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The Impact of Political Changes in Europe on Its Agricultural Policies*

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When the political map of Europe was abruptly changed at the end of 1989, the European Community (EC) was preoccupied with its own internal organization. Following a period of stagnation in the early 1980s, the EC had galvanized itself into a period of intense activity. At the heart of the new agenda was the plan to create by the end of 1992 the truly single market which the architects of the EC had always intended but never achieved. That program is well on the way to fulfillment but there will still be work to be done long after the end of 1992 to remove all obstacles to the free circulation of goods, capital, people and services throughout the whole EC. Once the 1992 program was on its way, the Community turned its attention to other long-standing sores and achieved some useful improvements in getting the Common Agricultural Policy (CAP) under better control and in relation to some of the inequities and inadequacies of its budgetary system. Flushed with these successes and eager for more, the EC Commission—encouraged by the European parliament and most of the member states—began to plan the next leap forward. This was to be no less than full economic and monetary union (EMU) and what were widely felt to be the necessary accompanying steps toward a political union (whatever that term turns out to mean).

Thus were borne the two intergovernmental conferences of the existing member governments—one on EMU and the other on political union—which are due to produce draft treaties which the heads of government can endorse, or argue about, at the European Council meeting in Holland next month. It seems likely though not certain that compromise deals will be struck on both subjects. Germany has made it clear that it will not agree to EMU unless there is agreement on political union. The broad outlines of the agreement on EMU are already clear. The Community will move fairly rapidly from its present position to a preparatory stage in which currencies are locked more closely together, the coordination of economic and budgetary policies will be more intense and some embryonic European central banking system will be set up. The Treaty will clearly envisage the eventual movement to a single currency—the ecu. The difficult part of the negotiation is determining the conditions for the move to the single currency: some countries do not want to go at the pace of the weakest economy, some countries do not want to be left behind, and Britain (because of its obsession with parliamentary sovereignty) wants to leave the final decision to a later British parliament. With a single currency goes a single European central bank but just how independent it will be of national governments is another contentious issue. It thus seems reasonably certain that Europe will have a single currency one day but not for some years.

The negotiations on political union are more complex, less advanced and the subject of many cross currents. At one extreme, Germany and Italy are keen to increase the powers of the European parliament and are ready to see the competence of the EC extended to other areas, notably foreign policy and security. At the other end of the spectrum stands Britain, which prefers to leave security questions with other European organizations, wants foreign policy to remain a matter of cooperation between the states, is not keen to extend the competence of the Community and opposes giving much more power to the European parliament. On some but by no means all of these issues France has the same attitude, but what is likely to determine the shape of the final outcome is what sort of deal the French and the Germans can strike. The Franco-German alliance has long been a potent force in determining the direction of EC policy.

UPHEAVAL IN THE REST OF EUROPE

Into the midst of all this intense internal activity has come the dramatic course of events in the Soviet

Union, the unification of Germany and the overthrow of the communist dictatorships in Central and Eastern Europe. The speed and unexpectedness of these events have left everyone reeling.

From the point of view of the EC, it was the collapse of the Berlin Wall which had the most immediate impact. Once it became clear that the East Germans wanted to unite with their West German brothers and sisters, the die was cast. As soon as the two parts of Germany became one, the former East Germany automatically became a part of the EC. Memories of the Second World War caused disquiet at the prospect of a strong and united Germany again but the German government was assiduous in assuring the other member states that Germany intended to remain a good Community partner. These political fears were also assuaged by the realization that the process of economic integration was going to be much more difficult and expensive than the first optimistic assessment. As a result, the German budgetary position has drastically worsened and the Deutsche mark has ceased to be the strongest currency in the EC. This has probably made agreement on EMU easier. The decision to join the two currencies at parity may have been politically necessary, but it has certainly rendered much of East Germany's industry uncompetitive. The process of industrial privatization has thereby been rendered more difficult. The process of transferring land to private ownership is also proving to be a tricky one. East German agriculture was historically very productive but under communist rule became inefficient and over-manned. The social desire to break up the large farms created by the communists is now doing battle inside Germany with the economic desire to avoid recreating the small-farm size which has made much of West German agriculture so inefficient. Eventually, Germany may find itself, like France, with an efficient agriculture in the North and a relatively inefficient agriculture in the South. What effect this will have on German policy toward the CAP is an interesting speculation.

The Soviet withdrawal from Central and Eastern Europe opened a veritable Pandora's box of fresh political, social and economic aspirations. Political pluralism and a free market economy became the order of the day. All looked toward the evident prosperity and technical advance of Western Europe as their new goal. Most have expressed a wish to become members of the EC. First in line come the three countries of Eastern Europe which are most advanced along the tricky path of conversion from a centrally-planned dictatorship to a democratically-run market economy—Poland, Hungary and Czechoslovakia. As a first step, they are currently negotiating special trade arrangements with the EC which have run into difficulty because of the EC's reluctance to concede adequate access for textiles and agriculture—the areas in which these countries have comparative advantage.

Still further off from eventual membership lie Bulgaria and Rumania, but the EC cannot be indifferent to the struggles they face in making the transition. In the Balkans, the withdrawal of Soviet hegemony has brought to the surface long-standing but suppressed ethnic and tribal rivalries. The current disintegration of Yugoslavia is the most obvious symptom, but one of the reasons that the EC has been so active in trying to secure peace has been the anxiety that the disputes will spill over into neighboring countries, including Greece, an EC member.

As a result of the break-up of the Soviet Union, some of the states geographically closest to Western Europe, like Georgia, Moldavia and even Armenia, may well seek to develop closer links with countries whose neighboring countries are or are likely to be EC members. There is even talk of an independent Ukraine, a country the size of France, possibly wanting to join the EC.

THE EUROPEAN ECONOMIC AREA

While all this turmoil has developed to the East, the EC has been dealing with its nearest neighbors, notably the members of the European Free Trade Area (EFTA). The EC has for some time had close trading relations with the EFTA countries but when one of them, Austria, decided to apply for full membership of the EC, the Commission proposed instead the creation of a European Economic Area (EEA) which would share with EFTA most if not all the economic characteristics of the EC without the political and institutional obligations of membership. Negotiations to that end have continued for some time but, not surprisingly, have run into difficulty. From the EC's point of view, it looked like a device to avoid or at least postpone the unwelcome question of further enlargement. To some EFTA countries, like Austria and now Sweden, it

looks a less attractive option to full membership. Even to Switzerland, which has always been most attracted by the commercial advantages of membership and most concerned lest its neutral position in Europe should be prejudiced, the attractions of the EEA now appear less evident. Norway cannot make up its mind whether it wants to apply for membership (again) or not. Other non-EFTA countries have applied to join the EC as well. In particular, Turkey's application has caused the EC some embarrassment, given on the one hand its strategic position in Europe and on the other hand its human rights record, its different cultural and religious background and its very low standard of living. The EC is likely to procrastinate.

EFTA or the EEA hold no attraction for the countries of Eastern Europe. They do not all want to embrace and certainly could not stand the competition from the free-market system personified by EFTA or the EEA. What they want most of all is political integration with the West, and that means membership in the EC however long it takes to get their economies into a fit state.

THE EC'S DILEMMA

Thus the momentous changes elsewhere in Europe have brought the EC to a crossroads. Despite the important differences among themselves, all 12 of the existing EC members are committed to a steady deepening of their already close economic and political relationships. That is their agenda. But there now is a growing queue of countries wishing to take up the EC's contractual commitment to allow any other European country to join their ranks. Once Greece and then Spain and Portugal had thrown off their undemocratic systems of government, they were welcomed into the EC despite their economic backwardness. That enlargement of the Community has been accommodated with remarkable ease. But the changes in the USSR and Eastern Europe are of quite a different order. The EC can no longer monopolize the term *Europe*. Instead the EC has to find a way to reconcile its old, sometimes introverted, preoccupation with West European integration with the challenge of political and economic reconstruction across the continent.

How that is to be done remains unclear. Should the existing EC members remain the `hard-core' of Europe, building around them concentric circles of countries with lesser ties? Can the decision-making processes of the EC be strengthened sufficiently to absorb a gradually increasing, perhaps substantially increasing, number of new member states? Where would it be reasonable to draw the line around an enlarged EC?

It is hardly surprising that the debate about these issues has hardly begun. There is uncertainty at every turn. While the Soviet military threat which constituted the Cold War has disappeared, there remain many potential trouble spots in and around Europe to make security issues of continuing concern. Europe's ability to react to an event like the Gulf War is the subject of serious debate. New-found political freedoms are not irreversible. The traumas involved in changing the economic systems in the ex-communist countries will certainly produce political instability as events in Rumania demonstrate. Economic distress or ethnic unrest may trigger massive movements of people. Migration is likely to be one of the major issues for Europe over the next decade.

THE IMPLICATIONS FOR EUROPEAN AGRICULTURE

The current proposals for reforming the CAP are only the latest in a long series of efforts to remove the perceived defects in the EC's agricultural policies. More radical than some of their predecessors, they would nevertheless leave the basic framework of the CAP intact. The Commission has felt constrained to put these ideas forward for three main reasons. First, public opinion in the EC has become increasingly critical of the CAP's evident weaknesses. It puts up the price of food. It creates surpluses which are unsalable except at knock-down prices. It swallows a disproportionate share of the EC's budget. It gives the EC a bad name internationally. And, in addition to all that, it fails to achieve its principal objective of maintaining farm incomes.

Second, concern over the environment has greatly changed attitudes toward agriculture. By many it is seen as a major polluter, destroyer of natural habitat and a despoiler of the countryside. As the awareness of the scale of the environmental problem has grown, and the pressure groups correspondingly have become

more influential, the power of the farming lobby has declined—though it still remains much stronger than agriculture's contribution to gross national product would ever suggest.

Third, comes international pressure. Changes to the CAP in the past have followed internal pressure and most attempts in the GATT (General Agreement on Tariffs and Trade) to discipline the CAP have been unsuccessful. In the Uruguay Round, it has been recognized from the outset that agriculture would play a dominant role. It may be doubted whether propaganda by the Australian Government addressed to the consumers of the EC will do more than irritate. But the realization by other important economic groupings in the EC is that their ability to secure the GATT reforms which they seek is being prejudiced by the EC's meagre response in the agriculture negotiations and is putting some pressure on EC governments. Nevertheless it remains likely that what Agriculture Ministers can decide among themselves will set the boundaries of the EC position in the GATT, rather than the other way round.

So far, the revolutions in Eastern Europe have served more as a break than a stimulus to CAP reform. Farmers fear that they will have to face new competition from Eastern Europe and are, therefore, more reluctant to see their government offer international concessions. This perception among farmers is unlikely to change, even though the threat of competition in their own markets may be less than the prospects for sales as the states of the Soviet Union and Eastern Europe improve their ability to pay for much needed food supplies. For the moment, food aid is bridging some of the gap between need and ability to pay.

The need to improve the efficiency of agriculture in the Soviet Union and in the newly-democratic countries of Central and Eastern Europe is self-evident. Agriculture can and probably should spearhead the necessary economic reconstruction. To do so it will need resources and access to markets, especially the EC market. How far the EC is prepared to help remains an open question. But these needs ought to be taken into account in the discussions about the future of the CAP. Up to now, they have not been.
