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THE COMMON AGRICULTURAL POLICY AND DEVELOPING COUNTRIES: A NORMATIVE ANALYSIS

A Thesis
submitted in partial fulfillment of the requirements for the
degree of
Bachelor of Arts in Liberal Studies

By

Sonia Arias

School for Summer and Continuing Education
Georgetown University
Washington DC
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ABSTRACT

The European Community, through its Common Agricultural Policy (CAP), has accumulated vast quantities of food surpluses. This has had a detrimental effect on world markets and especially on food-exporting developing countries.

In this thesis, I approach the Common Agricultural Policy from a normative perspective. By using Articles 39 and 110 of the Treaty of Rome as criteria, I analyze the CAP's performance and its effects on the European Community itself and on developing countries. I do not offer any solutions nor do I place any blame on any institution. I conclude that the EC has not lived up to its stated objectives. I also state that the EC has had the problem of surpluses because it has not been able to reconcile the economic with the social aspects of the Common Agricultural Policy.
I. INTRODUCTION

The idea for this thesis originated in an often-cited contradiction by the layperson when talking about hunger in the Third World. How can there be people starving in the southern hemisphere when officials in the northern hemisphere are denouncing surpluses of food? I started with a short paper and ended with this thesis. This is not a simple subject as it involves issues of international trade, international relations, and economics. It is beyond the scope of this thesis to tackle this topic from an economic point of view. There are ample quantities of economists who do exactly that.

In this thesis, my intention is to analyze the Common Agricultural Policy (CAP) from a normative perspective. By using Articles 39 and 110 of the Treaty of Rome as criteria, I intend to analyze the CAP's performance vis-a-vis its effects on the European Community itself and on developing countries.

In section II, I explore the origins of the CAP and how it has come to operate today. Here, I also infer, from Articles 39 and 110, the norms of my analysis: social responsibility and the common good. In section III, I describe the effects of the CAP on world markets and hold them up to article 110 of the Treaty of Rome. In section IV, I bring in developing countries and how they are affected by the CAP.
Here too, Article 110 is used as the criterion. Section V, also by the standard of Article 110, explores the EC Lomé Convention and Food Aid and its effects on developing countries. Finally, in section VI, the reforms of the CAP are described and analyzed in light of Articles 39 and 110 of the Treaty of Rome. In my conclusion I do not present solutions nor do I point to any guilty parties. I bring together the results of my normative analysis.
II. ORIGINS AND MECHANICS OF THE CAP

ORIGINS OF THE CAP

The Common Agricultural Policy (CAP) finds its origins in the Treaty of Rome (1957-8), the founding document of the European Economic Community\(^1\). The objectives of the CAP are set out in Article 39 of the Treaty of Rome:

1. (a) to increase agricultural productivity by promoting technical progress and by ensuring rational development of agricultural production and the optimum utilization of the factors of production, in particular labor;

(b) thus to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture;

(c) to stabilize markets;

(d) to assure the availability of supplies;

(e) to ensure that supplies reach consumers at reasonable prices\(^1\).

It was indispensable that from the outset the EC include agriculture in its plan for economic integration because of the very particular nature of agriculture and the important role that it has played on all cultures since time immemorial. Although by 1958 each member country's agricultural sectors had evolved into quite disparate entities, the CAP came about because of similar socio-economic histories shared by

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\(^1\)Today known as the European Communities (EC).
all the initial member-countries: Belgium, France, Italy, Luxembourg, the Netherlands, and W. Germany.

For example, during the period of industrialization, Western Europe underwent the effects of Engel’s Law, namely, "... as income rose the proportion spent on food decline[d]." This, for all those working in the agricultural sector, meant and means today, that when economic development occurs, agriculture suffers a decline in growth relative to the rest of the economy. This is a factor particular to agricultural economics that was shared by all EC countries.

Yet another problem that is peculiar only to the agricultural sector and has always been present in agriculture worldwide, is the unpredictability of weather and pests. This causes farm revenues also to be unpredictable thereby making farmer’s lives more precarious.

Security of food supply has also been a perennial concern for governments and forever present in the histories of EC member-countries. It is a strategic aim for a country to produce enough of its own food so that it can feed its population. Therefore agriculture in Western Europe had been the object of special attention for reasons of security.
Thus, in time, as European economies grew and farmer incomes fell, coupled with the unpredictability of crops and incomes, governments saw the need to intervene in order to redistribute incomes more fairly. Different forms of intervention had in fact been carried out to varying degrees within the EC member-countries by the time the Treaty of Rome had been signed and ratified in 1958. The objective therefore of the CAP was to harmonize the already existing (and somewhat protectionist) agricultural policies of each country into a "Common Agricultural Policy" by stabilizing markets.

We must now observe how the EC considered non-member countries (developing countries in particular) when it drew up its founding treaty. In article 110, the EC alludes to these countries within the context of world trade.

By establishing a customs union between themselves Member States aim to contribute, in the common interest, to the harmonious development of world trade, the progressive abolition of restrictions on international trade and the lowering of customs barriers.³

Here we see that at its inception, the EC saw itself as contributing to world trade and that its common market would act in the common interest of the world community.
Let us now look at the origins of the CAP from a historical perspective. The agricultural sector in the 1950s had had a long history of cultivation patterns and inheritance laws that varied from country to country. At that time, agriculture employed approximately 20% of the EC workforce but only contributed about 9% of GDP. Because of this disparity, the EC founders were compelled to intervene rather than to let the market forces take control. Also, interventionism was accepted because protectionist policies had already been introduced during the depression years of the 1930s. Finally, World War II had caused some serious disruptions in food supplies and so an even higher value was placed on food and farmers. In sum, protectionism was not frowned upon but rather expected.4

From a normative perspective, we can say that underlying the economics and history of agriculture, there was an inherent social sense of responsibility at work behind the creation of the CAP as intended in Article 39 of the Treaty of Rome. Granted, there were protectionist tendencies already in existence and influencing the authors of Article 39 at the time. However, in explicitly stating in a treaty article that a fair standard of living for the agricultural community was an objective, the EC authorities were officially sanctioning a social policy of economic support and protection toward a less advantaged section of the population: the farmers. Unintentionally, the founders, in vowing to protect the disadvantaged farmers, were
endorsing a sense of social responsibility. We cannot say that the concept of social responsibility was the driving force for the foundation of the EC, but we can posit that by undertaking to support the poorer farmers, the founders were acting, though perhaps unwittingly, in a socially responsible manner.

A similar scenario presents itself when looking at Article 110 of the Treaty of Rome. In this case, however, it is on a world scale. The article states that "... Member States aim to contribute, in the 'common interest', to the harmonious development of world trade ..." Here again the EC founders are demonstrating a sense of social responsibility, as wanting to act in "the common interest" implies that the EC, a member of the international community, is aware that its actions might or might not have a positive or a negative effect on other countries. Thus in striving to act in the "common interest" the EC, in its founding treaty, is implicitly acknowledging responsibility for its actions and the consequences they might have on other countries in the world community.

We must also pay attention to the fact that in Article 110, the EC also seeks harmony in world trade. This is yet another point which underscores the EC's intended positive participation in the world community. Thus, according to Article
110 of the Treaty of Rome the EC, in writing at least, seeks to contribute to world trade and to act responsibly in the world arena.

As we will observe shortly however, the EC, in its zeal to provide a fair standard of living for its farmers, has not "contributed to the harmonious development" of international trade, nor has it acted in the "common interest" of the world community. Quite the opposite, its protectionist tendencies in agriculture which were already in evidence at the foundation of the EC, have created quite an upheaval on the world markets. It is our task here to see exactly what the effects of this stress on world markets has been on developing countries. Subsequently, we will see that the EC has not lived up to Articles 39 and 110. But first we must describe, briefly, the mechanics of the CAP.

**MECHANICS OF THE CAP**

The question that arose once the creation of the CAP was agreed upon was how this was to be done. After much debate and lengthy negotiations, the participating countries agreed that the ultimate goal was to have common prices prevail throughout the entire community. But common prices in relation to the
higher or the lower priced countries and products? This turned out to be an arduous problem and was thus tackled in parts.

Because cereals are products from which many others are derived (e.g., pigs and poultry eat cereals), and because they compete with others for land, EC authorities decided to tackle these first. In December 1964, a target price was agreed upon for soft wheat but it would not be enforced until July 1967. Contrary to logic, the price was not arrived at by averaging out the national prices, but rather by exceeding it substantially because, it was explained, the Community needed to be shielded from excessive price fluctuations. This, by extension, exerted an upward pressure for the pricing of other products such as other cereals, livestock, pig, poultry meat, beef, and dairy products. Thus, from thereon in, the Commission was compelled, each time a new target price had to be established, to set higher prices than those present in any single country.5

Today, the CAP is a complex system devised to protect Community agriculture from outside forces. Because the target prices established are higher than prices in the world market, imports have to be controlled. Therefore, in order to prevent farmers from having to compete with cheaper foreign suppliers, the CAP drives
domestic prices well above world levels by means of tariffs, levies, and other mechanisms.

A variable levy on imports, also known as the threshold price, was established for agricultural products such as, grains, meat, poultry, and eggs. This levy consists of the difference between the lowest world offer price of the commodity and an internal target price which is determined by entities representing the farmers' interests. As these internal prices are usually higher than world market prices, EC officials, in order to protect their exporters, instituted an export restitution system. This consists in paying exporters the difference between high internal prices and low world market prices.6

This situation suited the EC and did not disrupt the world market as long as the Community was a net importer and its market growth equaled or exceeded domestic production growth. However, price incentives, i.e., high guaranteed prices, coupled with technological advances in farming such as genetic improvement of crops and livestock, the use of many new pesticides and herbicides, and improvements in machinery, led to an increase in domestic production at a time when domestic demand was stagnant or falling (low population growth and market saturation). Consequently, in less than a decade, the EC went from being a net
importer to a net exporter. For example, between 1974 and 1984 the EC level of self-sufficiency in butter went from 104% to 151%. The surpluses that accumulated subsequently were so large that they could not be exported at a reasonable price. Thus, EC officials developed the intervention price mechanism whereby EC agencies buy up surpluses when these reach a certain price. These surpluses are then "dumped" on world markets. However, the exporter at no time loses money on the transaction as he receives a "restitution" (refund) from the Community. EC agencies also store surpluses until EC prices rise, or use them as animal feed supplements.

This entire price support system is extremely costly, especially when surpluses and declines in world prices must also be taken into account. Costs for the EC price support system approximately quadrupled from 1970-72 to 1980-82, and doubled again between 1980 and 1986. It is estimated that the CAP spending will soon exceed the EC's common budget.

Summing up, because of the need to protect farmers from cheaper foreign competitors, domestic EC prices are increased well above world levels by means of certain price mechanisms such as the threshold price, the internal target price, and the intervention price. This, together with high guaranteed prices for farmers, has
lead to the extremely costly accumulation of surpluses. Moreover, consumers could obtain food at lower prices without these market interventions.

CONCLUSION

There was, at the outset of the EC, an underlying sense of social responsibility toward the poorer farmers, the international community, and world trade. We saw that protectionist tendencies were present within the agricultural sector before the establishment of the EC, and that they were maintained, among other reasons, in order to enhance the farmers' standards of living. Despite this, the Community wished to contribute to a harmonious world trade setting. Through pricing and storage policies, the EC protects its farmers from outside competition. Let us now observe how the system of the CAP, especially its surpluses, affects the world trading system.
III. THE CAP AND WORLD TRADE

Today, the EC is both the largest exporter and importer of agricultural products in the world.\textsuperscript{11} However, in 1988, this cost the EC an estimated 27.5 billion European Currency Units (ECUs) to support farm prices. This has provoked consumers as they pay higher prices for agricultural products than they would if the CAP did not exist.\textsuperscript{12} But most surprisingly, even farmers have expressed discontent as they see these expenditures as inadequate and inequitably distributed. This is due to the fact that despite all the farm support, farm incomes declined. The average real income of European farmers in 1988 was below the level of the mid-1970s. Also, about 80\% of all farm production is now in the hands of only 20\% of all farmers.\textsuperscript{13}

In relation to developing countries, the EC is also the largest importer but only the second most important exporter after the United States.\textsuperscript{14} However, this ranking is misleading because, for developing countries, EC imports of temperate zone products are almost zero and exports of tropical products have not increased enough to fill the gap. Evidently, because of its size and dominant role in world food markets, the EC can but only have a significant effect on all other countries also participating on world markets.\textsuperscript{15} Let us examine these effects more closely.
Economists disagree greatly on how the CAP affects world markets. However, one can observe an underlying consensus that the overall effects are negative (see Matthews [1985], Anderson and Tyers [1984], and Koester [1982]). According to Koester and Bale (1990) who reviewed the literature, economists arrive at different results when assessing the effects of the CAP because there are many policy variations within the CAP and numerous ways of measuring these. Economists in their studies, however, have produced estimates of the present effects of the CAP on world markets. They have also made estimates on the probable outcome of a liberalization of the CAP. The overall results, despite the differences, is that today's effects are negative because of low prices and instability, and that a liberalization would lead to a better trading environment for most trading parties. Let us examine some of the conclusions drawn on the effects of the CAP on world trade.

THE CAP AND LOW WORLD PRICES

Koester and Bale (1990) compare projections made by Matthews (1985), Anderson and Tyers (1984), and Koester (1982) and conclude that although the results differ significantly, they "... nevertheless confirm the CAP's depressing effect on world market prices." J. Rosenblatt et al. (1988) upon surveying the same
literature and more, also conclude among other things, that the CAP depresses world prices.\textsuperscript{17} Why is this so?

Low agricultural prices on world markets are largely due to EC surpluses because of the EC's important market share. We have seen in the previous chapter that the surpluses accumulated by the CAP are sold on world markets. This excess supply of agricultural products, according to the law of supply and demand, make prices fall. Thus, the EC, through the CAP, passes its excess supplies and the concomitant ill effects of low prices onto the international arena and does not suffer the consequences. This, coupled with a reduction in EC imports and a growing output in other parts of the world, has depressed world prices.\textsuperscript{18}

Here we see that the EC, with the CAP as its instrument, has protected itself from the depressing effects of its own accumulated surpluses and has transferred them to the larger world market. In so doing, the CAP complies with its stated objective of maintaining high earnings for farmers, but in the process greatly hampers exporting countries who need higher prices for their agricultural products. Here, we already begin to see that EC is violating Article 110 of the Treaty of Rome by not acting in the "common interest" of the international community or "contributing harmoniously to world trade". 
THE CAP AND INSTABILITY OF WORLD PRICES

Within the EC, we have seen that agricultural prices are quite stable. That is precisely why the intervention system was created: to stabilize prices. However, this does not mean that the original causes of price instability have disappeared. Agricultural output remains unstable because of the unpredictability of weather, pests, and diseases. This coupled with a stable consumption rate, leads to import and export fluctuations from year to year in several commodities. Thus, because of the EC's important role in world markets, any instability within its borders will destabilise the already inherently unstable world agricultural commodities market. This is highly undesirable for areas that are more dependent on food exports than the EC.\(^9\)

Koester and Bale point out that because EC exporters receive compensation for the difference in price between the domestic and world prices, they are not in any way interested in what goes on in the international arenas\(^9\). They therefore, have no incentive to stabilize world markets.

These economists also state that it is very likely that the instability on world markets caused by the EC trading patterns also has an effect on non-EC countries
and their trends in holdings of food stocks. The unpredictability of food prices projected onto the world markets by the CAP causes other countries to stock more food than necessary. This, in turn, creates an extra economic burden that poorer countries can ill afford at the best of times.

Here again we see, as we did with the downward pressure exerted on world agricultural prices by the CAP, that the price instability caused by the CAP also goes against the original objectives stipulated in article 110 of the Treaty of Rome. Causing unpredictable price fluctuations on agricultural commodities does not constitute "acting in the common interest" or contributing to the "harmonious development of world trade". It must be stated however, that the CAP has achieved part of Article 39 of the Treaty of Rome, namely, to stabilize prices within the EC. This unfortunately, has been carried out at the expense of many poorer developing countries.

CONCLUSION

In this chapter we have seen that because of its sheer size, the EC and its agricultural policy have an important effect on world trade. We have also seen that, although economists differ in methods and computations, there is an underlying
consensus in that the CAP has two important ill effects on the world agricultural markets. The CAP, because of its surpluses, causes world prices in agricultural products to be lower than they would be without it, economists estimate. The CAP also creates instability in international trade. Moreover, in my research of recent economic literature I did not come across any studies contradicting this trend. Finally, we observed the inconsistencies between the stated objectives in the Treaty of Rome and the practices carried out by the CAP today. Causing depressed markets and unstable prices does not contribute to the harmony of international trade.

Let us explore in the next chapter some details of the CAP’s impact on developing countries.
IV. THE CAP AND DEVELOPING COUNTRIES

In the previous chapter we saw that international trade suffered greatly from the effects of the CAP. These effects are depressed world prices and unstable markets. Although economists vary on the appropriate computations and modes of research, the general consensus among the specialists is that the overall effects of the CAP on world markets are negative.

The next step taken by economists is to estimate the effects on world trade if the CAP were to be liberalized. i.e., what would happen if, among other things, world prices for agricultural commodities were to increase? According to Koester and Bale’s review of the literature, welfare in net food-importing countries would be reduced and conversely in net food-exporting countries, welfare would be enhanced.21 This is due to the fact that with higher prices net food-exporting countries will increase their revenue, and the net food-importing countries will need to spend more in order to pay for the same amount of food.

Koester and Bale’s hypotheses are, today, being played out at the General Agreement on Tariffs and Trade (GATT) Uruguay Round of multilateral trade negotiations (MTN). It is possible to say that their findings are practically proved if we examine the issues being debated and by whom. The two country groupings
they refer to have taken form and are voicing the same issues they have debated. The net food-exporting countries (FECs) have merged into the Cairns Group and have presented demands for liberalization, and net food-importing countries (FICs) have come together and voiced their concern over any changes that might be made to the present state of affairs. FECs wish higher world prices to increase their export revenues, and FICs have come to depend on the present artificially low world prices.

**NET FOOD-EXPORTING COUNTRIES**

The group of net food-exporting countries is made up of a wide ranging set of nations. These countries have very different ideological, regional, and developmental perspectives. This group, known as the Cairns Group, was formed in August 1986 in Cairns, Queensland, Australia. It includes: Argentina, Australia, Brazil, Canada, Chile, Colombia, Fiji, Hungry, Indonesia, Malaysia, New Zealand, the Philippines, Thailand, and Uruguay. The Cairns group came about as a third alternative force to the United States and the EC in the GATT negotiations in the area of agriculture.
The Third World, because of its sheer size and diversity, could never put on a unified front when it came to negotiating with the large industrialized blocks. But in agriculture there arose a clear, common line of interest between the net food-exporting countries. Whereas previously solidarity had been sought on the basis of North-South alignments or levels of development, FECs found that the common denominator, at least for GATT negotiations, was agriculture and not geography. The important factor was whether a country was a net exporter or importer of agricultural products, not income per capita. Countries as different as Canada and Thailand found that they have one thing in common: they are competitive and export-oriented countries suffering from the illiberal trade practices of the EC (CAP) and the United States. Thus the "Cairns Group of Fair Trading Nations" was established. Also, the Latin American debtor countries joined the Cairns Group because servicing external debt required an expansion of sales in agricultural goods.\textsuperscript{22}

This group of net food-exporting countries aims at a "freer, nondiscriminatory, and more open trade regime for agriculture."\textsuperscript{23} This goal, in reference to the EC, has been hampered by the CAP's restrictive import regimes, and the growing competition from ever decreasing world prices due to CAP surpluses. The Cairns Group wishes to secure four important reforms: a) the reduction of tariffs and non-tariff barriers; b) the reduction of internal support measures; c) the phasing out of
present export subsidies and the prohibition of new ones; d) and analyzing
differential treatments according to the level of development and the needs of the
net food-importing countries. These reforms are designed to increase today's
depressed world agricultural prices and stabilize markets.

In sum, we have seen here that Koester and Bale's projections are correct. If
FECs request liberalization it must be because they will benefit from liberalization.
Koester and Bale's conclusions are being confirmed within the MTN taking place
at this writing. The Cairns Group was formed precisely to contest low world prices
and encourage liberalization.

In reference to article 110 of the Treaty of Rome, we see that indirectly, the
Cairns Group is holding CAP, and by extension the EC, accountable for it
hampering world trade. In asking for reform and liberalization, the Cairns Group
is in fact asking the CAP to comply with its original intention of acting in the
common interest and contributing to world trade. This is yet another factor
underscoring the inconsistency between the Treaty of Rome and the CAP's actions.

Let us at present examine if Koester and Bale's conclusions are also correct
regarding net food-importing countries.
NET FOOD-IMPORTING COUNTRIES

Net FICs (also known as the Food Importers’ Group), more loosely organized than the Cairns Group, have similarly rallied together under the aegis of GATT but not to demand liberalization of world agricultural prices. This group of over forty countries whose most important members include Egypt, Jamaica, Mexico, Morocco, Nigeria, and Peru with the associate membership of South Korea, the People’s Republic of China, and India, have become all the more vocal since trade liberalization became an important goal in GATT negotiations. Unlike the Cairns Group, they stand to lose a fair amount if CAP is liberalized and prices of agricultural products increase. Today, the FICs have come to depend on low prices for agricultural products on world markets. As Koester and Bale’s estimates state and the net FICs say in the MTN, their welfare will greatly suffer if the world trading system is liberalized. The FICs, therefore, request that preferential trade arrangements be set up in order to make up for the losses they will incur if trade in agriculture is liberalized as requested by the more powerful Cairns Group.25

It must be pointed out that several countries, in Africa for example, that have traditionally produced food mainly on a subsistence level or for domestic or regional markets, have become net importers of food precisely because of the low prices
brought about by the export subsidization of the CAP and the USA. It is much cheaper for the net FICs to import foodstuffs than to produce them locally. They have thus become dependent upon today's depressed world food markets. This has affected the development of the agricultural sector and been further compounded by rapid population growth and urbanization.26

It is estimated that in the long run, the net FICs will benefit from the elimination of food subsidies as these countries, with the increase in world prices, will be able to become food-exporting countries in temperate agricultural products. Although this cannot accurately be assessed, there are examples of countries such as Thailand that have successfully increased food exports and that could serve as models.27 However, in the short and medium term, they stand to suffer greatly. Grain prices would rise, consumption would fall, and hunger would increase. Poor rural and urban populations would be the worst affected. It is for this reason that the FICs (led by Jamaica), in the Uruguay Round, are requesting that they be temporarily exempted from the new liberalizing measures, if these are adopted. But is it appropriate to request protection at a time when the object of the exercise in MTN is to reduce protection? The answer is a partial yes and only for FICs.
Mr. Ransford Smith of the Embassy of Jamaica in Washington DC, writes that FICs do not oppose the general idea of a more liberal trading environment for agriculture. However, given the underdeveloped productive capacity of many FICs, these countries will not be able to take full advantage of increased export opportunities due to a liberalization of trade in the short and medium term. Some FICs will only face higher prices without the benefit of higher export opportunities. They will suffer from increased pressure on the balance of payments and debt repayment. Finally, the well-being of the poor whose food intake is already inadequate will suffer the most. Thus Mr. Smith recommends that together with the liberalization of trade in agriculture, some "off-setting" assistance be put into place for those FICs that would not benefit from this process in the short term.

This assistance, agreed upon by the FICs, could be of several kinds, such as: grant and concessional food aid; bilateral and multilateral financial assistance; and technical assistance to improve production and productivity in these countries. Moreover, the NICs emphasize that these measures, except for expanded market access, would be in place only temporarily. They further emphasize that these protective mechanisms would be linked to their respective agricultural reform processes.
The World Bank, however, in its 1986 World Development Report, advocates an across-the-board agricultural trade liberalization for industrialized and developing countries regardless of the consequences on food-importing countries. The World Bank does not endorse preferential trade agreements, even if they are only temporary, as they do not work. A World Bank official cited the Philippines as an example. The Philippines has had several temporary preferential trade agreements but it has never been able to adjust to world markets in the given amount of time.

Nonetheless, from a normative perspective, it is appropriate for FICs to ask for temporary protection as it was precisely for that reason that the CAP was originally set up. The founders of the CAP, moved by an inherent sense of social responsibility, set it up in order to protect farmers and improve their standard of living. In the case of the MTN, FICs too are entitled to protect their farmers and attempt to improve their standard of living. Only in the case of these countries, life is much more precarious. It is not a question of enhancing standards of living but rather of being able to afford food or not. Thus, it is appropriate for the FICs to appeal to the sense of social responsibility of its negotiating partners and ask for temporary protection. Moreover, in doing so, the EC will be in keeping with Article 110 of the Treaty of Rome. By temporarily protecting the FICs, it will be contributing "to the harmonious development of world trade". However, temporary
protection must be exactly that: temporary. Otherwise, a similar scenario will
develop -- overproduction, surpluses -- and the same problems the CAP is suffering
from now will resurface in other parts of the world.

Thus, here too we see, upon looking at the MTN taking place at the Uruguay
Round, that the demands being voiced by the net FICs coincide with Koester and
Bale's summary projections: net FICs will indeed suffer from a global trade
liberalization in agriculture.

FICs, unintentionally on the part of CAP, benefit from its surpluses. However,
although the Treaty of Rome did aspire to contributing to world trade, it did not
originally envisage helping a specific group of developing countries by causing, in
part, markets to destabilise and world prices to decline. Moreover, in the long run,
FICs would benefit more from higher prices and stable markets. Today's quirky
arrangement between FICs and the CAP's protectionist tendencies was not intended
in articles 39 or 110 of the Treaty of Rome.

CONCLUSION
Economists' projections are being confirmed by events taking place at the Uruguay Round. FECs have grouped together under the Cairns Group and are demanding trade liberalization as they will benefit from this. FICs have also come together and are demanding preferential agreements in the case of trade liberalization as they stand to lose from such a turn of events.

It is appropriate for the latter to request this as the EC did this to protect its farmers at its outset. The EC implemented a social policy and should therefore not be surprised to see it requested elsewhere. Let us at present examine the various preferential trade agreements between developing countries and the EC that are already in place.
V. THE LOME CONVENTION, FOOD AID, DEVELOPING COUNTRIES, AND THE CAP.

So far in the previous chapters we have seen that, overall, developing countries are suffering from the artificially low prices and instability of world agricultural markets caused by the CAP. Even the net food-importing countries that are benefitting today from the CAP, in the long run, stand to do better with a liberalization of international agricultural trade. The EC, however, claims that despite the CAP, it has "open markets to promote self-sustained development." By this, it refers to agreements such as the Lomé Convention.

The EC has several preferential trade agreements with developing countries, the most widely known is the Lomé Convention. Although not originally intended for this, the Lomé convention is used today to counteract criticism of the CAP. The EC also provides food aid to help developing countries; however, this has too often been used as a channel for disposing of food surpluses created by the CAP. Let us look at each of these in turn.
THE LOME CONVENTION

The Lomé Convention was signed in the capital of Togo, its namesake, in 1975. It first included 46 African, Caribbean, and Pacific (ACP) countries. This EC-ACP agreement was renewed and enlarged to 69 countries for the fourth time (Lomé IV) in December 1989. Its main features are: duty-free access to the Community market for practically all ACP exports; STABEX and SYSMIN, mechanisms guaranteeing export earnings from raw materials; and the European Development Fund which was set up in order to assist in rural development, industrialization, and economic infrastructure. Through mechanisms such as the Lomé convention, the EC states that it has "considerably improved developing countries' access to its markets." Is this really the case?

It is true that the STABEX compensatory finance scheme aimed at stabilizing export earnings for ACP countries has generous repayment provisions. For example in some cases the least developed countries repay nothing and in others, loans are interest free. The most prominent commodities in the scheme are cotton, sisal, coffee, cocoa, and groundnuts. STABEX has provided valuable assistance on several occasions. However, by protecting particular sectors, STABEX encourages excessive production in developing countries of the covered commodities. Also,
countries not receiving protection from STABEX are at a disadvantage and therefore might be forced to produce commodities in which they have less of a comparative advantage. STABEX has been slow to identify objectives and provide prompt repayments. The compensations vary from country to country and there are no discernible criteria based on need or ability to pay. Finally, all the products supported by STABEX except for cotton, are not covered by the CAP and so are not subject to protection anyway. Thus, for all the assistance it has provided, it can only be said that STABEX creates limited markets for developing countries.34

Particularly noteworthy and valuable to developing countries under the Lomé Convention is the access given to sugar markets by means of the Sugar Protocol. The EC has committed itself to taking an annual 1.3 million tonnes of raw sugar at the price given internally on the European market, that is to say at a higher price than on world markets. The Sugar Protocol thus transfers incomes to the developing countries. This, however, is problematic as the EC also produces sugar, exports massively, and thereby contributes to the low world sugar prices.

The EC also defends its policies by stating that having the largest share of total world farm imports shows that it has not cut itself off from the rest of the world.35 This is true only in part. We must bear in mind that a substantial proportion of
these imported products (tea, coffee, cocoa, tropical fruits, citrus fruit, and other fresh fruits and vegetables) are not produced in the Community but rather by ACP countries because they are mostly tropical products and not grown in a temperate climate. Thus the preferential treatment granted by the EC to ACP countries covers only products not produced in the EC temperate climate under the CAP and which do not pose a threat to its trade.

Furthermore, between 1973 and 1983, as we have already seen, the EC went from being a net importer to a net exporter of temperate zone products (wheat, sugar, beef, veal, butter) due to its subsidization process. This means that food-exporting countries of temperate agricultural products came into direct competition with the subsidized products of the EC. Thus, market access has become even more limited for food exporters and therefore brings into question the EC's claim that it has improved access to its markets for developing countries.36

In sum, we have seen that yes, the EC has mechanisms such as the Lomé Convention that promote trade between itself and the developing countries. However, it must be noted that the special provisions set up by the EC, though valuable to the ACP countries directly involved, only include non temperate agricultural products that are not covered by the CAP. It this were otherwise, i.e.,
if markets were available to a wider range of products, developing countries could benefit much more from these preferential trade agreements. Let us now turn to the delicate matter of food aid.

**FOOD AID**

The first type of food aid is used for budgetary support and is called *Programme food aid* (57% of total world food aid in 1984). Once a developing country sees that it cannot provide its own food or that it cannot finance it commercially, then it is deemed to require food aid. Of course, the more foreign exchange it spends on food the less it has for fuel, agricultural inputs, spare parts, tools, arms, or luxuries. However, when a country saves money through food aid, it does not always necessarily mean that the extra resources are going to go to the neediest and the poorest. Governments can sell the food and use the proceeds to meet government expenditures, or keep the food in order to feed civil servants, the police and/or the military.

There is also *project food aid* (28% of the total in 1984) which is mostly used to promote development. Irrigation, roads, and similar projects are financed by paying the local laborers in food instead of money.
Finally, *emergency food aid* (15% of the total in 1984) is used for short-term disasters, food shortages, and famines.\textsuperscript{37} The quantity of food aid is more closely related to the needs of donors than to those of recipients, however. "Donors have found food aid a convenient way of disposing of surplus stocks, particularly of milk products."\textsuperscript{38} This applies to the CAP surpluses as well as to those of the United States. It is highly unlikely that the needs of Third World development were the impetus for today's extensive food aid programmes.

Food aid if not properly monitored, can have some unwanted effects. Food aid can reduce the incentive for farmers to grow more and for governments to give a high priority to agriculture. Food aid can also lead to changes in dietary tastes that cannot be met locally (wheat and bread, for example). Consequently, scarce foreign exchange is used to buy imported food. Also, food aid consisting of temperate agricultural products, such as skimmed milk and butter, are often inappropriate for local requirements. Furthermore, food aid of dairy products is mostly received by middle and upper income urban populations and therefore does not benefit the poor. Food aid used for school meals does not reach the poorest as these children do not go to school or soon drop out.\textsuperscript{39}
Thus, food-importing countries, when requesting for food aid as compensatory assistance to trade liberalization, must do this carefully if they wish it to contribute to the development of the country. Food aid must be linked to well defined food production development strategies. It should contribute to the development of the agricultural sector and of course, help feed those who need it the most: those who do not now, and will not in the future, be able to afford the higher food prices caused by a liberalization of the CAP.

Fortunately, the EC is taking note of the ill effects of badly directed food aid and has taken a more developmental approach. Previously, food aid was considered to be part of agriculture and a means of disposing of surpluses but, today, it is being utilized more as an instrument for development.40

Examining the Lomé Convention and EC food aid from a normative perspective provides us with some interesting points. First, although the Lomé Convention and EC food aid have their shortcomings, the mere fact that the EC has set up institutions to aid developing countries, shows that the EC had the intention of acting responsibly toward its fellow countries members of the international community. Thus the EC has met the objectives of article 110 at least in the sense that it has tried to contribute to the harmony of world trade development.
Second, the fact that these aid mechanisms have not worked as well as intended, points to the problem that the EC itself is going through at present. The EC, as we will see, has had problems reconciling a social policy (farmers’ welfare) with its economic counterpart (agricultural protection). This is also the case on an international level. The EC’s intention is to aid developing countries but it has seen itself constrained to do so because of its own economic policies.

The Lomé Convention is not as effective as it could be because it mostly covers agricultural products not grown in the EC. And this is due to the fact that the EC is trying to protect its own farmers. Food aid has suffered because it has been used as a means of disposing of surpluses that are also a product of the EC economic policy to protect farmers. In sum, the EC has attempted to aid developing countries but has been too constrained by its own economic policies.

CONCLUSION

We have seen that the Lomé Convention and food aid are valuable to developing countries. However they are not as beneficial as the EC claims them to be when defending the CAP. Most food-exporting developing countries would benefit the most from greater access to EC markets of products protected by CAP,
and higher world prices. Normatively, the EC has the intention of promoting development but is too limited by its own economic policies. We are now ready to examine, in the next chapter, the possible reforms of CAP.
VI. REFORM OF THE CAP

We have seen that the EC views the Lomé Convention and food aid as a means of compensation to developing countries for the destabilizing and depressive effects of the CAP on world markets. This however, was not its original objective. We also observed that the EC has recognized that the way in which it has dispensed of food aid has been counterproductive. Consequently, the EC has tried to change the approach to food aid and now views it more as a tool for development as opposed to a means of disposing of surpluses. The EC has also recognized that the CAP needs to be reformed internally. Albeit not in the interest of developing countries, but it has attempted reform. Fortunately for most countries in the third world, any reform carried out by the EC for whatever reasons, -- internal or external -- will be beneficial to them even if only in the long run.

IMPETUS FOR CHANGE

The CAP has seen the need to reform mostly because of internal constraints. The CAP imposed, according to the OECD's latest report on agriculture, a total cost of $133.4 billion (approximately $400 per head) on EC consumers and taxpayers in 1990. The CAP's surpluses became a burden economically as storage and disposal became increasingly expensive with the growth of farm surpluses. Between
1975 and 1988, two thirds of the EC budget (some years more) were used for agricultural support. This has caused discontent in other EC sectors, such as manufacturing, that compete with the CAP for EC funds. This was further compounded by the fact that despite all the farm support, farm incomes declined. The average real income of European farmers in 1988 was below the level of the mid-1970s. This is due to the fact that, in 1987 for example, about half of the guarantee expenditure of the European Agricultural Guidance and Guarantee Fund (EAGGF)\(^{42}\) was spent on storage and disposal of surpluses. About forty percent went to export refunds. The remaining ten percent went to structural expenses such as improving processing and marketing of products; investment aid; and aid for training. This means that the main focus of the CAP was regulating prices, markets, and surpluses, rather than aiming to change the structure of the policy in order to prevent further surpluses from accumulating.\(^{43}\)

The environment has recently provided further impetus for reforming the CAP. Increasing awareness of the environment has had an impact on how agriculture is viewed. The environmentalists, also known as the Greens, are advocating less intensive production, fewer "agricultural factories", and more family-owned farms as these enhance the environment.
Finally, the EC has seen itself obliged to reform because of international pressure. In 1985 a veritable subsidy war was sparked between the United States and the EC in order to dispose of surpluses. The United States adopted an export promotion program to North Africa whereby it undercut the EC's export refunds. The only thing the EC could do was to grant higher refunds to its exporters and therefore increase the already extremely high export protection policy. We must point out that when the EC says it has succumbed to international pressure, it refers to pressure from the United States and not necessarily the developing countries.

In sum, the EC has admitted a need for reforming the CAP due to budgetary constraints, the environment, and international (United States) pressure.

FORMS OF CAP REFORM

When coming to the overview of CAP reforms, I cannot but quote Mr. Hill. "It has been observed that the CAP suffers two types of surpluses: one of commodities, the other of reform proposals." Indeed, the history of the CAP is riddled with a most wide ranging variety of reforms. I will briefly cover the most important ones based on a communication by the Commission to the Council of Ministers in February, 1991. It must be pointed out before going on, however, that
the approaches taken by each of these institutions are somewhat different. The Commission takes a broader view of issues concerning the EC. It is more concerned with the overall interests of the Community, whereas the Council of Ministers is more nationally oriented. The Council is concerned with protecting the interests of its farmers rather than those of the EC as a whole.

In 1985, on the basis of the "Green Paper" a wide debate on the CAP was launched by the Commission and several guidelines were adopted. First, to progressively reduce production in surplus sectors while taking into account income problems of small family farms more effectively; and second, to support agriculture in areas where it is indispensable from the point of view of regional development while maintaining a social balance and increasing awareness among farmers of environmental problems. It was decided by the Council of Ministers that this was to be carried out mainly through a price policy consisting of price reductions when the quantity produced exceeded a given threshold; increased participation of producers financing expenditure; and reducing guarantees provided by intervention. This, in turn, was to be carried out in conjunction with a reduction in volume of production by means of set asides, extensification, and pre-pension aids linked to non-utilization of land freed on retirement. Set asides require at least one fifth of a farmer's arable land to be taken out of production. The land can either lie fallow,
be planted with trees, or be used for non-agricultural purposes. Under an extensification scheme, the EC supports farmers who will reduce their output of surplus products. These measures, the Commission notes, were only partly effective as they were only applied to a limited extent. Also, surpluses continued to accumulate.

This, the Commission states, and as we have noted previously, is due to the fact that "...[the] policy has not involved ... fundamental reform of the CAP."47 The problem is that there still exists in the EAGGF, an incentive to greater production. In order for reform to be effective, measures such as direct aid and further extensification should be part of the market organization itself. In other words, more attention has to be paid to authentic restructuring as opposed to price juggling.

The Commission then sets forth further discussion on yet another proposal for reform. The new set of guidelines stipulates that a number of farmers with family farms must be kept on the land in order to preserve the environment and the traditional landscapes. Also, a growing emphasis must be put on farming for non-food uses. Rural development and devising other forms of economic activity through the structural fund must be promoted. Production must be controlled and
surpluses must be reduced, i.e., excesses need to be corrected. Direct aid measures to farms based on size, income, and regional situation, should be included in the reform, states the Commission.

Yes, the EC is trying to reform the CAP. However, so far, the reforms that have actually been put into place have tackled only symptoms, not the disease, and not without difficulty either. As the Commission states, genuine structural reform must be undertaken.

In terms of Article 39 of the Treaty of Rome, reform must be carried out as although some objectives have been met -- in some cases overly so -- others have not. Agricultural productivity has been increased, but to an excessive degree as we have seen. A fair standard of living has been reached, however, only for some farmers. As for markets, they have been stabilized internally, but not externally. International markets have become destabilized. Supplies have been assured, but they do not reach consumers at a reasonable price but rather at a higher price than they would without farm subsidies. Thus we see that the CAP needs to be reformed not only because of budgetary constraints and the like, but also to meet the stipulated objectives of Article 39 of the Treaty of Rome.
However, there is yet another reason why the CAP is in need of fundamental reform. We said in the first chapter that the EC, in Article 39, was putting forward a socially motivated policy of economic support for the disadvantaged farmers. This, it has turned out, is at the core of the EC's problems with the CAP. The EC has not been able to reconcile the social policy with its economic counterpart. The EC has discovered, through its budgetary constraints and surpluses, that these policies are not economically viable, or at least not in the manner that the EC has tried to carry them out. Most economists will agree that a social policy aiming to protect the welfare of farmers, can only be achieved by the distortion of economic forces, -- hence the surpluses, hence the need to reform.

However, upon reading the EC literature on reform, it has become evident to me that though the EC intends to reform, it will never completely lift agricultural protection. Its commitment to its farmers is firm. It will strive toward cost effectiveness, but will sacrifice some economic efficiency in the interest of its smaller farmers. We have seen in the stated objectives of reform that the Commission is aiming to protect small family-run farms, rather than the more efficient large "agro-factories".
In sum, the EC has acknowledged a need for reform but will not go as far as a total liberalization of farm support. We must now see whether any CAP reform has been proposed while taking into consideration developing countries.

CAP REFORM AND DEVELOPING COUNTRIES

The Commission goes as far as stating that "The Community must recognize the existence of international interdependence and accept its responsibilities as the leading world importer and second leading exporter." For developing countries this is a welcome statement but is not substantiated in the communication. The Commission, for example, does not mention an increase of market access for developing countries. Thus we can conclude that at best, the EC regards the consequences of the CAP and its reforms on developing countries as secondary. However, any changes are an improvement over the present situation as far as most developing countries are concerned.

There is one area in which CAP reform is directly juxtaposed to the demands of developing countries (the Cairns Group especially). This is the General Agreement on Tariffs and Trade (GATT). The present Uruguay Round came to a standstill precisely because of agriculture. On December 7, 1990 four years of
efforts to liberalize world trade came to a halt as talks broke down. The EC refused to meet the demands of the United States and other countries to carry out fundamental reform of the CAP as it was not "... given much in return." Japan and South Korea also refused to negotiate reductions in their subsidies and trade protection.

Two months later, on February 20, 1991, talks resumed again in Geneva as the EC had agreed to discuss farm support in the areas of internal assistance, border protection, and export subsidies. This was a welcome step forward for the Cairns Group and the United States for it means that at last the EC has made an outright commitment to reform. What remains to be determined is how much reform will be carried out and over what period of time. However, we must underscore at this point that the EC cannot be expected to reform alone. This has to be an international endeavour with all countries participating -- hence the importance of the GATT forum.

As for the food-exporting countries who stand to lose from CAP reform and a liberalization of agricultural trade, they might get the preferential treatment they are advocating. A report on "the CAP and developing countries" drawn up by the Committee on Development and Cooperation for the European Parliament, states
that the Community would, in case of a liberalization under GATT, favor differential treatment for developing countries.

In reference to Article 110 of the Treaty of Rome, the EC has only been able ". . . to contribute, in the common interest, to the harmonious development of world trade. . ." to a limited extent. This is due to the fact that its ambitious socially motivated economic protection programme for farmers has indirectly, through its surpluses, hampered world trade by depressing world prices and destabilising international markets.

In sum, if developing countries stand to effect changes in the CAP, it will be through a long and arduous process under the aegis of GATT.

CONCLUSION

In this chapter, we have seen that the underlying reasons for reform of the CAP on the part of the EC have been budgetary constraints, the environment, and international (United States) pressure. We have also seen that there has been no shortage of CAP reforms but that most have been too superficial in that the structural problems were not tackled. Furthermore, it was noted that we should
expect reform of the CAP but not a complete liberalization as the EC has made a conscious decision to forfeit some economic efficiency for the sake of the social well being of farmers. Finally, regarding developing countries, we have seen that they stand to best be heard in the Uruguay Round.
V. CONCLUSION

Our analysis of the European Communities' Common Agricultural Policy has brought us to the conclusion that the EC has been contending with an often cited quandary of political science: how to balance a well intentioned social policy with the harsh dictates of the economy.

The EC, in Articles 39 and 110 of the Treaty of Rome, laid out its intention to act socially responsible toward its farmers, and in the common interest of the international community. However, the distortions created by the CAP on the market forces of supply and demand had drastic repercussions for the EC itself and developing countries. Consequently, the objectives stipulated in Articles 39 and 110 of the Treaty of Rome were not met.

This shows us that social and economic policies are indeed hard to combine successfully. Developing countries should therefore take note of this when formulating their own development policies.
VII. ENDNOTES


3. EC Commission, 204.


7. Ibid., 73-74.


9. Ibid., 289.


12. Bureau of Agricultural Economics, 94.


15. Ibid., 95-97.
16. Ibid., 114.


19. Ibid., 83.


21. Ibid., 115.


24. Ibid., 613.

25. Cooper, 15.


27. Rosenblatt, 17.


32. Nugent, 223.

33. Commission, A CAP for the 90s, 42.


35. Commission, A CAP for the 90s, 37.

36. Bureau of Agricultural Economics, 144-145.

37. Moyes, 47.

38. The World Bank, 146.

39. Moyes, 43-44.


42. The EAGGF is a common fund set up in order to finance the EC agricultural policy. Costs are borne jointly by the member countries.

43. Commission, A CAP for the 90s, 53-54.

44. Hill, 119.


46. A policy paper on "The Perspectives for the Common Agricultural Policy" submitted by the Commission.

47. Ibid., 8.
48. Ibid., 11.


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