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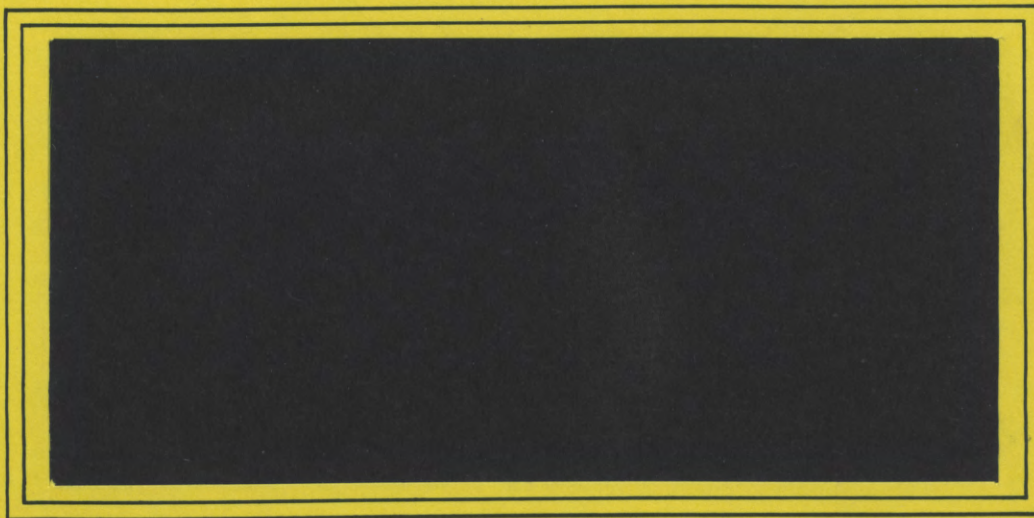
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Regional Impacts on Spanish Agriculture
from EEC Accession.

by

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Regional Impacts on Spanish Agriculture from EEC Accession

Introduction

Among the many problematic issues surrounding the negotiations for Spanish entry into the European Economic Community (EEC), agriculture was the most contentious. The concerns focused on the effects Spanish membership may have on the agricultural sectors of current EEC countries as discriminatory trade barriers are lowered or eliminated. There is a conception of Spain as a sleeping agricultural giant with the ability to flood markets with a wide variety of low cost commodities. It apparently is believed that this production ability can be relatively easily enhanced as potential improvements in productivity and quality are reached.¹ This concern is particularly acute among EEC producers of the Mediterranean crops--fruits, vegetables, olive oil and wine--and extends to "third country" producers. The latter are primarily Mediterranean basin countries that have special trade arrangements with the EEC, often on more favorable terms than Spain, and rely upon EEC markets for these products as important sources of foreign exchange. They fear losing EEC markets as barriers to Spanish products are

¹ This conception is likely an exaggeration, certainly in the short and medium term, and probably for the longer term. The theoretical and physical potential exists, but not without costs, and political and institutional support. For example, irrigation development and productivity increases would have to continue at the high rates of the past 25 years, which is unlikely. Also, water is in short supply in the areas where it would be most productive, and competition from urban and industrial uses is increasing. Bringing water from surplus areas has been suggested, but would be politically difficult, at best, and very expensive. Another factor that would slow production increases is that costs of production are likely to approach EEC levels, for both labor and non-labor inputs. And finally, EEC policies can determine production levels and commodity focus, and such efforts can be expected.

lowered. At the level of the EEC itself, there is concern that the entry of Spain, along with Portugal, will result in added surpluses of several Mediterranean commodities, and thus increase pressure on the already bloated EEC agricultural support budget.

These and related concerns have resulted in many studies of the impacts on the national agricultural sectors of current EEC members, on third countries, and on Spain itself. Researchers and policy-makers usually approach these issues in terms of national, regional within EEC, or broad commodity sector impacts. That is, how will Spanish accession affect income or employment in each nation's agricultural sector; or how will the prices, production or trade in various commodities be affected? (See Peterson et al.; Schmidt; Shlaim and Yannopoulos; Silva Ferreira; several articles in Agricultura y Sociedad, No. 22; Tovas; Hiller and Sarris; Sarris). Structural or distributional aspects have been considered, but usually in the context of how the overall structure of Spanish agriculture differs from that of the Community as a whole and its member countries, and what implications this has for the Community.

Another important set of issues, however, continues to demand attention. This is the impact of EEC accession on Spain's agricultural sector, and particularly the distributional impacts among regions, producer groups and commodity groups. The extension of the Common Agricultural Policy (CAP) to Spain is likely to have uneven distributional effects. A "trade creation" effect may result for certain commodities as trade barriers are lowered, thereby benefiting those producers and regions, able to take advantage of the market. At the same time, other commodities (and producer groups and regions) may suffer from increased competition from current EEC countries, or from "reconversion" policies.

Earlier work on the current enlargement recognized the issue in passing (Silva Ferreira; Tovas), while Hiller and Sarris stated that it was one on which further study was necessary. The Agra Europe group was more specific in identifying potential regional problems as requiring research. Within Spain, regional impacts have received more specific attention (Cadenas M. and Diez M.). The most comprehensive regional treatment to date is by García Azcárate and Camilleri et al., although still somewhat general overviews. Recently, concern over the issue began to grow, as negotiations drew to a close and terms of entry begin to be more clear. This resulted in unpublished working documents within various Ministries, and in the creation of working or advisory groups in several provinces and autonomous regions to examine impacts upon regional agricultural economies. Before these efforts can serve useful policy ends for both Spain and the EEC, more micro-level, disaggregated information and quantitative analysis is required.

The next sections of this paper will discuss further the context of Spain's agricultural sector adjustment to EEC membership; review previous studies of potential commodity and regional impacts; and present policies that have been proposed to deal with potential impacts and briefly discuss implications of those policies. The paper serves as the basis for a quantitative analysis of potential distributional impacts, based on the author's research in Spain during 1984-85.

The Context of Agricultural Adjustments in Spain

Although there will be uncertainty as to the specifics of potential agricultural adjustment until the accession agreement is completed and the transition period begins, it is certain that there will be adjustment problems and many will be severe. Moreover, many of these problems will be distinctly regional in nature, and they will not be distributed evenly

within regions nor among commodity and producer groups. Certain producer groups will be in positions to take advantage of the changing situation, but others will lose.

The problems of regional adjustment due to EEC accession take on added importance, coming as they do on the heels of two decades of continued and sizeable rural change. This is especially true, and thus of particular social and political concern, for the poor, less resource-favored, less agriculturally developed regions. These changes began with (1) the late entry of Spain onto the economic growth/industrialization path, and (2) technological modernization in agriculture from a low (relative to most other Western nations at the time) initial base. These two forces led to the "rural exodus;" the large and rapid rural-urban migration and outflow of labor from agriculture, where labor-saving technology eliminated historically minimal opportunities. This was reinforced by urban industrialization both within Spain and the rest of Western Europe, that provided more off-farm employment opportunities. This is a familiar pattern in Western economies, but the structural and socio-economic impacts were accentuated in Spain by the very compressed time frame within which they took place (late 1950s/early 1960s to mid-1970s), and by the relatively low level from which they began.

As these adjustments were taking place, other events necessitated more and different types of adjustments. One was the change from the Franco era to the post-Franco era, bringing with it fundamental changes in government agricultural policy. The basic nature of these changes was social and institutional, entailing a more open participatory formulation of policy. In addition, the several new governments since 1976, with their departures from the previous 40 years of relatively stable and

consistent government policies, created more uncertainty in the agricultural sector over whether to continue past practices or commit to new realities (Sumpsi). One feature of government agricultural policies in the past, with particular implications when EEC membership is attained, is the protection of certain commodities against outside competition, largely in the context of a self-sufficiency policy.

At the same time, agriculture was forced to adjust to the energy crises of the early and late 1970s. Then, the early 1980s brought the world-wide economic recession. The latter two events had a severe adverse effect on Spanish agricultural development policy, which had relied upon cheap petroleum and the emigration of surplus farm labor. Thus, in the early 1980s Spanish agriculture was in the situation of confronting the overlapping old problems consisting of the need to modernize agriculture in a greatly changed political-institutional framework, plus having to react to the problems of a general economic crisis and a permanently changed energy picture (Sumpsi).

While these adjustments continue, EEC accession will necessitate further change and structural transformation. Generally, the changes will be forced by the opening up of internal markets to competition from more efficient production and marketing, and by increased opportunities for Spain in the northern EEC countries. EEC requirements also will force considerable institutional changes in market organization and regulation. For the sectors producing the Mediterranean crops--vegetables, fruits (especially citrus), wine and olive oil--advantages may be expected through more open markets or CAP supports, certainly in the long run. For other sectors, severely adverse impacts may result. These are the sectors producing the "continental" crops (small grains, sugar beets, beef, dairy products) that have been protected against outside competi-

tion and/or subsidized because of self-sufficiency goals. The result has been the perpetuation of inefficient, and often very traditional, production methods that are not competitive with northern EEC producers.

Within any given sector, however, the effects of EEC accession will not necessarily be distributed evenly. First, the extension of the Common Agricultural Policy (CAP) to Spain is likely to have uneven distributional effects. The CAP price policy has favored the farmer with the most to sell. This has resulted in the larger and more affluent farm businesses receiving too high a proportion of income transfers relative to smaller poorer farms (Josling). Second, producers that are more integrated into the modern commercial marketing system will have an advantage. Again, this will be particularly true for large producers. With more market information and access, and more produce, they can sell at better prices and/or on more favorable conditions. Combined with a higher level of technology, this will result in a greater ability to adapt to changed market situations, in both quantity and quality, and to do so at lower marginal and average costs. Certain small producers, however, also may be able to take advantage of the expanded EEC market. There are the members of cooperative marketing groups, such as the Agrupaciones de Productores Agrícolas (APA). Those not in such groups, while perhaps not losing absolutely, would lose relatively.

Need for a Regional Focus

In 1980, the extensive Agra Europe study of Spanish entry into the EEC concluded that "if integration of Spain into the EEC is to be a success, greater consideration will have to be given to the realities of Spain's agricultural sector" (p. 235). The truth of this statement has been borne out in the ensuing years, as the main obstacles to concluding the negotiations continually were agricultural. As mentioned, previous

studies have tended to be "macro" analyses focusing on such issues as necessary institutional changes to conform to the CAP, or on trade and net production and income effects on various commodities. What these studies show, more often implicitly than explicitly, is that the "realities" of EEC accession for Spanish agriculture lie beyond broad sectoral and commodity-level analyses.

The repercussions of EEC membership on Spanish agriculture, political and social as well as economic, will be regionally focused. There are large regional differences in agriculture in general, and also regional differences within the same commodity groups. These differences generate strong political forces. Thus, policies and programs will need to be focused regionally. In fact, the results of previous studies imply that even a provincial focus may be too broad, and that a focus on different categories of producer groups for each commodity in each region is necessary to get a complete idea of the effects of accession, and thus to obtain the necessary socio-economic information on which to base both Spanish government and EEC policies. This section will discuss several issues that underlie the importance of analyzing effects at more disaggregated levels.

One possible effect of EEC membership is that the existing regional imbalances in agriculture (income, employment opportunities, level of development) may be aggravated. Areas that are more dynamic; have more developed production, processing and marketing techniques; are endowed with better land and water resources; and are specialized in commodities not competing with current EEC members will be able to adjust to and benefit more from the new situation. On the other hand, the agricultural areas that are currently depressed or stagnant, less developed, less resource-endowed (and with concentrated ownership of the best resources),

and specializing in commodities in surplus or in direct competition with current northern EEC countries may find it difficult to maintain even their current circumstances. This will result in widening the regional imbalances. In many cases, the latter areas also are more dependent on agriculture for their economic base, thus compounding the problems. The consequences would be the widening of income gaps between richer and poorer areas, if not actual income losses; more unemployment; continued or increased out-migration, especially of the young and more skilled and a general regional decline. Such a situation will require large, and continuing programs of regional aid, from both the EEC and Spain. The EEC Commission expressed early concern over this potential problem (Agra Europe). The areas where the potential is greatest need to be identified so that the information base for necessary adjustment programs exists before the programs are begun.

An illustration of how EEC membership may affect existing regional imbalances can be seen by comparing provincial socio-economic indexes with CAP agricultural support indexes and provincial agricultural characteristics. García Azcárate analyzed potential regional agricultural impacts by first classifying provinces into selected broad dominant agricultural characteristics, and then calculating an index of future agricultural support from the CAP, based on 1982-83 policies for each commodity. Table 1 combines these results and shows relative levels of support projected for each province, classified by the dominant agricultural characteristic. Clearly, provinces dominated by fruit and vegetable production would be less favored than cereal and livestock oriented provinces, under the pre-accession CAP. As can be seen, however, this is not true for all provinces with large concentrations of livestock production. Certain provinces that are commonly considered low

income, structurally disadvantaged, or at a competitive disadvantage vis-a-vis northern EEC producers are projected to receive relatively low levels of support (indexes of less than 95) compared to the national support level of 100, and compared to provinces of similar characteristics.

Further insight into possible impacts of the CAP on regional imbalances can be seen by comparing García Azcárate's classifications and support indexes with indexes of provincial socio-economic depression (Tables 2 and 3). Table 3 indicates that socio-economic inequality among provinces will not necessarily be lessened because of the application of CAP price and support policies.¹ If a consistent equalizing effect were to be the result, the table would be expected to show a greater concentration of provinces in the upper right and lower left cells; that is, provinces with higher levels of socio-economic indexes would have lower levels of future agricultural support indexes, and vice versa. A simple correlation analysis between the two indexes ($r = -.20$) indicates that an equalizing tendency of CAP policies may result, but it will not be strong.

Underlying the issue of the aggravation of regional imbalances is the regional concentration of certain production regimes--small and fragmented farms, traditional technology, traditional marketing practices and outlets, aging farm operators, and dependence of labor on seasonal demands from the large farm sector. That is, production regimes characterized as marginal in terms of both human and physical resources. These situations also are often combined with specialization in

¹ This analysis does not consider the effects of the EEC's regional development policies, which are designed to lessen socio-economic differences.

Table 1. Comparison of Index of Future Support Levels under the Common Agricultural Policy and Dominant Provincial Agricultural Characteristics.

Dominant Agricultural Characteristic	Index (Spain = 100) of Future Agricultural Support Under CAP ¹		
	≥ 105	96 - 104	≤ 95
Vegetables & Fruits			Rioja, Castellón, Valencia, Murcia, Almería*, Alicante (\bar{x} = 53.0) ⁺
Non-Citrus Fruits			Rioja, Alicante, Castellón, Valencia, Murcia, Almería*, Málaga (\bar{x} = 57.9)
Cereals	Huesca, Zaragoza Burgos*, Palencia*, Salamanca*, Segovia*, Soria*, Valladolid, Guadalajara*, Badajoz* (\bar{x} = 125.7)	Zamora* (100)	Teruel* (94)
Grapes & Wine			Albacete*, Ciudad Real*, Cuenca* (\bar{x} = 87.7)
Livestock	Lugo, Asturias*, Cantábrica*, Lérida, Madrid (\bar{x} = 115.4)	Gerona (96)	La Coruña*, Orense*, Pontevedra*, Vizcaya, Guipúzcoa, Barcelona, (\bar{x} = 85.1)

Source: Tomás García Azcárate. "Consecuencias sobre las agriculturas regionales de la adhesión de España a las comunidades europeas. Thesis Doctoral, Universidad Politécnica de Madrid, Escuela Superior de Ingenieros Agrónomos, 1984.

¹Based on García Azcárate's Hypothesis I: rapid integration of the entire agricultural sector into the Common Agricultural Policy.

* = Low socio-economic depression index (less than .215). See Table 2.

+ Numbers in parentheses are the mean support index for that group of provinces.

Table 2. Comparison of Provincial Index of Socio-economic Depression and Dominant Provincial Agricultural Characteristic.

Dominant Agricultural Characteristic	Index of Socio-Economic Depression ¹		
	> .237	.215 - .237 ⁺	< .215
Fruits & Vegetables	Rioja, Valencia	Castellón Murcia	Almería
Non-Citrus Fruits	Rioja, Valencia	Castellón Alicante, Málaga	Almería Murcia
Cereals	Huesca, Zaragoza	Valladolid	Burgos, Palencia Salamanca, Segovia Soria, Badajoz, Guadalajara, Zamora, Teruel
Grapes & Wine			Albacete, Ciudad Real Cuenca
Livestock	Lérida, Madrid, Gerona, Barcelona Tarragona	Asturias	Lugo, Cantábrica, La Coruña, Orense Pontevedra

Source of Index: Instituto Nacional de Investigaciones Agrarias. "Análisis espacial de la depresión socioeconómica en España en base a las comarcas agrarias," Comunicaciones I.N.I.A., Serie: Economía y Sociología Agrarias N. 14, 1983.

¹Average of comarcas indexes, excluding comarca containing the provincial capital. Calculated by the author from Table 2 in source.

⁺Range is mean provincial index (.226) ± 5 percent.

Table 3. Comparison of Future Support Levels under the Common Agricultural Policy and Provincial Index of Socioeconomic Depression.

Index of Socio-economic Depression*	Index (Spain = 100) of Future Agricultural Support Under CAP		
	≥ 105	96-104	≤ 95
> .237	7	1	5
.215 - .237 ⁺	3	1	4
< .215	13	2	10

*Average of comarcal indexes, excluding comarca containing provincial capital.

⁺Range is mean provincial index (.226) ± 5 percent.

- > .237: Alava, Huesca, Rioja, Navarra, Zaragoza, Barcelona, Gerona, Lérida, Tarragona, Madrid, Alicante, Valencia, Cádiz.
- .215 - .237: Oviedo, Santander, Valladolid, Castellón, Murcia, Málaga, Huelva, Sevilla.
- < .215: La Coruña, Lugo, Orense, Pontevedra, Santander, Teruel Avila, Burgos, Leon, Palencia, Salamanca, Segovia, Soria, Zamora, Albacete, Ciudad Real, Cuenca, Guadalajara, Toledo, Badajoz, Cáceres, Almería, Granada, Jaén, Córdoba.

commodities that may suffer from integration into the EEC. These are commodities usually identified as non-perishable or products currently in surplus in the EEC, and those which may have benefited from protectionist, self-sufficiency policies in the past (dairy, small grains, sugar beets).

There is a concensus in Spain on probable regional losers and beneficiaries. Principal losers are expected to be Galicia, Asturias/Cantábria, País Vasco, Cuenca del Duero, La Mancha, and areas of Andalucía (Cadenas M. and Diez M.). In the first three regions, the problem is their dependence on dairy. This sector is characterized by very small and inefficient farms with low yields, compounded by a negative correlation between age of family head and farm size. The physical environment is not conducive to efficient and low cost milk production, but a self-sufficiency policy has taken producer prices to higher levels than in the EEC. Competition from lower priced, and higher and more consistent quality milk, will cause severe adjustment problems (Agra Europe; Colino).

Examples in the Cuenca del Duero and La Mancha regions are soft wheat and beef. Grain yields are low and much production is carried out on small plots on marginal land that cannot compete with the advanced farms in the EEC. Beef production is in a similar situation, with a low level of production technology, poor forage base and a profusion of uneconomic holdings--small and on marginal land (Agra Europe).

In Andalucía, most of the problems mentioned above exist simultaneously. Much of the economy and society is based on a problematic commodity--olives and olive oil--grown largely in unfavorable conditions (50 percent on truly marginal land and only 16 percent on good land). Production is also very fragmented and largely very traditional, with 51

percent of the groves on plots of less than 5 hectares and accounting for only 14 percent of total olive area. In addition, a latifundia-mini-fundia structure characterizes this region, with landless and small farm labor dependent on the large farm sector for a livelihood, usually through seasonal employment (Agra Europe).

Principal beneficiaries of EEC membership are expected to be the irrigated regions of the Levant and Andalucia. These regions have a more moderate climate than the rest of Europe, allowing products to reach markets in the off-season in the northern EEC. In addition, the main commodities in the region--vegetables and fruits, especially citrus--do not compete with northern Europe producers. Commodities from these areas already are well integrated into European markets, and producers and marketers are generally efficient. Over time, as the transition period for full EEC entry ends, Spain should increase its market share of fruits and vegetables by displacing northern greenhouse and non-member Mediterranean basin producers.

To assess potential regional impacts in more detail, the next section briefly summarizes likely effects on selected commodities, and relates these to regions. The commodities selected are wheat and barley, sugar beets, fruits and vegetables, wine and olive oil. The impacts are those expected to occur over the longer run, after the transition periods to full EEC membership have ended.

Commodity Impacts, Suggested Policies and Implications.

Wheat and Barley. There is general agreement that soft wheat will be the main adversely affected cereal crop (Cadenas M. and Diez M.; Agra Europe; Rodriguez A.; Camilleri). Soft wheat has been one of the commodities most protected and encouraged by self-sufficiency policies. Recent

prices have been slightly higher than in the EEC (up to 5 percent), and yields are much lower, with considerable production on marginal soils. In addition, 25 to 30 percent of production is of low quality. Thus, prices are expected to drop, leading to acreage declines. The impacts on acreage will be aggravated if quality is not improved, as imported wheat (the EEC has large annual surpluses) will displace Spanish wheat.

On the other hand, the outlook for hard wheat and barley is more favorable. Prices for both are about 15 percent higher in the EEC (Agra Europe; Rodriguez A.)². The effects, however, will not be as positive as previously expected. For barley, the price effect will be positive, but since both Spain and the EEC produce slight surpluses, production increases, particularly those which might replace soft wheat, will be slight. For hard wheat, projections had been uniformly positive, as Spain and the EEC were deficit producers. Since 1980, however, EEC deficits have changed to surpluses, which are expected to continue to grow through 1990 (European Community Newsflash 28). Thus, instead of increases in acreage of hard wheat, Spain now faces decreases. The latest EEC proposal was for a hard wheat production ceiling of 207,000

² A word of caution on price differences and their possible impacts should be noted here. The differences should be taken only as indications of direction of change. Actual changes, and thus production incentives or disincentives, will depend upon differences at the time of full Spanish membership. In 1981, Cadenas M. and Diez M. projected that the CAP would move toward world market prices. This has been borne out (see European Community Newsflash 27 and 28). In addition, production costs for Spanish farmers will likely increase (Cadenas M. and Diez M; Camilleri). The implication of this process is that prices of Spanish commodities that were higher than EEC prices when these studies were done (late 1970s and early 1980s), may fall further than originally projected, and prices that were lower than the EEC are not likely to increase as much. Again, the most adversely affected commodities will be those competing with northern EEC members, and those for which Spain has had a policy of protection to encourage domestic production.

metric tons (El País, April 16, 1985). This is a 20 percent decrease over the 1982 and 1983 average production, and a 50 percent decrease from 1984 record production.

The effects of these pressures will be decreased acreage and production of soft wheat in marginal areas, particularly wide areas of Castille, and its displacement toward Andalucía (Agra Europe; Camilleri). The soft wheat may be partially replaced by barley and hard wheat, but any increases in the latter will mainly be in the south. Sunflowers may be a feasible alternative in certain areas. The main suggested alternatives for the areas where soft wheat will no longer be economically feasible are more extensive use of the land--increased fallow and pasture for livestock grazing (Agra Europe; Cadenas M. and Diez M.; Perez Blanco; Sumpsi). There is also the possibility of substituting soft wheat in livestock feeding rations (Camilleri), but such a use will not bring as high a price as for human consumption.

The suggested alternatives to soft wheat production open the question of their practical feasibility. More extensive use of land, particularly for livestock grazing, implies that a farmer has the land available. For small farmers, this option is probably not possible. In addition, the overall outlook for beef is that the market will stay at current levels or be harmed because of more efficient and higher quality production by current EEC members. Opportunities may exist for increased pasture-fed production if costs of high concentrate feeds increase (Agra Europe; Camilleri; Diaz E.). Thus, the issue that must be confronted is which producer groups will be affected by the narrower market for soft wheat, and the extent to which the suggested alternatives are within reach.

Sugar Beets. Sugar beets is another of the commodities that will be adversely affected, for reasons similar to soft wheat (Agra Europe; Cadenas M. and Diez M.; Camilleri; Pastor B.). Prices are higher in Spain, production is less efficient (much smaller production units and much more labor), yields are lower, and it is another of those commodities which benefited from protection under self-sufficiency policies. These pressures will be added to existing pressures from increased competition with other sweeteners, decreasing consumption, and more market-oriented government policies. Thus, prices, production and area will decrease. Also, as Cadenas M. and Diez M. predicted in 1981, the negotiations for entry resulted in quotas lower than recent production, and considerably lower than consumption. Indeed, the latest proposal by the EEC in February, 1985, was for a quota 13 percent below Spain's average beet sugar production for 1975-1982.

For Spanish producers to compete with EEC producers implies improved technology and management in order to increase productivity and lower costs. To do this implies in turn larger farms. Larger, more modern farms and different crops also mean fewer farmers and less hired labor. And sugar beet production provides large numbers of seasonal jobs.

The farm-level impacts on sugar beet producers will be forced changes in crops for many producers. These impacts will aggravate adjustment problems for many areas and farmers because sugar beet production is concentrated where adjustments in soft wheat production also will take place. Approximately 50 percent of sugar beet production in 1982 was in the Old Castille/Duero region, where almost 20 percent of soft wheat also was produced. Adjustment alternatives will be somewhat wider for sugar beet producers, however, as 95 percent of production is on irrigated land.

Vegetables and Fruits. The outlook for Spanish fruit and vegetable production after accession to EEC membership is considered to be generally favorable. Prices are expected to rise in Spain (to both producers and consumers), and production to increase. Exports to the EEC also will increase, displacing exports from third countries (a trade diversion effect), and with Spain gaining a larger share of the EEC market (trade creation), again at the expense of non-EEC members, but also at the expense of French, Italian and greenhouse producers in the northern EEC countries.

This projection is based on (1) a large and growing off-season demand in the EEC for fresh produce, and the ability of Spain to satisfy the demand; (2) lower cost production in Spain; (3) EEC market regulations keeping prices higher and more stable; and (4) the elimination of tariffs, the reference price system, and the importing calendars, which currently are more discriminatory against Spain than other non-EEC countries (Agra Europe; Puig and Casado; Sarris; World Bank).

The major factor underlying this favorable outlook is the elimination of trade barriers. The average EEC tariff burden on fresh vegetables and fruits from Spain was 11 percent in the early 1980s (World Bank). This varies by commodity, and especially by season, with higher barriers in effect during the producing months in the EEC, and lower in the off-season. Based primarily on the elimination of trade barriers, the World Bank study has estimated percentage price increases of Spanish fruits and vegetables, by season (Appendix Tables 1 & 2). The benefits from lowered trade barriers will only be realized over the long run, as the transition period is completed and the barriers are gradually reduced. However, the manner and extent to which trade barriers vis-a-vis the EEC and third countries will be changed is still undetermined, and will not

be decided until after the first four years of the transition period (El País, October 27, 1985).

The potential benefits from the other favorable (non-trade barrier) factors also must be placed in a broader and longer term context. Increased export opportunities will not necessarily translate into net increases in production and sales. First, higher prices to Spanish producers will lead to higher consumer prices in the domestic market. These, added to price increases from the EEC value added tax, will lead to decreases in domestic consumption. Second, Spain's market also will be open to other EEC countries, leading to competition from higher and more consistent quality produce and more efficient production. Furthermore, Spain will not be able to automatically place increased quantities of produce in EEC markets. Producers and marketers will have to be able to consistently supply higher quality products of appropriate and attractive ranges (Puig and Casado). In addition, sizeable production increases will require more irrigated land. Both of these latter points imply increased production costs, along with generally rising input costs as Spanish prices conform to those in the EEC. The result will be that part of the cost advantage will be lost, and production and exports may not increase as much as believed initially.

The foregoing discussion is of primary relevance to fresh produce. Much less attention has been focused on processed fruits and vegetables. Production subsidies in the EEC are high for these commodities (World Bank). If they remain so after Spanish accession, they would constitute an incentive for increased production. The most likely beneficiary would be tomatoes, of which Spain is already a large producer and for which it has climatic advantages. There is disagreement over the market potential for processed tomatoes. One study (Agra Europe) believes processed

tomatoes will be in surplus after enlargement, while others believe increases in production and Spanish exports may be forthcoming under current CAP policies (Puig and Casado; World Bank). Thus, this commodity will need further analysis based on final Spanish entry terms and any changes in the CAP.

The regional impacts on vegetables depend upon how the issues discussed above are resolved over time. The southern and southeast coastal areas have a climatic advantage for production of early season vegetables, but projected price increases are not large because there are currently fewer trade barriers. The "in-season" producers will see the greatest price increases, but will have to compete with the traditional domestic suppliers in the current EEC countries. This will require attractive varieties and at least an equal quality. The role of lower prices in capturing more sales may not be primary. Quality increases will require more costly methods of production, harvesting and transportation. And if Spanish produce proves to be capturing increased in-season market shares at the expense of current EEC members because of consistently lower prices, political pressures would be brought to reduce market penetration.

Wine. The wine industry in Spain is another that is expected to face major adjustments. Beneficial impacts will occur, and they could be widespread as a result of the considerably higher EEC prices and easier access to those markets in the long run. Attention, however, focuses on the likely negative impacts and necessary adjustments to them. The problems arising from Spain's entry, and effects of combating them, are as much entire EEC problems as they are Spain's. In 1985, the EEC-10 had a surplus wine stock of approximately 30 million hectoliters, or 793

million gallons (El País, February 28, 1985). This is equivalent to about 80 percent of Spain's production in the low years of 1981 and 1982 (due to drought), and 87 percent of Spain's 1973-1982 average (Ministerio de Agricultura). And since Spain is a surplus producer, the stocks would increase under current policies.

In February, 1985, the EEC adopted a new wine policy to reduce future wine surpluses. The policy goes into effect in September, 1985, and is based on obligatory distillation, at a low price, of an amount sufficient to eliminate annual surpluses. The new policy also regulates new plantings and replantings, and includes incentives to uproot vines and take the land out of wine grape production (Semana Vitivinícola). Spain has, or is adopting concurring policies concerning distillation, taking vineyards out of production, and limiting replantings and new plantings.

For Spain, the accession agreement fixed a production limit of 23.4 million hectoliters of "table wine" (El País, April 11, 1985). Production above this limit will have to be distilled at low prices. The eventual impact of this limit will depend upon the definition of "table wine" in the future. For the present, the limit is not too restrictive, although in good years Spanish production could greatly exceed the official limit. Also on the positive side, wines protected by the "denomination of origin" status are not counted as table wines, for the time being.

Adjustments will be necessary, however, and they will be more severe in some areas than others. The most adverse effects will be in the areas producing low quality wines, particularly whites, of which Spain has excesses (Agra Europe; Camilleri). Castilla-La Mancha will be the most affected, as it produces approximately 50 percent of Spanish wine, over 80 percent of which is of low quality, that is, not protected by "denom-

ination of origen" status (calculated from figures in Ministerio de Agricultura). Compounding this problem is the peculiar "clarete" wine made in Spain from mixing low quality musts of whites and reds. This practice will be prohibited four years after entry. The main areas affected will be Castilla-La Mancha and the Requena region near Valencia. The latter region produces reds used in the mixture. The result will be even more surpluses of low quality wines, necessitating variety changes and acreage reductions. Further surpluses could occur as Spain's market is opened to the quality table wines of France, Germany and Italy, leading to a drop in demand for domestic wines.

Olive Oil. The potential impacts of EEC membership on Spain's olive oil sector may be subject to more speculation than any of the commodities. Projections can range from very favorable to quite problematic, depending on which producers or regions are being considered. The final nature and extent of the impacts will depend upon a new oils policy (including both oilseeds and olive oil) that is to be drawn up for the entire EEC.

The bases for projections of favorable impacts are (1) the prospects for increased exports to the EEC as trade barriers are lowered, at the expense of third countries, and (2) the higher subsidies and prices in the EEC. For example, from 1975 to 1982, the "test" market price in Spain averaged about two-thirds of the market price in Bari, Italy (Camilleri). Also, the guaranteed producer price in Spain averaged only 57 percent of that in the EEC from 1975-1981 (Tió Saralegui, 1982). Thus, under current EEC policies, Spanish producers and processors could expect considerably higher returns, and they therefore look forward to membership.

At the same time, it is precisely this prospect of extending these

supports to Spain that continues to make this sector so problematic. Financing olive oil supports in Spain under current EEC policies would increase the costs of this activity greatly, with one source estimating a 74 percent increase (Camilleri). Thus, a new oils policy almost surely will not provide direct producer supports at the high current levels.

The accompanying issue is the by-now-common theme of surpluses. Spain is a surplus producer, and surpluses increased with good harvests in 1983 and 1984. The EEC with Spain will be considerably more than self-sufficient. There is also potential for increases in Spanish surpluses, stemming from both supply and demand forces. One source of a growing surplus is increased production from applying improved technology, improved varieties and more intensive cultivation, with this being concentrated on better land and under irrigation. The much higher EEC prices, if maintained, would provide the incentive for investment to increase production. On the demand side, consumption throughout the EEC and Spain has been dropping steadily, though slowly. This is in response to greater availability and much less expensive sunflower and soybean oils, combined with the economic crises of the past several years. Within Spain, the decrease in consumption very likely could be accentuated with the opening of the Spanish market to the large amount of domestically produced soybean oil, the sale of which is currently restricted, and from higher EEC olive oil prices. In addition, Spanish exports to non-EEC countries may suffer as prices rise. Furthermore, any new EEC oils policy will likely impose production ceilings to help alleviate surpluses.

These issues lead to the need for difficult adjustments in production in order to reduce current and potentially larger surpluses. Again, the impacts will be regionally concentrated. Although olives for oil are

grown commercially in most areas of Spain, except the northern tier, the main effects will be in Andalucía, with almost 60 percent of production. The provinces of Jaén and Córdoba alone account for 38 percent. The Castilla-La Mancha region produces 15 percent.

The policies to make these adjustments inevitably involve removing land from olive production and converting to other commodities. The focus usually is on the small, marginally productive, unprofitable groves, and suggestions propose converting this land to pasture for cattle (Agra Europe; "Plan de Olivar 1981"). The practical and political possibilities of significantly reducing this acreage, however are limited. This has been recognized by several writers (Camilleri; Cadenas M. and Diez M.; de la Puerta y Civantes). One reason is that olive production forms much of the employment base of Andalucian agriculture. In addition, much of the land is so marginal that other crops are not feasible. And to make extensive livestock production profitable, large parcels of land are necessary. However, the farms suggested for reconversion are generally the small farms that provide subsistence for large numbers of rural residents. For them, cattle production is not a feasible alternative.

Summary

The specifics of the adjustments in Spanish Agriculture will remain uncertain until the details of the accession agreement are finalized and the transition period begins. It is certain, however, that there will be adjustment problems and many will be severe. Many of the problems will be distinctly regional in their impacts, and they will not be distributed evenly within regions nor among commodity and producer groups. Producers of certain commodities will be in positions to take advantage of the

changing situation, but others will lose relatively or absolutely.

There are two general commodity groups that will be subject to differing impacts -- the continental crops and the Mediterranean crops. The continental crops are cereals, particularly soft winter wheat, sugar-beets, dairy products, and beef to some extent. These are commodities that have been protected historically in Spain under self-sufficiency policies begun in the 1940s and 1950s. In general, prices have been higher for these commodities in Spain than in the EEC, quality often has been lower, and production more costly and productivity lower. Thus, producers of these commodities will face lower prices, more competition and production quotas in some cases.

The primary areas of adverse impact for the continental crops will be the northern half of the country. For soft wheat and sugar beets, the areas of Old and New Castille will feel most of the adverse impacts. These are the two main crops over large areas, and there are few viable alternatives to them. In addition, these areas contain a high proportion of small and medium sized farms. The southern grain producing areas also will be affected, but producers in these areas can compete better and have more alternatives. For dairy products the northern rim is likely to suffer severe adjustment problems. This is where 40 percent of the dairy products are produced, and many people are involved. Farms sizes are very small, levels of technology are low, and the geography complicates these problems. Also, the average age of farmers is high and the level of education is low.

The Mediterranean crops include primarily citrus, but also other fruits and vegetables. Spain has large advantages in these commodities, including an earlier production season, lower production costs and milder weather. Citrus also is already well-established in the markets of

northern Europe, with good marketing organizations and product identity. These commodities will face less competition as the transition period ends, and as trade barriers are lowered. Prices likely will rise in all cases, with considerable increases for some commodities. The areas affected will be the southern and southeastern coastal irrigated areas, and also the northern valleys. In addition, smaller farmers produce most of these crops.

The impacts on two other Mediterranean crops - olive oil and wine - are subject to more speculation than any other commodities. This is because the EEC is trying to find new policies to deal with huge surpluses and high support costs, both of which will be aggravated by Spain. For wines, at first glance there will be a tremendous income boost for Spanish producers, as prices are 30 to 40 percent high in the EEC. Surpluses must be controlled, however, especially for the low quality white wines produced in large quantities over wide areas of La Mancha. In addition, the peculiar Spanish "clarete" wine, a blend of low quality reds and whites, will be prohibited. For olive oil, no policy has been developed. Because of surpluses and high support costs, quotas are likely in the future. There also will be greater competition from oilseeds, leading to more pressure on olive oil producers. Prices to producers will rise considerably, however, perhaps as much as 50 percent, based on the current gap between Spanish and EEC prices.

In conclusion, there is general agreement that EEC membership will result in substantial advantages for Spain, certainly on balance for the country as a whole and in the long run. And, there is widespread support in Spain for membership. Nevertheless, the advantages will not occur without adjustments; there will be losers as well as winners. So it can be said that, as long and hard as the negotiations for entry were, the

Appendix Table 1. Projected Fruit Real Price Changes in Spain After EEC Enlargement.

Commodity and Period	Percent Price Change ⁺
<u>Sweet Oranges (Fresh)</u>	
April; October-November	6.6
December-March	9.6
May-June	2.6
<u>Tangerines (Fresh)</u>	
October	2.7
November	6.4
December-March	8.8
<u>Lemons (Fresh)</u>	
January-December	5.2
<u>Apricot (Fresh)</u>	
May	11.5
June	15.0
July-August	23.4
<u>Peaches (Fresh)</u>	
May	7.2
June	18.6
July-September	25.6
<u>Table Grapes</u>	
July-October	19.6
November-December	12.7

⁺Midpoint of ranges projected by model, averaged over periods. See World Bank Study for disaggregated results.

Source: World Bank. "Horticultural Trade Patterns in an Expanded European Community and their Effects on Developing Countries." CPD Discussion Paper No. 1984-29, September, 1984.

Appendix Table 2. Projected Vegetable Real Price Changes in Spain After EEC Enlargement.

Commodity and Period	Percent Price Change ⁺
<u>Tomatoes (Fresh)</u>	
January-February	2.1
March-May 14; October-December	5.4
May 15-June 30	12.1
<u>Sweet Peppers</u>	
January-December	3.6
<u>Early Potatoes</u>	
January-May 15	13.3
May 15-June	19.2
<u>Cucumbers</u>	
November-January	8.5
February	11.8
March-April; October	19.8
<u>Zucchini</u>	
November-April	4.3
May; October	10.0
<u>Eggplant</u>	
November-June	11.0
July	15.8
August-October	22.6
<u>Artichokes</u>	
January-March	2.6
April; November	14.3
May-October	20.1
December	8.0
<u>Onions</u>	
January-December	7.6

⁺Midpoint of ranges projected by model, averaged over periods. See World Bank study for disaggregated results.

Source: World Bank. "Horticultural Trade Patterns in an Expanded European Community and their Effects on Developing Countries," CPD Discussion Paper No. 1984-29, September, 1984.

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