost	3.50%	2.90%
Agriculture as % of employment	7.10%	6.20%
Total utilised agriculture area	95.0 m ha	128.7 ha
Total number farms	4.0 m	6.9 m
Average farm size	20 ha	17 ha
Minimum range farm size	8–45 ha	5–50 ha
Fruit, vegetables and wine as % agriculture output	9.20%	17.90%
Ratio of income in 10 most productive regions to 10 least productive regions	4.5:1	6:1

Source: Commission 'The Agricultural Situation in the Community', various issues.

A small step towards adoption of a more selective, tailored approach to regional farm problems was taken in 1981 with the introduction of regional development programmes for Lozere in France, and the Belgian Ardennes.[5] This

[5] Council Regs (EEC), Nos 1940/81 and 1941/81 respectively – OJ L197, 1981, p. 9.

development was consolidated in 1985 with the introduction of Integrated Mediterranean Programmes (IMP's), designed to foster regional development in 29 impoverished regions of France, Italy and the whole of Greece.[6]

IMP's were founded on three main principles: medium-term planning, with each programme lasting between three and seven years; co-ordinated funding by the Guidance Fund of the EAGGF, European Investment Bank (EIB) and European Regional Development Fund (ERDF); and institutional partnership between regional, national and Community authorities. As such the IMP's were a turning point in the CAP's development in that they significantly extended the spatial dimension of the policy, and initiated a movement away from tackling regional problems by narrow redistributive measures.

Despite this, the IMP's have enjoyed only limited success owing to problems with their design and implementation. Firstly, no IMP's have been developed for Spain and Portugal, where they are arguably most needed, although specific programmes of support for the development of Portuguese agriculture were introduced in 1985.[7]

Secondly, where they have been implemented, the effectiveness of IMP's has been hampered by limited resources. A total of 6.6 billion ECU's has been devoted to the schemes which, spread over all the regions, has typically limited the incidence of IMP investment on gross regional product to 1% or less.

Finally, poor regional planning has prevented the effective targeting of those structural components with the highest reaction and diffusion capacity (Bianchi, 1983).

The CAP's developing concern with regional issues was soon overwhelmed by the larger problem of the increasingly untenable cost of the policy. Twenty years of high support prices had created production excesses of such proportions, that the very existence of the CAP was threatened by imminent budgetary collapse. By 1983, the book value of EC stocks stood at over 5 billion ECU. The cost of storing and disposing of these surpluses, at often less than one-third of their purchase price, was such that the farm budget was expanding at 7.5% a year in real terms. By the time of the Stuttgart Summit in June 1983, it was apparent that the Community's 'own resources' were insufficient to meet its expenditure requirements (Commission ..., 1992).

The crisis threatened the Community's fragile unity as it became ever more difficult for member states to reach agreement on their budgetary contributions (Avery, 1984). The UK Government's uneasy relationship with the rest of Europe was increasingly exposed as the rising cost of the CAP led to its more vociferous demands for a larger budgetary rebate. The political strains were

[6] Council Reg. (EEC), No. 2088/85 – OJ L197, 1985.

[7] Council Reg. (EEC), No. 3828/85 – OJ L372, 1985, p. 5.

generally reflected in more nationalistic attitudes to the protection of farm interests, culminating in a series of commodity 'wars'.[8]

The continued failure of member states to achieve the same degree of policy co-ordination elsewhere, meant that the CAP was entrenched as a 'sacred cow' and subsequent policy reform characterised by continuity and incrementalism. Consequently, common pricing remained intact while the proportion of the budget devoted to socio-structural schemes was unchanged at 5%. Moreover, the need to be seen to be doing something to rectify market imbalances led to the hasty implementation of blanket production restrictions, with little thought given to their distributional implications.

For example, the quota system for milk, introduced in 1984, contained wide scope for variation in the degree of penalty on over-production.[9] UK farmers were hit hard by the government's decision to implement quotas using 1983 as a base year (a poor year for milk production), with a 6.5% deduction to achieve a production level equivalent to 1981. In stark contrast, Ireland argued for a special case and secured a quota which was 4.6% up on its 1983 production level. The revelation in 1992 that Italy had never applied milk quotas also demonstrated that as the complexity of the CAP's regulations increased, so did the potential for Community-wide differences in levels of compliance.

Despite these inefficiencies, political constraints ensured that the only reform measures acceptable to the Council of Ministers were restrictions on farm inputs and outputs (Gardner, 1987). In 1985, the Commission acknowledged the shortcomings of quotas and their potential for uneven effect and application across the Community, and proposed that substantial price cuts be made alongside the introduction of a new structural policy (Commission ..., 1985). The minimalist response to this meant that the 'butter mountains' and 'milk lakes' of Community folklore continued to exert a very real and increasing burden on the Community purse, accounting for 50% of expenditure at their peak in 1986.[10]

When budgetary pressures did provoke further action in 1988, it was to new and more widespread forms of quantitative restriction that the Council looked for a resolution of the CAP's problems.[11] In attacking the symptoms of the

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[8] The Anglo-French sheep war was particularly acrimonious, culminating in an illegal blockade of UK ewe exports to France in December 1985 ("Western Mail", 12 December 1985).

[9] Council Reg. (EEC), No. 856/84 – OJ L90, 1984, p. 10.

[10] The Council's reaction to the 1985 Green Paper was a small (2%) reduction in milk quotas in 1986, a price freeze in 1987 and the introduction of a watered down version of the proposed structural policy: Council Reg. (EEC), No. 797/85 – OJ L93, 1985, p. 1.

[11] Council Reg. (EEC), No. 1097/88 – OJ L110, 1988, p. 7, introduced a guarantee threshold and co-responsibility levy for cereal production, supported by set-aside. Council Decision (EEC), No. 88/377 – OJ L185, 1988, p. 29, stated that the rate of increase in the Guarantee Fund between 1988 and a given year, should not exceed 74% of the rate of increase in Community GNP during the same period.

problem (over-production and rising expenditure) and not the cause (over-emphasis on price support), these agricultural stabilisers thwarted long-term structural adjustment and provided only a temporary budgetary palliative (Tangermann, 1989).

5. POST-INTEGRATION: GETTING THE CAP TO FIT

The Single European Act (SEA) of 1986 acted as a catalyst for further regionalisation of the CAP. Firstly, the commitment to achieving a free internal market by 1992, reduced the threat to Community solidarity from any assault on the CAP's common policy instruments. Indeed, the SEA impelled reform of the distortionary green exchange rate mechanism which was maintaining the facade of common agricultural prices. As cross-border taxes and subsidies, the Council agreed to abolish all MCA's in December 1992.[12] However, owing to successive crises in the Exchange Rate Mechanism (ERM), it has taken a further two and a half years to remove the last vestiges of the agri-monetary system.[13]

Essentially, however, the SEA was preparing the way for further economic integration by simply removing those remaining obstacles to the fulfilment of a customs union. Consequently, while more substantive reform of the levels and nature of farm protection could be contemplated in its wake, the fundamental principle of common price support had as yet to remain unchallenged. To further complicate matters, by 1990 any farm policy reform was required to satisfy the external requirements of the protracted Uruguay Round of the GATT, tackle the perennial problems of surplus production and budgetary excess, as well as meet the growing demands of the environmental lobby.

The resulting reform decisions of May 1992 were a skilful exercise in political compromise, succeeding at the very least in abating pressures for a more severe appraisal of the CAP.[14] Price cuts for cereals, beef and butter of 29%, 15% and 5% respectively, allowed the chief architect of the reform, Agriculture Commissioner Ray MacSharry, to claim that a different course had

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[12] Council Reg. (EEC), No. 3813/92 – OJ L387, 1992, p. 1.

[13] In December 1992, the Council agreed to maintain the controversial 'switchover' mechanism for a further two years. Switchover dates from 1984 (Council Reg. (EEC), No. 855/84 – OJ L90), and worked by switching over the largest of the positive gaps (between green and actual exchange rates) created by a monetary re-alignment to a negative gap applicable to all other currencies. A decision to end switchover was made in December 1994 ("Western Mail", 16 December 1994).

[14] Council Reg. (EEC), Nos 1765/92, 1766/92, 2066/92, 2069/92, 2078/92, 2079/92, 2080/92 – OJ L215, 1992.

been charted for the CAP, when all the while the fundamentals of price support remained intact. Substantial compensatory payments for price cuts and set-aside satisfied the farm lobby, while the limited attempts at modulating support were perceived as posing no threat of unfair discrimination between member states.[15] With price cuts expected to result in the elimination of export subsidies by 1996–1997, the Uruguay Round was given fresh momentum and agreement ultimately reached in November 1992. And finally, the institution of a Community-aid scheme for positive environmental introduced an element of decoupled support into the CAP for the first time.

But these successes should not be allowed to obscure the fact that with 90% of the agricultural budget still devoted to market subsidies, 20% of the largest farms were destined to remain the beneficiaries of 80% of support expenditure (Commission ..., 1991).

As well as reducing some of the pressure on the CAP in the integration process, the SEA focused attention on the Community's regional problems. Article 130a made economic and social cohesion a primary aim of the Community and prioritised the elimination of regional rather than national disequilibria to this end. This focused attention on prevailing regional disparities and particularly on the role played by the Community's traditional sectoral policies in mitigating or exacerbating them. As the largest single component of the EC Budget, it is not surprising that agricultural policy came under particular scrutiny and lay at the heart of subsequent regional policy developments, notably the reform of the Structural Funds.[16]

This reform committed the Community to the co-ordination of the Guidance Fund, the ERDF and the European Social Fund (ESF), and the doubling of their combined spending to ECU 14 bn by 1993. Five priority objectives were assigned to the Funds with Guidance funding contributing to infrastructural improvements in Objective 1 (less developed) regions, and to the adjustment of agricultural structures and wider rural development in Objective 5b regions. In tandem, the CAP's regional responsibilities were more clearly defined as being to channel funds to small farms and less favoured areas; to promote the image of 'non--factory' products through quality and regional labelling; and to encourage and develop indigenous management and marketing skills (Commission ..., 1988).

[15] Set-aside compensation was granted under two schemes. Under the general scheme, producers would be required to set-aside a predetermined percentage (initially 15%) of their arable acreage to qualify for compensation. The simplified scheme applied to small producers (producing less than 92 tonnes of cereal per annum) who were not required to set-aside land to receive compensation. The initial proposal for limiting hedge payments in the LFA's to flock sizes of 750 was raised to 1000, to avoid discrimination against larger UK farms.

[16] Council Reg. (EEC), No. 2052/88 – OJ L185, 1988, p. 9.

As well as confirming the regional role of the CAP in the greater Community attention to regional policy, the reform of the Structural Funds firmly established the principles by which this regionalisation process was to proceed. Firstly, in co-ordinating the regional funds in multi-sector operational programmes, the reform upheld the concept of integrated development pioneered in agriculture with the IMP's. Secondly, these programmes cultivated the principle of partnership between EC, national and regional authorities. This in turn spread decision-making responsibilities between various levels of authority in accordance with the newly-emerging principle of subsidiarity. In CAP terms, these principles required that agricultural problems be placed firmly in their wider regional and rural development contexts (Commission ..., 1988).

As yet, the Structural Funds do not appear to have significantly reduced farm regional disparities. In Objective 5b regions, for example, employment has grown at the same rate as the Community average since 1988 (Commission ..., 1994b). In response to criticism that too few resources have been spread too thinly to have sufficient effect, the second programming period (1994–1999) sees a proposed 40% increase in the Structural Funds (table 5).

Table 5. Community resources 1993–1999 (bn ECU, 1992 prices)

Indicators	1993		1994		1999	
	bn ECU	%	bn ECU	%	bn ECU	%
Agriculture	35.2	50.9	36.4	48.4	38.4	45.7
Structural actions	21.3	30.8	25	33.2	30	35.7
Cohesion fund	1.5	2.2	2.3	3.1	2.6	3.1
Structural funds	19.8	28.6	22.7	30.2	27.4	32.6
Internal policies	3.9	5.6	4.5	6	5.1	6.1
External action	4	5.8	4.6	6.1	5.6	6.7
Other	4.8	6.9	4.8	6.4	5	5.9
Total commitments*	69.2	100	75.2	100	84.1	100
Total payment appropriations	65.9		71.3		80.1	
Total payment appropriations as % of Community GNP	1.2		1.2		1.3	

* Total commitments relate to the legal obligation undertaken by the Community even if the total payment appropriations are not undertaken in the period indicated.

Source: Commission ..., (1994b).

The signing of the Maastricht Treaty in December 1991 gave these commitments to closer integration and policy regionalisation more comprehensive written and legal expression. The Treaty significantly increased the range of common policy competences of the new European Union (EU) to include (among others) health, education and industrial policy. It also strengthened its commitment to attaining others, notably a single currency by January 1999.

This new impetus to European integration also reinforced the need to reduce regional disparities, and institutionalised the Community-region nexus. The Maastricht Treaty established the central position of economic and social cohesion within the political priorities of the Union, and affirmed that regional policies should aim to equalise regional production conditions and not simply offset income inequalities. To this end the Cohesion Fund was created to supplement the Structural Funds, and concentrate aid in those member states with a per capita GDP of less than 90% of the Community average (table 5).[17]

The increased scale of regional funding and widespread endorsement of the principles of partnership and subsidiarity (Art. 3b), required the development of more formal channels of communication between regions and Community authorities.[18] Acknowledging this, Maastricht empowered regional ministers to represent their Member States in Council Sessions (Art. 148), and established the Committee of the Regions (CoR) (Art. 198). As yet, participation in Council meetings by regional authorities has not proved forthcoming, while the CoR remains only a consultative body with limited competence and resources (12 million ECU per year).[19] Nevertheless, the need for regional and local governments to voice their opinions on policies directly affecting them has been established, even if the remit of their power to influence policy design has not.

It is only post-Maastricht that the political obstacles to a fundamental review of the 'common' agricultural policy have finally been swept away, and the institutional framework for greater regionalisation of policy design set in place. In the reform of the Structural Funds, the Community has upheld the principles of partnership, subsidiarity and co-ordinated policy action, which were cultivated in agricultural policy developments, and which may serve as a model for a Europe-wide reconciliation of the unity-diversity conflict. But getting the CAP to fit different regional circumstances even more neatly requires that a number of important policy problems be resolved.

Chief among these is the challenge of removing the distortionary edifice of the CAP, price support, at minimum economic, social and political cost. The removal of price support will have considerable implications for farm income and employment unless substantial compensatory payments are made (Commission ...,

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[17] Delors II contained the budgetary proposals for 1993–1999 based on the principles of concentration, programming, partnership and additionality.

[18] A complex network of relationships between Community authorities and subnational bodies in the member states developed over the course of the 1980s, as the recipients of regional funds attempted to influence policy decisions and access other Community funds (Jones and Keating, 1985; John, 1994).

[19] There are strains within the Committee's structure with Germany sending the Lander Primeministers as its representatives, France its Department Presidents, and the UK its Local Borough Councillors (European Report, 16 November1994 Part 1, p. 3.).

1994a). This, and the further enlargement of the EU to incorporate the Central and East European (CEE) countries, will provide a serious test of the Community's commitment to reform of its pricing policy. The agricultural sectors of the CEE countries share the common dilemma of balancing the short-term need for massive state intervention to encourage increased food production, against the long-term aim of creating an efficient farm structure, independent of state support. The policy response is all too familiar: minimum prices and intervention guarantees (OECD, 1993). Quick assimilation of these countries and their existing policies could result in a two-track policy system, with an output-shackled West European agricultural industry being forced to live alongside a cosseted East European partner. Avoiding this scenario demands that radical CAP reform be accomplished before accession, and that the EU play a more active role in ensuring that CEE price stabilisation programmes serve only as temporary expedients.

One solution to the problem of coaxing farm prices down to world levels might be to allow member states greater latitude in determining the nature and extent of compensatory measures payable nationally and regionally. This course has been followed in the agreements with the EFTA candidates for EU membership, who have been permitted to provide a range of special subsidies to offset price cuts and to support farming in difficult conditions. More effective EU control of its own expenditure, and closer supervision of the means and amount of national subsidy made available, will be required to prevent unfair competition (Kjeldahl and Tracy, 1994).

For similar reasons, the effective regionalisation of agricultural policy will require greater uniformity in member states interpretations of subsidiarity. In federal European countries, subsidiarity has been regarded as the green light for subnational governments to play a more prominent role in EU decision-making. In the UK, subsidiarity has been interpreted as a means of checking the power of EU institutions relative to the nation state, with the territorial element largely absent (Scott, Peterson and Millar, 1994). As long as this difference remains, the leverage of European regional funds will vary widely across the Community.

As the IMP's experiment has demonstrated, the appropriate planning of regional policy measures may be critical to their success. This has been highlighted more recently with the Integrated Administration and Control (IACS) system, introduced as part of the monitoring procedure for qualification for set-aside compensation.[20] Wide interpretations as to the base areas used for calculating compensation have placed an intolerable administrative strain on

[20] In drawing up regionalisation plans to define separate production regions, the criteria used by member states have to be: "appropriate, objective and provide the necessary flexibility for the recognition of distinct homogeneous zones, which are of a minimum size and allow for specific characteristics that influence yields such as soil fertility..." (Council Reg. 1765/92, Art. 3, § 3).

many local and regional authorities, and left the system open to abuse in many countries (Neville and Mordaunt, 1993). In Wales, use of poorly defined parish boundaries as the regional divide has left some farmers receiving 50% more compensation in one half of a field than the other.

6. CONCLUSION

Up until 1992, the CAP could be regarded as the most potent symbol of the European integration process. This achievement arose from the fact that agriculture in the original Community of Six was both amenable and essential to functional integration. In predicating dependence on a system of 'common' prices, these same factors established an inherently regressive system of support, and one ultimately responsible for European farm production excesses. With no other common policy in place, however, the common pricing policy could not be undermined.

Successive Community enlargements and increased evidence of farm disparities heightened awareness of the CAP's regional failings, but provoked only limited action. Regional farm measures in the 1980s remained small-scale and relatively ineffectual. Moreover, the Community's regional problems paled into insignificance beside the more fundamental aggregate difficulties to be tackled.

Only with a more firm commitment to closer economic and monetary union, initiated by the SEA and concluded by Maastricht, has the CAP been freed to develop a more flexible, tailored policy approach to the Community's varying regional farm problems. At the same time, both the need for a smooth path to economic integration and the further enlargement of the EU have significantly increased the importance of reducing Community-wide regional disparities. While a number of problems relating to the practical design of regional farm policies remain to be resolved, the principles for their future development have been firmly set in place.

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