CAP REFORM AND ENLARGEMENT - A GERMAN PERSPECTIVE

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ABSTRACT

The 1992 reform of the Common Agricultural Policy (CAP) has indicated a turning point at two levels; first, it became clear that the CAP was unable to withstand any longer the corrosive pressures of changing political and economic circumstances. Since the late 1980s the spotlight has swung away from agricultural issues as new policies undermined the CAP's unique position and competed for budgetary resources. Second, there has been a change in the agricultural policies environment of the Federal Republic of Germany which, by underwriting the MacSharry Reform, broke with long traditions, an action contradicting previously held and staunchly defended positions. It is the purpose of this paper to analyse the background of these dramatic changes in an attempt to assess the direction Germany's agricultural policy might take and the implications this might have for agricultural policy in the EU* as a whole.

*The term European Community (EC) has been largely used since the events described in this paper took place before the coming into force of the Treaty on European Union (EU).

INTRODUCTION

> 'We know that perceptions matter, that they inform and shape political decisions. Power, until tested in battle or crisis, is the perception of potentialtiy. F. Stern, Germany in a Semi- Gaullist Europe, **Foreign Affairs**, 1 1980, p. 869

The Federal Republic of Germany has a direct and significant stake in the maintenance and development of the European Integration process. It was through the European Community that Germany recovered its sovereignty, reconstructed its economy and regained international respectability. The Community has become the most important market for Germany's industrial produce: over 60% of all German exports are absorbed by the EU. Intra-Community trade is characterised by a high degree of liberalisation encouraging investment and growth and, underpinned by external protection, the EC has become a uniquely secure and reliable home market for German produce.

Germany's need for, and dependence on, international economic exchanges would seem to determine its position on a number of basic issues. Clearly, it would seem prudent for Germany to maintain a liberal trade policy, yet agricultural policy-making provide an exception to the rule and has been one of the curious characteristics of Germany's economic policies for over 120 years. Germany provides a vivid example of a country's single-minded pursuit of sectoral interests. Bonn's role in the evolution of the CAP has been significant beginning with demands for the adoption of a highly protectionist agricultural policy in the 1960s,[1] through to abrasive attempts to manipulate the domestic price level by the introduction and continuation of positive MCAs in the 1970s,[2] down to efforts to influence reform proposals in line with German needs in the 1980s.[3]

Thus the Federal Republic has to bear responsibility for the crises the CAP has generated during its turbulent life. On German insistence, the price support system became the hallmark of the CAP. Consequently, high producers' prices determined annually by the Council of Ministers and massive technological innovation in European agriculture stimulated production at a time when international and domestic demand was relatively stable. The EC, still a net importer of agricultural produce in the 1950s, became the largest exporter of key agricultural products. Unlimited market guarantees led to an explosive rise of costs and the CAP problem culminated in a budgetary crisis since it exposed the dominance of agricultural spending in the EC budget. As the CAP mechanism sharply reduced the need for imports of agricultural products in the Community, international conflicts emerged, as the US and the EC became the two leading contenders on the world's agricultural exports. External pressure to reform the CAP mounted and reached a climax in the GATT negotiations in the 1990s when the US and a group of agricultural exporters called for abandonment of a regulated market system for agriculture and a dismantling of export subsidies. Although this was not the first time that German sectoral interests had dominated its negotiating position, former conflicts had always been confined to the Community. However, for the first time Germany's agricultural policies had wider ramification. The US' demand to end the EC's subsidies met with hostility from the Community, above all Germany, a position which substantially contributed to the failure of GATT negotiations in 1990 thus threatening Germany's wider economic interests. It was at this stage that Germany was forced to consider a fundamental redirection of its agricultural policies which to some extent contradicted Germany's earlier and notoriously staunch opposition to changes in the CAP. However, even at that crucial stage, Germany only agreed to underwrite the MacSharry Reform package, after consensus had been reached on compensation payments for German farmers effected by the reform.

The German Paradox

The German position on agricultural policy is clearly somewhat of a paradox. Why should a highly industrialised, export orientated country like Germany which is dependent on the economic exchanges of goods, pursue a protectionist agricultural policy? Germany's share in world trade is extrordinarily high representing nearly 12% compared to France which is less than 7%.

One quarter of Germnany's GNP is exported in the forms of goods, making full employment largely dependent on the success of its export trade. Exports increased in 1996 (compared to the previous year) by 4.7% (imports by 3.4%). [4] Although Germany's positive trade balance had fallen as a result of unification in the early 1990s, it has increased since the mid-1990s i.e. from DM 85,3 billion 1995 to DM 90,5 billion in 1996. During the first half of 1996 Germany had the largest trade surplus in the European Union (extra and intra-EU) : ECU 24.1 billion, (well ahead of Italy ECU 14.4 billion, Sweden ECU 8 billion and the Netherlands ECU 7.7 billion). [5]

An the same time, Germany heavily depends on agricultural imports: no other country imports more food products and raw material. In 1995 Germany imported over DM 65 billion worth of agricultural goods and was the greatest agricultural importer ahead of Japan and the USA. At the same time, she is also the fourth largest exporter of agricultural goods, in 1995 she exported to the tune of DM 37 billion after the USA, the Netherlands and France. [6] These figures suggest that it is in the German interest to maintain a liberal trade policy, not only with the EC but worldwide.

The paradox in Germany's economic policies can be explained by a long tradition of agricultural protectionism which originated in the 1870s when, during an economic depression, Germany's powerful agricultural <u>elite</u>, the **Junkers**, demanded protective tariffs against cheaper imports. Ever since, the agricultural population in Germany has been able to capitalise on its electoral significance and has exerted considerable political clout, although this was not necessarily matched by structural strength. The importance given to price support as an instrument of securing producers incomes was crucial. It has been the central element of Germany's national agricultural policies for over 120 years. Moreover, an unusual consensus has existed in post-war Germany on the need to protect the rural sector. An analysis of the agro-political behaviour of German parties clearly reveal that agricultural support transcends party-political lines.[7] This explains the extraordinary continuity in Germany's agricultural policies irrespective of the prevailing party majority. The parties' approach to the rural sector is almost exclusively determined by domestic politics and/or the need of some parties to find common grounds with their coalition partners. Farmers therefore have played an important, at times decisive role in the delicate balance of Germany's postwar coalition governments.

The importance given to the rural sector is also reflected by the indifference of the German public to food prices and the reluctance of trade unions to take up interests of consumers. The proportion of income spend on food has steadily declined, i.e. for a family of four it has declined from 46.4% in 1950 to 15.9% in 1995. [8] With the exception of the lean post-war years, food prices have not been a political issue in Germany nor have they been an element in wage negotiations. The unions' prime objective is the safeguarding of places of employment, but this also includes jobs in food processing firms, in the distribution and packaging of food and in agricultural machine construction works. Consequently, German trade unions and agricultural producers have been locked in an unintential alliance even if this was at the expense of German consumers. In sum, strong forces all directed at the preservation and safeguarding of agricultural interests are deeply rooted and express a fundamental political conviction. 'In Germany, ... agricultural policy is not really a policy which truly represents the economic interests and the political weights of all groups of society in a very balanced manner. To put it bluntly, agricultural policy in west Germany has been made by farmers for farmers.'[9]

Germany and agricultural reform

The importance of the CAP as the cornerstone of European Integration, the electoral significance of farmers in some of the member states, the Community's ideological and political commitment towards its first and most integrated 'common ' policy, the vested interests the EC bureaucracy and pressure groups have in the CAP explain to some extent why the CAP proved remarkably immune to reform attempts. The EC's system was politically and administratively unable to respond to the changing economic and political environment and attempts to overhaul the CAP radically foundered in the face of resistance from some member states, Germany being the most vocal defender of the CAP's instruments. Some adjustments to market mechanism had been applied by the Community since the mid-1970s. However, despite these efforts CAP expenditure increased disproportionately, world market prices soared and inflation rose to historically high levels in most member states. Chronic budgetary problems triggered a process of reform which reached a peak in 1984. As the EC was threatened with bankrupctcy, Germany, too, recognised that the CAP had to adapt to economic reality. [10] However, alarmed that the policy might be subjected to drastic attempts of economic reforms, particularly price reductions, Bonn successfully controlled corrective measures.

There were essentially two alternatives to deal with the overproduction : the dismantling of the price support system or quantitative control on production. Germany's agricultural minister, Ignaz Kiechle, deliberately and vigorously pushed for a quota system in the dairy sector, despite the fact that trade and industrial organisations and even sections of some parties had voiced, if not opposition, very serious reservations to these measures. While the system would imply penalities for those farms overshooting the quotas, Kiechle had secured the support of the farm lobby for the system as a trade off for a promise to secure higher prices. Indeed, not only did he convince his own farm lobby, but he was also successful in influencing both the Commission and other member states as to the desirability of the system.[11] Thus, in an attempt to resist cuts in institutional prices at all costs, German efforts focussed on quantitative control of production, a trend which was continued to the next round of reform discussions in 1987-1988.

Despite the introduction of the quota system in the dairy sector in 1984, CAP expenditure continued to rise and by 1987 an acute financial crisis emerged once again. Pressure for a more comprehensive reform was mounting after a budget shortfall for

1987 had been estimated. Two abortive attempts at the European Council meetings at Brussels and Copenhagen in June and December 1987 had not led to any solutions due to Chancellor Kohl's categorical refusal to accept price cuts in agricultural prices. It was at this stage that Germany which was to take over the presidency of the Council in January 1988 called for a 'crisis summit meeting' which took place on 11-12 February 1988.

The main elements of the package included the introduction of a guaranteed threshold system whereby automatic penalties for over production were ensured for a number of surplus crop products, especially cereals and oilseeds (stabilisers) thus continuing the trend which had started in 1984 in the milk sector. However, Germany had been successful in watering down the production limit on cereals and had pressed for an agreement on an annual production threshold of 160 m tonnes for cereals and not 155 million tonnes as originally proposed by the Commission. Despite fierce opposition from the Netherlands and Britain[12] the German compromise package centering on an EC creals production target of 160 m tonnes found acceptance by the majority of member states.[13]

Thus in an attempt to resist a decrease in institutional prices, the FRG not only agreed to, but pressed for measures which would leave reasonable scope for increases in prices during annual farm price reviews. While the focus of Germany's traditional agricultural policy had always been the price level, under pressure Germany nevertheless succeeded in creating conditions which provided for an 'active price policy'.[14]

The publicity which surrounded the reform package of 1988 led to the assumption that something momentous and irreversible had happened in terms of agricultural reform. However, on closer scrutiny of the effectiveness of the measures implemented revealed that little more than a cosmetic adjustment of the CAP had been reached. The Community, under German pressure, had settled on short-term remedies which, while temporarily concealing the symptoms of the CAP malaise, perpetuated its underlying problems.

The MacSharry Reform

In view of the above, it is surprising that Germany, in 1992, took up a different and seemingly contradictory position than that of previous decades. The new German position was not sudden, but changed gradually and shifted as reform demands became more and more entangled with international trade issues.

Officially, the reform was tabled in response to internal difficulties over the CAP, in particular its costs. However, the reform negotiations took place against the background of the GATT negotiations which had started in 1986 and which became deadlocked at the end of 1990 over the issue of reductions in agricultural subsidies. The US and Cairns group of 14 agricultural exporting countries had called for a radical reduction in agricultural support, demanding a cut in EC farm subsidies of between 75%-90%, a course which the Community resolutely rejected, Germany and France being the most vocal contesters. Only after protracted negotiations did the Community show a willingness to reduce some of its protectionism. But views differed greatly on the extent to which subsidies should be reduced. Germany, facing its first general election following unification in October 1990, came out strongly against the US demand and, in deference to the important rural vote, took a restrictive stance in GATT negotiations. If anything, the German position hardened during subsequent months. Attempts to work out a compromise by the Council were vetoed or blocked by the Federal Republic.

The internal pressure on the CAP, in the form of the MacSharry reform plan, the external pressure from international trading conflicts, both of which came to a head in early 1992, caused a serious dilemma for Bonn. As a signifcant export country, the second largest in the world, Germany had a vital interest in the liberalisation of world trade and, by implication, in the success of a GATT package. For several months the German government wrestled with the clash resulting from these conflicting goals and remained relatively impervious to internal and external pressures. However, the turning point in the German position clearly had been the enconomic summit meeting of the Group of Seven (G-7) in London in July 1991. Two previous G7 summits had made a commitment to resolve the farm trade problem but with no effect and further failure would be an embarrassment for Germany who was to host the following G7 summit in July 1992 in Munich. [15]

In the meantime the Commissioner for Agriculture, Ray MacSharry, in July 1991, had tabled the first version of the CAP reform which is ususally hailed as the most fundamental reform since it tackled the concept of 'decoupling' payments that is to say to separate market policies from income policies for farmers. The reform included alarming price cuts for cereals of 35%. Thus faced with the compelling demand to reform the CAP, Chancellor Kohl instructed his farm minister, Kiechle, to study the Commission proposal and work out a formula acceptable to Bonn. During a special cabinet session on 9 October 1991 a compromise was worked out on the CAP. Despite strong reservations, particularly from the Minister for Economics, Kiechle was given a promise that, whatever price reductions had to be agreed to, these would be compensated for by a 'package of measures' (a concept which originated in the Ministry of Agriculture) [16]. The fact that Bonn was ready to consider price cuts, was clearly a novelty obviously due to the influence of GATT and in response to international criticism.

The CAP reform debate eventually came to a conclusion in a marathon session of agricultural ministers that started on 18 May 1992. During the previous 18 months and through 16 Council sessions, the ministers had moved from unanimous opposition to the Commission's proposal to a search for a compromise based on the original MacSharry reform plan of July 1991. After intensive debates, approval for a radical overhaul of the CAP was reached. As stated above, the MacSharry plan provided for a break in the link between price support and production. According to the Commission, it represented the 'most fundamental reshaping of the CAP since its inception 30 years ago.' [17] The eventual compromise involved a price reduction of 29% for cereals and compulsory set asides of arable land. Although the price cut was higher than the German government had wanted, there was satisfaction with the compensations that had been negotiated which included subsidies for set asides for all farmers and the extension of the milk quota system until the year 2000. [18] In an attempt to limit the implications of the reform, Kiechle had insisted that compensation payments would have to continue indefinitely to make up for drastic cuts in prices. This concession indicated that the reform was less of a turning point than originally perceived by most observers.

Nevertheless, the reform of May 1992 changed the conditions and framework for the operation of the CAP: The CAP has progressed from unlimited support through a virtual price freeze and quantitative controls on production to the MacSharry reform which broke for the first time the European tradition of high levels of price support. The compensations agreed set in train the process of separating subsidies from prices. Nevertheless, the CAP remains one of the world's strongest bastions of protection, still absorbs some 50% of the common budget (in 1996: 47.19%)[19] and its basic principles and institutional framework for decision-making have survived virtually unscathed.

The reform also indicated a change in the German environment: for the first time Kiechle had resisted the powerful domestic lobby who demanded that he veto the price package as he had done in 1985.[20] Ever since the early 1980s,[21] when direct income transfers had been a popular topic among agro-economists, compensatory payments for price reductions had been regarded as 'administrative infeasible, politically unsustainable and - since they cast farmers in the role of welfare recipients - demeaning.' [22] The reversal in German policies had been clearly observed by the international press when the Financial Times argued that GATT talks were 'revitalised' following a 'reversal of German policies by Chancellor Helmut Kohl' and that 'hope for a breakthrough on agriculture rested on the recent change of policy by Germany towards internal EC farm price reforms'.[23] Under Kohl's influence of priority, and in an attempt to secure a successful completion of the GATT Round, the German cabinet had been isntructed by the Chancellor to work out an acceptable reform package on agriculture. [24]

There were several reasons for the radical change in the agricultural policy environment in Germany:

First, there was a breakdown of consensus on agricultural policy. The conflict with the US drew other players on stage who then exerted pressure to reform. Traditionally, there had been a close alliance beweeen industry and agrarian interests, orginally cemented by Bismark. In fact, there had been almost a conspiracy by the government, political parties and industry against any possible backlash from consumers associations against the CAP and agricultural policies. This alliance now appeared to have broken down. Germany for the first time faced serious resistance to its agricultural policy from industrial and economic circles. The industrial sector accounts for over 90% of Germany's exports. The Federation of German Industry (BDI) is the umbrella organisation of 34 industrial groups and its overriding concern is a liberal trade policy. Already in 1987 the Federation had come out, though cautiously, in favour of agricultural reform. [25] With GATT negotiations at stake, the BDI began to exert pressure on the federal government and especially the Chancellor by urging him to use his power and authority on his EC partners who might still be hesitant to meet US demands. The organisation warned of 'devastating economic effects on the national economy which derives 32% of income from exports'. [26] The presidents of the six economic research institutions in Germany put him under similar pressure warning of a renewed period of protectionism, reminiscent of the 193Os.[27]

The BDI found support from the FDP controlled Economics Ministry which traditionally had urged a market-orientated reform course and had articulated a strong interest in liberalising world trade. Kohl had been put under increasing pressure from his junior coalition partner, the chairman of which after his return from Washington in February 1991, had warned that 'if the GATT fails, you will be identified as the one who is to blame.' The ministry had estimated that a reduction of Germany's exports by only 2% would result in 1 million unemployed. [28]

Second, the power of the farm lobby, the Deutsche Bauernverband (DBV) has declined as the result of structural changes. No longer the sole representive of farm interests, the DBV has to compete with a number of alternative farm unions which had emerged in the early 1980s and which had combined in an opposition group (Dachverband der Deutschen Agraropposition e.V. (DDA) [29] At the same time reunification has changed the structure of German agriculture. There are now 555.000 farms of different sizes (of 5.000 former East German large agricultural plants 30.000 private farms have emerged). German policy-makers are confronting a different clientele: the traditional small and structurally disadvantaged farmer in Germany's South and West and the larger operators in the new Lander. East German farms are considerably larger and no longer represent the typical family farm which used to be the leitmotiv for German agricultural policy. In addition financial strains have emerged as the result of unification, recession and a low growth rate (the latter was 2.1% in 1995). Between 1990 and 1995 the German government invested over DM 17 billion in the new Lander.[30] Financial strains of unification make Germany even more dependent on a stable world trading order.

Third, in keeping with the new climate in the agricultural sector, a new minister of Agriculture took over in 1993, Jochen Borchert (CDU) who, within weeks of taking office, declared that farmers were encouraged to become entrepreneurs. Borchert has stressed the importance of a competitive farm sector in Germany. In fact, he boldly stated that 'the EU with its reform of 1992 has given a clear support for a liberal world trade. Without any question, this is supported by Germany' [31] a remark which borders on what is politically acceptable even in Germany's new changing agricultural climate. [32] Having said this, however, Borchert is very much confined by both, the prevailing political reality in Germany and by his party as well as by his Chancellor who will be standing once again in the next general election.[33] The Chancellor's Christian Democratic Union party has a traditional rural constituency. In Germany's federal elections since 1953 the CDU/CSU has polled nearly 80% of the farm vote.[34]

Post MacSharry Reform Challenges

Present challenges to the Federal Republic are presented at two levels:

1) ENLARGEMENT

The EU has received applications for membership from the three Mediterranean countries of Cyprus, Malta and Turkey (although Malta's application has been frozen) and ten central and eastern European (CEEC) countries. With the latter ten countries, Association Agreements known as Europe Agreements have been successfully concluded. These agreements build upon the foundations laid by Trade and Economic Cooperation Agreements, which were concluded in the wake of economic and political reform. Following an agreement in principle at the summit meeting in Copenhagen in June 1993 the heads of governments and state at the Essen summit in December 1994 decided to admit the central and eastern European countries to the Community although no time-table had been agreed.

This is a particular challenge for the EU since the countries from central and eastern Europe are economically less developed than the EU member states. In response to this challenge a twofold strategy is needed: first, the applicant countries must undergo reforms to enable them to meet obligations of membership; second, the EU must implement institutional and policy reforms to enable it to function effectively when its membership increases to 27 countries. These issues are tackled at the Intergovernmental Conference (IGC) which has the aim to review the Maastricht Treaty. While applications for membership are not being directly considered at the IGC, the issues raised by enlargement will have to be resolved before future accessions can take place. Negotiations to that effect are to begin six months after the conclusion of the IGC.

The economic effects of enlargement will be large. With a combined population of 106 million and an area of 1.1 million square km, the CEEC represent 29% of the population and 33% of the area of the EU. Agriculture is important in most of the applicants, accounting between 3.3% of GDP in the Czech Republic to 20% of GDP in Rumania and contributes an overall average of 7.8% of GDP and 26.7% of employment compared with the EU average of 2.5% and 5.7% respectively. [35] The 10 applicant countries would double the number of farmers working in agriculture adding a staggering 10 million farmers to the current EU's 8.2 million.

The future of the CAP, therefore, although not officially on the IGC agenda, is nevertheless a central policy area if enlargement is to go ahead. In fact, the Essen summit had viewed agricultural issues as 'a key element of the pre-accession strategy for the EU' and had asked the Commission to prepare a report on alternative strategies for the development of relations in the field of agiculture. [36] The Commission duly presented its 'Study on alternative strategies for the development of relations in the field of agriculture between the EU and the associated countries with a view to future accession of these countries' in December 1995. The paper investigated three scenarios: a radical reform (immediate realignment to world market prices), continuation of the status quo and further reduction to reduce so-called EU preference, i.e. a gradual realignment to world markets.

For Germany eastward enlargement is 'a strategic imperative.' [37] This position has its roots in an ideologically based concept of a free Europe and a democratic social order. It is felt that the CEEC countries have made a difficult transition from dictatorship to democracy and, by geographical proximity and historical heritage, are strongly interwoven with the political future of the EU. In terms of agriculture, however, the Federal Republic feels that the implications of enlargement might be over-emphasised. First, it is unlikely that these states would be joining before 2002 nor is it expected that these countries would become great competitors for present member states in this sector. Second, the new applicants are also expected to make efforts to meet membership conditions. [38] Reacting to the Commission's strategy paper Borchert, the Minister of Agriculture, pointed out that the MacSharry Reform had demanded considerable concessions on German side. Eastern Enlargement was 'politically necessary' and agricultural policy would have a major role, however, sacrifices had to be made by the applicant countries. In sum: the implication of enlargement on agriculture is not (yet) an issue: Germany is simply playing for time.

Far more important in this context is the amount of funding these countries may require from the regional and structrual funds. Germany contributes over 30% to the common budget (France 18%)[39] and is the largest net payer to the agricultural budget. It is estimated that Germany's contribution to the common budget which in 1996 was DM 41.9 billion would rise by the year 2000 to DM 52.1 billion. [40] These contributions are not high in terms of Germany's total expenditure, but rising net contribution to the Community have become an acute problem in the context of the costs of German Unification, slower growth and further enlargement to include countries with lower economic performance. From that point of view enlargement does pose a problem for the Republic of Germany.

2) THE WTO NEGOTIATIONS

Of potentially much more importance to Germany are the forthcoming W.T.O (formerly GATT) negotiations. Three years have passed since the implementation of the MacSharry Reform which according to Germany introduced a 'fundamentally new orientation into agricultural policies' [41] The W.T.O have continued its work and membership has enlarged to 129, although negotiations on agriculture will not begin in earnest before 1999. It seems to be accepted however, [42] that the the CAP will be put under further pressure when the next round of negotiations starts in 1999. The basis for discussions would build on the 1992 MacSharry Reform: a gradual reduction of prices encouraging EU farmers to compete succesfully in world trade, i.e. constraints on subsidied exports would continue and gradually EU prices would be aligned to world market prices. Price support would give way to direct income aids, while compensations as part of the 1992 MacSharry deal would not continue indefinitely.

This scenario is, at present, not accepted by the Federal Republic, whose position rests on two important principal income elements: to maintain a price support system (even if this has to be reduced) with compensatory subsidies for all farmers and external protection. The question remains whether Germany will be successful in her objectives at the forthcoming W.T.O negotiations and whether the EU will be able to continue with a costly farm policy. Current programming of the EU structural funds will expire at the end of 1999 and a radical reform is being considered in the light of the upcoming enlargement and the need to renew the EU's budgetary perspectives in the year 2000.[43]

CONCLUSION

The above analysis clearly shows that reform of the CAP has been only possible when agricultural policy came into conflict with other overriding German interests, both in 1984 and 1988, when the financial, structural and institutional capability of the European Communmity - a paramount concern for all postwar German governments - was at stake and in the early 1990s when the GATT round was jeopardised and hence German economic interests were threatened. Adaptation of the CAP to the new political and economic constellation in the new post cold-war Europe is imperative: because eastward enlargement is a politically motivated goal of the Federal Republic, Germany is facing an agonising decision between the strategic desirability of eastward enlargement and the financial and economic sacrifices which would be the result of the incorporation of the applicants' weaker economies into the EU. Can the Federal Republic continue to convince its people that further development of the integration process requires additional resources and short-term sacrifices? The key question is how far the financial outlay required might be compatible with the FRG's overall objectives in its approach to eastward enlargement, namely, its desire to safeguard liberal democracy and economic stability in Eastern Europe.

Germany will continue in attempts to protect her farming population from economic pressure, but at the same time, she will carefully balance sectoral interests in agriculture with other, perhaps overriding needs. The forthcoming W.T.O. negotiations are in this context of vital significance for Germany's continued economic prosperity. All postwar German governments have shown a deep faith in material wealth as the guarantor of social stability and a strong force against anti-democratic groups. Haunted by the spectre of its past, postwar German governments have believed that the FRG's much acclaimed political stability was based very largely on economic security.

Post-unification Germany might feel less threatened by anti-democratic forces and be less vulnerable to international scrutiny. However, even a united Germany, the economic powerhouse of the EU and leading member in the network of European and international organisations, has a paramount interest in political and economic stability and in achieving the highest possible level of properity and trade. In future Germany will carefully balance whether agricultural policies are in line with her overall economic and political strategies. Chancellor Kohl might have learnt from past experiences that both the EU integration process as well as international relations can no longer be sacrificed to sectoral (agricultural) interests.

ENDNOTES

1.See Gisela Hendriks (1991) *Germany and European Integration: The Common Agricultural Policy an Area of Conflict* pp 41-56

2. The breakdown of the Bretton Woods agreement following currrency fluctuations in the 1970s resulted in the introduction of agri-technical measures (Monetary Compensatory Amounts (MCAs). In countries with depreciating currencies, MCAs act as an import subsidy and export tax (negative MCAs), in strong currency countries MCAs act as an export subsidy and import levy to keep prices above the common price level (positive MCAs). MCAs therefore insulated the domestic price level from the impact of national currrency changes and, in the case of Germany have kept it between 5-15% above that of the common price level.
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20.for details see Gisela Hendriks (1991) op. cit.

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22.S. von Cramon-Taubadel op. cit. p. 395

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38.<u>Handelsblatt</u>, 1.12.96 p.9

39.<u>Finanzbericht</u> 1997 op. cit. p. 52

40.<u>Finanzbericht</u> ibid.

41. Agrarbericht 1997 op.cit. p. 81

42. <u>Interview</u> German Embassy 7th May 1997

43.Europe (Agence International) No. 6948 5 April 1997 p.7