Europe:

Reform of Common Agricultural Policy generates bitter conflicts

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A weeklong series of meetings of European agriculture ministers ended in total disarray. They were trying to reach agreement on plans to slash billions from the European Union's Common Agricultural Policy budget, reduce protection for farmers from international trade and put agriculture on a more 'free market' basis.

Only a few measures were agreed. The meeting concluded with bitter recriminations between Germany and France, countries that for nearly 40 years have been the driving force behind the European project. The proposals will now be discussed at a meeting of European finance ministers on March 25.

The controversial Agenda 2000 reforms would cut the system of support for European producers of cereals, beef, dairy, tobacco and olive oil. If implemented, they would limit the growth of the Common Agricultural Policy (CAP) budget that presently accounts for about 50 percent of total EU spending of £65 billion. A free market would be established in these commodities. As well as cutting the cost of farm support, Agenda 2000 aims to give EU farmers access to the growing world market without incurring the wrath of the United States at the World Trade Organisation (WTO) talks this summer.

Another key consideration is the unsustainable cost of the CAP system of price support and market interventions to buy up farm surpluses if Eastern European countries join the EU. Poland, the Czech and Slovak Republics and Hungary are big agricultural producers. The expected annual cost to today's 15 members would be an extra £10 billion a year. It would mean at least an extra £4.8 billion annual bill for Germany.

Agenda 2000 extends the 1992 CAP reforms to a wider range of commodity sectors. There is general agreement among the European governments on this, but ministers are split on how it should be achieved and who should bear the cost. The proposals would:

• Freeze farm spending at £30.7 billion ($49.6 billion) a year between 2000 and 2006. France, Ireland and the Mediterranean economies oppose this.

• Cut guaranteed prices in line with world prices. Beef, cereals, and milk could come down by 30 percent. Ireland, Spain, small hill farmers in Wales and Scotland and France are opposed.

• Reduce direct payments to farmers to compensate for this loss of income year-on-year. While this is good news for the big commercial farmers, small farmers will be forced to increase production or go bankrupt.

• Make member states and the EU responsible to "co-finance" compensation until national governments bear 25 percent of costs. This would help Germany cut its £8 billion ($12.9 billion) net contribution to the EU, and is backed by the UK and all the countries that gain little from the CAP. France is the bitterest opponent because it is a net beneficiary from the 37-year-old CAP arrangements, to the tune of £2.5 billion.

• Limit the payments to the big farmers. The richest 4 percent of landowners currently get 80 percent of CAP cash.

• End the payments for "set aside" -- whereby farmers are paid not to plough their fields in order to keep production down. The big cereal growers would be able to increase production, while the small producers would be driven out of business. It would hurt farmers in the poorer countries and small farmers in Germany and Austria.

Governments and farmers are divided on almost every issue. These plans spell financial ruin for hundreds of thousands of small farmers, under conditions where unemployment in Europe is at an all time high.

This threat has precipitated huge social protests. Thousands of farmers from France and Italy and all over Europe converged on Brussels at the beginning of the talks to oppose the changes. In response, the Belgian authorities cordoned off a large part of Brussels and prevented farmers from entering the city. Roads and schools were closed. The government drafted in more than 5,000 police and even banned residents from hanging EU flags from their windows.

Belgium and Luxembourg sealed their borders and reintroduced security checks to delay thousands of farmers who had driven hundreds of miles in their tractors. Belgian farmers were told that they could not take their farm vehicles more than seven miles from their homes and foreign tractor drivers were corralled in car parks 25 miles from Brussels. Armoured vehicles and water cannon met farmers who did make it to Brussels.

Agriculture ministers were unable to agree on anything. The meetings are being chaired by Germany, which holds the rotating Presidency of Europe for the next few months and intends to use the opportunity to force through changes against France's opposition. So the insults flew.

Joschka Fischer, the German foreign minister, was denounced for his "amateurish" chairing of a meeting in Brussels. Then President Chirac of France said, "I have never seen such bad preparations for a summit, so little attempt to sound out other governments." The Germans responded by calling him "pompous". The French retaliated with one of the worst insults they could muster: that German demands for their money from the EU were reminiscent of Thatcher at her handbag-swinging worst.

As far as France is concerned, Germany has broken an unwritten rule of the Franco-German relationship by insisting on a policy that is contrary to French interests. In the past neither country would pursue a policy opposed by the other partner.

This latest fallout comes on top of two previous rows: over French nuclear testing in the south Pacific, and over who should head the European Central Bank. The present dispute is infinitely more serious and denotes a profound shift in political relationships.

In 1962, Charles de Gaulle of France and Konrad Adenauer of Germany struck a straightforward deal: France signed up to a free market and customs union that allowed German industry access to its lucrative markets, while Germany channelled subsidies to France's farmers via Brussels.

Until a few months ago, Germany was the arch opponent of farm reform. The sudden breakdown in relations follows the election of a Social Democratic-Green administration in Bonn less dependent upon farm votes than the previous government headed by Helmut Kohl's Christian Democrats and its sister party the CSU in Bavaria, home to many of Germany's small farms.

It is not simply that Chancellor Schröder believes Germany can no longer afford to subsidise French farmers. Germany's interests have begun to diverge from those of France in other ways. Whereas Germany and France were once equals, Germany is now indisputably the larger. Since reunification it has a population of 80 million, against France's 60 million, and an economy that is almost 30 percent bigger. With the opening up of the Eastern bloc countries, Germany is looking east for new markets and is far less willing to subsidise the French.

As Hans Stark, Secretary General of the Franco-German Committee of the French Institute for International Relations, said: "Like Paris, Bonn used to agree on things in the name of friendship and reconciliation. But that has all finished. It is a matter of importance because it concerns very large amounts of money. And if France and Germany do not agree, it puts the whole European Union in deadlock".

Agriculture is today a relatively small part of the EU economy. This indicates the enormous changes that have taken place in Europe over the last 50 years. However, the farming issue can still lead to deep splits and tensions because it was central to theEuropean project at its inception following World War Two.

In the 1930s, backward agriculture was protected from cheap imported food by tariffs. State intervention increased during the war. In its aftermath, national governments sought to overcome the devastation of the continent and secure adequate supplies of food by creating a comprehensive system of price controls and guarantees. Reconstruction in agriculture took much longer than in industry and shortages continued for many years, particularly in meat, fats, and sugar.

As a result, European agriculture remained backward. There were millions of family farms too small to provide productive employment unless they concentrated on some specialist crop or livestock. Things began to change in the early 1950s, with the more widespread application of technology. In the 15 years following the war, European agriculture underwent greater changes in the methods of production than in the whole of the preceding century. Much of agriculture went from being a cottage industry to an industrial operation.

By end of the 1950s, food production began to outstrip demand for the first time. In 1960, more than 20 percent of the workforce in the then 12 members of the European Economic Community (EEC--the precursor to the EU) were still employed on the land. Many farmers produced just the bare necessities, with only a small surplus for sale. Only Britain employed less than 4 percent of its workforce on the land. Today this figure is under 2 percent. Moreover, the expansion of European agriculture coincided with a huge growth in farm output in the US, leading to a fall in food prices. Faced with the need to maintain farm incomes, most European governments resorted to price and import controls.

The arrangements for agriculture were a crucial part of the EEC, set up under the 1962 Treaty of Rome. Since the EEC was based on the concept of a free movement of goods, labour and capital, to have left agriculture in the hands of national governments and excluded it from free trade within the EEC would have undermined the whole project. A compromise was reached. Europe's agricultural policy was to be based on the 1956 *Spaak Report.* This recognised the political importance of maintaining incomes for such a large section of the workforce. It also argued that special circumstances rendered the normal "market mechanisms" inoperable in the agricultural sector with its social structure based on the family farm; the need for the stability of supply; "market difficulties" stemming from the vagaries of the weather, the long-term nature of farming and the inability to rapidly bring supply into line with demand.

The solution proposed was a reactionary one: protectionism. This would support farmers through maintaining artificially high prices. There would be a single market for agricultural products and EEC preference meant granting European producers privileges at the expense of overseas suppliers. A common system of price support and import controls was set up that was so complicated it became synonymous with bureaucracy, mismanagement and fraud. This set the stage for a huge expansion of agricultural output that was to lead to the infamous meat and butter "mountains", wine "lakes" and the pouring of milk down drains. Agriculture took the largest slice of EEC spending, eating up two thirds of the entire budget before the 1992 reforms. Food prices in the shops were substantially higher than on the world markets.

By the late 1980s the number of people employed on the land had fallen to half or even a third of previous levels in nearly every Western European country due to the application of technology to agriculture and livestock rearing. Only in Greece, Spain, Portugal and Ireland, does agriculture still account for more than 10 percent of employment. This has led to the growth of large commercial farms alongside a declining number of small ones.

As Europe became a huge food exporter, this also led to increasing conflict with the US, Australia and New Zealand. Europe's gain was the US's loss. Disputes over agricultural products, a constant feature of the Uruguay Round of the GATT talks, have now spilled over into the World Trade Organisation.

The moves to reform the CAP have already produced serious conflicts between France and Germany. They will similarly do nothing to halt the growing antagonisms between Europe and other major agricultural producers, like the US, as multi-billion agribusiness fights for a share of the global food market.