

European Integration of Portuguese Agriculture

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The situation prior to accession

When twenty three years ago, in 1977, Portugal applied to join what was then the European Economic Community, agriculture was the sector of most concern to the Portuguese authorities. Despite the economic and social importance of agriculture still being fairly significant at the time (17% of GDP and 30% of the work force)¹, agriculture was economically and technically in a state of stagnation and was suffering from a radical lack of structure.

Agriculture had been in a state of crisis for many years and had at the time recently been the object of a collectivist style agrarian reform. Yield from land and labour was certainly the lowest of all the countries in western Europe, investment was lacking, infrastructure insufficient, land ownership highly restrictive (average area of 5 hectares divided into 7 blocks) and farming incomes were showing little sign of increasing. Therefore not only were legal, technical and administrative difficulties in the way of harmonisation with the more integrated, complex Community policy, but also the impact of competition with the other more developed European countries, with better productive structures and average production levels from 3 to 5 times higher than those in Portugal.

However, although farmers were aware of these differences and their weaknesses, on the whole they did give their support to the project for European integration, and they had high expectations. These expectations had to do with the natural desire for stability following the intense political disturbance that affected the sector after the revolution in 1974, and with the promised financial support that was expected to contribute considerably towards modernising Portuguese agriculture and to removing some of its traditional constraints.

Apart from this, in 1977, when accession was requested, Portuguese agricultural prices were lower than those in Europe in practically all sectors. At this time, the prices of most agricultural products were fixed administratively within the context of a complex subsidy system (to production factors and also directly to consumers) maintained through a network of "Economic Coordination Agencies" which, in some cases, held exclusive trading rights for a large number of staple agricultural products (cereals, oil seeds, meat, sugar ..).

As a result of this system, agricultural prices were substantially different to those applied on the international market and a large number of Portuguese farmers, in most agricultural sectors, had no experience in the workings of the market. The prices problem came to have a central role in the accession negotiations in view of the fact that they changed dramatically over the nine year period in which the negotiations took place. During this time, almost all Portuguese agricultural prices (with the exception of wine, olive oil, tomatoes and several fruit and vegetable products) rose above Community prices, reflecting high rates of internal inflation as well as the fact that some of the more important subsidies for production factors were gradually removed (for example, for fertilisers and compound animal feeds).

Of concern to the Portuguese authorities was the fact that Portugal at the time was a large, net importer of agricultural products coming from the world market and particularly of those, like cereals, which, within the Common Agricultural Policy, paid high customs duties into Community budget. At the time it was thought that applying European mechanisms would increase the price of food products for consumers² and lead to an excessive contribution to the Community budget, turning Portugal into a clear net contributor.

The negotiations and the Accession Treaty

All of the concerns mentioned above made agriculture a key area in accession and systematically meant that the Portuguese authorities had to adopt an apprehensive, cautious or defensive position in the negotiations. This position was always understood by the Community authorities and, in particular, by the European Commission, with which Portugal had achieved a good negotiating relationship based on mutual trust. This was reflected in the terms of the Accession Treaty and, above all, in the nature and duration of the transition period. Apart from a long transition period being agreed (from 7 to 10 years), the Treaty recognises the specific features of Portuguese agriculture and includes clauses that are highly defensive and protective. They also contain safeguard positions both for controlling relations between Portugal and the other 10 member states, and with Spain whose accession took place at the same time.

It should be emphasised that although officially the representatives of the Community regularly affirmed that the Portuguese and Spanish applications would be examined exclusively on their own merits and that

the negotiations would be independent, in practice the two processes became linked and interdependent. The question of the very prolonged negotiations and the long transition period, initially badly received by the Portuguese authorities who saw in it a postponement of full accession and the status of a lesser member state, was justified by the weak structure of Portuguese agriculture but, in reality, expressed the fears of the other European countries (particularly France) faced by the enormous potential of Spanish agriculture. Immaterial of the political circumstances underlying the constant postponements to accession and the way in which the process evolved by fits and starts, personally I feel that this prolonged period also had positive results.

Firstly, there was time to go into a detailed technical and legal comparative analysis of Portuguese and Community agriculture and to make a thorough examination of Community agricultural law and all of its regulations and mechanisms. This avoided many surprises along the way and all of the derogation mechanisms could be identified that were justified to respond to special situations. Secondly, it was an excellent opportunity for collectively training hundreds of Portuguese specialists in the different State departments, for whom these exercises provided fundamental experience in gaining familiarity with the Community institutions and with their complex regulations.

I am convinced that the Portuguese strategy of setting up large official delegations (20 to 25 technical staff from several ministries) who moved to Brussels to take part in these exercises³, was one of the most effective Portuguese investments in the future and, probably, one of the reasons underlying the success of Portuguese integration and the solidly based (and "unexpected") preparation generally attributed to the Portuguese staff who have handled the technical aspects of this integration. Apart from this, a very useful programme of administrative courses was provided for Portuguese staff in the different Commission services. This together with the experience associated with administering pre-accession Community aid, and with the many technical and negotiating contacts made during the negotiations, allowed the people involved to improve their understanding of these affairs and contributed towards increasing the mutual confidence decisive for successful integration. Portuguese negotiating experience, as mentioned before, was characterised by considerable trust placed in the European Commission and by the serious approach made to the negotiations, manifest in the negotiating documents and information provided, all of which was of considerable importance. Throughout the negotiations and also during the different stages of integration, this approach contributed decisively towards a favourable attitude within the Community towards Portugal.

Having mentioned agrarian reform before, I should add that its evolution was never the object of negotiation, nor of any direct interference by the Community authorities. Legalising the reform process took place over time in the framework of democratic transition and consolidation. As is usual, the Accession Treaty defined the rules for harmonising agricultural markets and structures, the system for price harmonisation, aid and specific duties as well as derogation mechanisms and structural support for development. A mixed system was used for the transition itself. For a series of products, that globally represented no more than 15% of Portuguese production and for which no major integration difficulties were foreseen⁴ a *classical transition* period was granted to last for 7 years, the same as that used for previous enlargements. For other products, for which more difficulty in integration was expected and which represented the larger part of Portuguese agricultural production⁵ a *stage-by-stage transition* was agreed, lasting for 10 years, divided into two 5 year periods.

In the case of the *classical transition*, it was agreed that for a period of 7 years the level of prices and subsidies, as well as specific customs duties for third countries, were harmonised gradually (in *tranches*), while at the same time, gradually, incompatible subsidies and specific duties would be eliminated. However, to facilitate trade when price differences did occur, a correction system was set up of "compensatory amounts" and, to avoid unexpected consequences, a Complementary Trade Mechanism and a Monitoring Committee were set up, while Portugal gradually applied the respective Common Market Organisations (CMOs).

In the case of the *stage-by-stage transition*, for the first stage of 5 years, for the products covered, Portugal was authorised to maintain in force "the previous national regime" for the organisation of its domestic market and a certain number of structural and preparatory objectives were fixed⁶ that were to facilitate the application of a classical type transition during the second stage of 5 years, planned to end in 1995. Furthermore, it was agreed that during the first stage the EEC would not participate in market support costs and Portugal would not transfer to the Community budget any income from customs duties charged on the import of agricultural products coming from third countries. During the second stage, the EEC would

support the market intervention costs and Portugal would then participate, although only gradually, in the own resources of the Community.

The Treaty established a highly favourable scheme for Portugal to gain access to structural funding for agriculture. Immaterial of the type of transition applicable, Portugal benefited, right from the start of accession, from all socio-structural mechanisms and from more favourable specific provisions existing at the time to benefit the less favoured regions of the Community.

Apart from this, in terms of structure, Portugal also benefited from a "Specific Agricultural Development Programme"⁷, lasting for ten years, funded by 700 million ECUs and with an average co-funding rate that was finally agreed at 75%. This Programme, the detailed content of which was only approved in the "interim period" (six month period following the start of accession), was to a certain extent the supplementary Community response to the weak state of Portuguese agriculture and aimed mainly to develop rural infrastructure and gradually correct the main structural imbalances (land, commercial and industrial) affecting Portuguese agriculture. In short, the negotiations and the Portuguese Accession Treaty reflected the extreme care taken by the Community, provoked by negotiating the Spanish case at the same time, and a defensive attitude on the Portuguese side justified by the fear that the shock of integration might economically cause the already weak Portuguese agriculture to founder even more.

The final result was deemed satisfactory at the time of accession. Although it was known that sooner or later Portuguese agriculture would be faced by its lack of competitiveness and with the results of being abandoned for decades, the long transition period and the structural support planned did in some way compensate and justified some mitigated expectations and optimism.

The impact and the results of 14 years of integration

The effects on agriculture

Now that fourteen years have elapsed since integration, much has changed in Portuguese agriculture although the effects have not all been felt in the same way in all sectors, and not all the changes, for better or for worse, have been exclusively the result of European integration and the Common Agricultural Policy:

- the importance of the agricultural sector has fallen significantly, from 8% to only 2.9% of gross added value out of the whole economy, and from 20% to around 12% of the total work force⁸;
- the number of holdings has fallen 39% (from 651,000 to 399,000) and the average area has increased 48% (from 6.3 to 9.4 hectares of agricultural area per holding);
- the volume of labour used fell 53% (from 1,034,000 to 490,000 agricultural work units);
- the volume of agricultural production rose by around 16% which, together with growth of around 31% of intermediate consumption, led only to a slight increase of 2% in product (added value);
- in real terms, the prices of agricultural products fell 49%, and despite direct aid to producers increasing by around 300%, the joint effect of this dual development led to a net reduction of 44%;
- the total income obtained by the agricultural sector (taking into account the transfers of income through public aid) fell 43% in real terms. However, in view of the sharp fall in the number of holdings and the number of working units, income per holding fell only 6% and increased 21% when expressed in units of labour.

In comparative terms, the structural adjustments made in Portugal have not been sufficient to align the country significantly with the other member states of the European Union. The indicator used to draw this comparison (net added value per unit of labour) is still lower than one third of the European average.

Analysing what has happened in the Portuguese agricultural sector over the fourteen years of integration justifies dividing this period into three distinct phases. 1986 to 1989 was the period of optimism: investment in agricultural holdings tripled, in the agri-industries investment was six times higher and in basic infrastructure more than 10 times higher compared to the years prior to accession. During this period, productivity from agricultural labour increased notably but, although it may seem a contradiction, agricultural incomes did not keep pace with the optimism of farmers because prices fell in real terms, although only slightly.

From 1989 to 1993 real prices fell even more intensely and farming income fell substantially, although not all sectors were affected in the same way. The rate of investment slowed and gradually farmers became disheartened. During this period, the transition in stages, which should have gone on until the end of 1995, was brought forward with a view to encouraging the working of the Community single market and the Portuguese market was prematurely exposed to outside competition. The effects of these changes were

clearly amplified, because the exchange policy used meant that national production was not competitive and because the rapid settlement in Portugal of several hypermarket chains encouraged a rise in food imports. Finally, in 1994, there was a slight recovery in farming incomes although on a very uncertain annual basis and varying among the different agricultural sub-sectors. Some sectors did evolve more positively and benefited from a favourable market situation, the case with wine, while others suffered serious depression, the case with arable crops (with the exception of maize that had some success) and others, the case with milk and partly with meat, that managed to compensate some price pressures with significant improvements in yield. At the same time as this economic development, significant changes were taking place in production structures, technologies and infrastructure.

The most important changes affecting production structures have already been mentioned briefly and involve mainly the considerable fall in the number of holdings and in the agricultural work force. In terms of production technologies, the agricultural sector was modernised significantly from the time of accession to what was then the EEC. This happened, as mentioned before, as a result of the considerable investment made, particularly in the years immediately following accession.

The rate of mechanisation in holdings increased considerably with the acquisition of tractors and other mechanical equipment; the use of quality production factors improved, many techniques and irrigating equipment were modernised; modern orchards and vineyards were planted and, although at a rate slower than planned, forests were expanded in certain parts of the country. Infrastructure was targeted by the public sector and significant support was given that led to positive results: dams were built; roads opened, improving access to many holdings; electricity was extended to rural areas; the network of training centres spread; although insufficient, marketing and processing structures improved with hundreds of projects funded that had a positive impact on quality, hygiene and on the competitiveness of food products; health coverage improved in the animal sector; support was given to setting up many hundreds of farmers' associations and a true group approach took root in certain regions in setting up integrated projects for rural development.

Community support

None of this would have been possible without considerable, decisive Community support which increased to levels considerably higher than that planned in the Accession Treaty, and which merits should be underlined. This support, in this case that of EAGGF, Guidance section, specifically geared to improving agricultural structures, increased regularly: from 32 million ECUs in 1986 to around 260 million annually, on average, between 1989 and 1993, as part of the First Community Support Framework; after that, from 1994 to 1999, as part of the Second CSF, average annual funding was around 315 million euros. Agricultural structural funding became essential to make some headway in correcting the comparatively unfavourable situation caused by the market support component which is financed 100% by the Guarantee section of EAGGF.

In fact it is in Community funding to the market sector that the Portuguese situation has been least favourable and at home has given rise to most discontent and controversy. This is the sector in which the CAP is financially more active and which, because this funding is related to production volume, is distributed in such a way that it heavily penalises member states with lower production levels, and/or, in the case of Portugal, those in which products with little support are significant in the country's productive structure. This probably underlies the most obvious of the current contradictions in the CAP which gives more support to those who produce most and, through quotas and other types of quantity restrictions defined on the past production levels in each country, functions like a true brake on the development of production in the less developed member states.

The paradox is clear in the Portuguese case. Despite receiving in annual funding associated with the Common Market Organisations a significant sum from EAGGF Guarantee⁹ in comparison Portugal receives less than the European average and has one of the lowest rates of Community support although it has one of the poorest and least evolved agricultural sectors in the European Union!

Institutional organisation

Special attention both by Portugal and the European negotiators was given to the organisation of Portuguese public administration to act as a framework and to manage the process of integration in agriculture. Firstly, one of the more sensitive aspects in the agricultural case involved the future of the Economic Coordination Agencies and the way in which their status should be changed and their commercial functions, where they were incompatible with Community law, altered (removed). Secondly, a definition had to be found for the national administrative structures required to intervene on markets and handle Community support for market and structures. With regard to the coordination agencies, although

adjusting them to Community law has been planned and implemented, the Portuguese authorities were too indecisive and had difficulties in resolving the problem of the residual structures of some of these agencies which, in the case of cereals, still remains a cumbersome, confused process yet to be resolved.

In reviewing the agencies handling Community funding, after examining the experiences in all the other member states, the Portuguese authorities decided to set up two autonomous public agencies, one for markets and the other for structures. To this end one public institute under the authority of both the Ministry of Finance and of Agriculture, specialising in funding the primary sector (IFADAP) was used, as well as a specific service belonging to the Ministry of Finance (the Supply Fund), which previously handled subsidies for the food sector, that was reinforced with staff from the former coordinating agencies (INGA). Although the possibility of merging these two institutes into one is currently being examined, the Portuguese experience in this area has been positive regarding the way in which the duties of these institutes have been performed, although there may be some doubt as to the effective costs of running them. Bearing in mind the tremendous efficiency that technology provides today, and the integrating tendency of European policy, there are obvious advantages in having one, small scale body, as the sole linkage for the services of the European Commission, if this has to be created from the start and can be supported by reliable, decentralised agricultural organisations.

The effects on consumers and on foreign trade

The benefits of accession for consumers are important and varied. Firstly, the supply of food products increased, diversified and clearly improved in quality. Secondly, consumers benefit from the changes in agricultural prices already described, although less in proportion to the reduction in production level which were partly appropriated by processing/distribution circuits. The benefits for consumers are obvious from the general, annual change in prices in Portugal which, since accession, have been systematically higher than the specific change in food prices, which contributed significantly towards controlling internal inflation. However, in view of little increase in agricultural production, a sharp increase in the consumption of food products and greater integration in European markets, foreign trade in agricultural and food products¹⁰ made poor progress for Portugal:

- from around 900 million ECUs in 1986, the deficit more than double in 1998, 2.270 million euros (around 13% of the trade balance in the economy);
- the rate to which imports are covered by exports for all agricultural and food products worsened and in 1998 was around 35%;
- the level of agri-food self-sufficiency fell, although slightly, to figures close to 87%.

In summary, the European integration of Portuguese agriculture was done within a context that has led to obvious structural and technological improvements, the effect of which is generally positive. However, this effect has not been sufficient to remove the main structural handicaps from the sector nor to compensate farmers for the highly negative effects of economic development, the main result of which was a considerable fall in their income, that continues to be far behind that of farmers in the other member states of the Union.

There is still much to be done which will involve risks and challenges. But Portuguese farmers will be able to face these successfully if they are given the necessary support on a structural level, as has been done to date, and more support at market level, reducing restrictions and distortions that currently exist. However, consumers have benefited from accession, compared to the situation before, because in real terms food prices have fallen and the conditions of supply have improved sharply, both in terms of diversity and quality. Looking at the country as a whole, it is not easy to determine precisely all of the economic and social effects of the European integration of Portuguese agriculture. This is mainly because globally these effects are highly interdependent and their influence on separate sectors is difficult to isolate.

Although this is a controversial issue the results of which depend on the methods used in the analysis, I think the country as a whole clearly has been the net beneficiary of agricultural integration from the financial point of view, bearing in mind all the financial transfers and flows associated with the CAP and all the direct and indirect effects on producers and consumers in Portugal.

¹ The whole agri-forestry sector (including the food industries) then represented almost 1/5 of GDP and involved more than 1/3 of the work force.

² Whether these products were imported from the European market or the world market.

³ And who were sometimes criticised at home as being costly and of little use.

⁴ Covering olive oil, oil seeds, lamb, processed fruit and vegetables, tobacco, hops and seeds.

⁵ Including the milk, beef and pig meat sectors, fresh fruit and vegetables, cereals and rice, poultry and eggs and wine.

⁶ Based on an Action Programme, established by mutual agreement, and applying several factors (prices, aid and production) with precise rules for different situations.

⁷ The object of which was defined in protocol n° 24, attached to the Accession Treaty.

⁸ Although the agri-forestry sector, including the food industries, still accounts for around 10.5% of added value of the economy and 17.4% of the work force.

⁹ That rose from 30 million Ecus in 1986 to around 700 million in 1994 and 1995 and, in more recent years, to an average sum of around 550 million euros.

¹⁰ Essentially Portugal imports cereals, oil seeds and meat, and exports wine, beverages and processed vegetables, apart from several forestry products particularly cork, paper and paper pulp.