The Role of Germany in the Common Agricultural Policy
U. Koester, Kiel

Introduction

At the time of its birth, the European Union’s Common Agricultural Policy (CAP) was supposed to be a major engine of European market integration. There was a widely held hope that positive integration in agriculture would force other sectors to follow the same route. However, expectations have not materialized. The annual price negotiations for agricultural products made evident the divergence in the national interests of EU Member States. Decisions were dominated by compromises between member countries rather than EU-wide interests.

The aim of this chapter is to highlight the German influence on the birth and evolution of the CAP. The chapter starts with a stylized decision-making model which provides structure for the of the subsequent analysis. To understand policy formation in the EU, as in any other country, one must analyze the political market. The influence of a member country can only be exceptional if its domestic political market differs from that in other countries, and if the institutional framework of decision making on the EU level allows for pursuing a particular national interest. Hence, a short section will explore the specifics of the German political market for agricultural protection. The chapter is based on the perception that policies are highly path dependent, and that from the start the CAP mirrored specific national interests. It will be shown how German policy makers managed to shape the CAP in their interests. The main sections of the chapter analyze how Germany could influence major changes in the CAP. It is argued in the last section that the attitude of the present German government and prevailing external pressures (WTO, eastward enlargement) will likely reduce Germany’s influence on further evolution of the CAP.

A Model of the Decision-making Process

Prescriptive policy decision models assume that policy makers try to maximize a well-defined objective function taking economic conditions as a given (Streit, 1991, 316). It would follow that policies change because objectives and/or economic condi-

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1 The author acknowledges helpful comments by S. Tangermann, C. Weiss, and B. Brümmer.
tions change. This prescriptive decision-making model does not reflect reality in a reasonable way, particularly as it does not take into account that present choices greatly depend on past decisions. In actuality there is a certain degree of path dependency in policies (Figure 1). Path dependency explains why economic policies change only gradually over time, ‘ratcheting’ their effects, unless significant shocks in the economic environment force massive adjustments (like the Great Depression in the 1930s).

Figure 1:

Following this basic idea, the status quo of a given set of policies determines the policy decisions in the next period. This assumption is in contrast to the prescriptive policy approach where policy makers are seen as newly born in each period and not bound by past decisions or conditions on the political market. According to the underlying assumption in this

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2 The more recent term European Union (EU) will be used throughout this chapter even if reference is made to historical periods when the terms European Economic Community or European Community were in use.
chapter, the specific economic and political environment at the birth of the CAP affects the evolution of the policy in the following years and also determines the influence of member countries. Hence, if one wants to identify the national influence of a specific member country, it is worthwhile to first investigate what influence this member country had on the design of the CAP at the time of its inception. This approach seems of special interest if the country under consideration, Germany, was one of the founding members of the European Community. Second, it is worthwhile to consider those EU institutions and organizations which may have allowed individual countries to exert special influence on decisions. Third, it may be of interest to determine characteristics of a country which may lead to a special interest in EU policy making.

In searching for answers to these questions, special emphasis will be put on the effects of institutions and organizations. These two terms are used according to the definition of North (1996): institutions are the rules of the game which constrain the behavior of agents and make their actions predictable; organizations are groups of individuals bound by some common purpose to achieve objectives.

**The Specifics of the German Political Market for Agricultural Protection**

At the time of the CAP’s inception, the political market for agricultural protection in Germany had some specifics founding the CAP which differed from those in other EU countries. First, there was only one highly organized farmers’ union, while other countries had more than one, often with conflicting interests (Katranidis 1985; Mahlau 1985a and 1985b; Matthews and Trede 1983a and 1983b; Meyer 1983a and 1983b; Trede 1983a and 1983b; Trede and Filter 1983; Treiber 1983). Hence, farmers in Germany could exert strong political pressure. Second, that influence was probably more effective than in other countries due to two features of the German political system: the political party system and German federalism. Tangermann (1993) highlighted the specifics of the German party system and the importance of farmers in the outcome of any election and even in the formation of the government. Until 1998 the political influence of farmers was much stronger than one would have expected if their share in the labor force were the only yardstick. Federalism in Germany further strengthened the influence of the agriculturists as hardly a year passed without a state election resulting in the federal government somewhat adjusting its policies each time to improve the electoral chances of the respective party. Third, in contrast to other countries, especially the UK, there was never a strong political countervailing power balancing the influence of farm-
ers in Germany. Consumers were never strongly organized and had other priorities than influencing food prices. Industrialists were quiet concerning agricultural protectionism as some of their national organizations were interested in agricultural protectionism and others did not regard it as an issue. The economic environment, with fairly stable consumer and food prices, did not cause a macroeconomic stabilization problem as in France, Italy, or the UK. Hence, the market structure in Germany for agricultural protectionism differed from other member countries.

**Germany’s Role in Shaping the CAP**

The birth of the CAP caused severe pain for the founding members of the EU. Integrating the agricultural sectors was much more difficult than integrating the manufactured goods sector where the main task was the reduction of trade barriers. In contrast, integrating the agricultural sectors demanded positive integration. The EU members had to agree on harmonizing their national policies. The agreement to establish one common market with market organizations for the individual agricultural commodities required an agreement on a common price level, the form of border protection, finances, and on the rules for linking exchange rate variations to changes in national and common price levels. Germany had, due to its agricultural policy at the time and the German political market for agricultural protection, a specific national interest in solving these questions.

**The German Interest in Setting the Common Price Level**

High agricultural protection in Germany followed from crucial decisions made in the 1950s. When the German government generally accepted the Wirtschaftsordnung of the ‘Soziale Marktwirtschaft’ as the general principle for the economy in 1948, exceptions were allowed for agriculture. Basic decisions for the agricultural sector in Germany were made in the period 1949 to 1951. The Government had asked advisers for recommendations on how to treat the agricultural sector (Kluge 1989). The advisory committee consisted of two opposing groups. Group A, the most well-known agricultural economists of that time, favored the general acceptance of a competitive market economy for the agricultural sector, although they suggested some border measures for a transition period. They strongly objected to internal price regulations and, above all, they advocated the abolishment of the quota system for sugar production. In contrast, group B, headed by President Fritz Baade of the Institute of World Economics and the vice president of the same institute, together with some representatives of
the agricultural administration and agricultural associations, argued for a highly regulated sector. The argument was not, at least explicitly, that food security was at stake. This argument might have been close at hand because of the famine in Germany during the second half of the 1940s. Amazingly, the argument of this group of advisers was that German farmers were not competitive at prevailing world market prices and hence, income support through price protection should be provided. It should be added that this view was widely shared by government officials and likely expressed the core beliefs of German society at that time. In 1951 Chancellor Adenauer stated:

I have always been a friend of agriculture and I am deeply convinced that the preservation of a sound nation of farmers is one of the fundamental tasks of reasonable statesmanship. I am convinced that the level of agricultural prices has to be according to my conviction at par with prices in the overall economy. The Federal Government will implement suitable measures to secure an agricultural price level which covers actual production costs. . . We are completely certain that it is best to promote domestic production in order to reduce imports instead of promoting exports at any price. . . By promoting domestic production and, thus, reducing imports we will be less dependent and more stable. That is in the interest of consolidating our political system and can be considered as an extraordinary success (Puvogel 1957, 30, translated from the German by the author).

The quotations reveal that the German government considered farming not just one among many different economic activities, but highly important for society at large. Understanding of the highest German official seemed to be out of line with current economic thought. Even at that time agricultural economists widely agreed that price setting based on cost of production causes significant problems and would distort markets and moreover, that import substitution was not a first best policy.

It was no surprise that the German farmers’ union proposed legislation that laid the legal foundation for permanent protection of the agricultural sector. The discussion around this proposal and the final agreement on the law by Parliament illustrates the political market in Germany and hints at the influence of Germany on the formation of the CAP. The draft of the law by the farmers’ union was accepted by the Christian Democratic Party with few modifications. The other parties generally supported the law, but the Socialist Democratic Party (SPD) and the German Party (DP) wanted even more specific commitments to agricultural support
by the Government. The federal association of German industry stated that agricultural income should grow parallel with that in other sectors. This attitude on the part of industry might be surprising. However, one must take into consideration that the industry association comprises members, those producing agricultural inputs, with a strong interest in a prosperous agricultural sector. Hence, it was difficult for the association to speak out against the strong interests of some of its members. The economic and political climate and possibly the lively memory of starvation in the minds of the German population eventually led to the acceptance of the Agricultural Act of 1955 which can be seen as a cornerstone of German agricultural policy. The Act commits the Government to policy implementation compensating agriculture for existing natural and economic disadvantages as compared to other sectors (Article 1 of the Agricultural Act). The Act also called for an annual report to be prepared by the Government describing the income situation of farmers and comparing it with nonfarm incomes. It should be noted that a large majority of the German Parliament agreed to the diagnosis and the prescription in the Act. It can be assumed that this view was also held by the majority of German society.

Since the same German government that supported the Act had to negotiate the principles of the CAP only a few years later, it was understandable that the same line of reasoning was used: first, market forces lead to farm incomes lower than those in other sectors of the economy. Second, the Government has a commitment to support farm income. Third, the basis for comparing farmers’ income is not total income of the farmer, but instead income from farming; the basic idea was that farmers (and their families) worked full time on the farm and had no additional income. Fourth, support policy can actually adjust farm income to that of nonfarmers.

It is quite obvious that the perception behind the Agricultural Act and the German negotiation strategy in the EU was not economically sound. First, there are some convincing arguments that the farm sector does not suffer more than other sectors from adverse natural and economic conditions. Second, the method used to compare income from farming with nonfarm income may lead to very strange results. It may well be that the calculations reveal a disparity (income in agriculture smaller than in nonagriculture) but nevertheless total income generated from farming might be far above average (see Koester 1992, for the method of calculation). Third, many farms have income from several sources, either because they farm part time or because they have capital or land income and hence, they may be quite happy as farmers even if their income from farming is lower than that of those employed in other sectors.
Fourth, there is evidence that per capita income from farming cannot be raised by income support in the long-run; integrated factor markets will adjust income to opportunity costs, and labor income in agriculture cannot be increased by income support. Hence, policies which try to conserve the structure can hardly reduce the disparity.

The specifics of the German situation led to agricultural prices in Germany in the pre-EU phase that were higher than in the other founding member countries. It became clear in the negotiation of the CAP that of the various agricultural prices, cereal price levels were the most important. Germany and Italy had the highest cereal prices, but since cereal production is a much less important source of income in Italy than in Germany, there was little support for setting prices at high levels. Hence, Germany had to accept a reduced price level. Had the GATT rules been applied, which state that the average rate of protection of a new established customs union should not be higher than the average protection rates of the member countries in the pre-union period, a clear solution would have been found. However, other GATT member countries seemed to acknowledge the difficulties of following that rule. Most important, the USA, the main player on agricultural world markets, had great political interest in a politically viable EU. As a consequence, the German influence prevailed resulting in a relatively high external protection rate for agricultural products. Moreover, the Germans succeeded in transferring German style market organizations to the European level. The sugar market organization with a quota regime was a case in point; it was transferred to the EU level in spite of the conflict between the concept of production quotas and the basic idea of a customs union.

**Germany’s Influence on the Types of External Protection**

The design of the European market organization required decisions on the type of external protection. Germany’s domestic market organization for most products was based on an annual production/consumption balance sheet and contained quantitative import quotas and domestic price setting (Puvogel 1957). Ad valorum tariffs were out of question for Germany. Even the decision of the European Council to introduce variable import levies without using any import restrictions was hardly acceptable from the German position. The Germans finally agreed, but only because they were allowed to apply a safeguard clause to restrict imports in cases of internal market disturbance (Tracy 1989). Again it was the German legacy which hindered a more liberal trade regime and gave rise to the variable levy system used in the
The Type of External Protection as Determinant of National Influence

Under the variable levy system, the Council of farm ministers used to annually set threshold prices, intervention prices, and target prices for the most important agricultural products. Hence, each year individual countries could exert their interests in the Council. Germany used this opportunity and pursued its farmers’ interests at the EU level. In most cases the German minister of agriculture was very close to the farmers’ union and he generally tried to pursue the interest of the farming population. Of course, in principle the German minister for food, agriculture and forestry is charged with serving the interests of the general population, but that was rarely enforced. It was always quite clear that the German minister had to fight for the well-being of farmers. The decision-making process in the Council is actually favorable for pursuing sectoral interests. Meetings are not open to the public, in contrast to legislative bodies in all the member countries, and the behavior of the individual Council members will likely not be made public. Hence, the individual minister could always pretend publicly that he had tried to do the best for society, but was forced to compromise so that a common decision could be reached.

The power of the individual Council ministers greatly depends on the voting rule in effect and on the information used for reaching decisions. The Treaty of Rome (1957), the constitution of the Community, foresaw majority voting as the rule and unanimity as the exception. However, in 1965, even before the first market organization came into force, France succeeded in applying unanimity voting whenever a country claimed that a vital national interest was at stake. This voting rule strengthened the influence of individual Member States, and Germany made full use of this opportunity. Based on its legacy, Germany steadily pushed for a higher protection rate. As one outstanding example, in 1985 the Council tried to agree on a reduction of grain prices by no more than 1.6 percent, the German minister did not agree, blocking a decision on grain prices.

The voting rule was officially changed in 1993 with the Maastricht Treaty. However, the informal agreement of the 1965 Luxembourg compromise is still at work: simple majority voting is still very rare and qualified majority voting is also the exception, applied in about 10 percent of the cases (Wessels 1996). The use of majority voting is gradually increasing, but in many cases there are still long negotiations to reach unanimous decisions. It is quite clear that
this voting procedure allows individual countries to exert a strong influence on common decisions.

It is noteworthy that the Commission and the Council accepted the view that price changes should allow for income parity in spite of the huge variation of farm income among different countries, even if this perception was not backed by the formulated objectives in the Treaty. The German view seemed to have dominated. The architecture of EU organizations and institutions have most likely helped strengthen the German position.

One could expect that Germany would have been constrained by national expenditure caused by the increase in the agricultural price level. It should be noted that the implemented principle of ‘financial solidarity’ gives rise to flows of real income between member countries as a consequence of price changes (Koester 1977) and hence somewhat increasing the diverse national interests of the countries. Germany was among those countries which had to accept the highest loss in real income resulting from price increases; price increases contributed to higher expenditure for export subsidies due to a higher price gap between domestic and world market prices and boosted domestic production and thus, exportable surpluses. Germany had to pay the highest share of the increase in expenditure, becoming the ‘paymaster of Europe’. Moreover, previously Germany was an importer of most agricultural products so increases in domestic prices directly taxed domestic consumers in favor of producers in other EU countries. Nevertheless, the German farm minister pushed for price increases. This clearly supports the view that the minister was not interested in the welfare of the general population, but only in the (perceived) welfare of farmers. Lack of transparency in the decision-making process and ignorance of its effects by the majority of the population have facilitated the pursuit of vested interests on the Community level.

**The German Influence on the Development of the CAP**

The CAP has changed over time and there is little doubt that some countries were in favor of a more liberal CAP while others pushed for more intense regulation. The driving forces for change in the CAP were budgetary pressure (the dominant influence up to 1992) and foreign trade restrictions. In this section the German influence on the most important changes in the CAP is discussed (see also Tangermann 1992, 1993).

*The Introduction of Monetary Compensatory Amounts in 1969*

The decision to institute market organizations as the basic principle of the CAP demanded common institutional prices. Hence, a rule had to be established which allowed the
conversion of these prices into national currencies (see von Cramon-Taubadel 1994). The founders of the market organizations agreed on one specific rule: common prices were set in units of account and converted to national currencies at the prevailing exchange rate. However, when exchange rates were adjusted, the rule implied that institutional prices of countries which devalued (revalued) their currency were increased (decreased) in national currency. Thus, there was a strict connection between exchange rate policy and agricultural price policy. It might well be that the founders of the agricultural market regulations had not imagined the monetary instability which later arose. Up to that time, exchange rates had been fairly stable and there was hope that they would be further stabilized by market integration.

However, the experience did not meet expectations. Germany had to revalue its currency in 1969 - only one year after having introduced the first common market organizations - and France had to devalue its currency. The German Government feared the protest of farmers and demanded a waiver. The French Government supported the German view as it was interested in avoiding price increases for farm products which had spurred inflation. Therefore, the Council agreed to introduce separate agricultural exchange rates (‘green money’) and related monetary compensatory amounts, which allowed agricultural prices to be shielded from changes in general exchange rates. The consequence was that there was no longer a common price level. Agricultural products crossing borders of EU member countries were either taxed or subsidized to make up for the difference between the agricultural exchange rate and the general exchange rate. This was a clear contradiction to the principles of a common market. As Germany periodically revalued its currency, its agricultural prices were continuously above those in most other Member States. This system of national segmented markets existed up to January 1993. Thus, the German preference for a hard currency (low domestic rate of inflation) and strong preference for agricultural price support undermined the principles of a customs union. Actually, agricultural markets became even less integrated than they had been before the introduction of the CAP (Koester 1984). The introduction of the borderless Single Market in 1993 did not allow control of product flows across EU member borders and hence, the system of ‘green money’ had to be abandoned.

The Introduction of the Switch Over System in 1984

Under the ‘green money’ regime, German institutional prices always had to be lowered after a revaluation of the German mark, unless the decision was made to keep the agricultural exchange rate unchanged. Due to financial pressure, the Commission and nearly all
Council members called for an automatic alignment of the German ‘green’ exchange rate to the general exchange rate within a short period of time (Kiechle 1985). German minister of agriculture Kiechle however, opposed the resulting decrease of agricultural prices in Germany. Instead of leaving agricultural prices set by the Community unchanged and adjusting national prices in domestic currencies, in 1984 he proposed the switch-over system. Prices fixed in units of account were adjusted to avoid a decline in prices in a currency which had been devalued. As the German and Dutch currencies were the only ones which were revalued from time to time, the new system was clearly in favor of farmers in these countries. Any new currency appreciation resulted in a price rise in units of account. The consequence was of course, an increase in the rate of external protection following appreciations of the German mark. Hence, this new rule contributed to the pressure to change the CAP in later years.

*The Introduction of the Milk Quotas System*

Another occasion on which Germany’s influence on the CAP became very obvious was the 1984 introduction of milk quotas. As observers noted, ‘the position taken by the German Government in the political debate and policy-making process during the introduction of milk quotas are hardly understandable, if one judges the actions from the viewpoint of general “national interests” and the general philosophy of economic policy in Germany’ (Petit et al. 1987, 53). The puzzle can be explained by the dominance of Minister Kiechle. His basic idea was, ‘Quantities down, prices up.’ Hence, he was the main proponent of solving the milk market problem (‘butter mountains’ and high budget outlays for export restitutions, domestic consumption subsidies, and storage) by introducing a quota system for milk producers which was accepted by the Council in 1984. This regulation was again in strong conflict with the principles of a common market. Reallocation of production was not allowed to those regions and farms that had a comparative advantage.

The experience with the milk quota system supports expectations agricultural economists had at the outset of the scheme. Cuts in production did not automatically lead to higher prices as there was still an exportable surplus and hence, domestic prices depended on price decisions made by the Council as in the previous period. It may be argued that the Council was able to set higher prices as production was curtailed by the quota system. However, price increases still boosted surpluses as demand declined. The demand effect became even stronger when the European Court of Justice decided that milk substitutes had to be accepted on all EU markets.
The introduction of the milk quota system was an expression of the German tendency to solve urgent problems piece by piece. It was overlooked that the milk quota would eventually have spillover effects on other markets and would require further supply management. Hence, it was no surprise that Germany advocated a voluntary set-aside program to solve the surplus problems on the grain markets.

The Introduction of the Set-aside Program

The voluntary paid set-aside program was introduced in 1988. Minister Kiechle suggested that cuts in grain production would allow institutional prices on EU markets to be set higher. Yet it was hard to convince the other members in the Council. Finally, they agreed on the set-aside scheme but allowed member countries quite some leeway in implementation. Indeed given the system of common finances, individual countries were well advised to make it unattractive for their farmers as it would cause a loss in welfare and incur additional national outlays (Koester 1989). Germany was the only country that provided generous incentives to its farmers who indeed took advantage of the program. However, it was quite costly for the country, both in economic and financial terms (Koester 1989; Poggensee 1993).

The voluntary set-aside program, introduced under German influence, was again a serious violation of the principles of a common market. An important factor of production was not used, and allocation of resources deteriorated in the Union.

The 1992 CAP reform, German unification, and the changing attitude of German industry

In 1992 the CAP was considerably reformed. The most important element of the reform package was a reduction in grain intervention prices by 30 percent. Such a significant change was unthinkable prior to that time. Up to the mid-1980s there was actually a general understanding among Council members that any price decision in the annual round should not lead to a reduction in nominal prices in any country. One should recall that Germany did not accept a reduction in German grain prices by 1.6 percent in 1985, the first time the gentlemen’s agreement not to lower nominal prices in any member country was broken. Hence, it needs to be explained why the German agricultural minister in 1992, still Mr. Kiechle, who had fought for strong regulations in the past, finally agreed to the reform package. This about face is explained by two major changes in the political and economic environment in Germany: German unification and the attitude of industry (von Cramon-Taubadel 1993).
It should be remembered that the family farm played a major role in German policy making, an important element of the core belief that the family farm is the most desirable and efficient farm organization. Indeed, having family farms had intrinsic value, contributing to specific social objectives in society. Hence, policy aimed at conserving as many family farms as possible. This perception of farming changed suddenly after German unification.

At the beginning of the transformation, the German government thought that the superiority of family farms would be reflected in rapid changes in the farm structure. As a result the German government directed more subsidies towards family farms than other agricultural organizational forms. However, the evolution did not meet expectations. Seven years after unification single-owner farms (including part-time farms of over 1 ha) cultivated less than 20 percent of the arable land, and corporate entities about 60 percent. Farms in the former GDR are larger than those in the former GDR. (Forstner and Isermeyer 1998). In 1994/95 single-owner farms averaged less than 40 ha in the west, but 160 ha in the east; the average size of corporate farms in the east was 1,721 ha that same year. On average eastern farms rent 90 percent of the land they cultivate in contrast to about 40 percent in west Germany.

This reality strongly conflicted with the perceptions of German policy makers. Hence, the core belief ‘family farms are the best and natural organizational form of agricultural production’ quickly changed. Many large farms in the east were highly profitable after a few years of adjustment. Moreover, the adjustment pressure exerted on eastern farms after unification was much higher than what was considered socially acceptable for farms in the west. Therefore, the German government weakened its request to conserve small-scale agriculture based on family farms. This may well have contributed to its willingness to accept CAP reform in 1992.

German industry changed its position shortly after the start of the Uruguay Round. Up to then the heterogeneous interests of the industry association had not taken a clear position against agricultural protection. However, the Federal Association of German Industry published a booklet in 1987 demanding a market reform (Bundesverband der Deutschen Industrie 1987). One may wonder what caused the change in the attitude of the Association. The foreword of the booklet said first, that an efficient agriculture is in the interest of industry as agriculture is an important supplier of inputs to the industry and an important buyer of industrial goods. It also stated that the international reactions against the protectionist CAP cause dam-

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3 Single-owner farms in the former GDR are generally not comparable to family farms in the other part of Germany. Family farms in the west own most of the land they cultivate, single-owner farms in the east have a high proportion of rented land.
The Agenda 2000 Package

The Agenda 2000 CAP reform was another important step. The early discussions on reform revealed the strong influence of the Commission. The Commission was firm that further reform of the CAP was needed to comply with the commitments of the Uruguay Round agreement, to prepare the Union for eastward enlargement and the next round of WTO negotiations, to make the agricultural sector internationally competitive, and to complete the 1992 reform. The official German opinion, expressed by the agriculture minister at the time, Borchert, was that further reform was not needed and further price cuts with less than full compensation were unacceptable.

Before the final decision in March 1999 there was a new government in place in Germany, a coalition of the SPD and the Greens. The SPD, the larger coalition partner, had long advocated CAP reform and proposed direct payments as a substitute for price support.

The position of SPD has changed markedly over time. The party was traditionally more prone to planning and less market oriented. Hence, the party supported the Agricultural Act of 1955. If one considers the background of the members of the agricultural committee of
the Federal Parliament as an indicator of the vested interest of a party in agricultural decisions, a significant change can be observed over time. Breitling (1955) investigated the composition of the first Federal Parliament and of the agricultural committee. He found that the SPD had a low proportion of members of the parliament who had an agricultural affiliation (only about 2 percent), but SPD members made up about 40 percent of the agricultural committee. The legislation prepared by the committee expressed a generally strong interest in agriculture. The composition of the third Parliament was similar. However, the picture has completely changed into the thirteenth parliament (1998-2002); of the twelve SPD members on the committee, only one considers himself an agriculturist. Understandably, these committee members fight less for agricultural interests than did those of 1949. The change in the party’s ideology is also reflected in more recent party programs. The 1987-1990 program of the SPD called for a fundamental reform of agricultural policy and favored direct income payments (SPD 1987). However, the party still rejected world market prices for agricultural products. This view had changed before the 1998 German elections. The party demanded a more drastic reform than was proposed by the Commission, a reduction of export subsidies, and less restrictive market organizations (SPD 1999). Direct payments were proposed to smooth the effects of income reduction.

Having experienced this shift on agricultural policy, the German government should have been quite happy with the main elements of the proposal. Indeed, official statements of the current government differ widely from that of the former government; they are more market oriented. Funke, the new minister of agriculture after the 1998 elections, was president of the Council and concluded the negotiations. It is likely that both the German presidency of the first half of 1999 and the new German government contributed to the final agreement, which was less market oriented than the Commission’s proposal, but nevertheless was a major reform.

Summary
- On the German political market, agricultural protection was more favored than in the other founding member countries of the EU or those EU countries under the CAP. German farmers were better organized than those in the other countries: farmers’ votes plaid a crucial role in federal and state elections, nonfarm organizations abstained from influencing policies, and core societal beliefs supported farm protection. The perception that the family farm is the ‘natural’ organizational form of farms and should be supported by state
intervention was widely accepted, more so than in most other founding EU member countries. France, one of the major early players, was much less focused on conserving the family farm structure than was Germany. In contrast, The Netherlands favored structural change in agriculture in order to be internationally competitive.

- Germany had a specific interest in the formation of CAP. German agricultural price levels were higher than in the other prominent founding member countries (except for Italy), so political pressure persisted for a continuation of the high price level policy.

- Germany had the strong conviction that income parity should be achieved by government intervention (as laid down in the Agricultural Act of 1955) and that price support was the adequate means to achieve that objective. France, the main negotiating country during the birth of the CAP, and a major exporter of agricultural products, could expect to benefit from a high agricultural price level. Consumers in importing countries such as Germany, were taxed in favor of French farmers. Hence, there were no strong opponents to a high price policy from the CAP’s inception.

- The institutional arrangements set up in the CAP on the one hand widened the divergence in interests, and on the other hand helped member countries fight successfully for their national interests. These institutions were primarily concerned with voting procedure and financing arrangements. Even though the financial arrangements of the Union made agricultural protection for Germany more costly compared to a situation with an isolated Germany, Germany continued to push for higher protection, indicating its strong preference for farm support.

- The significant divergence in national interest among the member countries showed up in specific policy changes made over time. The introduction of the ‘green money’ system allowed Germany to have a higher price level than its partners. Other countries, especially France and the UK, favored a lower agreed price level in order to support consumers and curb inflationary pressure.

- The increase in the intensity of regulation was predominantly favored and supported by the German government. The introduction of the milk quota scheme is a case in point. It reflected the German tendency to cut production and increase prices. The German influence on the introduction of the set-aside program is another important case where the German government exerted pressure to intensify regulations.

- The German position on the CAP changed in the late 1980s with the upcoming Uruguay Round, and in the 1990s with German unification. The former event brought a new player
onto the field; international trading partners became stronger and rigorously pushed for change. Unification came as a jolt to the core beliefs of German agricultural policy makers. The concept of family farms being superior lost influence as most of the new farms in the reunified Germany did not fit this theory. It was mainly due to these determinants that Germany accepted the 1992 CAP reform. However, it insisted on an increase in the density of regulations (set-aside, allocation of quotas to member countries for arable land which can be planted without sanctions). The implementation of the new oilseed regime in Germany was a specific violation of the principles of the Single Market.

- The German impact on the Agenda 2000 reform proposals was significantly affected by the change in government. The old government under Chancellor Helmut Kohl tried to block any change in the CAP, pretending that no change was needed. The new government, which took office in October 1998, had a difficult start. It gained the presidency in January 1999 and had to bring the negotiations to a close. The experience with the new government seems to mark a significant change in agricultural policy making in Germany. The influence of the farmers’ union and of the ministry of agriculture seems to have declined and some changes have been introduced which require stronger adjustments for the agricultural sector than most other sectors. Hence, in the future it can be expected that Germany will push less for higher protection of agriculture than it has in the past.

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