

# THE COMMON AGRICULTURAL POLICY BEYOND THE MACSHARRY REFORM

# C. FOLMER

Central Planning Bureau (CPB) The Hague, The Netherlands

# M.A. KEYZER M.D. MERBIS

Centre for World Food Studies, SOW-VU
Amsterdam, The Netherlands

### H.J.J. STOLWIJK

Central Planning Bureau (CPB)
The Hague, The Netherlands

### P.J.J. VEENENDAAL

Agricultural Economics Research Institute, LEI-DLO The Hague, The Netherlands



1995

ELSEVIER
Amsterdam – Lausanne – New York – Oxford – Shannon – Tokyo

# Contents

Chapter	1		1
Introduc	tion		1
1.1 Scope of the study			
1.2	Structur	re of the book	3
1.3	Limitati	ions of the study	5
1.4	Project	organisation and acknowledgements	6
Chantan	. 2		9
Chapter		any anarotian and proposals for its reform	9
		ory, operation and proposals for its reform	9
2.1		P: origins, objectives and principles	9
	2.1.1	Origins	
	2.1.2	Objectives of the CAP	11
	2.1.3	Principles of the CAP	13
2.2		ents of the CAP: market organization schemes and	
	structur	al measures	14
	2.2.1	Market organization schemes between 1968 and 1984	14
	2.2.2	Market organization schemes during the 1984-93	
		period	16
	2.2.3	Market organization schemes and the MacSharry	
		reform	17
	2.2.4	Monetary Compensatory Amounts	18
	2.2.5	Structural measures	23
2.3	The dynamics of the agricultural sector of the EU during the		
	1973-90	) period	25
	2.3.1	Production and value added	26
	2.3.2	Output of primary crops and livestock products	28
	2.3.3	Inputs	29
	2.3.4	Size and number of farms	35

		2.5.5	remis of trade with respect to the non-agricultural	
			sector	37
		2.3.6	Agricultural income	39
		2.3.7	The changing role on the world market	39
2	.4	The CAF	under siege	43
		2.4.1	Unfairness to non-farmers: budgetary and implicit	
			costs	44
		2.4.2	Misallocation of factors of production	48
		2.4.3	Product-tied support is ineffective and unfair	48
		2.4.4	The distorting effect on world markets	50
		2.4.5	The CAP and the pursuit of an internal market	51
		2.4.6	The administrative burden	52
		2.4.7	The effect on the environment	52
2	5	Four pers	spectives on reform and future of the CAP	53
		2.5.1	The free trade perspective	53
		2.5.2	The interventionist perspective	55
		2.5.3	The bureaucratic perspective	58
		2.5.4	A long term perspective	58
2	.6	Implicati	ons for the design of a policy model on EU	
		agricultu	re	59
Chapt	ter	<b>3</b> .		61
Welfa	re a	analysis o	f CAP reform: a stylized model	61
3	.1	A stylize	d version of ECAM	61
		3.1.1	Specification	62
		3.1.2	The Negishi-format	66
3	.2	Free trad	e	68
		3.2.1	The Welfare Theorems	69
		3.2.2	Welfare improving reforms	71
3	3.3	Intervent	ionism	71
		3.3.1	Price policies and quotas to avoid direct transfers	73
		3.3.2	Interventions to cope with external effects and	
		Ç	indivisibilities	78

	3.3.3	3 Imperfect competition	84
3.4	4 The	bureaucratic perspective	89
3.:	5 Con	sequences for the perspectives on reform	91
Chapte	er 4		95
_		ricultural model of the EU-9	95
	_	Applied general equilibrium modelling	
	4.1.		96
	4.1.2	The stylized model in algebraic form	97
	4.1.3	The Social Accounting Matrix (SAM)	99
	4.1.4	Parameter estimation and model validation	100
	4.1.	5 Model solution	102
4.	2 From	n stylized model to application	102
	4.2.	Agent and commodity classification	102
	4.2.2	2 The procedure for aggregation of physical quantities	108
	4.2.3	Green and budget ecus	109
	4.2.4	4 Consumption	110
	4.2.	Non-agricultural supply	112
	4.2.0	6 Agricultural supply	113
4.	3 The	The agricultural supply program	
•	4.3.	Primal and dual approaches	115
	4.3.2	A mixed primal-dual program for the crop sector	116
	4.3.	A program for the crop and the livestock sector	r
		combined	123
	4.3.4	The full program with land, labour and capital	130
	4.3.	5 Resource adjustment	132
4.	4 The	dynamic structure	135
4.	5 Exp	erience gained from ECAM	136
Annex	<b>4A</b>		141
Model		ion	14
4	4.1	The approach to validation	14
4/	4.2	Comparison of model outcomes with published statistics	142

Annex 4	В		153
Data and	parame	ters of ECAM: an overview	153
4B.	1 Ge	eneral outline	153
4B.2	2 Aş	agricultural supply	
	4B.2.1	Crop and livestock allocation	154
	4B.2.2	Yield trends	158
	4B.2.3	Land outflow	159
	4B.2.4	Agricultural investments	160
	4B.2.5	Occupational migration	165
4B.:	3 Fe	ed mix	167
4B.	4 Co	onsumer demand	172
4B.:	5 E2	xogenous variables	175
Chapter	5		179
CAP refe	orm in tl	ne bureaucratic perspective:	
the Mac	cSharry reform and the GATT agreement		179
5.1	The Ma	acSharry reform package: EU agriculture until 2005	√181
	5.1.1	Scenario assumptions	181
	5.1.2	Model outcomes for production, demand and extern	al
-		trade	188
	5.1.3	Protection and the budget	194
	5.1.4	Value added and employment in agriculture	198
	5.1.5	The MacSharry reform: an interim evaluation	200
5.2	What v	would have happened in the absence of the reform?	203
	5.2.1	Continuation of pre-MacSharry policies	203
	5.2.2	Model outcomes for production, demand and extern	al
		trade	204
•	5.2.3	Protection rates and the budget	208
	5.2.4	Value added and employment	209
	5.2.5	Consequences for economic welfare	211
•	5.2.6	Was the MacSharry reform necessary?	212
5.3	CAP re	form and the revised Blair House Agreement: compatib	le
	or not?		213

		5.3.1	Background and main elements of the agreement	213
		5.3.2	The effect of the AMS commitment	217
		5.3.3	The effect of the import and export commitments	217
		5.3.4	The effect of reduced border protection	221
		5.3.5	Practical implications of the GATT agreement	224
	5.4	The futur	re of EU agriculture under the bureaucratic perspective:	
		an assess	sment	229
ha	pter	6		231
Alte	rnati	ves: free t	rade or intervention?	231
	6.1	More fre	e trade: the decoupled MacSharry scenario	233
		6.1.1	Scenario description	233
		6.1.2	Scenario outcomes	237
		6.1.3	Comparison with other studies	244
		6.1.4	Unilateral versus multilateral trade liberalization	247
		6.1.5	The CAP from the free trade perspective: some	
			conclusions	249
	6.2	More int	erventionism: the cartel scenario	251
		6.2.1	Scenario description	252
		6.2.2	Scenario outcomes	255
		6.2.3	The CAP from the interventionist perspective: some	
			conclusions	263
	6.3	The CAF	P until 2005	264
		6.3.1	A summary of alternatives	264
		6.3.2	An assessment	266
	6.4	-	ntation: financial renationalization of the CAP	267
		6.4.1	Implicit transfers	270
		6.4.2	Financial consequences of renationalization	271
		6.4.3	Overall consequences	275
		6.4.4	The need for financial renationalization	277
	6.5	The CAI	P in the long term	2.78

Chapter	7		279
EU agric	agriculture in the long term: a future as an exporter?		
7.1	Backgr	ound for a long term scenario	279
7.2	Long to	erm prospects for world food supply and demand	282
7.3	The ag	ronomic and technological ceilings for EU agriculture	291
7.4	Restruc	cturing of the farm sector	295
7.5	A com	petitive EU entering the world market	302
	7.5.1	European agriculture towards 2020: scenario	
	<b>5.5.0</b>	specification	303
	7.5.2	Scenario outcomes: production and trade	305
	7.5.3	Producer subsidies and export refunds	311
	7.5.4	Real value added in the member states	312
	7.5.5	Agricultural production capacity	314
	7.5.6	The position of agriculture in the national economy	315
7.6	More 1	and used outside agriculture	318
	7.6.1	Scenario specification	318
	7.6.2	Scenario outcomes	319
7.7	Long r	un perspectives for agriculture in the EU-9: some tentative	<b>:</b>
	conclus	sions	322
Chapter	8		325
Summary	y and co	nclusions	325
Reference	ces		331
Index			341