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Negotiating CAP reform in the European Union – Agenda 2000

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FOREWORD

The Swedish Institute for Food and Agricultural Economics (SLI) is a government-funded agency with the task of performing economic analyses of agricultural and food policy issues.

The analyses provide the Government with long-term and strategic background material for domestic decision-making and international negotiations. In addition, they shall serve to enhance public knowledge and understanding of the economics of food and agricultural policy. The main area of analysis is the Common Agricultural Policy (CAP), with special emphasis on the need for policy reform and effectiveness, as well as the implications of EU enlargement and WTO negotiations. One of the Institute's main tasks is to analyse possible development paths – and thereby their economic effect and political practicability. A relevant question in this respect is the role of the EU's system of agricultural policy decision-making and negotiating.

Since the Institute was created two years ago it has mainly aimed its studies at the CAP and its economic drawbacks. The problems are well known and have been subject to numerous analyses. They have also attracted attention within the EU, and the changes or attempts at reform made in the 1990s basically aim at lessening some of the problems. They have not succeeded, however. There are obviously many reasons for this. In SLI's opinion, some of the reasons can be found in the format of the EU's decision-making and negotiations. These questions are thoroughly dealt with in this report. While the CAP as such is much analysed, analyses of these aspects of reform are rather neglected.

A decision on the CAP was taken during 1999 – Agenda 2000. Though it did not address thoroughly the problems that the CAP suffers from, the Commission's initial proposal contained some attractive elements regarding structural policy changes. However, the final agreement – reached by Heads of State and Government – was far more modest than the Commission's proposal. The result means that the EU has not prepared the CAP for the near future. The problems were well known. The need to change to facilitate enlargement was widely acknowledged. The direction of and the demands in the WTO were accepted. Why – in this situation – were no major changes made? What happened – and why?

This is the thrilling story of this report.

August 2001

Lena Johansson
Director-General

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Abstract

Whereas criticism of the European Union's Common Agricultural Policy (CAP) abounds, few studies have sought to shed light on how major decisions on agricultural policy are made in the EU. However, the decision-making process on CAP reform provides important insights into why the CAP looks the way it does and why reform has, so far, been so difficult to accomplish.

This paper studies the most recent attempt at CAP reform, the Agenda 2000 negotiations that officially began in July 1997 and ended with the Berlin Agreement in March 1999. After examining the policy preferences of four Member States regarding CAP reform, the study analyzes the negotiations process leading up to the final agreement. In particular, it explains the processes and mechanisms that allowed conflicting national interests to be reconciled in the final agreement on CAP reform.

In this paper it is argued that national policy preferences dominated decision-making on CAP reform in the Agenda 2000 negotiations. In particular, the process and the outcome were clearly determined by the national interests and preferences of the most powerful Member States. Moreover, the analysis shows that when it came to reforming the EU's agricultural policy, reform opponents assigned a higher priority to the CAP than reform supporters.

Whereas the Commission may play a significant and policy-shaping role in smaller issues of agricultural policy-making, when it comes to negotiations on CAP reform, its influence is much more limited. Policy-making on CAP reform is, therefore, a clear example of the intergovernmental nature of decision-making in the Council of Ministers in the EU.

1 Introduction

The Common Agricultural Policy (CAP) is at once the single-most resource-consuming and controversial policy of the European Union. In its 40-year history, several attempts have been made at reforming the CAP, none of which have succeeded in silencing the criticism leveled at it from all sides.[1] Whereas economic analyses of the CAP abound, few researchers have sought to shed light on the decision-making process in the EU regarding the CAP. However, the analysis of decision-making and negotiations in the EU on agricultural policy provides important insights into why CAP reform has been so difficult to achieve. A better understanding of how major decisions on agricultural policy are made in the EU is useful for negotiators preparing future negotiations on CAP reform, as well as for anybody interested in the CAP or decision-making in the European Union. In general, the analysis of negotiation processes is crucial to understanding how decisions are made within the EU.

The Treaty of Rome, which founded the European Economic Community (EEC) in 1958, included provisions for creating a Common Agricultural Policy.[2] Article 37 (ex Article 43) invited the Commission to present proposals for a common agricultural policy, and, in 1962, after years of difficult negotiations, the first commodity regulations were implemented. The CAP in its entirety can be argued to have been in place by early 1968, when, according to Ingersent and Rayner, "Community agricultural prices and policies were fully harmonised".[3]

In that same year, the first attempt was made at reforming the CAP. The failure of the so-called Mansholt Plan was indicative of the difficulty, or even impossibility, of reforming the CAP in the years and decades to follow.[4] Thus, up until the 1980s, the CAP was not changed significantly,

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[1] For a summary of the criticisms leveled against the CAP by different groups, see European Commission (1997a), pp.29-46. An overview of the problems of the CAP from an economic point of view is provided in Nalin (2000).
[2] See Articles 32 to 38 (ex Articles 38 to 46) of the Treaty of Rome.
[3] For a detailed account and analysis of the creation of the Common Agricultural Policy, see Milward (1992) pp.224-317. Shorter accounts of the creation and development of the CAP are provided in Ingersent and Rayner (1999), pp.148-155 and van der Zee (1997), chapter 8. For a brief explanation of the functioning of the CAP, see Nalin (2000).
[4] See, for example, Grant (1997), pp.70-71, and van der Zee (1997), p.139.

and even when reforms were finally undertaken in the 1980s, - with the implementation of measures aimed at limiting overall production in 1984 and 1988 -, they could be described more accurately as "holding devices" rather than structural policy changes.[5] Stefan Tangermann consequently states that "[t]he long and multifarious history of the CAP could easily be written up as a history of attempts at reforming this policy – mostly failed attempts, one should say".[6] Economic historian Alan Milward is fiercer in his criticism of the CAP's inability to change, stating that:

> The Common Agricultural Policy has lumbered on like some clumsy prehistoric mastodon, incapable of evolution into the present world where the political influence of agriculture on parliamentary systems is small indeed ….[7]

Similarly, Alan Swinbank describes the CAP as

> … a grotesque policy which has long out-lived its usefulness. It wastes scarce resources which could be better deployed in other activities, imposes heavy financial burdens upon consumers and taxpayers, contributes to the despoiling of the countryside, and discredits the EU in the world economy.[8]

Strong, and generally qualified, criticism of the CAP is neither new nor rare.[9] Moreover, rather than being limited to economists, criticism at the CAP has been leveled by farmers, consumers, politicians, and environmentalists alike. Why then has reform of the CAP proved so difficult, if not impossible?

In July 1997, the Commission presented a package of reform proposals referred to as Agenda 2000, which were aimed at preparing the European Union for future challenges, in particular its enlargement to the east. Agenda 2000 consisted of proposals for the EU's financial framework from 2000 to 2006, as well as proposals for reform of two items ac-

[5] Ingersent, Rayner and Hine (eds.) (1998), pp.2-3.
[6] Tangermann (1998), p.12.
[7] Milward (1992), p.317.
[8] Swinbank (1999), p.53.
[9] For an overview over the economic arguments in favor of CAP reform, see Nalin (2000).

counting for around 80 per cent of total EU expenditure, the structural funds and the Common Agricultural Policy. The negotiations on the Agenda 2000 proposals resulted in the Berlin Agreement concluded on March 26, 1999.

This paper examines the principal actors and forces shaping the process and outcome in the Agenda 2000 negotiations on CAP reform, and determining its eventual outcome. Through an interpretative case study, the paper seeks to shed light on the following questions: How are important decisions on EU agricultural policy made and by whom? What determines countries' negotiating positions and how important are they for the eventual negotiations outcome? What theoretical models best explain decision-making on CAP reform in the EU?

This paper examines the influence of national policy determinants on decision-making on the CAP. In particular, it analyzes how Member State preferences affected the most recent attempt at CAP reform, the Agenda 2000 negotiations. The analysis of these negotiations provides valuable insights into the determinants of change, or lack thereof, in agricultural policy-making in the EU. Most importantly, the study of the most recent attempt at CAP reform confirms the decisive role of domestic politics in EU negotiations.

The CAP faces several major challenges in the near future. The most obvious challenge is the planned enlargement of the EU, by up to twelve countries starting possibly as early as 2003. In the applicant countries, agriculture accounts for a much larger share of both the economy and employment than in the existing Member States. The full application of the CAP to these new, relatively poor and agriculture-intensive, Member States, poses serious problems, from an economic, financial and administrative point of view. Alternatively, a partial application of the CAP – implying that farmers in new Member States are treated differently than existing Member States – would undermine the CAP's claim of being a common and fair policy. The current EU position, agreed upon in March 1999, is that farmers in the candidate countries shall be excluded from the direct payments granted to farmers in existing Member States.

In addition to the challenges to the CAP arising from enlargement, internal factors are putting pressure on the EU's agricultural policy to change. Roughly one half of the total EU budget is spent on agriculture. As farming populations continue to shrink, the EU finds itself more and more pressed to justify the relatively large share of resources, around one half of the EU's total budget, spent on a sector that accounts for no more than 1.5 per cent of GDP and less than five per cent of total employment. In addition to the burden on taxpayers, the CAP is also criticized for its effects on resource allocation and the cost it imposes on consumers, through higher food prices. Furthermore, increasing public concerns with food quality, animal welfare and the environment question the validity of a policy created primarily with the aim of increasing the quantity, rather than the quality of agricultural production, and at securing farmers' incomes. Recent food scandals, in particular, the current BSE crisis, strengthen the arguments of critics of the CAP. The CAP is also increasingly criticized for having detrimental effects on the agricultural production and economic development of developing countries. Finally, international trade obligations are putting increasing pressure on the EU to liberalize agricultural trade and to reduce trade distortions arising from the CAP.

Overall, changing circumstances are threatening the legitimacy of a policy which was created over 40 years ago, and which has manifested great difficulty to change. Given the above-mentioned pressures on the CAP, it is likely that a new attempt at CAP reform will be made in the near future. By examining the latest negotiations on CAP reform, this paper hopes to provide some insights into what will be the decisive factors in future negotiations on CAP reform.

This article will show that national interests clearly dominated decision-making on CAP reform in the Agenda 2000 negotiations. The Commission or other policy networks - "a cluster of actors, each of which has an interest, or 'stake', in a given EU policy sector and the capacity to help determine its policy success or failure"[10] -, played a minor role and had little impact on the final decisions.

The Agenda 2000 negotiations provide an excellent case study of EU negotiations and decision-making on agricultural policy. They show that negotiation skills and national interests rather than the aim to improve the CAP determined decision-making on agricultural policy in the EU. In the words of Stefan Tangermann, "[o]verall, this is a story of remarkable negotiating tactics, distorted political incentives and a frustrating outcome".[11]

The second chapter of this paper provides a brief introduction to the theoretical framework for decision-making in the EU. It also identifies the main questions driving the analysis. The Agenda 2000 proposals are presented in chapter 3. Chapter 4 takes a more in-depth look at the national determinants of agricultural policy in the EU. Focusing on four Member States, it examines the factors determining the positions of Member States on the CAP and on CAP reform. Chapter 5 consists of three components. Firstly, it provides a synopsis of the Agenda 2000 negotiations on CAP reform. Secondly, it examines the role and weight of the national interests in the negotiations leading up to the overall agreement reached in Berlin in March 1999. Thirdly, it assesses the extent to which the Commission influenced policy processes and outcomes.

[10] Peterson and Bomberg (1999), p.8.
[11] Stefan Tangermann, "Agenda 2000: tactics, diversion and frustration", in *AE*, May 28, 1999, A/1.

2 Explaining decision-making in the EU

2.1 The theoretical background

The actors

The main actors in EU decision-making are the European Commission, the Council of Ministers and the European Parliament.[12] To put it simply, the Commission presents a proposal for legislation to the Council of Ministers, which the latter will then accept, reject or accept in a modified version. Article 155 of the Treaty of Rome gives the European Commission the exclusive right of policy initiative. This means that any proposal for decision-making in the European Union must be presented by the Commission. As stated by Meester:

> If the Commission does not put forward a proposal, or if it withdraws it, the Council cannot take a decision. Formally but also materially, the Commission proposal is the basis of the subsequent negotiations.[13]

Once the Commission has agreed upon a proposal[14], the proposal is ultimately accepted, rejected or accepted in modified form in the Council of Ministers, also referred to as the Council of the European Union.[15]

In principle, decisions in the Council are taken by either simple majority, qualified majority or unanimity vote, with simple majority voting constituting the default rule. Of the three, qualified majority voting is the most widely prescribed decision-making procedure, and it is also the one that formally applies for decision-making on the CAP. In the current composition of the Council, with a total of 87 votes divided among the 15 Member States 62 votes, or 71.3%, constitute a qualified majority (see Table 1). Consequently, a blocking minority requires 26 votes.

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[12] For an overview over the main actors in the EU's decision-making process see Carter and Paterson (1999), Hayes-Renshaw and Wallace (1997), or Westlake (1999).
[13] Meester (1999), p.2.
[14] Each Commission proposal has to be approved in the College of Commissioners, consisting of the 19 Commissioners and the President of the Commission.
[15] The Council can only amend proposals if it agrees unanimously to do so (see section on decision-making in the Council in box 1).

Although formally prescribed as the decision-making procedure by the Treaty of Rome, in practice, formal voting is rarely used to reach decisions in the Council.[16]. One of the reasons for the aversion against voting can be found in the so-called Luxembourg Compromise from 1966 which established the principle that, when a vital national interest of one or several of the Member States is at stake, the Council would seek to reach a solution acceptable to all Member States rather than simply outvote the Member States opposed to a proposal.[17] Thus, countries can 'invoke' the Luxembourg Compromise on controversial issues to avoid being outvoted.[18]

It would be misleading, however, to ascribe the tendency to seek consensus instead of voting to the Luxembourg Compromise alone. As Remco Vahl has pointed out, Member States are reluctant to outvote other Member States on issues which the latter consider of vital national interest for fear of the same thing happening to them on another issue.[19] Thus, even though the invocation of the Luxembourg Compromise as a negotiating tool appears to be on its way out,[20] this does not imply that the preference for reaching consensus has diminished or that straightforward qualified majority voting is taking over in Council decision-making. Especially on controversial issues, there is still a very strong tendency towards reaching agreement without having to vote. In spite of the gradual disappearance of the Luxembourg Compromise, therefore, it is still true that, "[i]n the Council voting is more implicit than explicit, decisions being reached mainly by persuading potential opponents to demur".[21]

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[16] According to Martin Westlake, "[o]f 283 legislative acts adopted between 6 December 1993 and 31 March 1995, only 72 (25 per cent) were adopted by way of a formal vote". For agriculture, the respective figures for this time period are 27 out of a total of 114, or 24%. Westlake (1999), p.87.
[17] For analyses of the Luxembourg Compromise, see Hayes-Renshaw and Wallace (1997), pp.42-58, Swinbank (1989), p.317, Teasdale (1993), Teasdale in Westlake (1999), pp.104-110, and Webber (1998), p.19.
[18] In practice, countries have rarely invoked the Luxembourg Compromise, but the possibility of doing so is in itself, or used to be, a powerful negotiating tool. *The Economist*, February 18, 1995, p.48.
[19] Vahl (1997), pp.18-19.
[20] See, for example, Swinbank (1989), p.320 and Teasdale in Westlake (1999), p.109. Swinbank argues that the change began in 1982 "when the UK invoked the Luxembourg Compromise, but failed to secure enough support to block adoption of the 1982-3 CAP price package. Subsequently, qualified majority voting began to be adopted in the Agriculture Council; but the construction of complex package deals remains an integral part of CAP decision making".
[21] Hayes-Renshaw and Wallace (1995), pp.565.

Table 1: Distribution according to Member State in 2000

Member State	Council votes	Commis-sion seats	Parliament seats	Distribution of Council votes agreed upon at Nice, Dec. 2000
Austria	4	1	21	10
Belgium	5	1	25	12
Denmark	3	1	16	7
Finland	3	1	16	7
France	10	2	87	29
Germany	10	2	99	29
Greece	5	1	25	12
Ireland	3	1	15	7
Italy	10	2	87	29
Luxembourg	2	1	6	12
Netherlands	5	1	6	4
Portugal	5	1	25	13
Spain	8	2	64	12
Sweden	4	1	22	27
UK	10	2	87	29
Total	**87**	**20**	**626**	**237**

The third principal actor in this decision-making process is the European Parliament. The formal role of the European Parliament is regulated through a consultation, a co-operation or a co-decision procedure, depending on the policy area involved (see Box 1). Whereas its formal powers have been increased for most other policy areas, - with the transition from the consultation procedure to either co-operation or co-decision -, the influence of the European Parliament on agricultural policy-making remains limited to a consultative role.

Box 1: The actors

The Commission:

The Commission is generally referred to as the EU's civil service. However, many of its competencies exceed that of a national civil service. It implements, monitors and evaluates policies, it is charged with promoting European integration (promoting the Community ideal), and it acts as mediator in Council negotiations. In addition, the Commission holds the monopoly on the right to make legislative proposals, which effectively gives it the exclusive right of policy initiative. The Commission is charged with ensuring that "the provisions of this

Treaty and the measures taken by the institutions pursuant thereto are applied" (Art.211 of the Treaty est. the European Community). Moreover, in its function as the so-called 'guardian of the Treaties', the Commission is granted considerable legal powers. In all its actions, the Treaty stipulates that the Commission shall act independently of national or other interests.[22]

The Council of Ministers:

Decision-making in the EU occurs through "collective agreements among member governments being reached in response to propositions from the Commission; the Council [of Ministers] provides the mechanism through which this happens".[23] Technically speaking, there is only one Council, which meets in different constellations depending on the issue to be discussed. Thus, for example, the Transport Council consists of the ministers of the EU Member States responsible for transport. EU Member State governments take turns chairing the Council and its Working Parties, with the Presidency rotating on a six-month basis. The Chairmen of the Councils and the Council Working Parties play an important role in the negotiation process, since they control the agenda and determine which issues are to be discussed when, and for how long.[24]

In addition to the Council of Ministers, Heads of Government, Foreign Ministers, and the President of the European Commission, meet twice a year in the European Council. Its objectives are to set guidelines for future integration and policy orientation. In addition, the European Council serves to break deadlocks on negotiations that have gotten stuck in the Council of Ministers.[25]

Council decisions are generally prepared in the Committee of Permanent Representatives (COREPER).[26] Marking a noteworthy exception to this rule, Council decisions on agriculture are prepared in the Special Committee on Agriculture (SCA). COREPER is composed of high-ranking government officials, - usually from the national Ministries of Foreign Affairs -, with the rank of ambassador. They are posted to, and head their respective permanent representations in Brussels. In contrast, SCA representatives are frequently civil servants based in their respective Agriculture Ministries, who travel to Brussels from their capitals for the meetings. The Commission is represented at both COREPER and SCA meetings by a permanent group of senior officials from its General Secretariate in addition to a changing group of officials from the different Directorates General, depending on the dossier under discussion.

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[22] For a discussion of the functions and powers of the Commission, see, for example, Peterson and Bomberg (1999), Schmidt (1997) and Winters (1994).
[23] Hayes-Renshaw and Wallace (1995), pp.559-60; For descriptions or analyses of the Council, see, for example, The European Commission (1998a), Grant (1997), pp.171-175, Hayes-Renshaw and Wallace (1997), Swinbank (1989), pp.303-313, and Westlake (1999).
[24] Petit et al (1987), p.14.
[25] For a description of the European Council, see Westlake (1999), pp.26-31, and Hayes-Renshaw and Wallace (1997), pp.158-172.
[26] For a description of COREPER see Hayes-Renshaw and Wallace (1997), pp.72-84 and Westlake (1999), pp. 276-299.

COREPER meetings are prepared in working groups composed of government officials from the relevant national ministries, usually traveling to Brussels for each meeting. The working groups resolve points that can be agreed upon without votes which are consequently listed as Part I points of the COREPER agenda. Issues that are not resolved move on to COREPER. If they can be agreed upon in COREPER they appear as 'A points' on the agenda of the next Council. Remaining unresolved issues arrive at the Council as 'B points'. According to some estimates, "around 70 per cent of business is agreed at working group level" and a further 15-20% at COREPER level, "leaving the Council 10-15% of the business as 'B points' to resolve".[27]

The European Parliament:

The initial role of the European Parliament in the EU decision-making process was largely consultative. This meant that the European Parliament was called upon to deliver an opinion before the Council took a decision on a proposal for legislation. However, the Council was under no legal obligation to take into account any amendments proposed by the European Parliament. Under the consultation procedure the only real power to affect decision-making was by delaying its opinion, since the Council was formally required to await the Parliament's opinion before making a final decision.[28]

Recent treaties have significantly increased the power of the European Parliament in the decision-making process. Thus, the Single European Act, ratified in 1987, introduced the co-operation procedure to many policy areas. Under the co-operation procedure, in addition to the so-called first reading, the European Parliament is invited again to give an opinion after the Council has taken a stance on a Commission proposal. If the Parliament rejects the Council stance on the Commission proposal, then the Council can only adopt the proposal by unanimity.[29]

The Maastricht Treaty, ratified in 1993, replaced the co-operation procedure with the co-decision procedure in several policy areas, and the Amsterdam Treaty, which came into force on May 1, 1999, extended the co-decision procedure to additional policy areas. The co-decision procedure further extended the powers of the European Parliament in the decision-making process, by - among other things - giving it the power to reject definitively a common position adopted in the Council. However, the recent increases in the power of the European Parliament have not been extended to decision-making on the CAP, which means that the original consultation procedure still applies.

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[27] Hayes-Renshaw and Wallace (1995), p.562.
[28] See Rasmussen (2000).
[29] For a more in-depth explanation of the co-operation and the co-decision procedure, see Pollack (1999) p.5 and Westlake (1999), pp.79-83.

The theory

One of the central questions in the literature on the European Union is what role and weight can be assigned to each of the three actors in EU decision-making. In particular, political scientists disagree over the extent to which the Commission has the power and interest to influence, or even determine, the direction of policy-making in the EU. Whereas the so-called neofunctionalists or supranationalists attribute the Commission with significant power to affect decision-making, intergovernmentalists claim that its role is principally limited to that of impartial agent and mediator – also sometimes referred to as ”neutral arenas” – in intergovernmental negotiations between the Member States of the EU.[30]

In addition to the scholarly attention devoted to the Commission, in recent years, academic interest in the European Parliament has grown, as a result of the above-mentioned increases in its formal decision-making power (see Box 1).[31] However, the influence of the European Parliament on decision-making in agricultural policy continues to be much more limited than in other policy areas. Accordingly, in the Agenda 2000 negotiations, the role of the European Parliament in the decision-making process on CAP reform was clearly subordinate to that of the two other EU institutions, namely the Commission and the Council of Ministers. For this reason, this paper will focus primarily on the influence of the latter two.

Intergovernmentalists, also sometimes referred to as neorealists, argue that any delegation of sovereignty by national governments to a supranational institution such as the EU can be explained by a clear and specific benefit attributed by the government in question to such a decision. In other words, national governments do not surrender sovereignty for the sake, or out of a belief in the general benefit, of integration. If gov-

[30] In the past 40 years a whole new field of research has emerged – witness the ‘European Studies’ departments or degree programs that can be found at nearly any European university – that is devoted to understanding and analyzing decision-making and integration in the EU. For one of the earliest and most important writings, see Haas (1958). For an overview over the different models explaining European integration and systemic change within the EU see Bulmer (1997), Patterson (1997), Peterson and Bomberg (1999), and Webber (1998). See also Moravcsik and Nicolaïdis (1999), Pollack (1997) and (1999), Risse-Kappen (1996), Schmidt (1997), Schmitter in Marks et al. (1996) and Scharpf (1999).

[31] See, for example, Earnshaw and Judge (1997), Hubschmid and Moser (1997), Kreppel (1999), Rasmussen (2000), and Shackleton (2000).

ernments choose to devolve sovereignty to a supranational institution on a specific issue, then they do so because they attribute a specific gain, - to their country, their party, or themselves -, to such a decision. Intergovernmentalists assert that national policy preferences, particularly of the most powerful countries, determine decision-making in the EU. Thus, to put it simply, in order to understand important policy decisions at EU level one needs merely to look at the policy preferences or national interests of its most powerful Member States. In the words of Thomas Risse-Kappen, "[i]ntergovernmentalism sees national governments as the principal agents driving or preventing progress in European co-operation".[32]

According to intergovernmentalists, the major decisions in the EU are negotiated between national governments in the Council of Ministers. Thus, Fritz Scharpf claims that,

> In spite of the Commission's monopoly on policy initiatives and the return to qualified-majority voting in the Council of Ministers, the important decisions of the Community continue to come out of multilateral negotiations between national governments.[33]

Alan Winters argues that, in contrast to the Commission, which is "supposedly independent of all national governments and is charged with preserving and promoting the 'Community ideal'", the Council, "brings essentially national interests to the negotiating table".[34]

Neofunctionalists, or supranationalists, accept that the Council of Ministers constitutes an important forum for decision-making in the EU. However, they question whether negotiations are determined exclusively by the pursuit of national interests. Thus, for example, Fiona Hayes-Renshaw and Helen Wallace argue that "decision-makers in the Council, in spite of their national roots, become locked into the collective process, especially in areas of well-established and recurrent negotiation". [35] They refer to the "collective identity" of the Council which is

[32] Risse-Kappen, (1996), p.55.
[33] Scharpf (1994), p.3.
[34] Winters (1994), p.599.
[35] Hayes-Renshaw and Wallace (1995), pp.560&564.

based on ”specific common concerns and shared commitments to the collective arena”. Similarly, David Spence speaks of the ”club-like nature of the negotiating ambience”.[36] Overall, neofunctionalists do not deny that national policy preferences play an important role in EU decision-making. In contrast to intergovernmentalists, however, they claim that one possible national preference might by the desire for integration per se.[37] Another important feature of neofunctionalism is the view that European policy integration in one area can have spill-over effects on other areas, or, in other words, that European integration, once it has begun, creates a self-reinforcing dynamic that leads to further integration.[38]

In addition, and perhaps most importantly, neofunctionalists argue that EU institutions and policies can affect and thus change national policy preferences. Proponents of this model, also sometimes referred to as institutionalists, reject the view of ”institutions as neutral arenas within which political forces are played out”.[39] Contrary to intergovernmentalists who refer to the EU Commission in terms of ‘obedient servants’, ‘neutral arenas’ or ‘mediators’, neofunctionalists attribute a very active and influential role to the Commission in the EU decision-making process.

In addition to the formal so-called ‘agenda-setting’ powers conveyed upon the Commission through the exclusive right to present legislative proposals, several authors claim that the Commission possesses significant informal agenda setting powers allowing it to influence decision-making and thus the course of European integration. Neill Nugent lists the Commission’s control over the timing of proposals and initiatives as an empowering institutional attribute, while William Coleman and Stefan Tangermann point out that the Commission benefits from ”a legal mission anchored in supranational law to support the interest of the supranational unit, an independent ability to fashion side-payments, and a capacity to act cohesively”.[40] In addition, Coleman and Tangermann and

[36] Spence in Westlake (1999), p.366.
[37] Intergovernmentalists Moravcsik and Nicolaidis call this ”an ideological preference”. Moravcsik and Nicolaidis (1999), p.82.
[38] Moravcsik and Nicolaïdis use the term ”ever-expanding integration”. Moravcsik and Nicolaïdis (1999), p.82. See also, Webber (1998), p.1.
[39] Bulmer (1997) p.8. See also Coleman and Tangermann (1998), and Pollack (1999) and (1997).
[40] Nugent (1995), p.606, and Coleman and Tangermann (1998), p.14.

Nugent contend that Commission possesses a considerable knowledge edge vis-à vis Member States and organized interests.[41]

Coleman and Tangermann postulate that a supranational institution can be described as an 'entrepreneurial leader', as opposed to being merely a 'mediator', if it possesses "institutional attributes that enable it to propose and argue for agreements that go significantly beyond the position of the most opposed Member State".[42] They claim that entrepreneurial leaders "have sufficient capacity to reshape the preferences of Member States, all the while taking advantage of procedural rules and information asymmetries to push for their own preferences", and they identify the European Commission as having the attributes necessary to qualify as such.

In the more recent literature on European integration, the divide between intergovernmentalists and neofunctionalists has become somewhat less distinct, as scholars from both sides apply different theories to explain different levels of decision-making in the EU. 'Liberal intergovernmentalists' focus mainly on decision-making on major issues in the EU, particularly treaty formation, which they claim remains firmly in the intergovernmentalist domain. They concede, however, that neofunctionalism might contain useful elements for explaining EU decision-making at lower, non-constitutional, levels. Many neofunctionalists, on the other hand, acknowledge that, when it comes to decisions determining the pace and direction of European integration, so-called super-systemic decision-making, "the Union has a firm, intergovernmental backbone".[43] Institutionalists and new institutionalists concentrate largely on EU decision-making on non-constitutional issues to study the autonomy of EU institutions and their influence in the decision-making process.[44] Their

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[41] According to Neill Nugent, the Commission is the "main single source of technical expertise and the main repository of information about the content and impact of most EU policies". Nugent (1995), p.608. See also Coleman and Tangermann (1999), p.390.
[42] Coleman and Tangermann (1998), p.14.
[43] Peterson and Bomberg (1999), p.9. The intergovernmental conferences leading to revisions of the EU's founding treaties are the most obvious examples of super-systemic decision-making. A more recent example can be found in the agreements, reached at the European Council at Nice in December 2000, to extend majority-voting to a number of new policy areas, and to reweigh Member States' votes in the Council of Ministers.
[44] See, for example, Coleman and Tangermann (1998), p.14, Landau (1998), Peterson (1995), Pollack (1997) and (1999), and Tallberg (1999).

main hypothesis is that ”institutions *matter* [emphasis in original]”.[45] Institutionalist analyses focus less on whether and more on when the Commission has an impact on the development of European integration. New institutionalism often applies ‘principal-agent theory’ as a framework for explaining why countries, defined as the principals, delegate powers to the Commission, defined as the agent, and, more importantly, when, how and why an agent might pursue preferences ”systematically distinct” from and at the expense of those of its principal(s).[46]

Applying the theory to decision-making on CAP reform

While the theoretical approaches outlined above provide useful tools for analyzing and understanding decision-making in the EU, they suffer from some important shortcomings. Thus, Ann Patterson correctly observes that

> [W]hereas intergovernmentalists have erred by focusing almost exclusively on the adoption of treaties and placing too much emphasis on the role of domestic politics as they are translated through the Council of Ministers, institutionalists have erred by focusing too closely on the interactions of the various EU institutions, hence excluding the influence of domestic politics. Furthermore, neither of these research programs has adequately discussed the influence of the international economic system on EU policymaking.[47]

As a result, neither approach can provide the ‘full picture’ of decision-making in the EU. A further important shortcoming both of intergovernmentalism and neofunctionalism or institutionalism is that neither studies the interaction between domestic pressures and pressures originating at the EU or international level.

Overall, the existing political science literature on EU decision-making leaves an important void in explaining how decisions in the EU are made. Intergovernmentalism focuses almost exclusively on highest level decision-making, that is, negotiations affecting the pace and direction of

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45 Peterson and Bomberg (1999), p.16.
46 See, for example, Pollack (1997), 108.
47 Patterson (1997), p.140.

European integration. Examples of such negotiations covered in the literature are the negotiations on the Amsterdam and Maastricht Treaty. At the other end of the spectrum, institutionalists concentrate, for the most part, on the day-to-day decisions made largely by the Commission, or in Council working groups.[48] As a result, intergovernmentalists have currently staked a firm claim on explaining treaty negotiations, while institutionalists are equally well established when it comes to interpreting daily decision-making. However, so far, fairly little attention has been paid to the large area of decision-making that falls between these two extremes.[49]

Decision-making on CAP reform is an example of decision-making which is clearly not limited to discussions between technocrats, nor can it be classified as directly affecting the pace and direction of European integration. In fact, CAP reform negotiations might be argued to be unique in the sense that they are characterized both by a large degree of technocratic involvement and their occasional discussion in the Council of Europe, the latter of which qualifies it as a so-called high politics issue. This is the type of decision-making in the EU which has been most difficult to explain, making it also the most interesting.

So far, political scientists have devoted relatively little attention to agricultural policy-making in the EU.[50] Much of the literature on the CAP that does exist focuses more on its economic and technical aspects rather than studying its political dynamics. As a result, decision-making on CAP reform in the EU still remains largely a mystery. The apparent lack of interest, on the part of political scientists, is all the more surprising when considering the economic, political, and administrative significance of the CAP for the EU. The CAP consumes roughly one half of the total EU budget, or around 40 bn euro annually. It occupies more Commission officials than any other policy area.[51] It is the oldest and arguably

[48] Peterson and Bomberg divide decision-making into super-systemic, systemic and sub-systemic levels. Peterson and Bomberg (1999), chapter 1.
[49] Recently, some authors have devoted increasing attention to this middle-level field of decision-making. See, for example, Eising (2000), and Golub (1996).
[50] Keeler (1996), p.128.
[51] With a staff approximately of 1000 employees, the directorate-general responsible for agriculture, DG Agri, is one of the largest in the Commission. According to a study of the Commission's organization conducted in May 1998, - that is, before the reorganization of the Commission in 1999 -, the average size of

most integrated policy of the European Union. Its age has led it to be regarded as a symbol of European integration itself, with the consequence that an

> inevitable criticism, advanced particularly by those who regard the CAP as an expression of West European 'unity', is that any reversion towards renationalising agricultural policy not only threatens the survival of the CAP but is also a betrayal of the ideals which inspired the formation of the European Community.[52]

Given the failure of traditional political science literature to provide satisfactory answers to how agricultural policy is determined in the EU, a growing number of scholars has sought alternative models for explaining why the CAP looks the way it does and why reform has been so difficult to achieve. One model that has been favored particularly by economists is referred to as public choice or political economy.[53]

2.2 Public choice theory

One of the principal assumptions of public choice theory is that actors act rationally and out of self-interest. Public choice literature focuses on the effectiveness of minority groups, in obtaining and maintaining policy concessions in the form of financial transfers, at the expense of the majority. Applied to agricultural policy in the EU, public choice theory seeks to explain why "[i]n most industrialised countries agricultural policies have been biased in favour of agricultural producer interests at the expense of consumers and taxpayers".[54] Proponents of public choice

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the Commission's directorates-general (DGs) was 560 persons, with only six DGs numbering more than 1000 persons. European Commission (1999c), p.iii. It is interesting to note that DG Agri has only had four Director Generals since 1958, three of whom were French. In the recent reshuffle of the Commission in 1999 a Spaniard, José Manuel Silva Rodríguez, was appointed Director General of DG Agriculture. Traditionally, DG Agriculture has been regarded as being under strong French influence. Landau (1998), p.468. See also Grant (1997), pp.156-157.

[52] Ingersent and Rayner (1999), p.256.

[53] One of the most recent contributions is Kay (1998). Adrian Kay also provides a good overview over the more recent public choice literature in chapter 5. For other surveys of public choice theory and its application to agricultural policy formation in the particular the CAP, see Brooks (1996), Senior Nello (1997), and van der Zee (1997).

[54] Van der Zee (1997), p.79.

theory claim that single-issue voting[55], the over-representation of the agricultural interest in the electoral system (voting districts, proportional representation and two-party systems, voter turnout, etc.), and the efficient organization of the agricultural lobby, explain what they believe to be a disproportionate power of the agricultural interest in the EU. In particular, they argue that these factors explain why the CAP looks the way it does, and why reform has been so difficult if not impossible to achieve.[56]

By attempting to offer a systematic explanation to why the CAP looks the way it does, public choice theory provides a useful contribution to the otherwise scarce literature on agricultural policy-making in the EU. However, it suffers from several important shortcomings. One widely acknowledged problem of public choice theory as applied to the CAP is the difficulty of defining the agricultural interest.[57] Most authors agree that the agricultural interest is not limited to full-time farmers, but they find it difficult to specify and measure the share of the population and of the electorate that make up the farm vote.

Another weakness of public choice theory is its inability to explain why some national farm lobbies appear to be more successful in securing benefits at the expense of the majority than others. Public choice theory contends that the farm lobby exerts disproportionate influence over certain policy processes, allowing it to secure financial transfers to the farming minority at the expense of the majority. Adherents of public choice theory claim that voting behavior, efficient interest organization and the structure of the electoral system which favors the rural population, explain why farmers are able to secure policy concessions at the expense of the majority.

France and Germany are frequently listed as examples of countries where farm lobbies are able to secure and maintain disproportionate financial benefits.[58] In contrast, as the analysis carried out in this paper

[55] According to van der Zee, "[w]hat distinguishes the farm vote from the rest of the electorate is the *dominant [sic]* impact of agricultural policy preferences on voting behaviour which effectively implies 'single issue' voting". Van der Zee, (1997), p.65.
[56] see, for example, Keeler (1996).
[57] see van der Zee (1997) pp.64-65 and Keeler (1996).
[58] see, for example, Keeler (1996).

will show, Swedish and British farm lobbies appear to have been less successful than their French and German counterparts in securing benefits at the expense of the majority. Public choice theory fails to explain why the agricultural interest is more powerful in some countries than in others. A related issue is the fact that one of the basic premises of public choice theory is that a minority is able to extract benefits at the expense of the majority. This raises the question when a minority becomes too big or too small to exert such influence.

One possible explanation for national variations in the ability of the agricultural interest to secure disproportionate economic benefits might lie in the attitudes of the general public towards the agricultural sector. Farmers may be able to exert the influence and secure the financial benefits they do because a large share of the population sympathizes or identifies with the goals pursued by agricultural lobbies. Thus, it is possible that the non-agricultural population perceives the farmers as performing an important function, such as maintaining the rural environment and continuing an important national tradition, and therefore is willing to pay for the provision of these services. As will be shown in chapter 4, widespread public support of agriculture plays an important role in French agricultural policy. Public choice theory fails to account for this possibility, since it ignores the importance of general attitudes or ideology in agricultural policy formation.

By emphasizing the importance of national policy preferences in decision-making, public choice literature on the CAP provides a useful framework for examining, firstly, why Agriculture Ministers behave the way they do, and, secondly, why the CAP looks the way it does. However, while public choice theory might explain why reform has been so cumbersome, it cannot explain why reform was even attempted. Furthermore, public choice theory cannot explain the dynamics of negotiation and decision-making in reforming the CAP. According to Wyn Grant,

> one of the characteristics of the agricultural economics literature is that it either ignores the decision-making process altogether, or uses a public-choice approach, which, although it may explain why vested interests are strong

> and consumer interests weak, does not suggest how the balance of forces might be changed.[59]

To overstate, public choice theory cannot model when and why reform will be attempted, nor how the negotiations will unfold. In particular, public choice theory cannot account for the issue-linkage and package-dealing which characterizes EU decision-making. Issue-linkage or package dealing usually refers to bargains struck across policy areas, ”which to all intents and purposes have nothing to do with each other, but which may prove the coinage which permits transaction”.[60] According to Fritz Scharpf, package deals involving unrelated issues and brokered in the European Council have been one of the principal mechanisms through which the EU has been able to break deadlocks in negotiations in various Councils of Ministers.[61] As this paper will show, package deals or issue linkage played a decisive role in the outcome of the Agenda 2000 negotiations on CAP reform. A public choice model alone would fail to capture this dimension which is critical to explaining the final agreement on CAP reform.

In order to understand the Agenda 2000 negotiations on CAP reform, one must examine, firstly, what determines national policy preferences on CAP reform, and, secondly, how these, often conflicting, national preferences are accommodated or modified in the course of EU negotiations. The theoretical framework for combining these two aspects to analyze agricultural policy-making in the EU is provided by multilevel game analysis.

2.3 Multilevel game analysis

Whereas the previously mentioned approaches seek to explain how policies and decisions are made in the EU in general, multilevel game analysis focuses exclusively on one method of collective decision-making, namely negotiations.[62] Other possible forms of decision-making are voting or rule application.[63] While all three forms can be witnessed in EU

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[59] Grant (1997), p.148.
[60] Westlake (1999), p.371.
[61] Scharpf (1997), p.129.
[62] For recent definitions and discussions of EU decision-making, see Hayes-Renshaw and Wallace (1997), ch.10, Elgström and Smith (2000), and Elgström and Jönsson (2000).
[63] Elgström and Smith (2000).

decision-making, negotiation is clearly the dominant method when it comes to issues of high political relevance. Helen Wallace writes:

> The European policy process has been peculiarly dependent on negotiation as a predominant mode of reaching agreements on policy and of implementing policies once agreed. Much of the literature is misleading in suggesting that the model is either a negotiation model or something else. The analytical question is what characterizes the negotiating process, not whether it exists.[64]

In order for a negotiation to take place, two conditions must be fulfilled: firstly, there must be some form of interdependence leading parties to seek a common solution, and, secondly, there must be conflicting interests necessitating a process for reaching agreement on a common problem. According to David Spence, ”[i]n all negotiations it is axiomatic that the process involves attempting to achieve something when others control – at least in part – the means for its achievement”.[65] Spence defines the basis of negotiation as ”a willingness to adapt aims in order to achieve what one wants”.

Multilevel game analysis studies multilateral negotiations by, firstly, identifying different levels at which policy choices are determined and, secondly, by examining the interaction between them. Traditionally, the analysis focuses on two levels, namely domestic politics (level II) and international relations (level I), and the extent to which they influence each other, to explain international negotiation outcomes:

> At the national level, domestic groups pursue their interests by pressuring the government to adopt favorable policies, and politicians seek power by constructing coalitions among those groups. At the international level, national governments seek to maximize their own ability to satisfy domestic pressures, while minimizing the adverse consequences of foreign developments. Neither of the two

[64] H. Wallace (1996), p.32.
[65] David Spence in Westlake (1999), p.365.

> games can be ignored by central decision-makers, so long as their countries remain interdependent, yet sovereign.[66]

This model is also sometimes referred to as Putnam's two-level game model, in reference to Robert Putnam's article from 1988, which established a widely accepted framework for analyzing international negotiations.[67] One of the major contributions of Putnam's work was the idea that, over the course of a negotiation, strategies and outcomes at level I can affect strategies and outcomes at level II and vice versa. By contrast, much of the previous literature had viewed domestic policy preferences as more or less endogenous variables in international negotiations, with developments in the latter having little or no impact on the composition of the former.

Putnam argues that, in international negotiations, countries' positions are constrained by the range of outcomes that are politically acceptable at home. He refers to 'win-sets', defining them as "the set of all possible Level I agreements that would 'win' – that is, gain the necessary majority among the constituents – when simply voted up or down".[68] The size and composition of countries' win-sets play a crucial role in determining, firstly, whether an agreement will be reached and, secondly, what that agreement will look like. The reason for this is that "[b]y definition, any successful agreement must fall within the Level II win-set of each of the parties to the accord".[69] All other things equal, therefore, agreement is only possible if the win-sets of the negotiating partners overlap.[70]

Several factors determine to which extent win-sets might overlap. Firstly, the more similar countries' national preferences are, or the closer countries' win-sets, the greater the overlap, and thus the greater the possibilities for reaching agreement. Secondly, the larger the win-sets of the countries participating in the negotiations, the greater the potential for overlap, and thus the greater the likelihood of reaching agreement. Fi-

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[66] Putnam (1988), p.434.
[67] For a very useful overview over and discussion of the theory on international bargaining and Purnam's two-level game, see Moravcsik (1993).
[68] ibid., p.437.
[69] ibid., pp.437-438.
[70] Package deals and synergistic linkages make it possible to reach agreement on an issue, even when the win-sets for that issue do not overlap. This will be discussed later.

nally, differences in the relative size of countries' win-sets also play an important role in the outcome of an international negotiation:

> The relative size of the respective Level II win-sets will affect the distribution of the joint gains from the international bargain. The larger the perceived win-set of a negotiator, the more he can be 'pushed around' by the other Level I negotiators.[71]

In recent years, a small group of authors has applied a game analysis model to explain the processes and outcomes of negotiations in the EU.[72] Examining the MacSharry negotiations on CAP reform in 1992, they sought to identify what made reform possible. Ann Patterson expanded Putnam's model to three levels, arguing that the unique structure of decision-making in the EU, with both intergovernmental and supranational features, requires an additional level for analysis. Thus, she added the EU level (II) to the domestic (III) and the international (I) levels.[73]

Game analysis constitutes a relatively new approach to analyzing EU decision-making.[74] While institutionalism and traditional intergovernmentalism might be suitable for explaining daily decision-making or treaty formation, respectively, game analysis provides a very useful theoretical framework for examining the 'middle-level' type of decision-making that characterizes negotiations on CAP reform. Game analysis emphasizes the importance of domestic policy preferences and their influence on negotiations between countries. At the same time it account for the fact that external pressures or considerations might change national preferences during the course of a negotiation. Finally, game analysis captures one of the essential features of EU decision-making, namely issue linkage and package dealing.

2.4 The framework for this paper

Most authors will agree that the European Commission possesses certain institutional attributes, such as the monopoly on policy initiative, which

[71] Putnam (1988), p.440.
[72] See, for example, Patterson (1997), Paarlberg (1997), Coleman and Tangermann (1999).
[73] Patterson (1997), pp.141-142.
[74] For a recent application of Putnam's two-level game to EU decision-making, see Hosli (2000).

distinguish it significantly from other supranational institutions. Most authors will equally agree that these institutional attributes give the Commission greater influence on the decision-making process than is the case for other supranational or international institutions (such as the WTO, the UN, the OECD). Where researchers disagree is on the relevance of the Commission's involvement for policy outcomes. The important question, therefore, is not so much whether the Commission has and pursues its own agenda, but rather whether its actions result in different policy outcomes than if its involvement were limited to that of a detached and neutral arbitrator or mediator.[75]

Similarly, there is a widespread consensus among political scientists that the Council of Ministers plays a key role in most decision-making in the EU. Here, the point of contention is how and to what extent national interests explain the decisions ultimately made. Overall, the fundamental question to be asked is the relative weight of the Commission in policy-making in the EU when compared with the ability of Member States, particularly large Member States, to influence or even determine the choices made on major policy issues.

The aim of the analysis of the Agenda 2000 negotiations carried out here is to identify the main factors that determined the process and the outcome regarding CAP reform. Based on an examination of the national policy preferences of a number of Member States, the paper studies how these policy preferences influenced decision-making in the Council of Ministers. Chapter 5 also analyzes to what extent the Commission acted as an entrepreneurial leader and to what extent it was able to influence the outcome of the Agenda 2000 negotiations. To assess the influence of the Commission on EU decision-making, the study will examine its role, firstly, in the drafting of the proposals, and, secondly, in the negotiations of the proposals in the Council of Ministers.

This analysis applies multilevel game analysis to identify the factors, at domestic, EU and the international level, which shaped the course of the

[75] Hayes-Renshaw and Wallace differentiate between the Commission's "two distinct and not always easily reconcilable purposes within Council", namely of "mediator and architect of compromise", on the one hand, and of "protagonist and deviser and 'owner' of the texts on the Council chamber", on the other. Hayes-Renshaw and Wallace (1997), pp.187-188.

negotiations and determined the final outcome of the negotiation agreed upon by Heads of State and Government at the Berlin summit on March 24 and 25, 1999. The paper examines first the domestic determinants of national win-sets of Member States in the Agenda 2000 negotiations. Then it analyzes the interaction between Member States' national win-sets in the Agenda negotiations on CAP reform. Finally, the paper assesses the role of the Commission in influencing decision-making in the Agenda 2000 negotiations on CAP reform. Examining the role of the Commission does not, strictly speaking, fall within the framework provided by Putnam's two-level game. However, an assessment of the Commission's influence on decision-making in the Agenda 2000 negotiations provides a useful complement to the multi-level game analysis. It can be regarded as a control element, confirming the results of the multi-level game analysis of the event.

The analysis of the Agenda 2000 negotiations focuses on the negotiations in the Agricultural Council and its preparatory Council Working Parties. The main sources are reports and other material from SCA, Council and High Level Group meetings, as well as *Agra Europe* and other periodicals. These written sources are complemented by interviews with a selection of government and Commission officials who were involved in the negotiation process.

3 The Agenda 2000 proposals for CAP reform

3.1 Background

On July 16, 1997, in response to a request formulated at the Madrid European Council in December 1995, the European Commission presented "Agenda 2000: For a stronger and wider Union", henceforth referred to as the Agenda 2000 proposals. These contained "broad perspectives for the development of the Union and its policies beyond the turn of the century, the horizontal issues related to enlargement, and the future financial framework beyond 2000 taking account of the prospect of an enlarged Union".[76] The Agenda 2000 proposals consisted of three main elements. The first element was a proposal for the EU's financial framework for the years 2000-2006. The second and third element were proposals for reforming the two policies that together consumed around 80 per cent of the EU budget, namely the Common Agricultural Policy (CAP), and the EU's structural funds.

After having unveiled the general thrust of its reform ideas regarding the CAP in July 1997, the Commission presented its detailed proposals for CAP reform (COM(98)158 final), - the so-called regulation proposals -, in March 1998. The main elements of the reform proposals for the CAP were, firstly, reductions in intervention prices for arable crops, beef and dairy products, with partial compensation in the form of direct payments - a policy combination first used in the MacSharry reforms in 1992 -, and, secondly, the introduction of horizontal regulations, such as cross-compliance and modulation. Cross-compliance referred to linking direct payments to environmental considerations while modulation implied the introduction of limits on direct payments to individual farms. In addition, the Commission suggested the renationalization of certain, limited, aspects of the CAP. Finally, the Commission proposed the introduction of a so-called new rural development policy, also referred to as the second pillar of the CAP. This would group together in one policy

[76] European Commission, (1997b), p.3.

area measures such as investment aids for farm modernization, processing and marketing of agricultural products, compensatory allowances for farmers in less-favored areas, as well as subsidies for training, early retirement and young farmers.

After fierce negotiations on the basis of the regulation proposals, on March 11, 1999, EU Agriculture Ministers agreed on a compromise regarding CAP reform, which will be discussed in greater detail in chapter 5. However, at the Berlin Summit one week later, the EU Heads of State and Government renegotiated and presented a new and final reform package on March 26. This agreement led to the adoption of ten new regulations in May and June 1999, and the restriction of the agricultural budget "to an average of EUR 38 billion annually for market policy (…) and EUR 4.3 billion for rural development measures".[77]

3.2 The premises for CAP reform

The need for reform

Soon after the so-called MacSharry reform from 1992, it became clear that several factors would make further adjustment necessary in the near future.[78] Firstly, agricultural surpluses were predicted to increase again rather quickly in spite of the attempts made in the 1992 reform to contain production. The Commission admitted in its 'Agricultural Strategy Paper' presented in November 1995 (see Box 2) that unfavorable weather and unusually high wheat prices had contributed significantly to ensure that cereals production had not exceeded the forecasts of 1992.[79] Several experts predicted EU cereals production to grow again due to productivity increases. Since EU cereal prices exceeded world cereal prices, the resulting surpluses could only be exported at subsidized prices. However, the quantities available for export would exceed by far permitted volume of subsidized exports agreed upon in the Uruguay Round.[80] The result would be, once again, a serious problem of overproduction. In addi-

[77] European Commission (1999a).
[78] For analyses of the MacSharry reform, see, for example Coleman and Tangermann (1998 & 1999), Kay (1998), LeTheule and Litvan (1993), and Patterson (1997).
[79] European Commission (1995), p.13.
[80] See, for example, Tangermann (1998), pp.28-29.

tion, the Commission foresaw already in 1995 the risk of beef surpluses reappearing before the end of the decade.

Secondly, the EU's commitments in the WTO agreed upon in the Uruguay Round, and the upcoming WTO agricultural negotiations scheduled to begin in 1999 provided another pressure for further reform. It was widely expected that the EU would be under great pressure to eliminate subsidized exports, to liberalize agricultural trade and to improve market access.[81]

A third condition setting the stage for further reform was the prospect of EU enlargement and the budgetary and other challenges associated with it. In particular, the application of an unreformed CAP to the new Member States threatened to lead to, firstly, exploding budget costs, and, secondly, "increased difficulties for the enlarged Union in meeting its UR-AA [Uruguay Round Agricultural Agreement] commitments".[82] However, even without enlargement, productivity and production increases looked likely to create serious budgetary problems within the foreseeable future.[83]

Finally, a fourth catalyst for reform might be summarized under the motto of 'legitimacy'. Traditionally, the strongest critics of the CAP are economists, free trade advocates, and, to a certain extent, consumer representatives. They criticize high level of subsidies and the market-distorting effects of the CAP, which result in high food prices for consumers, high costs for tax payers, and efficiency and welfare losses to society as a whole, due to suboptimal resource allocation. In addition, however, since the 1990s, the CAP has come increasingly under fire from other groups of society, such as environmentalists and animal rights activists. These, newer, critics attack the CAP for supporting intensive and large-scale farming at the expense of the environment and animal welfare. The BSE crisis, which erupted in the mid-1990s, confirmed these criticisms and further undermined the credibility of the traditional agri-

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[81] *Agra Europe* claims that the adaptation of European agriculture to the parameters set by the Uruguay Round provided the "main thrust of the Agenda 2000 proposals". *AE*, December 23, 1998, A/1.
[82] Ingersent and Rayner (1999), p.373.
[83] *FT*, "Comment and Analysis: The great survivor: The CAP is being reformed cautiously", November 2, 1997.

cultural policy associated with the CAP. Finally, highly publicized examples of fraud and abuses of CAP subsidies have further undermined the legitimacy of the CAP.[84] Also, as general skepticism of the EU increased throughout the 1990s, the CAP has come to be increasingly eyed suspiciously as a symbol of an obscure, cumbersome, self-interested, and inflated bureaucracy.

The Commission proposals for CAP reform presented in the Agenda 2000 proposals were thus also a response to the growing legitimacy problems of the CAP. If the CAP was to survive, there was increasing pressure for it to change and respond to both the old criticisms and the new demands that were placed on agriculture. In the Agricultural Strategy Paper from 1995, the Commission itself pointed to the "negative image of the CAP in public opinion (complicated, opaque, bureaucratic, not understandable to farmers, subject to abuse and fraud, …)", as an argument for reform.[85]

The Commission's line of argumentation

In its press release in connection with the presentation of the Agenda 2000 proposals in July 1997, the Commission listed four reasons for why the CAP should be reformed: the risk of growing surpluses, - with all the problems attached to them -, the upcoming WTO round, the desire for a "more environment-friendly and quality-oriented agriculture", and the prospect of enlargement.[86]

Pointing to its own projections[87], the Commission claimed that without a reform of the CAP, and taking into consideration the commitments of the EU under the Uruguay Round Agreement, structural surpluses – and with them, the risk of rapidly growing expenditure –, would once again become a serious problem for the EU. [88] At the same time, the high prices of EU agricultural products would not allow the EU to maintain or even increase its share in expanding world markets. The combination of struc-

[84] For a summary of the CAP's problems with fraud, see Peterson and Bomberg (1999), p.144,
[85] European Commission (1995), p.15.
[86] European Commission (1997c), p.2. For an analysis of the pressures for the Agenda 2000 CAP reform, see Ingersent and Rayner (1999), pp.373-4.
[87] In April 1997, the Directorate-General for Agriculture of the Commission presented its *Long Term Prospects* for grains, meat and milk markets. European Commission (1997d).
[88] European Commission, (1997b), pp.28-30.

tural surpluses and loss of world market shares showed the necessity of CAP reform.

The second argument for CAP reform listed by the Commission in the Agenda 2000 proposals was the upcoming WTO negotiations to begin in Seattle in 1999. The Commission claimed that "[c]utting border protection, reducing export subsidies and reshaping internal support towards more 'decoupled' instruments will enhance the Union's negotiating stance in the new Round". The implications for eastward enlargement of an unreformed CAP were the third group of aspects used to demonstrate the need for reform. Finally, consumer requirements, - in particular food safety -, and environmental aspects constituted the fourth category of arguments for CAP reform.

In its presentation of the Agenda 2000 proposals, the Commission identified the following policy objectives for the CAP: increased competitiveness of EU agriculture, food safety and quality, adequate and stable farm incomes, the integration of environmental goals into the CAP, the promotion of sustainable agriculture, the creation of complementary or alternative income and employment opportunities for farmers and their families, and the simplification of the EU legislation.[89]

Box 2: Preparing the ground for reform – The Agricultural Strategy Paper

In December 1995, the European Commission presented its "Study on alternative strategies for the development of relations in the field of agriculture between the EU and the associated countries with a view to future accession of these countries", generally referred to as the "Agricultural Strategy Paper", to the Madrid European Council. This paper set the stage for the Agenda 2000 proposals for CAP reform to be presented one and a half years later, in July 1997.[90]

In the paper, the Commission listed three options for the future development of the CAP, namely, a continuation of the CAP in its existing form, - the status quo solution -, a "radical reform" of the CAP, and "developing the 1992 approach". The Commission ruled out the status quo option on the grounds that "although it might be a feasible option for a limited number of years", in the end "a major CAP reform would probably become unavoidable". The arguments for rejecting the second option, - "radical reform" -, were, firstly, that it would imply social

[89] European Commission, (1997b) p.8.
[90] European Commission, (1995).

and environmental risks which in turn could create serious problems in some regions, and, secondly, that, "at least in the first five to ten years, before compensatory payments are phased out to a large extent, it would imply huge sums of additional public expenditure". The second argument is noteworthy, since it rests on the implicit assumption that that farmers would continue to be compensated, to a large extent and for a considerable period of time, for the reduction or abolition of price supports.

Instead, the Commission advocated the third option, namely "developing the 1992 approach". Thus, the Commission argued in favor of maintaining, and perhaps further developing, the approach chosen in the 1992 reform of linking "environmental and social considerations to the direct income payments". It also expressed itself in favor of continuing to reduce price support, as initiated in the MacSharry reform, and using direct payments to compensate for resulting income losses. The Commission stated that:

A resolute continuation of the 1992 reform approach which would lead to a clearer distinction between market policy and income support, would not only be less distorting from an economic point of view, increase the market orientation of the sector and help to make it more competitive, but it would also tend to facilitate future integration of the CECs.

In addition, the Commission emphasized the importance of a "radical simplification of what is done at EU level" regarding the CAP. In this context, the Commission proposed introducing a certain element of renationalization or subsidiarity in the implementation of the CAP.[91] Finally, the Commission proposed that CAP price supports should be fixed for five-year periods, thus replacing the customary annual negotiations over price support.[92]

3.3 The Commission proposals: the main features

Agenda 2000 proposals

The Agenda 2000 proposals for CAP reform, - summarized in Table 2 -, contained specific suggestions for price cuts, with at least partial compensation, in the sectors that made up the largest share of the CAP budget, namely arable crops, beef and dairy products.[93]

The second component of the Agenda 2000 proposals was the announcement by the Commission of its intention to "propose the intro-

[91] For a description of the Agricultural Strategy Paper, see, for example, Ingersent and Rayner (1999), pp.370-371.
[92] European Commission (1995), p.24. See also, Thomson (1998), p.183.
[93] The proposals can be found in European Commission, (1997b), pp.32-39.

duction of an individual ceiling covering all direct income payments granted under the Common Market Organisations". In addition, the Commission proposed to allow Member States to limit direct payments paid to individual farmers or holdings by "introducing differentiation criteria according to commonly agreed rules". This so-called 'modulation' would allow Member States to limit the total amount of aid paid to any individual farmer. One of the motivations behind the proposals for individual ceilings and modulation was the aim to prevent large farms from receiving what were considered to be exorbitant sums of money.

The third major element of the proposals was the Commission's proclamation to "make a proposal enabling Member States to make direct payments conditional on the respect of environmental provisions". This element came to be referred to as cross-compliance.

In addition to these factors, the Commission also made proposals for a rural development policy. This heading, a wide range of subsidies to farmers was proposed which would "reward… the farmers for the range of services they provide in meeting the expectations of consumers and wider society, including the preservation of the rural heritage, while emphasising the creation of alternative sources of income".[94] These services were summed up in the so-called 'multifunctional' role assigned by the Commission to agriculture. The term has become widely used to refer to the view that agriculture fills important social, environmental and other functions – in addition to the efficient production of agricultural products – that should be taken into account when examining the appropriateness and the benefits of interventionist agricultural policy. The Commission proposed that the rural development measures be incorporated as a so-called 'second pillar' into the CAP (the first one being agricultural policy).

[94] European Commission (1999a), p.12.

Table 2: Principal elements of the CAP reform proposals from July 1997

Policy area	Main elements of the reform proposal
Arable crops	• One-step 20% reduction in cereals intervention price in 2000 (from 119.19 ECU/t to 95.35 ECU/t) • Increase in direct payment from 54 ECU/t to 66 ECU/t multiplied by the regional cereals reference yield • Compulsory set-aside 0%, voluntary set-aside to be allowed, extraordinary set-aside abolished
Beef	• Gradual 30% reduction in intervention price between 2000 and 2002 (from 2780 ECU/t to 1950 ECU/t) • Increase in direct payments: Suckler cows (yearly) from 145 ECU to 215 ECU Bulls (one payment) from 135 ECU to 368 ECU Steers (two payments) from 109 ECU to 232 ECU
Dairy products	• Extension of quota regime up to 2006 • Gradual 10% reduction in intervention price between 2000 and 2006 • New direct payment for dairy cows at 145 ECU yearly
Rural development[a]	• Investment in agricultural holdings • Subsidies for establishment of young farmers, training, early retirement • Support for farming in less favored areas • Remuneration for agri-environmental activities • Support for investments in processing and marketing facilities, for forestry and for measures promoting the adaptation of rural areas provided they are related to farming activities and to their conversion
Horizontal provisions	• Cross-compliance with environmental concerns • Modulation of direct payments to farmers

a: most of the measures listed under this heading were not new; rather, the novelty of the Agenda 2000 proposals was that they should be grouped together under the heading ‚rural development', and incorporated into the CAP.

The regulation proposals

The Commission presented its detailed legislative proposals for CAP reform, - the so-called regulation proposals -, on March 18, 1998, several months later than it had originally announced when presenting the

Agenda 2000 proposals in July 1997.[95] As stated in the Commission's press release in connection with their official presentation, the regulation proposals constituted "the legal texts on which decisions can be taken on the policy reforms proposed in Agenda 2000".[96] Thus, the regulation proposals quantified and specified the general proposals presented in the Agenda 2000 proposals.

The regulation proposals differed in several instances from the original Agenda 2000 proposals. In the arable crops sector, the Commission proposed the reinstating of subsidies for silage made mainly from maize, whereas the Agenda 2000 proposals suggested that silage cereals should be excluded from direct payments. Regarding the beef regime, the Commission proposed lower direct payments for suckler cows, bulls, steers and dairy cows. However, these reductions, were offset by the introduction of national envelopes to Member States for additional direct payments. As a result, the total premium that could be paid to producers remained the same as in the original Agenda 2000 proposals, but 50 per cent of the increase in premia proposed was left up to Member States "regarding the discretion of the financial envelopes allocated in the context of the additional payments".[97] Other differences compared with the Agenda 2000 proposals were the increase in extensification premia and the introduction of ceilings for male animals and suckler cows. The main changes in the dairy sector were the proposal to gradually decrease support prices by 15 per cent instead of 10 per cent as suggested in the Agenda 2000 proposals, and the introduction of a new additional quota for young farmers, as well as for farmers in mountainous areas and Nordic zones, respectively.

Regarding horizontal measures, the regulation proposals quantified the Agenda 2000 proposals for individual ceilings by suggesting a 20 per cent reduction in payments on direct payments between ECU 100,000 and ECU 200,000, and a 25 per cent reduction on amounts above that. In addition, the Commission reiterated its proposal for cross-compliance, allowing Member States to take environmental measures they consider

[95] *AE*, July 18, 1997, E/3.
[96] European Commission, (1998c), p.1.
[97] ibid., p.4.

appropriate “in view of the agricultural land used and the production concerned”, and to make direct payments conditional on the fulfillment of environmental provisions. Regarding modulation, whereas the Agenda 2000 proposals spoke vaguely of allowing Member States to “introduce differentiation criteria according to commonly agreed rules”, the regulation proposals suggested that Member States be allowed to modulate direct payment per farm “within certain limits and relative to employment on the farm”.

Rather than merely “translate in concrete acts the orientations of last July”, as claimed by the Commission, the regulation proposals differed in some significant aspects from the Agenda 2000 proposals.[98] These changes, such as the introduction of national envelopes, the proposal for a 15 per cent, as opposed to a 10 per cent reduction in intervention prices for butter and skimmed milk, and the suggestion to reinstate subsidies for silage maize, were the result of an intensive, though not always formal or explicit process that had been taking place between the Commission and the Member States ever since the Commission had presented its Agenda 2000 proposals eight months earlier, if not before then. In response to the reactions by the Member States to the Agenda 2000 proposals, the Commission made the very conscious and deliberate choice to amend certain of its original proposal, rather than merely specify and reiterate the suggestions presented in July 1997.

[98] An overview and comparison of the different proposals is provided in

Table 9 in chapter 5.

4 National policy preferences regarding the CAP

4.1 Introduction

Understanding how national positions on CAP reform are determined is a crucial prerequisite for analyzing agricultural policy-making in the EU. The undeniable intergovernmental character of many negotiations in the Council of Ministers, and, particularly, in the Council of Agriculture Ministers emphasizes the importance of domestic considerations in EU decision-making. Thus, according to Lee Ann Patterson, "[t]he importance of domestic politics in determining the contours of the win-set at the Community level cannot be overemphasized".[99] Similarly, John Keeler states that, in the analysis of agricultural policy formation in the EU, the domestic level "represents the most important (and most neglected) piece of a complex puzzle".[100] Game analysis generally acknowledges the importance of the domestic determinants (level II or III depending on the number of levels specified) for international negotiations. However, few case studies of international negotiations have sought to examine these determinants more closely.

National policy preferences play a decisive role in determining countries' positions in negotiations on CAP reform. These policy preferences on CAP reform are in turn shaped by a number of factors, not all of which are linked to agriculture. Before analyzing the processes and outcomes of the Agenda 2000 negotiations, therefore, this chapter examines the national policy preferences of a selection of Member States on CAP reform.

The four countries selected for an in-depth analysis are Germany, France, the UK and Sweden. Germany and France have traditionally played key roles in agricultural policy-formation in the EU. Thus, both Lee Ann Patterson and Douglas Webber show that the positions of the French and the German governments have been decisive for the out-

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[99] Patterson (1997), p.147.
[100] Keeler (1996), p.128.

come of negotiations on CAP reform.[101] Similarly, Michael Tracy observes that,

> the political process [on CAP reform] is dominated by France and Germany, and by the interaction between them. The United Kingdom exercises a constraint through its insistence on budgetary discipline, but otherwise is largely on the sidelines.
>
> Where an issue of major and general importance is at stake, other countries influence the outcome but do not determine it. All countries make particular demands which have to be at least partly met to obtain approval by 'qualified majority' (if not unanimity)…[102]

Adrian Kay claims that, throughout the history of the CAP, the French position has been decisive for the outcome of reform negotiations, arguing that the influence of the French Agriculture Minister has been greater than the share of votes officially allocated to France in the Council of Ministers.[103]

France and Germany have thus undeniably played an important role in previous attempts at CAP reform, and it is natural that they should be included in any country analysis of national policy preferences regarding the CAP. The two countries have also traditionally been strong opponents of CAP reform. This was no different in the Agenda 2000 negotiations, where they were the certainly the most powerful, and arguably the fiercest, opponents of the Commission proposals for reform.

In order to gain a more balanced picture, it is useful to analyze the policy preferences of a country in favor of far-reaching reform of the CAP, in addition to France and Germany. As the largest Member State consistently country advocating change, the UK is a logical choice. In line with its traditional attitude towards CAP reform, the UK was also a strong proponent of CAP reform in the Agenda 2000 negotiations.

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[101] Webber (1998) and (1999), and Patterson (1997).
[102] Tracy (1995), p.4.
[103] Kay (1998), p.120.

Finally, Sweden has been added to the group of countries to be studied in-depth. Sweden provides a valuable case study since, in the Agenda 2000 negotiations, it was one of the so-called small EU countries that pushed for a far-reaching change of the CAP. As a small player with a strong preference for change, one might argue that Sweden was at a double disadvantage with respect to getting what it wanted. This combination provides for an interesting analysis and complement to the examination of the major players.

One widely accepted explanation for why CAP reform has been so difficult to accomplish is that agriculture holds an exceptional position both in domestic politics and in the EU. This exceptional position is alleged to constitute a powerful obstacle to change.[104] This chapter examines historical, political, economic, and other determinants of national policy preferences regarding CAP reform in Germany, France, the UK and Sweden. For each country, the first section analyzes the general view on CAP reform, while the second section explains the national responses to the Commission's Agenda 2000 proposals for CAP reform.

4.2 Germany

General

Ever since the first negotiations on a European agricultural policy in the late 1950s, German policy on the CAP has been characterized by a conflict of opinion between the Ministry of Agriculture and farmers and their representatives on the one hand, and the ministries of economics and finance on the other.[105] Thus, according to Alice Landau, in the post-war period, German agricultural policy has been and still is divided between "a liberal free trade position and that of preserving the economic interests of its farmers".[106]

Throughout most of the 50-year history of the Federal Republic, the Ministry of Agriculture has successfully resisted pressure from the Ministries of Economics and Finance for a more market-oriented and free trade position policy stance. This ability to resist is remarkable when

[104] See, for example, Nugent (1999), ch.15, Peterson and Bomberg (1999), ch.5.
[105] See, for example, Hendriks (1994), and Webber (1998).
[106] Landau (1998), p.461.

considering, firstly, the clout of the Ministry of Economics in Germany otherwise, and, secondly, the general consensus in Germany after World War II on the benefits of trade liberalization and opening up the German economy to international competition after World War II. Thus, with regard to the general economic policy stance in post-war Germany, German agricultural policy on the CAP has been the 'odd man out'. In this aspect, Germany differs significantly from France, where the general economic policy after World War II was much more protectionist and interventionist, and thus more compatible with the pursuit of a protectionist and interventionist agricultural policy.[107]

Both foreign policy and domestic factors combine to explain why the Ministry of Agriculture has been able to pursue a protectionist and interventionist agricultural policy against the strong opposition of most of the other ministries. The first explanation can be found in the importance attached by German chancellors, in particular Konrad Adenauer, Willy Brandt and Helmut Kohl, to the advancement of European integration, and to the Franco-German relationship in particular. These foreign policy priorities have consistently taken precedence over economic or budgetary goals of making agriculture more competitive and less expensive.[108] In recent years, however, and in particular with the coming to power of Gerhard Schröder in 1998, the desire to promote European integration and to secure a good and close relationship with France has become less of a driving force in German politics.

Domestic politics provide a second explanation for German agricultural policy. Although farmers account for only a small share of the electorate, - in 1998 farmers constituted 2.8 per cent of the employed civilian working population[109] -, the 'farming population', or what is sometimes is referred to as the 'farm vote'[110] has traditionally constituted an important source of electoral support for the Christian Democrats, CDU/CSU, who have been in power for 35 of the past 51 years. One of the things that

[107] Thus Douglas Webber pointed out that during the Urugay Round negotiations in the GATT "[i]n Germany, the DBV [the German farmers' association] was the only relevant organised interest that opposed trade liberalisation". Webber, (1998) p.21. See also Schwaag (1997).
[108] See Webber (1998), pp.6-11 &18-20. For a discussion of West German policy priorities after World War II, see Schwaag (1997).
[109] European Commission (2000), Table 2.0.1.2.
[110] For a definition, see van der Zee (1997), pp.63-6.

make the farm vote so important for the Christian Democrats is the fact that it is reliable. According to John Keeler, "[f]armers normally deliver nearly 80% of their votes to the CDU/CSU, and they have been a substantial force within the parliamentary delegation of the Christian Democrats".[111] Moreover, in Bavaria, the largest state in Germany, which accounts for 14.7 per cent of the total population of Germany, agriculture has and still is an important and prioritized policy area for the Christian Democrats, the CSU, who have been in power throughout virtually the entire post-war period.[112] The Bavarian farm lobby has traditionally also been very influential at national level, which is illustrated by the fact that the current chairman of the national German farmers' association, the Deutscher Bauernverband or DBV, Gerd Sonnenleitner, who has been in office since 1997, is simultaneously also chairman of the Bavarian farmers' union.

Thus, agriculture has been and still is an important issue for the Christian Democrats in Germany, and it is not surprising that there is a strong and close relationship between the CDU/CSU and the DBV, which is as old as the Federal Republic itself.[113] The influence of the farm lobby on agricultural policy-making is illustrated by the fact that for a large periods of the post-war era, the Ministers of Agriculture, in addition to having been farmers, have come from the DBV or one of its affiliated state (Land) organizations.[114] Thus, for example, Jochen Borchert, Agriculture Minister for the CDU from 1993 until 1998, was previously vice-chairman of the Westfälisch-Lippischer Landwirtschaftsverband (WLV), the Westphalian farmers' union.

Over the years, the share of agriculture in employment has gradually declined, and, as it continues to do so, it can be expected that the influ-

[111] Keeler (1996), p.141.
[112] The importance of agriculture in Bavarian politics can partially be explained by its historical economic significance. Even today, one quarter of all German farmers live in Bavaria, and at 4.2% in 1998 the share of the working population employed in agriculture is significantly greater than for all of Germany. Also, according to the Bavarian government, one out of eight jobs is dependent on agriculture or forestry. Statistisches Bundesamt Deutschland (2000), and www.bayern.de/BayernInfo/landwirtschaft.html.
[113] For a historical analysis of agricultural policy in Germany, see Milward (1992), pp.237-241. See also Patterson (1997), p.147. In addition to the ties with the CDU/CSU, according to John Keeler, "[f]armers are also well represented in the Free Democratic Party, which controlled the ministry of agriculture during the 1969-82 Social Democratic Liberal coalition". Keeler (1996), pp.141-142.
[114] Keeler (1996), pp.141-142.

ence of the DBV on the CDU/CSU and thus on German agricultural policy will similarly wane. However, it would be erroneous to assume a linear positive relation between the share of agriculture in total employment and the ability of the agricultural interest to influence national agricultural policy formation. In spite of a 40 per cent fall in agricultural employment between 1990 and 1998, from 4.7 per cent in 1990 to 2.8 per cent in 1998, the Ministry of Agriculture's opposition to greater market orientation and trade liberalization was just as strong in the Agenda 2000 negotiations as it had been during the negotiations over the MacSharry reforms in 1990/1. The conclusion to be drawn from this, admittedly, superficial and simplistic observation, is that the share of people employed in agriculture on its own fails to explain national agricultural policy formation. Gisela Hendriks argues that the clout of the farm lobby can be explained by a mixture of public choice theory and a 'special role' assigned to agriculture:

> The view that farmers deserve special treatment is largely unchallenged in Germany and is reinforced by a general consensus on agricultural policy among the major parties. Farm votes have largely held the delicate balance of Germany's postwar coalition governments… Consequently, the parties' approach to the rural sector is almost exclusively determined by the need to secure the marginal farm vote. German farmers have capitalized on their electoral significance: its powerful lobby, the *Deutscher Bauernverband* (DBV), has exerted considerable political clout and subsequently influenced decisively Germany's approach to the CAP.[115]

West German agricultural policy has clearly been steered by the powerful agricultural interest whose main interest has been in protecting the interests of the 'bäuerliche Familienbetrieb', that is, the traditional family farm.[116] However, the agricultural interest has only been able to reign over agricultural policy-making in Germany as freely as it has because of a widespread tacit support among the population at large that farmers require special protection from market forces. One explanation offered

[115] Hendriks (1994), p.61.
[116] Webber (1998), p.35.

for the widespread sympathy for farmers and the desire to preserve their way of life is that the high population density in Germany creates a special awareness and desire to protect Germany's landscapes, and farmers are regarded as the guardians of these landscapes.

One of the consistent and determining features of Germany's policy on the CAP has been the pursuit of a high price policy, particularly in those sectors of importance to German farmers, namely predominantly cereals and milk. The structure of German agriculture, characterized by comparatively small and inefficient family farms, at least up until unification, is generally listed as the explanation for Germany's interest in high prices.[117] As Coleman and Tangermann argued when analyzing the MacSharry reform negotiations, "[t]he proposal to lower the intervention price for cereals conflicted directly with a fundament of German agricultural policy since the *Landwirtschaftsgesetz* of 1955: high prices are necessary to ensure adequate incomes".[118] Consequently, in all of the pre-Agenda 2000 negotiations for CAP reform, such as the Mansholt Plan, the stabilizer negotiations in 1988 and the MacSharry Reforms, the German Ministry of Agriculture was one of the fiercest, and probably the most powerful, critics of cuts in intervention prices for agricultural products.[119] The determination with which Germany's Agriculture Ministry pursued its high-price policy is illustrated by the fact that Germany's first ever (and, so far, its only) use of the veto occurred in the Council of Ministers in 1985, when the German Minister of Agriculture, Ignaz Kiechle, vetoed a proposed cut in the intervention prices for cereals. According to John Keeler, this incident "provided a dramatic illustration of the German farm lobby's strength".[120] Incidentally, the proposed price reduction was minuscule.

The pursuit of a high-price policy by the German Ministry of Agriculture in the CAP has occurred against the strong internal opposition by the German Ministries of Finance and Economics that are more concerned with budget restraint and competitiveness issues. As budgetary pres-

[117] For an analysis of why Germany is interested in high prices, see Hendriks (1994), pp.59-74 or Webber (1998), p.35.
[118] Coleman and Tangermann (1998), p.29.
[119] Webber (1998), pp.20-23 and Patterson (1997), p148.
[120] Keeler (1996), p.142.

sures increased during the 1980s, the German Ministry of Agriculture advocated the introduction of quotas and set-asides, "because – under the pressure of budgetary constraints – these measures were preferred to price cuts".[121]

The Agenda 2000 proposals

As mentioned before, from the very beginning, the German Ministry of Agriculture was one of the fiercest critics of the Agenda 2000 proposals for CAP reform. Whereas other countries voiced objections on the levels of the measures proposed, - arguing that price cuts, compensations, set-asides or quotas were either too high or too low -, Germany rejected the reform proposals in principle, questioning both the identification of the problems and the approach proposed to solve the 'alleged' problems.[122] Germany claimed that the Commission's forecasts of the developments in milk and cereal markets were too pessimistic and questioned the need for reform in general. In addition, the Ministry of Agriculture rejected both the prospective enlargement of the EU and the upcoming WTO round as arguments for reforming the CAP.[123]

At the Agriculture Council on the 22-23 July, 1997, the first after the publication of the Agenda 2000 proposals, German Minister of Agriculture Jochen Borchert was quick to reject the proposals for CAP reform. According to *Agra Europe*, "… Jochen Borchert led the opposition to the Agenda 2000 plans, saying he could see 'very few positive things' about the Commission's proposals".[124] The first formal discussion in the Agriculture Council on the Agenda 2000 proposals took place on September 7-9, 1997 in Echternach, Luxembourg. At this informal Council, Germany led the attack on the reform proposals. In the days preceding the Council, Borchert had already publicly rejected the proposals as "a step in the wrong direction".[125] At the Council, the German Minister of Agriculture "made it clear that in its view the 1992 CAP reforms were more

[121] Hendriks (1994), p.62.
[122] see, for example, *AE*, September 12, 1997, E/1.
[123] Statements made by Jochen Borchert in the Agriculture Council on March 31, 1998.
[124] *AE*, July 25, 1997, E/1.
[125] *AE*, September 5, 1997, E/3.

than adequate and that there was no need to introduce further reforms".[126]

Germany was strongly opposed to the shift from price support to direct payments. In particular, Germany rejected the price cuts for cereals and milk, and advocated instead the maintenance of the set-aside and the continued use of quotas as instruments for containing production.[127] Germany questioned the Commission's forecast for cereals prices, claiming instead that world prices over the next decade would be higher than in the EU which in turn made it unnecessary to cut intervention prices.[128] Germany also expressed fierce criticism of the removal of subsidies for silage maize, which it claimed would discriminate against Germany.[129] On the beef sector, Germany made an exception in that it indicated its willingness to accept a reduction of intervention prices, on the condition, however, that farmers would be fully compensated. One of the few Commission proposals the German Minister of Agriculture actually endorsed was the suggestion of national envelopes for the beef sector as proposed in the regulation proposals in March 1998.

When it came to the horizontal provisions, Germany was opposed to the idea of individual ceilings and to the introduction of cross compliance, and very skeptical towards the possibility of modulation. The opposition to ceilings and modulation was motivated predominantly by the significant number of large east German farms whose receipts from the CAP would be cut as a result if the proposals were implemented.[130] Finally, Germany also rejected the integration of structural funds into the CAP. Thus, the German Agriculture Minister Jochen Borchert "emphasised his country's opposition to the reforms by criticising budgetary changes which will erode the sharp division between funds to support the market and those to provide assistance for under-developed areas".[131] Germany advocated instead a separate policy for rural areas.

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[126] *AE*, September 12, 1997, E/1.
[127] See, for example, *AE*, May 22, 1998, EP/8.
[128] *AE*, May 8, 1998, EP/5.
[129] Statement by Jochen Borchert at the informal Agricultural Council on September 9, 1997 in Echternach, Luxembourg.
[130] See, for example, *AE*, November 27, 1998, EP/5.
[131] *FT*, "Reform of CAP divides ministers", Sep.22, 1997.

The DBV also soon made it clear that it rejected the Agenda 2000 proposals. According to its chairman Gerd Sonnenleitner "the union's members stood to lose one-fifth of their incomes if the proposals were implemented".[132] The DBV was particularly opposed to the continuation of the shift, begun in the MacSharry reforms, from price supports to direct payments, arguing, that the shift towards direct payments would "leave farmers' aid more vulnerable to being raided in times of budget crisis or simply when governments needed to tighten their belts".[133]

It is interesting to note that the position taken by the German Ministry of Agriculture, at least up until the change of government in September 1998, was almost diametrically opposed to the recommendations issued by the Scientific Advisory Group appointed to the Ministry.[134] The group, which consists of some of the most prominent German agricultural economists, was generally supportive of the general thrust of the reforms. In stark contrast to Jochen Borchert's statements, the advisors welcomed the Commission's initiative, emphasizing the necessity of reform of the CAP. In an unmistakable stab at the government's policy so far, the group warned that it would be wrong to create the impression in the agricultural sector, that far-reaching policy changes, as those proposed by the Commission, were not necessary. In particular, the group welcomed the proposals for price cuts, the preparations for the gradual phasing out of milk quotas, and the steps towards decentralization. Regarding direct compensation payments, the group considered the levels to be adequate, but strongly urged that schedules and time limits be drawn up, and made public, for phasing out compensation payments. The advisors were critical, however, of individual ceilings on direct payments to individual farms, and of the proposal for cross-compliance. Not surprisingly, the German farmers' union severely attacked the recommendations of the group, with the Westphalian farmers' union stating in no uncertain terms that "recommendations from the scientific

[132] *AE*, July 18, 1997, E/5.
[133] *AE*, August 29, 1997, P/4.
[134] "Agenda 2000: Zukunftsweg der Agrarpolitik? Empfehlungen des Wissenschaftlichen Beirates beim BML; Kurzstellungnahme", published in September 1998. (www.bml.de/forschung/beirat/gutachten/agenda-2000.htm). Admittedly, these recommendations were only published in September 1998, but it can be assumed that the Ministry of Agriculture was aware of the general drift of the group's recommendations long before then.

'ivory tower' are of no help for an agricultural policy, which has to take into consideration the consequences for the farmers affected".[135]

Germany's traditional opposition to price cuts partially explains the ferocity of the Ministry of Agriculture's opposition to the proposed CAP reforms. In addition, however, the upcoming federal elections in the fall of 1998 magnified the importance of agricultural policy for the Christian Democrats. In the run-up to the elections, the government was struggling with an unfavorable economic situation in all of Germany, and particularly with persistent economic and growing social problems in former East Germany. Many disillusioned erstwhile CDU voters in East Germany were turning their backs on the ruling party, while in the West, after 16 years under Chancellor Kohl, there was a growing desire for political change. Consequently, the prospects for re-election were anything but rosy.[136] In these uncertain times, for the CDU/CSU, the farm vote gained in importance in proportion to other potential voter groups. Farmers provided a solid and reliable support for the CDU/CSU, as long as the Christian Democrats continued to pursue their traditionally farmer-friendly policy. The fact that the federal elections coincided with the state elections in Bavaria, the 'farming heartland' of Germany, strengthened further the leverage of the already powerful German farm lobby on agricultural policy formation in the CDU/CSU.[137] Thus, at least up until the federal elections, in September 1998, domestic political factors in Germany reinforced an already strong opposition to far-reaching CAP reform. These factors explain not only the ferocity of Borchert's opposition to reform but also why, in spite of other conflicting German priorities, such as an overall reduction in the EU budget and in German contributions, in particular, Chancellor Helmut Kohl did nothing to hold him back.[138]

[135] *Agrarinfo* 51:39, Westfälisch-Lippischer Landiwirtschaftsverband e.V. (WLV), September 30, 1998 (www.wlv.de).
[136] Opinion polls were continuously projecting the SPD to win the election by a comfortable margin. See, for example, *AE*, June 5, 1998, EP/8.
[137] The CSU has ruled Bavaria through virtually the entire post-war period, and, for reasons mentioned earlier, relations of the CSU with the Bavarian farm lobby (Bayerischer Bauernverband, BBV) are even stronger than between the CDU and the DBV. According to *Agra Europe*, "German farmers are key supporters of the Bavarian Christian Social Union". *AE*, April 9, 1997, EP/4.
[138] *FT*, C&An: "The great survivor: CAP is being reformed cautiously, says Michael Smith", November 2, 1997.

As had been the case in previous negotiations on CAP reform, the Agenda 2000 negotiations quickly became the subject of a sharp and ill-disguised conflict of opinion between the Ministry of Agriculture and the Ministries of Economics and Finance on the position to be adopted by Germany.[139] This time, however, the conflict was heightened by the negotiations over the financing of the EU budget and Member States' contributions in years to come that were going on at the same time as the CAP negotiations. Here the German government had made it clear that Germany, which was by far the largest contributor to the EU budget, wanted to reduce its share significantly in the future.[140] The size of German payments to the EU over the years in itself explains why pressure for a reduction had been building up (see Table 3 and Table 4). In addition, however, campaigning tactics in the run-up to the national elections in the fall of 1998 further intensified calls – particularly by the ruling CDU/CSU – for lower German payments to the EU.[141]

Thus, Germany faced the dilemma of pursuing a restrictive policy for the EU budget on the one hand, while opposing any reforms of the CAP aimed at eventually reducing agricultural expenditure of the EU, on the other. In addition, Germany's strong interest in enlargement of the EU added further weight to the proponents of far-reaching CAP reform. Most agricultural economists in and outside of Germany agreed "with the Commission view that enlarging the EU to the east is incompatible with leaving the CAP as it is".[142] The Scientific Advisory Group to the Ministry of Agriculture argued that far-reaching reform, in particular price cuts, were necessary to prepare the CAP for eastward enlargement.[143]

The division within the German government became painfully clear, when, upon the presentation of the regulation proposals in March 1998,

[139] Gisela Hendriks describes this as "[t]he clash resulting from Germany's world-wide trade interests versus protectionism of an economically-vulnerable and electorally-important group". Hendriks (1994), p.63.
[140] Thus, in July 1997, after the presentation of the Agenda 2000 proposals, Kinkel calls for a budget rebate for Germany. *AE*, July 25, 1997, P/3.
[141] *AE*, September 18, 1998, EP/3 and August 28, 1998, A/5.
[142] *FT*, "Survey – UK Presidecy of the EU: Pressure builds up for farm reforms: Common Agricultural Policy, January 4, 1998.
[143] "Agenda 2000: Zukunftsweg der Agrarpolitik? Empfehlungen des Wissenschaftlichen Beirates beim BML; Kurzstellungnahme", published in September 1998. www.bml.de/forschung/beirat/gutachten/agenda-2000.htm.

German Foreign Minister Klaus Kinkel "welcomed EU Agriculture Commissioner Fischler's reform proposals while at almost exactly the same time German farm minister Jochen Borchert called the plans unacceptable".[144] Thus, in contrast to the Ministry of Agriculture, most other ministries argued that the Agenda 2000 proposals constituted a good basis for further negotiations. According to *Agra Europe*, in a speech at the start of the enlargement negotiations in Brussels, Kinkel pointed out that "farmers only made up a small group of the population and the government must think of the other 98%", and that eastward enlargement "was of fundamental importance to German economic prosperity… and must not fail because of farm policy".[145]

Ever since the creation of the CAP, there had been a conflict of opinion between the Ministry of Economics, which argued for a more open and market-oriented agricultural policy, and the Ministry of Agriculture. As Germany's net contributions to the EU budget increased, the Ministry of Finance also became an increasingly strong critic of the CAP that consumes between 40-50 per cent of the EU budget, depending on the year chosen. However, in the Agenda 2000 negotiations, the simultaneously ongoing discussions over Member State contributions - with Germany pushing hard to lower its contributions -, the declared German interest in enlargement - which according to most experts was not possible without CAP reform -, combined with the upcoming federal elections - and the ruling parties' unusually great dependence on the farm vote -, created a nearly impossible situation for the German government. To put it in game-analysis terms, the combination of factors just described implied that Germany's win-set in the Agenda 2000 negotiations on CAP reform was particularly limited.

Conclusions

Traditionally, West German policy on the CAP has rested on two pillars. Firstly, there is the strong agricultural lobby whose overarching interest has been the protection of the traditional family farm with the help of price supports and quotas. In addition to a unique position in German

[144] *AE*, April 9, 1997, EP/4.
[145] *AE*, April 9, 1997, EP/4.

politics, the agricultural lobby has been able to dictate agricultural policy in Germany largely because of a widespread sympathy for the traditions and values associated with farmers and farming by the rest of the population. Secondly, German Chancellors have traditionally attributed a high priority to the promotion of European integration based on a close relationship and cooperation with France. These two factors explain why, firstly, Germany has opposed far-reaching reform of the CAP towards a more market-oriented regime, and, secondly, why it has been willing to finance the rapidly increasing budget of the CAP. It is thus no simple coincidence that the largest net beneficiary of the CAP is France.

In the Agenda 2000 negotiations on CAP reform, the Ministry of Agriculture succeeded in imposing its policy objectives, which were nearly identical to those of the West German farm lobby, against the ill-disguised opposition of the Foreign, Economics and Finance Ministries. The difficult political situation at home increased the power of the farm lobby, leading to a stronger opposition to reform than in the 1992 negotiations. The German position in the Agenda 2000 negotiations for CAP reform thus challenges the view of some authors that the 1992 MacSharry reforms mark a turning point for German policy on the CAP.

Overall, therefore, for most of the post-war period, both foreign and domestic policy considerations have mitigated against a far-reaching reform of the CAP, at least as long as the CDU/CSU was in power.

Recently, however, a combination of structural, political and attitude changes may be laying the ground for a shift in German policy on the CAP. Firstly, reunification has significantly changed the structural composition of German farms. Whereas West Germany characterized by a large number of small farms, with the size of holdings farmed full time averaging 36 hectares, 60 per cent of agricultural land in Eastern Germany is farmed in farm cooperatives averaging 1,100 hectares.[146] In this sense, reunification challenges both West Germany's traditional agricultural policy and its farm lobby with their protectionist, small-farm focus. The second change occurred when a coalition of Social Democrats and

[146] Sénat (1998), Part Two, C.B.2.d).

the Green Party took over power in 1998. In addition to being less farmer-friendly, Gerhard Schröder's European policy orientation differs significantly from that of his predecessors. Gerhard Schröder has been described as belonging to a new generation of Chancellors in Germany. As the first Chancellor with no direct memory of World War II, he is reputed to be less bound by a feeling of commitment and redemption to Europe and to France. As a result, he is less willing than his predecessors to shoulder the financial burden of the EU budget, and the CAP. Germany's insistence on a stabilization both of overall budgetary expenditure and of its net contributions to the EU in the Agenda 2000 negotiations illustrates this change in policy stance. Finally, the recent discovery of BSE cases in Germany has ignited a debate in which farmers, and the CAP, have been pitted against consumer and their interests in safe and healthy food.

The 1998 election victory of the Social Democrats (SPD) and of Gerhard Schröder in particular, has presumably dealt a much stronger blow to the power of the farming interest to influence German policy-making than the gradual reduction in agricultural employment. One indication of this change is the way Schröder addressed farmers protesting against the Agenda 2000 proposals when he visited Bavaria in February 1999. Unimpressed by angry farmers his curt reply was: "85% of you voted for the CSU; change that; then things will get better for you".[147] In general, there have been several signs of a significant shift in German agricultural policy in recent months.

The strongest indication of such a shift came with the appointment early in 2001 of Renate Künast, a member of the Green Party, as Minister of Agriculture and successor to Karl-Heinz Funke. Whereas Funke was a 'typical' German Minister of Agriculture, namely a male farmer with strong ties to the farming community and the farmers' lobby, Renate Künast's sympathies clearly lie with consumer interests and environmental aspects of farming. Not only is she the first female Minister of Agriculture but also one of the very first German Agriculture Ministers without a solid anchoring in the German farmers' lobby.

[147] quoted in *Der Spiegel*, "Teure Wahrheit: Die EU-Kommission will die Subventionen für die Landwirtschaft vorsichtig senken. Doch die Bauern machen mobil", February 22, 1999.

The name change in the German Agriculture Ministry, from Federal Ministry of Agriculture (Bundesministerium für Landwirtschaft) to Federal Ministry of Consumer Protection, Food and Agriculture (Bundesministerium für Verbraucherschutz, Ernährung und Landwirtschaft) also indicates a shift in priorities.

At the point of writing this analysis it is too early to predict what the new German agricultural policy will look like. Even if Germany moves away from its traditional stance emphasizing farmers' interests, it is not clear whether the shift will be towards greater market orientation or whether it will go towards new regulations based simply on changed priorities. Renate Künast's demands for a massive increase in small-scale, organic farming might be an indication against a more market-oriented agricultural policy. In any case, however, a paradigm shift in Germany's agricultural policy will have significant consequences for future negotiations on CAP reform. Furthermore, the clear reduction in Germany's willingness to accommodate France's special interests is also likely to have important repercussions for future agricultural policy-making in the EU.

4.3 France

General

Agriculture plays a far more prominent role in French politics than its economic or demographic importance, accounting for 4.4 per cent of the active labor force and 1.8 per cent of GDP in 1997, might indicate. The importance assigned to agriculture is reflected in the statement made in the report by the French Senate examining the Agenda 2000 negotiations on CAP reform in 1998, where it claimed that that the debate over the Agenda 2000 negotiations on agricultural reform concerned not only agriculture, "… but, beyond that, the foundation of our society at the dawn of the 21st century [author's translation]".[148] In a debate on the CAP reform proposals in the French Senate in September 1997, the Minister of Agriculture Louis Le Pensec observed that farmers are generally considered to be the guardians of France's national heritage.[149]

[148] "…mais, au-delà, les fondements de notre société à l'aube du XXI siècle". Sénat (1998).
[149] Sénat (1997).

Political economists argue that French agricultural policy is characterized by a disproportionate political influence of the agricultural interest, which in turn can be explained by the disproportionate electoral weight of the farm vote.[150] Thus, while employment in agriculture has only accounted for around five per cent in France in the past decade, - falling from 5.8 per cent in 1991 to 4.4 per cent in 1999 -, Hélène Delorme claimed in 1994 that "[t]hrough their impact on other rural voters, their tendency not to abstain and their presence throughout the country, they are estimated to influence as much as 17% of the electorate".[151] A brief look at some statistics would appear to confirm the impression that farmers are over-represented in the political system in France. Thus, in 1995, 19.9 per cent of French mayors were active farmers, and, if retired farmers are included, close to one quarter of French mayors come from the farming community.[152] In the Senate, in 1999, 11 per cent of senators were active farmers, again indicating an overrepresentation when compared with their share in the total population.[153] Political economists point to this apparent over-representation of the agricultural interest in the French political system to explain why France has pursued an allegedly farmer-friendly policy at the expense of consumers, taxpayers and the environment.[154]

Similarly to Germany, the French farm lobby has very close ties with the moderate Right parties in France which have been in power for most of the post-war period, such as the RPR (Rassemblement pour la République), to which France's current president, - and former minister of agriculture - Jacques Chirac belongs, and the UDF (Union pour la Démocratie Française).[155] Thus, Paul Epstein argues that "[i]n France, agricultural policy is distinctive because it is the result of close collaboration between the state and the major interest groups".[156] The main farmers' un-

[150] See, for example, Keeler (1996), pp.140-141. For a discussion of the farm vote, see van der Zee (1997), chapter 5.
[151] Delorme (1994), p.46.
[152] Association des Maires de France (2000), *Chiffres et statistiques*, (internet: www.amf.asso.fr/presentation/chiffres/index.htm).
[153] Sénat, http://www.senat.fr/evenement/elections98/chiffres.html.
[154] See, for example, Keeler (1996). For a historical account and analysis of the French farmer organizations and their importance for agricultural policy formation and for the creation of the CAP, see, for example Milward (1992), ch.4, and Neville-Rolfe (1984), ch.4.
[155] Keeler (1996), p.141, and Delorme (1994), pp.46-47.
[156] Epstein (1997), p.1350.

ion is the Fédération nationale des syndicats d'exploitants agricoles (FNSEA), with approximately 450,000 members.

In addition to a disproportionate electoral weight, the importance for France's national identity assigned to agriculture and farmers explains the political influence of the agricultural lobby on policy-making in France. The *Financial Times* describes the French farmer as having a "sacrosanct position in French society as both symbol and practitioner of the country's ancient values", and concludes that "[t]his privileged status has ensured kid glove treatment from successive governments".[157] One indication of the importance assigned to agriculture is the greater involvement of French Presidents in agricultural policy when compared with heads of government in other countries. Current President Jacques Chirac is particularly known for his knowledge of and attachment to agriculture. Visiting the 'Salon de l'agriculture', an agriculture fair, in Brittany in September last year, he declared: "We are all farmers, in the ethical sense of the term [author's translation]".[158] Jacques Chirac also played a much more prominent and active role in the Agenda 2000 negotiations, - even before the Berlin Summit -, than most other Heads of State. Thus, for example, at a press conference in April 1998, Jacques Chirac clearly stated his rejection of the price cuts proposed by the Commission in the Agenda 2000 proposals, particularly concerning beef, dairy and oilseeds.[159]

Chirac's passion for agriculture can be explained only partially by the fact that he was previously Minister of Agriculture. More importantly, it is a reflection of the importance assigned to agricultural issues in French politics. A survey commissioned by the Ministry of Agriculture in the spring of 2000, confirmed the strong attachment of the overwhelming majority of the French population to farmers and to the agricultural sector.[160] Petit et.al. speak of "a rather broad consensus in France that farm-

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[157] *FT*, "Survey – France: A symbol of ancient values: Agriculture by Robert Graham: The country's farmers are surrounded in a mystique not matched by the industrial realities of the sector today", October 14, 1998.
[158] "Nous sommes tous des paysans, au sense éthique du mot". Quoted in *Le Monde* (1999), "Le sillon", September 17, 1999.
[159] France2 (1998), "Conférence de Presse du Président de la Republique Jacques Chirac", April 16, (www.france2.fr/evenement/chir1604.htm).
[160] The study conducted by the IPSOS institute can be found on the website of the French Ministry of Agriculture and Fisheries, www.agriculture.gouv.fr.

ers deserve a special economic treatment and that this treatment is to be given through the agricultural policy".[161]

France's current, and internationally unique, situation of 'cohabitation', - in which the President of the Republic, Jacques Chirac and the Prime Minister Lionel Jospin belong to opposing political factions -, further strengthens the influence of French farmers, since neither wants to upset the farmers and thus tip the delicate political balance in favor of the opponent.[162] Analyzing the France's role and position in the CAP reform of the dairy sector in 1984, Petit et.al. assess that:

> Of course the farmers' political weight is such that the President of the Republic has to defend their interests. It is significant in this respect that, apart from a few timid attempts, the agricultural policy of the socialist governments since 1981 has not been significantly different from that of the previous conservative governments.[163]

Another, more current example, of the vying for agricultural favor that is going on between Prime Minister Jospin and President Chirac occurred when both made a point of visiting the agricultural fair in Brittany in September 1999, mentioned above. One of the leading daily newspapers *Le Monde* interpreted particularly Jospin's visit succinctly as a sign that "M. Jospin has no intention of ceding to M. Chirac the monopoly on the rural world [author's translation]".[164]

The europeanization of agricultural policy as a result of the CAP has meant that agricultural policy has increasingly become a matter of foreign policy. This has in turn increased the influence of the French President in agricultural policy-making. As argued by William James Adams, "[g]iven its appearance under the heading of foreign policy, agricultural policy is subject to presidential shaping even when the president fails to

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[161] Petit et.al (1987), p.45.
[162] *FT*, "Comment and Analysis: Barnyard noises: France's determination to keep its farmers happy by refusing to budget over CAP reform has threatened its political relationship with Germany, says Robert Graham", March 3, 1999. See also Nugent (1999), p.416.
[163] Petit et. al. (1987), p.49.
[164] Headline in *Le Monde* (1999), "M. Jospin n'entend pas laisser à M. Chirac le monopole du monde rural", September 18, 1999.

command a majority in the parliament and differs in orientation from the prime minister".[165]

According to Hélène Delorme, in contrast to Germany, one of the key functions of agriculture lies in its importance for France's trade balance, also sometimes referred to as its '*vocation exportatrice*'.[166] In 1997, exports of agricultural products accounted for 13.6 per cent of France's total exports, compared to 5.2 per cent in Germany.[167] Whereas Germany is the EU's largest net importer of agricultural products, France is currently the EU's second largest net exporter of food and agricultural products after the Netherlands.

While large, competitive, export-oriented and profitable farming characterize a significant share of French agriculture, - particularly in the cereal sector -, a large number of dairy and livestock farms are better described by opposite adjectives. As a result, over the past decades, the French countryside has witnessed an accelerating decline in farm holdings from over 2,000,000 in the 1960s, to well under 700,000 in 1998. Thus, between 1988 and 1997 farm holdings fell by 4.4 per cent per year, with roughly 30,000-40,000 farms going out of business every year.[168] By comparison, farm holdings in former West Germany fell by roughly 2.5 per cent in the same time period.[169] The large fall in farm holdings has led to a depopulation of the French countryside, with people leaving rural villages to find employment in urban centers. This phenomenon was described in the *Independent* in 1998:

> In a diagonal stripe of depopulation from Belgium to the Pyrenees, covering almost a third of France, hundreds of hamlets and villages are dying. Up to 200,000 more farms and 1,500 villages are expected to disappear in the next 20 years. …

[165] Adams (1999), p.8. See also Petit et. al. (1987), p.48.
[166] Delorme (1994), p.45.
[167] European Commission (1999d).
[168] *The Independent*, "Chirac takes a pitchfork to farm subsidy revolution", October 6, 1998, and *The Economist*, "French farmers. Not all as cosseted as consumers say", December 19, 1998. See also French Ministry of Agriculture internet information (www.agriculture.gouv.fr), "Les chiffres de l'agriculture et de la pêche".
[169] DBV online (www.bauernverband.de/struktur.asp) , "Struktur der Betriebe".

> In more thickly populated countries such as Britain or Germany, villages and small towns have been kept alive by jobs in nearby cities. France is big and relatively empty; it has thousands of small, isolated communities. Across a large swath of the country nothing can replace agriculture if such communities are to survive.[170]

Similarly, Douglas Webber claims that "in France, alternative employment opportunities to agriculture are scarcer in the rural and semi-rural areas than in Germany".[171]

The relative competitiveness and strong export orientation of some of France's agricultural products explains France's policy preference for a limited reduction in price supports in certain sectors. Thus, in contrast to Germany, French cereal farming is not dependent on price support for its survival. On the contrary, it sees price supports as exposing French agricultural products to unfair competition by encouraging production in other EU regions, which could not produce without price support. Productivity and profitability also explain French resistance to the reduction or phasing out of export subsidies and the restriction of production volumes through set-asides, as witnessed, for example in the 1991 negotiations on CAP reform.[172] Many French farmers view export subsidies as one of the basic policy instruments of the CAP, and they consider their maintenance crucial to ensuring their support of the CAP.[173]

At the same time, however, 'conservationist' policy goals, such as preserving the rural environment and way of life and keeping people on the land, translate into a more interventionist policy stance, with France advocating stable markets and prices and adjustment by quantity rather than price, that is, through supply control measures rather than reduction of price support or market deregulation.

According to both Delorme and Coleman et.al. the French agricultural sector is divided between liberals, mainly in the grains and sugar sectors, advocating greater market orientation, and the proponents of sup-

[170] *The Independent*, "New Look for France's Farming Heartland", April 28, 1998.
[171] Webber (1998), p.35.
[172] Webber (1998), p.23, and Woolcock and Hodges (1996), p.316.
[173] See, for example, Coleman and Tangermann (1999), p.394.

ply management to be found mainly in the livestock and dairy sectors. The duality of French agricultural policy is enshrined in the Agricultural Orientation Laws passed in 1960 and 1962, which, on the one hand, established the principle of parity of farm incomes with those of non-farmers, while, on the other hand, emphasizing agricultural productivity improvement and structural farm reform.[174]

In view of the accelerating exodus from the French countryside in the 1990s mentioned above, in 1999, the French parliament passed a new law on agriculture – the so-called Agricultural Orientation Law (loi d'orientation d'agricole) – aimed particularly at preserving the smaller family-scale firms. In addition, the law also seeks to promote food quality and the preservation of the environment.[175] Whereas its forerunners, - the agricultural orientation laws of 1960 and 1962 -, aimed at improving agricultural productivity in France, the new law clearly prioritizes employment, environmental and food quality issues related to farming.[176] The links between this law and the Agenda 2000 negotiations are discussed below.

As this section has shown, French agricultural policy is determined by two conflicting objectives, which in turn can be explained by the dual nature of the French agricultural sector. On the one hand, French policy on the CAP is determined by a relatively competitive agricultural sector, - particularly in the cereal sector, with efficient, large-scale farming, and in the wine sector -, and the objective to secure international markets for French products.[177] In 1995, 9.6 per cent of French farms had an agricultural area of 100 ha or more compared to an EU average of 2.9 percent.[178] Thus, France has by far more large farms than most other EU countries, falling second only to the UK. On the other hand, French agriculture, particularly in the dairy and livestock sectors, is characterized by a large number of small family farms struggling to compete and maintain farm incomes. The desire to protect the rural environment and way of life, as

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[174] Ingersent and Rayner (1999), p.143.
[175] *The Independent*, "New Look for France's Farming Heartland", April 28, 1998.
[176] See, for example, Roger (1998).
[177] Webber (1998), p.35.
[178] More than one fourth (27 per cent) of all French farm holdings had an agricultural area of 50 ha or more, compared to only around 8 per cent for the EU as a whole. Eurostat (1999), pp.334-335.

well as the desire to secure agriculture as a "reservoir of labour" especially in times of relatively high unemployment, is the second objective determining France's policy on the CAP.[179] Thus, French agricultural policy is torn between the frequently conflicting goals of competition, trade, and production-oriented motivations on the one hand, and social, environmental and rural development concerns on the other.

In previous CAP reform negotiations, one of the difficulties faced by France has been "to balance the demands of its market-liberal (grains, sugar) and supply-management (livestock, dairy) camps".[180]

One of the striking features of French agricultural policy is the faith in the effectiveness of policy instruments, in particularly highly market-intervening policies, to the degree of economic planning. Thus, policy-makers on both sides of the political spectrum tend to share the belief that the CAP and the agricultural orientation laws are the single-most important causes for the modernization and competitiveness of French agriculture. In its resolution on the Commission's proposals for CAP reform adopted on March 17, 1999, the French Parliament (Assemblée Nationale) spoke of "the evolutionary capability of the CAP, which has made possible the development of modern agriculture and of agricultural exports, the supplying of markets with quality products at affordable prices to consumers, while at the same time securing the income of farmers [author's translation]", in other words, crediting the CAP with nearly any positive development that might have occurred in agriculture in Europe since World War II.[181] The faith in the benefits of strongly market-intervening policies, even economic planning has a long tradition in France, and is not limited to agricultural policy. Thus, Ingersent and Rayner claim that "[a]fter the war, France embraced the practice of indicative economic planning with enthusiasm".[182] In this sense, the national context in which French agricultural policy has been made in the post-war era differs considerably from Germany, where agricultural pol-

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[179] ibid.
[180] Coleman et.al (1997), p.459.
[181] "… la capacité d'évolution de la politique agricole commune, qui a permis le développement d'agricultures modernes, celui des exportations agricoles, l'approvisionnement des marchés en produits de qualité à des prix accessibles aux consommateurs, tout en assurant le revenu des agriculteurs". Assemblée Nationale (1999a).
[182] Ingersent and Rayner (1999), p.143.

icy, with its highly interventionist and protectionist nature, formed the exception in an otherwise relatively free trade and market-oriented economic policy orientation.[183]

French policy on the CAP

Analogue to the importance assigned by French politicians to agriculture on a national level, as guardian of France's national identity and heritage, on the European level, French policy-makers view the CAP as a building block of European integration, speaking of "the essential role played by the Common Agricultural Policy in the development of the European construction [author's translation]"[184]. Former Prime Minister Alain Juppé, in commenting on the CAP reform proposals in early 1999, criticized the failure of Member States to grasp the strategic significance of agriculture for Europe and the European Union.[185] The widely held view of the CAP as one of the pillars on which the European Union is built, implies that attempts to change fundamentally the nature of the CAP, particularly attempts to dismantle it or make it obsolete, are inevitably criticized for attacking the very foundation of European integration and thus the EU itself. This view expressed by French politicians of the importance of the CAP for the survival of European integration should not be dismissed as merely political rhetoric. Rather, it reflects a widespread belief in France that, just as agriculture is a foundation stone of France's national identity, the CAP is the 'glue' that keeps Europe united and strong.

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[183] For a comparison of France's and Germany's general economic policy orientation after World War II, see Schwaag (1997).
[184] Assemblée Nationale (1998).
[185] Alain Juppé in *Le Figaro*, "Pour que vive l'Agriculture européenne", February 12, 1999.

Table 3: EAGGF[a] expenditure for selected Member States, 1990-8 (m euro)

	1990	1991	1992	1993	1994	1995	1996	1997	1998
France	5029	6324	6844	8185	8001	8377	9558	9142	9007
% of total	20.1	20.0	21.9	23.6	23.9	24.3	24.4	22.5	23.2
Germany	3929	4982	4574	4976	5180	5380	6048	5775	5553
% of total	15.7	15.8	14.6	14.3	15.5	15.6	15.5	14.2	14.3
Italy	3983	5346	5134	4765	3461	3364	4220	5121	4129
% of total	15.9	16.9	16.4	13.7	10.4	9.8	10.8	12.6	10.7
UK	1794	2252	2313	2738	2939	2954	3468	4401	4312
% of total	7.2	7.1	7.4	7.9	8.8	8.6	8.9	10.8	11.1
Total EAGGF expenditure[a]	25069	31563	31276	33748	33412	34503	39108	40675	38748

a: guarantee section.
Source: European Commission (1999f).

Another decisive factor in French policy on the CAP is the great financial benefit France derives from it. France is, and always has been, the largest net beneficiary, in absolute terms, of transfers paid through the CAP. Edmund Neville-Rolfe claims that common financing of the CAP "was from the beginning perceived by the French government, since it would relieve the national budget of most of the growing burden of price support and export subsidies, especially on cereals and sugar".[186] The significant financial benefits France has traditionally derived from the CAP can thus be argued to be one of the foundation stones on which France's support of a common agricultural policy rests. Since 1993, French has received on average 23.7 per cent, or 8.7 bn euro, of all EAGGF guarantee funds, annually.[187] By comparison, in the same time period, Germany's share of EAGGF funds accounted for 14.9 per cent or 5.5 bn euro annually. In the arable crops sector, France received close to one third of all EAGGF funds in the same time period.

[186] Neville-Rolfe (1984), p.7.
[187] Data is up to and including 1998. The share of the EU budget allocated to the CAP is grouped in the European Agricultural Guidance and Guarantee Fund (EAGGF). The EAGGF is divided into a Guarantee and a Guidance Section. The Guarantee Section finances primarily expenditure on the agricultural market organisations, that is, market support and direct payments, while the Guidance Section covers mainly rural development measures.

Table 4: Member States' shares in EU financing and in spending, 1997

	Financing			Spending						
	Total		EAGGF[a,b]	Total		EAGGF[a]		Structural operations		Net position for agriculture
	Meuro	%	Meuro	Meuro	%	Meuro	%	Meuro	%	Meuro
B	2971	3.9	1584	4051	5.0	983	2.4	358	1.4	-601
DK	1506	2.0	812	1574	2.0	1236	3.0	170	0.7	+424
D	21217	28.2	11456	10274	12.8	5887	14.2	3636	14.0	-5569
GR	1178	1.6	650	5550	6.9	2731	6.7	2644	10.2	+2081
E	5368	7.1	2884	11304	14.1	4606	11.3	6377	24.5	+1722
F	13186	17.5	7109	12405	15.5	9149	22.5	2460	9.4	+2040
IRL	687	0.9	366	3364	4.2	2034	5.0	1211	4.7	+1668
I	8667	11.5	4671	8606	10.7	5091	12.5	2895	11.1	+420
L	171	0.2	81	896	1.1	23	0.1	20	0.1	-58
NL	4838	6.4	2600	2561	3.2	1757	4.3	421.3	1.6	-843
A	2110	2.8	1137	1387	1.7	861	2.1	364	1.4	-276
P	1078	1.4	569	3800	4.7	657	1.6	2942	11.3	+88
FIN	1062	1.4	569	1118	1.4	571	1.4	380	1.5	+2
S	2326	3.1	1259	1197	1.5	747	1.8	231	0.9	-512
UK	8928	11.9	4834	7129	8.9	4400	10.8	1929	7.4	-434
Total	75293	100	40581	75215	93.7[c]	40623	100	26037	100	

a: guarantee section.
b: derived figure (assuming that Member States contributions are divided proportionately among the different sectors with the EAGGF guaranty section accounting for 50.6 per cent of total spending in 1997).
c: The remainder, 6.3 per cent is spent outside the EU.
Source: European Commission (1998).

France's significant financial benefits from the CAP provide one explanation for its opposition to reform proposals which might reduce the net financial benefit it derives from the CAP. In general, as the largest recipient and net beneficiary of CAP funds, France could therefore be expected to be less predisposed to accepting a change in the CAP than other countries who benefit less or who are net contributors to the CAP budget.

The Agenda 2000 proposals

The determinants of French agricultural policy described above go a long way in explaining France's position in the Agenda 2000 negotiations.[188] Given the significant number of relatively small beef and dairy farms, who depended on high prices or subsidies for their survival, and given the perceived importance of these farms for rural employment, it is not surprising that the French Minister of Agriculture Louis Le Pensec, strongly opposed the proposals for cuts in beef and dairy intervention prices with only partial compensation. France rejected a dairy reform in principle, arguing that a reform was both unnecessary and costly. Insisting that the existing system of dairy quotas was a successful one, the French government demanded that the system be continued, and, moreover, that quotas be increased.[189] The French Ministry of Agriculture was less negative towards proposals for reductions in cereal prices, which can be explained by the large, competitive farm holdings that characterize a large portion of cereal farming in France. However, France, strongly rejected the proposal for aligning aids for oilseeds with the aids granted for other cereal crops. Regarding the horizontal provisions, France supported the idea of cross-compliance, by linking agricultural subsidies to both environmental and employment considerations.

In general, the French government claimed that the Commission's sector proposals focused too much on the market and trade aspects of agriculture, and thus neglected other important aspects of agriculture, such as employment and rural development, environment and food safety. France demanded that a reform of the CAP take into consideration, to a greater extent than had been the case in the Commission proposals, the 'multifunctional' role of agriculture.[190] Moreover, the French minister of agriculture warned of regarding price cuts as a panacea or cure-all for all sectors and all problems.[191]

Similar to Germany, and as had been widely expected, France's initial reaction to the Agenda 2000 proposals when they were presented in July 1997 was therefore one of strong opposition. However, whereas Germany's Agriculture Minister rejected categorically the Commission's re-

[188] For a summary of the French position on the Agenda 2000 proposals, see Sénat (1998).
[189] *AE*, December 4, 1998, A/1; see also *AE*, November 27, 1998, EP/3.
[190] "Underlining that the Agenda 2000 plans were not acceptable to France 'in their current form', Le Pensec said his most serious criticism was that the package focused too much on sector-by-sector proposals and lacked substance in 'areas of horizontal application, such as occupation of rural areas, the environment, and more equitable distribution of support.'" *AE*, October 17, 1997, E/5.
[191] Sénat (1998).

form proposals questioning the general premise that a reform was necessary, its French counterpart was careful not to evoke the impression that it was unwilling even to consider reform.[192] At the informal Agriculture Council in Echternach, Luxembourg, in September 1997, - which was the first official opportunity for Agriculture Ministers to present and exchange their views on the Commission's proposals -, French Agriculture Minister Louis Le Pensec, refrained from commenting on the specific sector proposals and instead limited himself to emphasizing the multifunctional role of agriculture, and expressing his doubts over the extent to which the Commission proposals took into consideration aspects such as farm incomes, food security, the environment, land use and employment aspects.

In stark contrast to Germany, - where agricultural policy was riddled by internal divisions -, French policy was characterized, and its international negotiating position considerably strengthened, by a general, and non-partisan, consensus among the important factions within the government on the principal issues regarding the CAP. President Jacques Chirac from the RPR, Socialist Prime Minister Lionel Jospin, and the Minister of Agriculture, first Louis Le Pensec, and, from 1998, his successor Jean Glavany, agreed on the following positions summed up in a parliamentary report on the CAP from 1999: first, the recognition that a reform of the CAP was necessary; second, that price cuts were not the optimal policy instrument to improve the CAP, particularly not in the beef sector; third, that co-financing was not an acceptable option for France, and that, instead, a postponement or abandonment of the dairy reform and/or the implementation of ceilings on aid and modulation were clearly preferable ways of restricting budgetary expenditure; and, finally, fourth, that the objectives for the CAP should be guided, to a greater extent than previously, by the 'multifunctional' role of agriculture.[193] Another point shared by most politicians in France was the view that the upcoming WTO negotiations should not be allowed to dictate a reform of the CAP. In July 1997, the French Ministry of Agriculture had criticized the Commission for proposing to cut prices before the next

[192] see, for example, *AE* September 12, 1997, E/1.
[193] Assemblée Nationale (1999b), p.18.

round of WTO negotiations – arguing that this would weaken, rather than strengthen, the bargaining position of the EU in the WTO talks on agriculture – and it had warned of the budgetary impact of a further switch from market support to direct payments.[194] Finally, in contrast to the other countries examined in this study, self-sufficiency still featured as an argument for market intervention in the French debate on CAP reform. Thus, the parliamentary statement on the CAP reform eventually adopted in March 1999, reiterated that subsidies for protein crops should be increased in order to ensure the maintenance of the 'protein independence' of Europe ("l'indépendance protéique de l'Europe").[195]

Not surprisingly, the main farmer's union, the FNSEA, was even more critical of the Commission's proposals than the government. Underlining the close relationship of the French farmers' union with the government, FNSEA President Luc Guyau met with Prime Minister Lionel Jospin on the same day that the Commission officially presented its Agenda 2000 proposals. Luc Guyau categorically rejected the Commission proposals as completely unacceptable, condemning them for "ignoring the European identity" and "having a bitter pre-taste of the capitulation of Europe to its competitors from the USA and the Cairns Group".[196] In a press statement issued the same day, the FNSEA rejected the "spirit of the proposals" and accused the Commission of naively imitating Anglo-Saxon economic liberalism.[197] Perhaps the most vicious attack on the Commission proposals by the FNSEA came in October 1998, when Luc Guyau, in referring to the proposals for co-financing of the CAP, claimed that "the Commission is preparing the destruction of Europe", thus linking the CAP with the very identity of European integration.[198]

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[194] *AE*, July 18, 1997, E/5.
[195] Assemblée Nationale (1999a).
[196] FNSEA (1997), *La FNSEA à Matignon*, Press statement, July 16.
(http://www.fnsea.fr/actualites/actu_suite.asp?IdArticle=238).
[197] FNSEA (1997). *Toujours pas acceptable*, Press statement, July 16.
(http://www.fnsea.fr/actualites/actu_suite.asp?IdArticle=237).
[198] FNSEA (1998), *La Commission entame la destruction de l'Europe*, Press statement, October 7.
(http://www.fnsea.fr/actualites/actu_suite.asp?IdArticle=319).

Conclusions

Three very powerful factors converge to explain France's general reluctance to far-reaching reform of the CAP: The first factor is the symbolical importance assigned to agriculture in France. Thus, agriculture is generally regarded to be the guardian of France's national identity, on the one hand, and, as the founding stone and building block of European integration, on the other. Connected to the national importance assigned to agriculture is the more tangible role of keeping the countryside employed and thus populated. This aspect discussed above explains France's priority in rural development and employment-linked policy measures, both in EU and national legislation.

One important aspect linked to the importance assigned to the CAP for the European Union is a widespread and very French deep-rooted aversion against what is perceived as the ever-increasing influence of the United States of America in Europe and the rest of the world in all spheres of society, economics, finance, language, culture, but also policy-making. France sees the maintenance of a strong CAP, and a strong EU, as a necessary weapon for preserving what it refers to as a 'European model of agriculture' and for protecting from outside attempts, particularly from the United States, to undermine it. This desire to contain American influence in all areas, should not be belittled or underestimated. It dates back to President Charles de Gaulle and his view of and motivation for European integration. In the MacSharry negotiations on CAP reform, Tracy argues that "a key argument used domestically was that it [reform] was necessary for <u>internal</u> [emphasis in original] EC reasons, <u>not</u> [emphasis in original] to satisfy the Americans".[199]

The second factor is the important financial benefit that France derives from the CAP. As the primary recipient of EAGGF funds, around one fifth to one fourth of all funds are transferred to France annually. In 1998, the figure was 9 bn euro, or 23 per cent total EAGGF Guarantee funds and 24 per cent of total direct aids.[200]

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[199] Tracy (1995), p.6.
[200] Blanc et al. (2000), p.48.

The third factor mitigating against France's willingness to change or even dismantle the CAP is a strong faith in the effectiveness of policy instruments to achieve agricultural policy goals discussed above, and, linked to it, a widespread skepticism regarding the ability of markets and market mechanisms to lead to satisfactory solutions. This skepticism is illustrated in repeated statements by French politicians criticizing the price cuts proposed by the Commission.

In their analysis of the reform of the milk sector in the CAP in 1984, Michel Petit et. al. succinctly summarized agricultural policy formation in France as follows:

> The limited involvement of non-agricultural interests in the agricultural policy debate explains why such objectives as limiting budget expenditures, avoiding international tensions, or reducing inflation, received a relatively low priority. This does not mean, however, that such objectives are irrelevant for France. Rather, in the balance between conflicting objectives, they seem to have carried less weight in the agricultural policy debate in France than in several other member countries.[201]

4.4 UK

General

British agriculture and British agricultural policy differ in several significant aspects from both France and Germany. Perhaps the most obvious difference between British agriculture, on the one hand, and French and German agriculture, on the other, is the structure of agricultural holdings. With an average utilized agricultural area of 69 ha per farm holding in 1997, compared to an EU average of 18, and nearly three quarters of all utilized area farmed on holdings of 50 ha or more, British agriculture is clearly characterized by large scale farming to a much greater extent than the rest of the EU. In 1995, with 16.7 per cent of all UK holdings disposing over a utilized agricultural area of 100 ha or more, the UK had by far the highest share of large farms in the EU. These farms accounted for 66.1 per cent of all utilized agricultural area. By comparison, France

[201] Petit et.al. (1987), p.52

had the second highest share of holdings of 100 ha or more with 9.6 per cent, while Spain came second in terms of the share of total utilized agricultural area with farms of 100 ha or more accounting for 52.3 per cent.[202] In the past two decades, the average size of farm enterprises increased significantly. Thus, for example, the average number of pigs per farm enterprise increased by 150 per cent between 1978 and 1998, from 200 to 500 animals, while the average amount of hectares assigned to cereals per farm increased by 40 per cent from around 35 ha to close to 50 ha.[203]

Britain also differs significantly, and perhaps decisively, from Germany and France in its general agricultural policy orientation and tradition.[204] Beginning with the repeal of the Corn Laws in 1846, and with the exception of wartime controls, British agricultural policy has been much more free trade and market-oriented than German or French agricultural policy. After World War II, the Agricultural Act from 1947 established the principles of deficiency payments which ensured that farmers received a guaranteed price for most farm products. In contrast to Germany and France, where import duties drove a wedge between domestic and world consumer prices, the British policy did not increase consumer prices, at least not directly.[205] Thus, Michael Tracy points out that the UK has been a major food importer "with a totally different tradition in agricultural policy from all the others: 'deficiency payments' served to implement price guarantees to farmers while meeting the consumer interest in low food prices".[206] Similarly, Edmund Neville-Rolfe describes the historical determinants of British agricultural policy that distinguish the UK from particularly France and Germany:

> As a country with a dense and largely urban population, and only just over 70 per cent of its land surface utilisable for agriculture (little more than half if rough grazings are excluded), the UK had, ever since the 1880s, taken advan-

[202] Eurostat (1999), pp.335-6.
[203] Ministry of Agriculture, Fisheries and Food (MAFF) (1999), p.13.
[204] For an analysis of the UK's agricultural policy after World War II, see Neville-Rolfe (1984), ch.2. For a discussion of the differences of British agricultural policy and the CAP prior to British entry into the European Community, and of the impact of the CAP on British agriculture and consumers as a result of British membership in the EC, see Colman (1992), pp.29-39.
[205] Harvey (2000), *Class notes – an abbreviated UK/EU agricultural policy history*, University of Newcastle upon Tyne, http://www.staff.ncl.ac.uk/david.harvey/AEF372/History.html.
[206] Tracy (1995), p.1.

> tage of its position as the world's largest net importer of food to acquire its supplies on what was in most years a buyer's market…. …[T]o the way of thinking of successive British governments and parliaments, and hence of the main political parties, a key factor of agricultural policy was its charge on public funds. Broadly speaking, the system of deficiency payments, and of direct grants to certain categories of producer, mainly in less favoured regions, was designed to meet the cost of maintaining a reasonably prosperous agriculture directly by means of subsidies rather than indirectly by means of tariff barriers against low priced imports.[207]

A further differentiating feature of agricultural policy is that agricultural subsidies have been contested for a much longer time and to a much greater extent than in France and Germany. Ingersent and Rayner write that:

> During the 1950s and 1960s a vigorous debate developed concerning the competitiveness of UK agriculture and the real costs of agricultural support. It was argued not only that the total costs of support exceeded the Exchequer costs, due to additional (and concealed) costs borne by consumers, but also that the budget costs of support failed to show the degree to which UK agriculture was protected from overseas competition.[208]

A final differentiating factor of British agricultural policy formation that should be mentioned here is the influence and agenda of the farm lobby, in particular the National Farmers Union (NFU). The NFU has played an important role in British post-war agricultural policy. As Michel Petit et.al. claim "the right of the National Farmers' Union to be consulted on matters of national agricultural policy is long-established".[209] The influence of the NFU was institutionalized in the annual reviews of the UK's agricultural situation which included, among other things, the setting of prices for agricultural products. Petit et.al. argue that the UK entry into the Common Market in 1973 curtailed the influence of the NFU.

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[207] Neville-Rolfe (1984), pp.40-41.
[208] Ingersent and Rayner (1999), p.137.
[209] Petit et.al. (1987), p.97.

According to Petit et.al., in contrast to other farmers' unions in the EU, NFU policy is determined by an underlying general belief in the greater competitiveness of British farming when compared with the rest of the European Union: "One of their objectives is therefore to ensure that the CAP and national governments do not unduly favour high-cost producers".[210] A second distinguishing feature of the British farm lobby when compared with Germany's DBV, for example, is the general orientation towards large farmers:

> It should be noted that the NFU generally shows no special concern for small farmers, though there are some among its membership who could come into that category. Probably the average member of the Union is farming about 100 hectares.[211]

Finally, whereas German and French farm lobbies benefit from a generally benevolent attitude of the non-farming population towards farmers and agriculture, British public opinion is generally more skeptical of the justification of subsidizing farming, particularly since it either strains the budget or increases food prices, or both. Moreover, a growing group of environmentalists and animal rights activists considers farming, in its current generally established form, to be in conflict with both the environment and animal welfare.[212] Edmund Neville-Rolfe refers to the "dilemma of a farm lobby in an essentially urban society". He describes the situation and role of the farmers in British politics as the following:

> Lacking the large rural audience, not to mention the single-mindedness and ferocity, of some of their continental neighbours, the farmers met with widespread public indifference to their actions….It must therefore be reckoned that British farmers have, since the war, not been on the whole much trouble to politicians of any party.[213]

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[210] ibid., p.99.
[211] ibid.
[212] ibid., pp.99-100.
[213] Neville-Rolfe (1984), pp.41-2.

British views on the CAP

Ever since it joined the EU in 1973, the UK has been a lot more critical of the CAP than the older Member States. One explanation for British aversion against the CAP is that the UK's general agricultural policy orientation before it joined the EU was based on deficiency payments and relatively low consumer prices, and therefore differed significantly from the CAP which is based on import levies and relatively high consumer prices. As a latecomer, when the UK finally joined the European Community, it was faced with a common agricultural policy rooted in the agricultural policies of its founding members.[214] Thus Valerio Lintner states that, "[t]his is a policy which the UK did not help frame because of its refusal to join in 1957",[215] while Neville-Rolfe argues that, from the British perspective, the CAP presented "a disturbance to tradition", thus explaining the British opposition on the CAP.[216] Moreover, Neville-Rolfe claims that in the UK, the CAP is associated with high food prices, and that these have traditionally been a much more sensitive issue in the UK than many Continental European countries.[217] Thus, while in the original Member States of the European Community food prices have rarely if ever been a "source of widespread or critical comment", in the UK the anticipated increase in food price as a result of British membership in the European Community and thus in the CAP, was "a constant and powerful deterrent to public acceptance of [British] accession [to the European Community]".[218] Britain's entry into the European Community coincided with a massive increase in food prices between 1972 and 1977, which, although only partially explained by the UK joining the CAP, cemented a strong aversion against the CAP as an expensive, unnecessary and unpopular policy.[219] British dislike of the CAP is illustrated by the fact that, when the Labour Party attempted to renegotiate the Treaty of Accession

[214] See, for example, Hendriks (1994).
[215] Lintner (1999), p.147.
[216] Neville-Rolfe (1984), p.50.
[217] He argues that "[n]o doubt the inferior purchasing power of urban wages in the UK compared with those earned in the other industrialised countries of the Community has contributed to this difference of attitude to the level of food prices." Neville-Rolfe, (1984), p.49.
[218] ibid.
[219] ibid., p.44-50.

in 1974, a major change of the CAP was one of the four targeted objectives of the renegotiation.[220]

Overall, from the UK perspective, the CAP is seen as a policy which lacks legitimacy. Thus, in October 1997, *the Economist* wrote about the British view of the EU's agricultural policy:

> Perhaps most damningly, the CAP has been attracting hostility at home. Already, many consumers know that European farm support inflated food prices. A near-panic over mad-cow disease, popular resistance to genetically modified foods and rising concern about factory farming and animal welfare have helped strip farming of its romantic rural image. Consumers are increasingly worried that such intensive farming, encouraged by the CAP, damages the environment and public health.[221]

Since its entry into the European Community, the UK has sought to reduce agricultural expenditure through the CAP. In 1988, the UK succeeded in introducing the 'financial guideline' which limits the growth of agricultural expenditure to 74 per cent of the rate of increase in the Community's GDP.[222] Earlier, in 1984, the UK had secured a so-called rebate of its contribution to the European Community budget. The British government had been complaining for years that the CAP's mechanism – based on export refunds on the one hand and import levies and duties on non-EC agricultural imports on the other – discriminated against the UK, traditionally a large net importer of agricultural products from outside the European Community. As one of the poorest members of the EC, the UK argued that it was unfair that it should be one of the largest net contributors to the financing of the CAP.[223] Finally, in 1984, Prime Minister Margaret Thatcher "secured an arrangement whereby it receives a refund of 66 per cent of the amount by which UK contributions to EC schemes exceeds its receipts from the EU".[224] Between 1995 and 1997, the UK rebate amounted to approximately 2.3 bn ecu per year.[225] In

[220] ibid., pp.38&50.
[221] *The Economist*, "European farm budget. Has the CAP peaked?", October 17, 1998.
[222] Kjeldahl in Kjeldahl and Tracy (eds) (1994), p.7.
[223] Colman (1992), p.34.
[224] ibid.
[225] European Commission (1998d), Annex 8, Table 7.

the past decade, the UK has fought hard to keep its rebate, amid growing criticism that it is no longer justified, and that it favors the UK at the expense of other net contributors to the EU budget. The UK rebate proved to be one of the crucial issues in the outcome of the Agenda 2000 negotiations. In addition to the aversion against the general policy orientation and the consequences of the CAP, a general and widespread skepticism of Britain's membership in the EU certainly has done nothing to bolster British support for the CAP.

In general, UK policy on the CAP has not been a very contentious or divisive matter in British politics. Rather, politicians from both the left and the right, and pro- as well as anti- Europeans, share a negative view of the CAP and, moreover, their aversion is generally based on the same reasons listed above.[226] Petit et.al. write that Parliamentary and House of Lord committee reports on the CAP have generally

> served to reinforce the arguments which the Minister [of Agriculture] was currently deploying in Brussels rather than to give him cause to adopt any radical changes in the policy which he is …[w]as pursuing … the impression often given was that their message was addressed more to the responsible European institutions than to the Ministry in Whitehall".[227]

Thus, UK policy on the CAP is characterized by a general consensus on the need of substantial reform, and on the general direction of the reform desired.

The Agenda 2000 proposals

The British reaction to the Agenda 2000 proposals presented by the Commission in July 1997 was very different from the French and German reactions. Whereas France and Germany strongly attacked the plans as going too far, British policymakers welcomed the proposals as "'a welcome step in the right direction'", and criticized the Commission

[226] With regard to the change of government in the UK in 1997, *Agra Europe* wrote that "Labour, is if anything even more determined than the Conservatives to bring about radical reform of the CAP, with cuts in farm support prices and a better deal for consumers". *AE*, May 2, 1997, P/1.
[227] Petit et.al. (1987), p.108.

for not going far enough.[228] Thus, Minister of Agriculture Jack Cunningham, while supporting the general direction of the Commission's proposals, regretted that the reforms had not gone further.[229] He stated that price cuts could have been bigger and that payments should have been made degressive.[230] Similarly, Richard Cowan, head of the Beef and Sheep Division of the British Ministry of Agriculture supported the Commission proposals, but asked for price cuts of at least 30 per cent for beef and expressed his desire that compensation payments to offset the removal of price supports should be a temporary measure to ease the transition rather than a permanent policy.[231] The Ministry of Agriculture also expressed disappointment over the fact that the Commission had not presented reform proposals for other regimes, such as sugar and sheep meat.[232] Outside the Ministry of Agriculture, Foreign Minister Robin Cook "urged the Commission to go further in dismantling farm subsidies".[233]

While the UK was generally supportive of the Commission's proposals, it strongly opposed the introduction of individual payments ceilings on farm payments.[234] *Agra Europe* wrote in October 1997, that the UK's "single biggest criticism of the CAP reform plans …[was] the notion that there should be a cap on total agricultural subsidy payments to the largest farms".[235] British opposition to this form of modulation is neither new, - Britain successfully resisted Commission proposals for an upper limit on compensation for set-aside land in the MacSharry reform negotiations[236] -, nor surprising, given, firstly, the greater average size of British farms, and, secondly, the general UK policy objective to make farming more competitive. The greater size of British farms would have meant that British farming would be relatively harder hit by the introduction of payment ceilings. Payment ceilings were also considered to

[228] Junior Farm Minister Lord Donoughue quoted in *AE*, July 18, 1997, E/5.
[229] *AE*, E/1, July 25, 1997.
[230] *AE*, October 24, E/1.
[231] *FT*, "European beef sector urged to change", October 16, 1997.
[232] Statement by junior farm minister Lord Donoughue at the televised agiculture council on March 31, 1998. MAFF (1998), "Lord Donoughue sets out UK agenda for CAP reform", News Release 132/98, March 31, 1998.
[233] *AE*, July 18, 1997, E/5.
[234] *FT*, News: Europe: "CAP payments 'out of touch' with market", 17.11.1997.
[235] *AE*, October 24, 1997, P/1.
[236] Grant (1997), p.77.

favor smaller at the expense of larger farms, thus discriminating against large-scale and often more efficient farming.

In general, however, the UK responded favorably to the Commission proposals, particularly to the policies aimed at reducing the market distorting effects of the CAP, such as the proposals to cut intervention prices and to set the compulsory set-aside rate at zero per cent. Reacting to the regulation proposals presented in March 1998, Farm Minister Jack Cunningham stated:

> From a national viewpoint, the proposals go very much in the direction we favour. Consumers will be a major beneficiary, saving over £1 billion a year from the proposed cuts in support prices. The rural environment will also benefit from the reforms. Farmers will gain from a more sustainable, market-led policy and the ending of the requirement to set land aside from production.[237]

Earlier, at a meeting between EU Commissioner Fischler and Cunningham in October 1997, according to *Agra Europe* the British Farm Minister, "was eager to express his backing for Fischler's overall CAP reform plan, saying he would 'strongly support' the Commissioner in his 'essential task' of overhauling EU farm policy".[238] In contrast to Germany and France, consumer interests, particularly regarding prices, were an important theme in the British government's motivation and rhetoric regarding CAP reform.[239]

At the informal Agriculture Council in Echternach in September 1997, the UK, expressed its approval of the general thrust of the reforms, arguing, however, that the proposals were too timid. In particular, the UK delegation criticized the Commission proposals for milk, calling for a rapid abolishment of quotas and the alignment of prices on world market levels. Moreover, it expressed its desire for making payments de-

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[237] MAFF (1998), "Jack Cunningham welcomes CAP reform proposals", News release 109/98, March 18, 1998.
[238] *AE*, October 10, 1997, E/4.
[239] See, for example, MAFF (1999b), paragraph 8. See also the criticism expressed in the Report of the Select Committee of Agriculture that the Commission neglected the consumer interest. House of Commons (1998), paragraph 57.

gressive over time, and stated its strong opposition to individual ceilings.

In February 1998, the Agriculture Committee of the British Parliament, the House of Commons, published a report in which it strongly criticized the Commission proposals for CAP reform.[240] The Committee attacked the proposals for being too modest, and for failing to address the problems posed by enlargement. In particular, the Committee criticized the Commission for failing to introduce an element of degressivity, that is, the ending or phasing out of direct payments over time. The Committee claimed that, "[f]or the Government, this is one of the most serious weaknesses in the Commission's proposals". It pointed out that even the NFU "conceded that if direct aids were to be justified as 'economic payments' they would ultimately have to be regarded as transitional, though they were not willing to be specific about the length of any transition period".[241] The report argued that "[a]n explicit recognition that these payments to farmers are compensatory in nature must, in our view, be accompanied by a recognition that they cannot be permanent". Instead these payments should therefore be "time-limited, and decrease over time".[242] With regard to enlargement, the Committee pointed out the absurdity both of extending compensatory direct payments to accession countries and of giving them to the existing Member States but not to new members, drawing the conclusion that the only solution was to phase out direct payments before enlargement.

The report advocated the full decoupling of direct payments from production, and instead the establishment of a system for agri-environmental and rural development policies "to sustain the viability of agricultural and rural communities. Funding for such policies could flow from reductions in decoupled direct compensation payments".[243]

The Committee strongly opposed the Commission's proposals for individual payments ceilings, arguing that they would result in a net loss for

[240] House of Commons (1998).
[241] Paragraphs 37&38. However, the NFU stated that it considered it to be a "'tactical mistake for the British Government to make this a major issue in discussions with its EU partners'".
[242] Paragraph 39.
[243] Paragraph 45.

the UK since farms are bigger on average than in the EU as a whole. The report cited both the Ministry of Agriculture and the NFU as stating that ceilings discriminated against and thus discouraged competitive and relatively efficient producers.[244] Rather than imposing individual ceilings, the report demanded that payments should gradually be reduced over time, thus referring back to its arguments for degressivity.

The Committee was also very skeptical of the Commission's suggestion to introduce cross-compliance, that is, to make the granting of aid conditional upon the fulfillment of certain environmental or other criteria. According to the Committee "[t]he Government argued that the attachment of environmental conditions to direct payments would confer a spurious respectability upon those payments which would decrease the likelihood of reducing or ending them".[245] If payments were to be phased out, then, the Committee argued, there was little point in introducing environmental conditions. However, if countries should not agree to phase out payments, then the Committee supported cross-compliance.

Finally, the Committee claimed that, by failing to address its import protection measures and export subsidies, the Commission weakened the EU's bargaining position in the next WTO round:

> We would much prefer to see the EU entering the next WTO Round sharing the moral high ground with the USA and the Cairns Group countries, and we have serious doubts as to whether the CAP reform proposals will allow the EU to do more than establish a base-camp in the moral foothills.[246]

In stark contrast to the German and French farm lobbies, which had condemned or flat out rejected the Agenda 2000 proposals, Ian Gardiner, policy director of the NFU, "welcomed the thrust of the proposals". Even though it meant that farm incomes would fall sharply, he thought that "[f]armers would gain in the long term by being free to grow what

[244] Paragraph 46.
[245] Paragraph 51.
[246] Paragraph 30.

the market wanted and to export their products".[247] However, Gardiner was strongly opposed to putting a limit on the amount of aid an individual farm can receive, since he argued this would punish the more efficient farms.[248] He also expressed concern about increasing the degree to which individual Member States may decide on rural development spending since he claimed that the UK was not as active or generous in this respect as other governments.[249]

Conclusions

Overall, the UK was supportive of the Agenda 2000 proposals, that is, there was no opposition comparable to the fierce reactions encountered in Germany and France. In contrast to France and Germany, the UK government and parliament expressed their desires for a more far-reaching reform than the one proposed by the Commission, which was considered too modest. In particular, the UK advocated the introduction of degressivity, that is, the gradual phasing out of direct payments over time. The most significant exception to the UK's generally supportive position on the Agenda 2000 proposals was the strong opposition, shared by the government and farmers alike, to the introduction of individual payments ceilings. In the UK, government, parliament and the NFU joined in criticizing the Commission proposals for failing to address the requirements arising from, firstly, enlargement of the EU, and, secondly, the WTO issues and constraints, and the upcoming WTO round.[250] It is important to note that the British government's campaigning for reduced subsidies to farming occurred at a time when British farm incomes were being hard hit by a rapidly strengthening pound. Thus, in 1997, - when the Agenda 2000 negotiations began -, the Ministry of Agriculture estimated that net farm incomes fell by more than 40 per cent in real terms, leading *the Economist* to comment that "[m]ost types of farm have gone from feast to famine in short order".[251] The failure of this significant drop in farm incomes to affect the UK's general view on farm

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[247] *FT*, "Farming reforms sow seeds of doubt: CAP changes are causing misgivings despite being 'step in right direction'", July 17, 1997.
[248] *FT*, C&Agr: "Softer stance on farm subsidies", January 21, 1998.
[249] *FT*, "Farming reforms sow seeds of doubt: CAP changes are causing misgivings despite being 'step in right direction'", July 17, 1997.
[250] Thus, both the government and the NFU criticized the Commission for failing to take into consideration the WTO constraints. *FT* News, UK: "Farmers warn on Brussels plan", November 2, 1997.
[251] *The Economist*, "Farmers take a pounding", February 28, 1998.

subsidies confirms the differences in, firstly, the political leverage of the British farming interest when compared with France, for example, and, secondly, in the general economic policy orientation of Britain when compared with France or Germany.

At the outset of the Agenda 2000 negotiations in 1997, therefore, the UK looked likely to be a staunch and powerful advocate of CAP reform. Its position was based on a relatively solid foundation, namely a widespread consensus view on agricultural policy and the CAP. However, as will be shown in chapter 5, during the course of the Agenda 2000 negotiations, domestic events came to undermine this foundation and, consequently, the UK's strong and united front against the CAP and its system of farm subsidies and price intervention. The result was a weakening of the UK's negotiating position vis-à-vis reform opposing Member States. This in turn, contributed to the final outcome of the Agenda 2000 negotiations on CAP reform.

4.5 Sweden

General

"Sweden is one of the very few OECD countries to have attempted a broadly-based reform of its agricultural policy", and this fact distinguishes it significantly from most of the other EU Member States, including the three countries discussed above.[252] This section will begin with a brief overview of the development of Swedish postwar policy, and, particularly, its remarkable reorientation that occurred between 1989 and 1991. This overview is necessary for understanding the Swedish position in the Agenda 2000 negotiations.

Postwar Swedish agricultural policy has its origins in the economic depression of the late 1920s and early 1930s.[253] At that time, oversupply and low prices led policymakers to implement protectionist policies aimed at insulating domestic producers from international markets. Though these measures were originally intended to be temporary, the regulatory

[252] OECD (1994), p.6.
[253] For a brief history of Sweden's agricultural policy, see OECD (1994), Rabinowicz (2000), or SOU (1996a), pp.79-82.

framework that was created in the 1930s largely remained intact until the 1990s.

In the postwar period, Sweden's neutral country status meant that the policy objective of food security, or national self-sufficiency, became an important determinant of agricultural policy. According to the OECD, up until the mid-1980s

> [o]ther objectives such as those concerning consumers (the supply of good quality food at reasonable prices), the environment (the sustainable exploitation of scarce natural resources), regional distribution and efficiency in agricultural production were subordinate to the food security objective.[254]

The food security objective was pursued through the establishment of a system of market price support not dissimilar to the CAP, with market price support being achieved largely through import levies, administered prices to farmers and export subsidies. The system was complemented with deficiency payments, which were, however, restricted to farmers in the northern part of Sweden. In addition to the food security objective, also referred to as the production objective, the parliamentary decision of 1947 established two other principal objectives of agricultural policy, both of which were reiterated in the agricultural policy revisions of 1967, 1977 and 1985. The first was an income objective, - that is the achievement of an economic and social standard of farmers equivalent to those of comparable groups -, and the second an efficiency objective, - aimed at maximizing the economic efficiency of agricultural production. Ewa Rabinowicz argues that the food security objective had higher priority in Swedish agricultural policy than in the CAP.[255] Moreover, in contrast to the CAP, where 'fair' incomes for farmers are an objective in its own right, in Sweden the income objective can be seen as "a derivative of the desire to achieve food security", in the sense that "[f]armers were entitled to income support for the provision of such an

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[254] SOU (1996a), pp.79-82.
[255] Rabinowicz (1999), p.224.

entitled to income support for the provision of such an important public good".[256]

By the late 1980s, Swedish agriculture was one of the most highly supported and protected in the OECD.[257] At the same time, a growing number of experts argued that the food security objective was over-fulfilled. Moreover, the export of agricultural surpluses from Sweden, and other OECD countries, was considered to have a detrimental effect on food production in developing countries. A study carried out in 1988 found that the requirement of food security, as defined for defense policy purposes, could also be met with a largely deregulated agricultural sector, and, moreover, that it would only cost about five per cent of "the total cost of agricultural policies in 1988".[258] In the 1980s, there was thus a growing realization of the net welfare losses incurred by the market-distorting agricultural policies in practice, which had led to "the allocation of productive resources to a sector with lower marginal productivity than the best alternative usage"[259]. Overall, policymakers gradually became convinced, firstly, that the agricultural policy objectives, in particular food security, needed to be reassessed or reformulated, and, secondly, that "[a]gricultural policies had been assigned too large a responsibility for objectives that could be more rationally achieved with non-agricultural policy instruments".[260] In particular, the system of market price support came to be regarded as an inefficient and inappropriate policy instrument for achieving the defined objectives. These developments were accompanied by a growing widespread criticism against high and rapidly increasing food prices in Sweden at the time. The important influence of high and rising food prices on Swedish agricultural policy formation will be discussed later in this chapter.

[256] ibid.
[257] The OECD uses the producer subsidy equivalent (PSE) to measure "the value of the monetary transfers to farmers from consumers of agricultural products and from taxpayers resulting from agricultural policy". Starting at 49 per cent in 1979, the first year of the measurement, and peaking at 64 per cent in 1991, net percentage PSE exceeded the OECD average by between 10 and 13 percentage points during the entire period 1979 to 1989. OECD (1994), pp.9 & 23-4.
[258] Molander (1988).
[259] OECD (1994), p.41.
[260] ibid., p.46.

The turnaround in Swedish agricultural policy can be said to have started with the abolition of milk quotas, introduced in 1984/5, in July 1989. One of the striking aspects of this decision, differentiating Swedish agricultural policy formation radically from decision-making on the CAP, was that the abolition was not accompanied by any transitional or safeguard provisions.

The decisive policy shift, however, can be dated to June 1990, when the Swedish parliament passed a bill for radical reform of Sweden's food and agricultural policy. The final bill decreed a complete internal deregulation covering all agricultural commodities within a five-year period. The transition was eased through a "substantial adjustment programme [which] gave temporary compensation/support to farmers during a five-year period".[261] The reform was based on the principle that agriculture should be subject to the same, market-determined, conditions as other economic sectors.[262] Thus, agricultural producers should only be compensated for goods and services for which there was a demand. In addition, consumer interests as well as environmental issues were assigned a much more central role than before.[263] In turn, income support no longer figured as an explicit objective. Food security, while still recognized as a goal, was assigned a much lower priority than before. The OECD states that:

> The major change in the stated objectives of agricultural policies, compared with the decision in 1985, was the increased emphasis on an efficient allocation of resources across the economy and the reduction in emphasis on the food security objective.[264]

Before 1990, Swedish agricultural policy had many things in common with the CAP, such as a system of market price support achieved through import levies, administered prices to farmers, export subsidies, and even the use of set-aside schemes and quotas to stem surpluses. In addition, as time went by, Swedish agricultural policy struggled increas-

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[261] Ds (1998b), p.6.
[262] SOU (1996a), p.81.
[263] SOU (1997), p.18.
[264] OECD (1994), p.52.

ingly with the same problems as the CAP, such as overproduction, rapidly increasing costs, structural adjustment problems, and, on a more general term, the need for a policy reassessment. However, the agricultural policy decision from 1990 drastically changed the general orientation of Swedish agricultural policy, and, in doing so, put Sweden on a very different track from the EU and the CAP. A study by Swedish agricultural economists from 1992 dismisses the idea that there were significant parallels between the MacSharry reform proposals and the Swedish agricultural policy decision from 1990, which might put Sweden and the EU back on a similar policy path. It argues instead that the two reform approaches differed fundamentally, in that the Swedish reform aimed at increased market orientation and comprehensive deregulation, while the MacSharry proposals merely added to the existing CAP machinery a new big regulations apparatus for direct payments.[265] In general, the experts also point out that while Sweden abolished milk quotas, and area payments were only introduced together with a clear and specific commitment to their temporary nature, the EU de facto included both instruments as permanent fixtures of the system. Their study concludes that the Swedish reform constitutes a significant institutional change in agricultural policy, pointing among other things to the abolition of annual price negotiations between the government and the Swedish farmers' union, and the removal of the income objective.[266]

An interesting question is what circumstances made the radical reorientation in Swedish agricultural policy possible. While an in-depth analysis of the determinants of the policy shift exceeds the scope of this paper, some aspects should be pointed out here.[267] Firstly, consumer interests, in particular growing public dissatisfaction with rapidly rising food prices, constituted an important component in the reorientation of Swedish agricultural policy. Between 1980 and 1990, while consumer prices in Sweden rose by 108 per cent, food prices rose even faster, increasing by 129 per cent in the same time period.[268] In international comparison, Swedish food prices were 58 per cent higher than the OECD average, with only

[265] Bolin and Rabinowicz in Bolin and Swedenborg (eds.), (1992), p.71.
[266] ibid.
[267] For a more thorough discussion, see, for example, Rabinowicz (1999).
[268] Source: SCB.

Finnish and Norwegian food prices exceeding Sweden's, whereas general prices were 'only' 38 per cent higher than the OECD average. Food subsidies, introduced in 1973, and growing from 268 million SEK to 3572 million SEK in 1981, had concealed the full increase in food prices in real terms to consumers.[269] Their sudden and large-scale removal, in 1983, accelerated the increase in food prices in real terms, thus giving further impetus to the already strong public dissatisfaction with high food prices.[270]

With regard to the reorientation of Swedish agricultural policy, the important aspect was that agricultural subsidies and protection were attributed a large part of the blame for the high food prices. In a study of the causes of high food prices, carried out in 1992, Olof Bolin and Birgitta Swedenborg claim that agricultural subsidies were largely responsible for the high food prices in Sweden. They conclude that "… in any case, it [the analysis] does not contradict the claim that a phasing out of agricultural subsidies would have considerable effects on food prices".[271]

A second explanatory factor is the dominating role of the Social Democratic Party and the relatively weak agricultural interest, when compared with other EU countries, in Swedish politics in the postwar period. The Social Democrats, traditionally a workers' party with no distinct orientation towards or affiliation with farmers' or landowners' interests, took the initiative for cutting agricultural subsidies in the 1960s, and they were also in power when the agricultural policy decision was adopted in 1990.[272] The interests of Sweden's farmers and landowners have traditionally been represented by the so-called Center Party, which has been in government in informal cooperation with the Social Democrats, and as formal government coalition partner with the Conservatives (the so-called Moderaterna). According to Rabinowicz, the Social Democrats initiated all significant changes in Swedish agricultural policy, and these

[269] Bolin et.al (1984), p.92.
[270] Rabinowicz (1999), pp. 223-224. Given the predictability of the effect, heightened awareness of and dissatisfaction with food prices, and, by extension, with the existing agricultural policy, it could be asked whether the decision to remove food subsidies at that time and to such a large extent was the result of a serious error of judgment on the part of politicians, or, whether its effects on public sentiment, and on the public view of agricultural policy, were expected and perhaps even welcomed.
[271] ibid., pp.33&42.
[272] For an analysis of the role of agriculture in Swedish politics, see Lindahl (1995).

changes occurred when the Social Democrats did not depend on the Center Party for parliamentary support.[273]

While the Social Democrats might be identified as the initiators of the reform proposals, the final decision was the result of an overarching agreement between all major political parties, that is, it was not merely forced through by the Social Democrats alone. Thus, to attribute the radical policy changes to the power and agenda of the Social Democratic Party in Sweden would be to simplify matters. Rather, the 1990 policy decision reveals a widespread consensus on the need for far-reaching reform of agricultural policy, which has not been found in other EU countries. The ground for consensus was prepared by a public debate on agricultural policy in the 1980s.[274] Arguably, the debate was unleashed by a book, published at the height of public dissatisfaction with high food prices, which strongly criticized the special treatment of agriculture and argued for deregulation of agricultural policy and a complete liberalization of agricultural trade.[275] According to Rabinowicz, "[t]his critical debate contributed to the changed perception of the [agricultural] policy and established the link between high food prices for consumers and agricultural protectionism".[276] The resulting loss of legitimacy of an agricultural policy based on costly subsidies and protectionism created a consensus for change and thus set the stage for sweeping reform.

Sweden's entry into the European Union in 1995 meant that the agricultural policy reform was never completed. Instead, some policies even had to be reversed in order to adapt to the EU's Common Agricultural Policy. It is a matter of speculation whether, given sufficient pressure from the agricultural lobby and power shifts in Swedish politics, the agricultural policy reform would have been fully implemented even if Sweden had not joined the EU when it did. However, most observers would agree that the agricultural policy decision from 1990 constituted a structural, institutional change in Swedish agricultural policy, leading to the dismantling of a large part of the regulatory framework. While revi-

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[273] Rabinowicz (2000), p.183.
[274] For a brief synopsis of the debate, see Rabinowicz (1999), pp.224-227.
[275] Bolin et.al. (1984).
[276] Rabinowicz (1999), p.227.

sions of the 1990 decision were imaginable, and indeed were undertaken between 1990 and 1994, it is highly unlikely that successive governments would have completely reversed the decision.

Given the reorientation of Swedish policy in the early 1990s away from those elements that had made Swedish agricultural policy so similar to the EU, it is not surprising that the Swedish government did not belong to the ardent supporters of the CAP, when it joined the EU. On the contrary, ever since it became a member, Sweden has been one of the fiercest critics of the CAP and one of the most outspoken advocates of reform. Thus, in July 1995, the Swedish government set up a parliamentary committee "with the aim of developing, from a Swedish perspective, a comprehensive proposal for reform of the EU's Common Agricultural Policy (CAP)".[277] The committee, which assumed the name KomiCAP, delivered its report in June 1997. Based on this report, the government presented a bill which established guidelines for Sweden's work with agricultural and food policy within the EU.[278]

The parliamentary report listed several arguments for why CAP should be reformed. Firstly, there was a need to adjust the CAP's objectives to respond to a changed food situation, on the one hand, and changed policy preferences, such as growing consumer, environment, and other demands, on the other. Secondly, the report pointed to several flaws of the existing CAP, such as its inflationary effect on food prices and its high costs to taxpayer and consumers, its shortcomings with regard to environmental, rural policy and animal welfare aims, and its complexity and inefficiency, with some instruments counteracting each other. Thirdly, the report listed external reasons for CAP reform, namely its negative effects on developing countries, the WTO negotiations and the prospective enlargement of the EU.[279] The report established that CAP reform should be driven by the desire for an optimum allocation of agricultural resources in the future, and identified as the two principal objectives of the CAP that it should facilitate "a wide and varied supply of safe food at

[277] SOU (1997), p.1.
[278] Regeringen (1998).
[279] SOU (1997), pp.8-9.

reasonable prices", and, "sustainable agriculture".[280] The committee was very critical of the existing market regulations of the CAP stating that:

> CAP market regulations will not lead to the fulfilment of the objectives we wish to see. They lead instead to higher food prices and they disadvantage production efficiency between different sectors, between different farmers and between industrialised and developing countries. This means that producer flexibility and opportunities for structural development are hampered.[281]

The report called for the abolition of market price support, and, "at some future point", for the total removal of the EU's common market regulating measures, with the exception of border protection. It expressed its regret over the fact that no time limit was set for the direct compensatory payments agreed upon in the 1992 reform of the CAP, and it criticized the EU for having failed to reform the CAP before the WTO negotiations in 1992:

> If, instead, the European Union had preceded the negotiations by an earlier reform of the CAP, there would have been greater opportunities for reform in line with EU interests. The same reasoning can be applied to the forthcoming WTO negotiations. … By being the driving force of the reform process within the framework for the next round of WTO negotiations, the Member States would be able to change the CAP in ways which correspond to the interests of the Union instead of being forced to make reforms along the lines put forward by other countries in the WTO. In this way the European Union would probably achieve a better negotiating position and greater opportunities to press for important issues of consumer and environmental interest within the framework for the WTO work.[282]

In general, the committee argued in favor of a reorientation of the policy emphasis of the CAP away from its focus on production, specifically the

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[280] ibid., p.97.
[281] ibid., pp.100-101.
[282] ibid., pp.101-102.

stimulation of production, and on producers, and more towards "consumer, environmental, animal ethic and regional issues".[283]

In March 1998, the Swedish government presented a bill based on the main conclusions from the parliamentary committee report. In it, the government expressed the view that a far-reaching reform of the CAP was necessary. The government identified three principal objectives for the EU's common agricultural policy. First, agricultural production should be determined by consumer demand. More specifically, the EU should "promote a large and diversified range of safe food products at reasonable prices [author's translation]".[284] Secondly, agricultural production should be sustainable in the long term, both from an environmental and from an economic perspective. Thirdly, EU agricultural policy should contribute to global food security. The third objective should be achieved, among other things, by defending the principles of free trade even in the food sector. The bill called for the abolition of the market regulations, arguing instead in favor of specifically targeted policies aimed at environmental, rural development and regional objectives. The EU's new agricultural and food policy should lead to higher economic welfare, and, in time, lower budgetary costs, and it should facilitate EU enlargement.[285]

This section has shown that Sweden, in general, has been very critical of the CAP, and that a far-reaching reform of the CAP has been one of the priorities of the Swedish government's EU policy ever since Sweden joined the EU in 1995. Dislike of the CAP's policy orientation and instruments, however, is not the only source of Sweden's strong criticism of the CAP. Similarly to the UK, in Sweden, criticism of the CAP can also be linked partially to a widespread skepticism of the EU in general. Ever since Sweden joined the European Union in 1995, it has been considered a very reluctant member.[286] The referendum on EU membership held in November 1994 was very close, with the yes voters winning by a very

[283] ibid., p.67
[284] "främja ett brett och varierat utbud av säkra livsmedel till skäliga priser". Regeringen (1998), p.23.
[285] ibid., pp.1-2.
[286] see, for example, *The Economist*, "Variety Show", January 23, 1999, "Chalk and Cheese", October 5, 1995, and "Into Europe", November 5, 1994, and *Europe*, "Sweden's Europhoria Question", by Jonas Weiss, September 1994, p.22

small margin (with 52.2 per cent voting yes and 46.9 per cent no). Since then, opinion polls continue to show a great skepticism of the EU, with many yes voters appearing to regret their earlier decision in favor of EU membership in 1994. By comparison, Finland and Austria, which joined at the same time as Sweden, have been much more enthusiastic and unambiguous about their membership in the EU, and they are incidentally also members of the EMU whereas Sweden decided to opt out of EMU for the time being, and providing further proof of its ambiguity about belonging to the EU. Criticism of Sweden's membership in the EU is neither rare nor limited to the extreme corners of the political landscape, with EU critics blaming the EU for everything from unemployment to grotesque cows (Belgian Blue) and alleged deteriorations in food quality.[287]

Not all factions in Swedish politics, were critical of the CAP when Sweden applied for EU membership. Swedish farmers, in particular, stood to gain significantly from the CAP[288], explaining why the Swedish farmers union, LRF, strongly supported Sweden's entry into the EU. In general, however, the CAP was, and still is, largely perceived, and portrayed in the media, as a costly, rigid, bureaucratic, and, in some instances, absurd machinery, confirming already widespread doubts about the benefits of centralization and European integration, and the benefits to Sweden of renouncing sovereignty to the European Union.

The Agenda 2000 proposals

Sweden differed significantly from the three countries above in both its role and position in the Agenda 2000 negotiations. First, Sweden was a newcomer in the EU, having only been a member since January 1, 1995, compared to Germany and France, who were founding members, and the UK, which joined in 1973. The Agenda 2000 negotiations were the first major agricultural policy negotiations that Sweden participated in as a full-fledged member of the EU. Secondly, in terms of population, economic size and formal political strength, Sweden is a small country compared with the three countries described above. Thus, Sweden has

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[287] See, for example, EU-kritiska rådet (1998), "Sverige, EU, Livsmedelskvalité och djuren", http://hem.passagen.se/yogi1/sid11.htm.
[288] see SOU (1994), p.316, and Flam (1995), p.461.

only four out of a total of 87 votes in the Council of Ministers, compared with 10 votes for France, Germany and the UK each. The implications and effects of these two factors in the Agenda 2000 negotiations will be analyzed in chapter 5.

The reaction of the Swedish government to the reform proposals presented by the Commission was very similar to the British one described above. As might be expected from the generally critical view of the CAP held in Sweden, the Swedish government welcomed the Agenda 2000 proposals as a step in the right direction. At the same time, however, the government criticized that the proposals did not go far enough.[289]

Regarding the detailed proposals, the Swedish government welcomed the proposals to cut cereals and beef prices, but criticized the notion, implicit in the proposals, of indefinite and unjustifiably high compensation payments. The government rejected the proposals for the dairy sector as too timid and called for more rapid price cuts and the phasing out of quotas. Moreover, the government criticized the Commission for not making any proposals for reform of the sugar sector. Concerning the horizontal regulations, Swedish policymakers were ambivalent on the Commission's proposals for cross-compliance and modulation or individual payments ceilings. Their view was that the former constituted a second-best policy choice for achieving environmental objectives, and that it might serve artificially to legitimize the CAP and thus make it harder to reform. Regarding modulation and individual ceilings, the Swedish government feared that these measures might hamper the structural adjustment, which was necessary to make European agriculture competitive.

At the informal Agriculture Council in Luxembourg in September 1997, Agriculture Minister Annika Åhnberg stated that the Agenda 2000 proposals provided a good starting point for making European agriculture more competitive, but criticized the Commission for not going far enough. In particular, she criticized the failure to set timetables for when direct compensatory payments should be phased out. She declared that

[289] Regeringen (1998), p.22. See also, Utrikesdepartementet (1998), p.12.

Sweden could agree to income compensation but only for a predetermined period, while making aid permanent would be incompatible with budget constraints and EU enlargement. Åhnberg expressed her disappointment at the fact that the Commission had failed to present a proposal for the reform of the sugar regime.

In an official comment on the regulation proposals to parliament in March 1998, Åhnberg commended the proposals for seeking to make the agricultural sector more market oriented and more competitive, for benefiting consumers by lowering prices, and for strengthening the EU's bargaining position in the upcoming WTO negotiations. In addition, the Minister welcomed the proposed strengthening of agriculture's environmental profile.[290] Åhnberg reiterated the government's position, expressed in the bill presented in March 1998 (Proposition 1997/98:142), which stated that the market regulations should be phased out over time.

The detailed comments by the Foreign Ministry on the necessity of reforming the CAP expressed on several occasions during the Agenda 2000 negotiations, indicate the high priority assigned by the Swedish government to the issue. In February 1998, State Secretary of the Foreign Ministry Gunnar Lund outlined the cornerstones of Sweden's European policy. He identified a fundamental reform of the CAP as one of the most important priorities for the EU in the future. He emphasized the importance of a more consumer- and market-oriented agricultural policy for economic, trade political and environmental reasons.[291] The main criticisms vis-à vis the Agenda 2000 proposals expressed by the Swedish Foreign Ministry regarded compensation payments, with the Foreign Ministry demanding that compensation for price cuts to farmers should be neither full nor permanent, and that the proposals for milk reform, which according to the Swedes, should have suggested much larger price cuts and the phasing out of milk quotas to begin as early the year 2000.[292] When discussing the Agenda 2000 proposals, the State Secretary

[290] Sveriges Riksdag (1998).
[291] Speech by Gunnar Lund in Helsinki, February 10, 1998 (http://www.ud.se/pressinf/talovrig/980210_0.htm). See also statement made by Gunnar Lund to the advisory committee on EU affairs in Sveriges Riksdag (1999b).
[292] Utrikesdepartementet (1998), p.12.

pointed to the Swedish government's general position advocating a restrictive budgetary policy for the EU and an alleviation of Sweden's financial burden in the EU, as one of the largest net contributors. However, at the same time, both the Foreign and Finance Ministries emphasized the willingness to accept a temporary increase in the EU's agricultural budget, if this increase in expenditure served to finance, and thus make possible, a 'good' reform of the CAP, that is leading to a fundamentally changed, and, in the long run, cheaper, CAP.[293] It is important to point out that the Swedish position, in its declared readiness to accept the temporary extra costs which a far-reaching reform of CAP might entail, differs significantly from that of the UK. While also championing a thorough reform of the CAP, the UK government gave no indications of a willingness to pay the price for such a reform.

In December 1998, a network of experts attached to the Ministry of Agriculture published an impact analysis of the Agenda 2000 proposals on Swedish agriculture.[294] Their assessment of the Agenda 2000 proposals was less benevolent than the view expressed by the Swedish government:

> The existing CAP can be criticised for having fewer means than objectives. The reform proposals in Agenda 2000, can, on the other hand, be said to propose a broad range of instruments with conflicting ends. Above all, it is hard to distinguish the final result of the Agenda 2000 proposal according to the outspoken objective of enhancing the competitive advantage of EU agriculture on international markets.[295]

Rather than improve net welfare, the experts cautioned that the proposals might result in a net negative effect on welfare, when taking into account the increased administrative burden associated with the shift from price support to direct payments. The report also generally questioned the rationale for compensating farmers for price cuts. In a stinging criticism of the recent reform attempts of the CAP the report stated that

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[293] see statements by Gunnar Lund and by Finance Ministry official Carl Jonas Sjönander in Sveriges Riksdag (1999b), and Utrikesdepartementet (1998), p.12.
[294] Ds (1998b).
[295] íbid., pp.vii-viii.

> [the] [l]ong term challenge for European agriculture, in the context of international trade, is not to find new ways of paying the same amount of subsidies, but to identify what kind of payments that are legitimate to protect the European environment and to develop the countryside.[296]

Not unexpectedly, the Swedish farmers' union LRF, reaction to the Agenda 2000 proposals differed from those expressed by the government and agricultural economists. The LRF was very critical of the Agenda 2000 proposals, arguing that the reforms would dramatically reduce farmers' incomes in the EU in general, and, moreover that they would hit Swedish farmers harder than other farmers. The LRF estimated that Swedish agriculture would lose approximately 1.5 bn SEK per year (approx.180 m euro) if the Agenda 2000 proposals were implemented. The farmers' union claimed that the proposal to maintain and even increase subsidies for silage maize, which indirectly compensated dairy and beef farmers for price cuts, discriminated against Swedish, and Finnish farmers, since, in contrast to the rest of Europe, the Nordic climate prevented them from growing maize in significant quantities.[297] LRF chairman Hans Jonsson suggested that Sweden and Finland cooperate to defend their interests in the Agenda 2000 negotiations.[298] Similarly, the farmer-friendly Christian Democrats and Center Party attacked the Swedish government for not defending the Swedish farmers. However, the farm lobby's complaints fell on fairly deaf ears. In a press statement issued on March 20, 1998, Minister Åhnberg reacted sharply to claims by the farmers' lobby that Swedish farmers would lose up to 1.5 billion SEK if the Commission's proposals went through, by stating that: "Don't let the farmers' lobby's protests obscure the fact that there is a need for changes in the EU's agricultural policy! [author's translation]".[299] Also, when accused of failing to defend Sweden's national interests in the CAP, the Minister repeatedly pointed out that consumers'

[296] ibid., p.viii.
[297] LRF (1998), "LRF om Förslagen i Agenda 2000", *Internationella Perspektiv*, Nr. 11, May 19, 1998. It should be noted, that the proposal to maintain the subsidies for silage maize was introduced in the regulation proposals from March 1998, which thus differed from the original proposals presented in July 1997.
[298] LRF (1998), "Elektroniskt brev från Hans Jonsson", October 16, 1998 (http://www.lrf.se/elbrev/9802.htm).
[299] "Låt inte bondelobbyns protester skymma behovet av nödvändiga förändringar av EU:s jordbrukspolitik!". Ministry of Agriculture (1998).

interests were just as much a part of Swedish national interests as farmers' interests.[300]

Summing up, the general position held by most political factions and the general public, with the exception of the Swedish farmers' union and the farmer friendly Center and Christian Democratic Parties – both relatively small parties, with a total support of 17 per cent in the last parliamentary elections – was that the CAP should undergo a dramatic reform in order to become more market-, and, thereby consumer-oriented, and less costly both to society and to the budget.

4.6 Conclusions

This section has shown that countries differ significantly, firstly, in their general agricultural policy orientation – that is, regarding both the objectives of and choice of policy instruments – and, secondly, in their general view of the CAP (for a summary of national views on the CAP and on agriculture, see Table 5). While an in-depth analysis of the national determinants of agricultural policy orientation would exceed the scope of this paper, the section has identified the general national economic policy orientation, on the one hand, and the role of agriculture in the economic and political landscape, on the other hand, as important variables for explaining the significant differences in objectives assigned to and the faith in the effectiveness of agricultural policy.[301] Moreover, the country analyses have shown that national attitudes towards the CAP are closely linked to national views on European integration. Thus, countries such as the UK and Sweden, which are characterized by widespread EU skepticism, tend to be more critical of the CAP than countries, such as France and Germany, which created and still defend the principles of European integration.[302] A further important determinant of national view on the CAP is the possible financial benefit accruing to each country from the CAP. As the largest net beneficiary of the CAP by far,

[300] ibid.

[301] Differences in past collective experiences – for example, food shortages or hyperinflation – and in present economic conditions, in turn explain the divergences in economic policy orientation and the role of agriculture in economy and society.

[302] However, the causality direction between the two is not always clear. Thus one could ask whether the French like the CAP because it is a symbol of European unity or whether they are fond of the EU partially because they benefit as much as they do from the CAP?

France is more supportive of the CAP and more reluctant of change than countries which are net contributors.

One important conclusion to be drawn from this section is that no single factor can be identified as the decisive determinant of countries' general view of the CAP. Thus, for example, in the case of France, the importance assigned to agriculture for the country's national identity, the faith in the effectiveness of government intervention in securing desirable economic and political outcomes, and the significant financial benefits derived from the CAP combine to make France one of the CAP's most ardent supporters. More importantly, the combination of these factors makes France one of the most determined opponents of far-reaching reform of the CAP.

In Sweden, in the 1980s, high and rapidly rising food prices, and their clear association/direct linkage with a heavily protected and subsidized agricultural sector focused the widespread interest of the public and the media on national agricultural policy, a topic otherwise largely reserved to farmers, animal rights activists and environmentalists. The ensuing public debate over the legitimacy of agricultural policy created the consensus that enabled a fundamental reform and policy reorientation, away from interventionism and protectionism, towards market orientation and deregulation. Crumbling legitimacy at home, rather than budgetary or international pressures, therefore, opened the door for a far-reaching reform of Swedish agricultural policy. This development was an important step towards stripping agriculture of its 'special' position in the national economy, and exposing it to the same market forces that applied in other economic sectors. There is a similar clear and well-established relationship between relatively high food prices and agricultural policy in the EU as there was in Sweden, raising the question why a similar widespread public debate on the legitimacy of the CAP in its current form has failed to erupt so far in the rest of the EU. Two factors might explain this difference. Firstly, food prices in the EU have not exploded in the way they did in Sweden in the late 1970s and 1980s, where they provided the necessary spark to ignite the public outrage and debate. In addition expenditure on food accounts for a considerably larger share of total private household expenditure in Sweden than in most other EU countries, thus, arguably, making Swedes more concerned with, and more sensitive to changes in, food prices. Secondly, in Sweden, institutional factors, such as the widely publicized semi-annual price reviews for agricultural products before 1990, established a highly visible link between agricultural policy and food prices. Swedish agricultural policy before the reform, though similar to the CAP in principle, was much less complex and heterogeneous.[303] In contrast, one could argue that the centralized, supranational nature of the CAP, with its complicated rules and regulations, has obscured the relationship between agricultural subsidies and protectionism and high food prices to the public eye, making the issue more opaque and remote than it might have been if agricultural policy had remained national. Whereas food prices are generally considered a domestic issue to be addressed nationally, if at all, agricultural policy is widely acknowledged to be decided at EU level rather than nationally. In addition, EU food prices differ greatly between countries, complicating the relationship, and thus the basis for public debate, between food prices and the CAP. Summing up, it should be pointed out that the above constitute only some of many possible reasons explaining why the EU has not experienced a widespread public debate on agricultural policy as was the case in Sweden, and why legitimacy, though an increasingly important factor in decision-making on the CAP, has so far failed to act as a more powerful catalyst for reform than might be expected.

In addition to the factors identified in this section, budget considerations – in particular, national contributions to the EU budget and thus to the financing of the CAP – play a critical role in determining countries' views on the CAP and on a possible reform of the CAP. These budgetary aspects and their relevance for the Agenda 2000 negotiations will be discussed in the next chapter. Whereas this section examined the domestic determinants of national positions on the CAP in general, the next chapter will analyze the strategies, negotiations and processes leading to the Berlin Agreement in March 1999.

[303] Rabinowicz (1999), p.213.

Table 5: National views on the CAP

	Overall view of the CAP	**Agriculture in party politics**	**CAP and European integration**	**Agriculture in society**	**Party in power during neg.s**	**General view on CAP reform**
Germany	Important for small farmers, part. dairy and cereal, and for maintaining a way of life and the countryside; But Germany pays too much	Agriculture traditionally the domain of the CDU/CSU	No explicit link between CAP and EU; implicitly Germany is willing to pay for European integration.	Sympathy for the traditional family farm; agriculture deserves special treatment; farmers as guardians of German landscapes	Christian Democrats and Liberals (FDP) until August 1998, then Social Democrats and Green Party	Negative
France	Important for France and for Europe, for protecting French national heritage; policymakers emphasize 'multifunctionality' of agriculture	Conservatives traditionally closer to farmers	CAP linked to European integration (criticism of CAP is criticism of EU and of European integration itself)	Agriculture plays a strong role: Farmers and agriculture symbols of France's national heritage.	'Cohabitation' Socialist Prime Minister, Conservative President	Negative
UK	Costly, inflationary, market-distorting, lacking legitimacy	Similar views in both political parties: both critical of the CAP (though Conservatives more sympathetic towards the needs of the rural population than Labour)	CAP linked to European integration (CAP seen as an argument against UK membership: CAP shows just how bad European integration is)	General attachment to countryside, but agriculture no special role. Strong general interest in low food prices.	Labour Party	Postive
Sweden	Costly, bureaucratic, cumbersome to administrate, and insensitive to consumer and environmental concerns; symbol of what is wrong with the EU	Social Democrats (in power for most of postwar period) generally not farmer-oriented. Farmers largely represented by Center Party which has been in power, in the past, with both the Social Democrats (informal cooperation) and the Conservatives (as coalition partner)	CAP a symbol of what is wrong with the EU	Sympathy for farmers balanced/offset by consumer interests (particularly re. food prices), and environmental concerns.	Social Democrats (cooperation with green party and communist party)	Favorable

5 The Agenda 2000 negotiations on CAP reform

5.1 The negotiations

The main issues

The main elements of the Agenda 2000 proposals were reforms in the cereals, beef and dairy sectors, a new policy for rural development and its incorporation into the CAP, and the introduction of modulation, cross-compliance and individual ceilings with regard to direct payments to farmers.[304]

In the beef and cereals sector, countries agreed fairly quickly that some price cuts would be inevitable, and the debate centered therefore on how much prices should be cut and to what degree farmers should be compensated for price cuts. In the dairy sector, things were more complicated. On the one side were the pro-reformers who wanted a more market-oriented dairy sector as soon as possible. They demanded significant price reductions, accompanied, if anything, by partial and transitional compensation, and the abolition or gradual phasing out of quotas. The UK, Sweden, and Denmark were the main proponents of this view. On the other side were the opponents of reform who strongly resisted price cuts and quota abolition. The majority of Member States fell into this latter category with France and Germany at the forefront. The opponents of dairy reform argued, firstly, that the current system worked well and would continue to do so in the future, and, secondly, that the reform proposed by the Commission would be too costly.

For different reasons, the horizontal proposals met with strong resistance from Member States. Regarding cross-compliance, many Member States insisted that environmental aims should be defined and pursued at the national level rather than being dictated from the EU. Countries with a significant share of large-scale farming, such as the UK and Germany, among others, also rejected the Commission proposals for modulation and individual payments ceiling, arguing that such policies would

[304] The proposals were discussed in greater detail in chapter 2.

discriminate against large, efficient farms, thus undermining the objective of making European agriculture more competitive.[305] Strong resistance by Member States against horizontal regulations meant that the proposal for the EU-wide introduction of individual payments ceilings was dropped, and the use of modulation and cross-compliance as policy instruments was left up to Member States' discretion. The proposals for rural development were comparatively uncontroversial, although there was some debate over whether rural policy should be financed by the CAP budget, as proposed by the Commission, or not.

In its regulation proposals from March 1998, the Commission estimated that, as a result of the reforms, budgetary expenditure on agriculture would be 6 bn euro, or 13.6 per cent, higher in 2006 than if the CAP continued unreformed. A little less than one half of this increase, 2.8 bn euro, was due, firstly, to the inclusion of new, structural, measures, as part of the Commission's new rural development policy, in the agricultural budget, and, secondly, pre-accession aid to the EU candidate countries. Excluding these new measures to be financed under the EAGGF Guarantee section, a reformed CAP was still predicted to cost 3.1 bn euro or 7.3 per cent more than an unreformed CAP by 2006. Over the entire financial period 2000-6, the reforms would add 16.6 bn euro in total – again not counting the new rural development policies – to the CAP budget, when compared with the continuation of an unreformed CAP (see Table 6), and 25 bn euro if the new measures were included. Compared with the 1998 budget, the proposals amounted to a 16.3 per cent increase by 2006 for the existing CAP. Including all new measures to be financed under the EAGGF Guarantee section, the budget was to increase by 23.5 per cent compared with 1998. Aside from the inclusion of new rural development measures and pre-accession aid, the increase was explained exclusively by increased direct payments to farmers to compensate for the price cuts proposed by the Commission.

[305] The Commission had already made an attempt to introduce modulation in the MacSharry reform negotiations, and had already then met with strong resistance particularly from the UK.

Table 6: Development of EAGGF expenditure 2000-6 (nominal prices, m euro)

	Total 'existing' CAP[a] after reform[b]	Total incl. new measures financed under EAGGF Guarantee Section[c]	Total 'existing' CAP without reform	Difference Cols. 1&3[d]	Baseline: 40500+2% inflation	Outcome
2000	40075	42650	40985	-910	41310	41738
2001	43100	45730	41285	1815	42136	44529
2002	44855	47535	42285	2570	42979	46587
2003	46330	49060	43165	3165	43839	47378
2004	46490	49270	43025	3465	44715	47210
2005	46440	49280	43055	3385	45610	47220
2006	46460	49350	43315	3145	46522	47854
Total 2000-6	313750	332875	297115	16635	307111	322517

a: excluding new rural development measures.
b: Commission regulation proposals.
c: includes new rural development measures and pre-accession aid.
d: ‚existing' CAP with and without reform.
Source: European Commission (1998b), and European Commission (1999e). Own calculations.

The CAP reform proposed by the Commission in the Agenda 2000 proposals thus called for an increase in budgetary expenditure when compared with a continuation of the status quo. A reform that was more expensive than the status quo presented reform supporters with a dilemma. One of their main criticisms of the CAP, and one of their principal arguments for reform, was that the CAP was too expensive. The Commission's proposal for reform only added to the total cost of the CAP, without introducing any prospect of cost reduction in the medium or long term. Reform supporters could reject the reform proposals. This was a highly unsatisfactory choice for countries such as Sweden and the UK that had long been advocating radical reform, particularly since, most likely, such a step would have destroyed any possibly existing momentum for reform and resulted in a mere continuation of the status quo. Another alternative was to support the Commission's reform proposal even if it was more costly in the short term, and hope that it was the first step towards reducing CAP expenditure in the long term. This hope would be based on the continued reallocation, begun with the

MacSharry reforms, of the financial burden away from consumers and onto taxpayers, where it was anticipated to be more visible and thus exert greater pressure for further reform. In addition, reform supporters might attempt to amend the Commission's proposals, either by demanding lower direct payments, or by introducing some form of mechanism for phasing direct payments out over time. As it turned out, countries advocating far-reaching reform opted for the latter choice, that is, they were generally supportive of the Commission but demanded less compensation to farmers and/or the introduction of an element of degressivity.

The Agenda 2000 proposals were presented at a time when the Commission was under strong pressure to contain the EU budget, and a number of countries were very critical of the proposed increase in the CAP budget. In contrast to the MacSharry reforms, and most other previous negotiations on CAP reform, in the Agenda 2000 negotiations, Finance Ministers were no longer willing to underwrite a further increase in the CAP budget in the name of reform. As will be shown in this section, budgetary considerations came to be a crucial determinant in the eventual outcome of the Agenda 2000 negotiations.

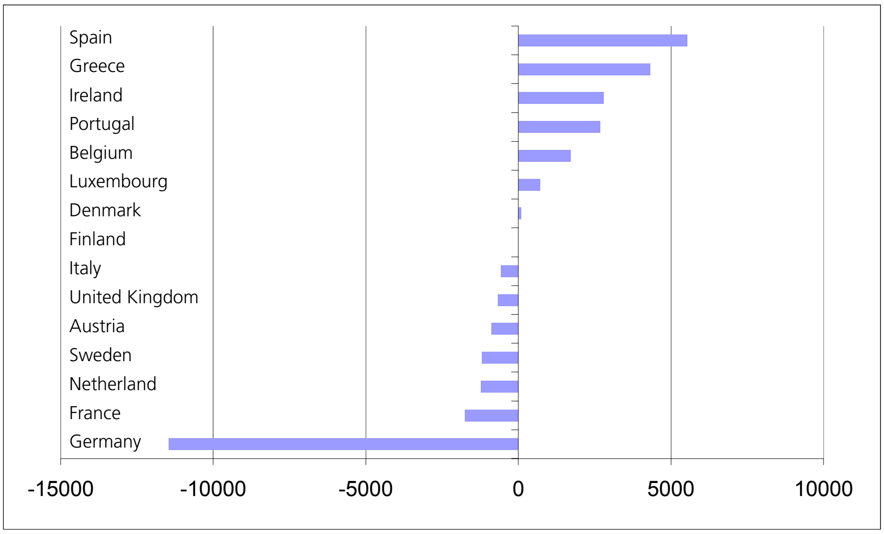
CAP reform and the financial framework

Before delving into the course of the negotiations, a brief analysis of the financial implications of the Commission's CAP reform proposals is necessary. As has been mentioned earlier, the proposals for CAP reform were presented simultaneously with proposals for the financial perspective for 2000-2006 as well as a reform of the EU's structural funds. Regarding the future financial framework of the EU, a majority of Member States sought a stabilization of the EU budget for the existing EU Member States, at its current level in real terms, in order to avoid an increase in their contributions.[306] Only Spain, Portugal, Greece and Ireland – the four main beneficiaries of the EU budget – opposed a general policy of budgetary restraint (see Figure 1). With the enlargement of the EU to the East, these so-called cohesion countries would have to compete with the

[306] That is, Member States allowed for an increase in the overall budget only to allow for the addition of new members to the EU.

new, poorer, Member States, for cohesion and structural funds. Unless the budget was increased, they could expect considerably less funding from the EU than before enlargement. Spain was the most ferocious defendant of its funding from the EU, threatening to boycott any agreement in Agenda 2000 if its wishes were not met. On the other side of the balance sheet, the largest net contributors to the EU budget, Germany, the Netherlands, Sweden and Austria, demanded big reductions in their budget contributions. They claimed that their negative budgetary balances were excessive relative to their prosperity under the terms of the Fontainebleau agreement from 1984, entitling them to a correction.[307] This was the principle, which had been used to justify the introduction of the UK rebate. The two remaining significant net contributors, France and the UK, advocated that the EU budget be stabilized around its current real level. In addition, the UK insisted on maintaining its rebate amounting to approximately 3 bn euro per year.

Figure 1: Member State net contributions to EU budget in 1997 (net budgetary balance after UK rebate in m euro)



[307] See European Commission (1998d).

Responding to the overwhelming support for budgetary restraint, in its Agenda 2000 package, the Commission proposed that the existing ceiling of 1.27 per cent of EU GNP be maintained for the next financial period.[308] The eastward enlargement of the EU was to be accommodated within this ceiling. An expected average economic growth of 2.5 per cent for the period combined with the fact that the EU budget had remained comfortably below the own resources ceiling in the years preceding the Agenda 2000 negotiations, gave the Commission considerable leeway to increase expenditure, in real terms, while remaining within this ceiling. The Commission proposals regarding overall EU budgetary expenditure corresponded to an annual increase of 2.7 per cent on average from 2000-2006.

Structural operations and agriculture are by far the two largest items of expenditure in the EU's budget. Thus, in 1997, agricultural (EAGGF) expenditure accounted for nearly 51 per cent of total EU expenditure, while structural funds, including cohesion funds, consumed roughly one third of the total EU budget (see Table 7). In line with the principle of budgetary discipline adopted for the EU budget overall, the Commission proposed that expenditure on structural operations for existing Member States should decrease in real terms over the financial period 2000-2006 when compared with 1999 (see Table 8). The overall increase in expenditure on structural operations was explained entirely by the addition of new Member States and the structural funds to be allocated to them. Thus, spending on the existing Member States was actually to decline by 4.4 per cent annualized over the period as a whole when compared with 1999. In contrast, agricultural expenditure was proposed to increase by 10.4 per cent annualized, in real terms. Moreover, higher real spending on existing Member States accounted for more than half of this increase. From a budgetary perspective, there was a clear incongruity between the widespread consensus among Member States on budgetary stability and the substantial increase in agricultural expenditure for existing Member States proposed by the Commission.

[308] The Own Resources Decision, which came into effect on January 1 1995, had set the ceiling to increase incrementally to 1.27 per cent in 1999.

Table 7: Structure of EU expenditure, 1997 (current prices)

	m ecus	% of total EU expenditure
EAGGF guarantee	40623.2	50.6
Structural funds	26059.2	32.5
Internal policies	4934.7	6.2
External expenditure	4278	5.3
Administrative exp.	4129.2	5.1
Compensation to MS	212.0	0.3
Total	80236.4	100.0

Source: European Commission (1998d), Annex 8.

The Commission proposals for CAP reform were based on the premise that a substantial reform of the CAP, in particular the reduction of support prices, was only possible at the cost of a considerable increase in the CAP budget, since farmers would have to be compensated for price cuts.[309] Thus, reform aimed at making the CAP more market-oriented implied, paradoxically, a large increase in budgetary expenditure on agricultural subsidies. Excluding the rural development proposals, that is, the incorporation of new rural development policies into the EAGGF budget, the Commission proposals were estimated to increase agricultural expenditure by 3.1 bn euro in nominal terms in 2006 or by a total of 16 bn euro over the entire financial period 2000-6, compared with the continuation of an unreformed CAP. This constituted an increase by 5.5 per cent for the period as a whole or 7.3 per cent for the year 2006 alone. Including the new rural development and other policies, the reformed CAP was projected to cost nearly 36 bn euro, or 12 per cent, more than an unreformed CAP over the entire time period 2000-2006.

[309] The costs of price support were borne by consumers in the form of higher food prices, whereas direct income payments had to be financed directly out of the budget, and thus by the taxpayer. Direct income payments therefore put a greater strain on the EU budget than price support.

Figure 2: Member State net contributions to the EU budget in 1997 (net budgetary balance after UK rebate in euro per capita)

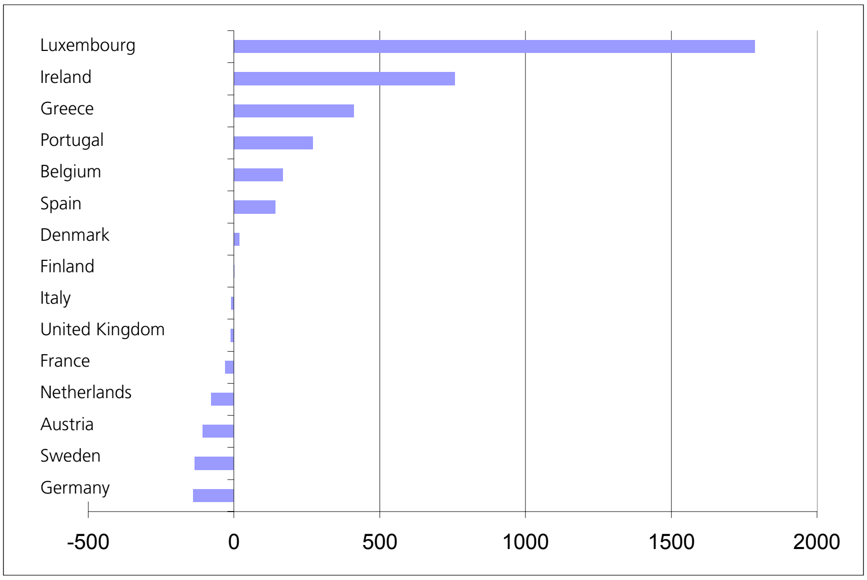


Table 8: Agenda 2000 proposals (1997 prices) (bn ecu)

	1999	2000	2001	2002	2003	2004	2005	2006
agriculture	**40,1**	**41,5**	**42,4**	**45,0**	**46,3**	**46,3**	**46,0**	**45,6**
EU-15	40,1	41,0	41,9	42,9	43,8	43,4	42,7	41,8
new Member States	0,0	0,0	0,0	1,5	1,8	2,4	2,6	3,3
pre-accession aid	0,0	0,5	0,5	0,5	0,5	0,5	0,5	0,5
structural operations	**34,3**	**35,2**	**36,0**	**38,8**	**39,8**	**40,7**	**41,7**	**42,8**
EU-15	34,3	34,2	35,0	34,2	33,2	32,1	31,1	30,2
structural funds	31,4	31,3	32,1	31,3	30,3	29,2	28,2	27,3
cohesion funds	2,9	2,9	2,9	2,9	2,9	2,9	2,9	2,9
new Member States	0,0	0,0	0,0	3,6	5,6	7,6	9,6	11,6
pre-accession aid	0,0	1,0	1,0	1,0	1,0	1,0	1,0	1,0

Source: European Commission (1997b).
Note: Agricultural expenditure converted into 1997 prices using a 2 per cent deflator.

The course of negotiations

Countries were given the first opportunity formally to express their reactions to the Agenda 2000 proposals at the informal Agriculture Council in Echternach in September 1997. Roughly speaking, countries' initial positions can be divided into the following groups.[310] Firstly, there was the group of pro-reformers, the UK and Sweden, and to some extent Denmark and the Netherlands, which welcomed the Commission's proposals but expressed their regret that the proposals had not gone further in reducing intervention prices and subsidies, and in making the agricultural sector more market-oriented. At the other extreme were the countries which questioned the need for reform in the first place. They rejected, or strongly questioned, the general reform direction proposed by the Commission. Germany and France were at the forefront of this group, followed by Austria, Belgium, Ireland, Luxembourg, Portugal and Spain. The remaining countries, rather than proclaiming themselves strongly against or in favor of the reform proposals, emphasized the specific interests or needs of their national agricultural sectors, and declared their firm intention to defend these interests in the upcoming reform negotiations.

In general, very little, if any, progress was made in the negotiations until early 1999, in spite of significant attempts by the British government during its Presidency of the EU in the first half of 1998 to advance the process. In November 1997, the Agriculture Council, with the exception of Spain, did agree on a common position on the Agenda 2000 proposals for CAP reform. However, while allegedly giving "broad assent to the general direction of the CAP reform proposals", the position paper was far too general to constitute a significant stepping-stone on the path to agreement.[311] Thus, for nearly one and a half years, countries mainly limited themselves to reiterating their initial positions without any significant movement or developments taking place.

Perhaps the most widespread explanation for the long standstill in the negotiations is the paralyzing effect of the German general elections on September 27, 1998, and the uncertainty over its outcome.[312] The Social

[310] The reactions of some of the countries have been presented in greater detail in the country analyses above.
[311] *AE*, November 21, 1997, EP/3.
[312] *FT*, Europe: "EU puts itself to the test with proposals to overhaul CAP and regional spending: Lionel Barber reports on the battles ahead as Brussels plans to tighten the rules governing the two biggest items in the Union's budget before enlargement eastwards", 18.3.1998.

Democrats looked likely to oust the Conservatives who had been in power for one and a half decades, and they had made it clear that their position on the CAP would differ significantly from the line pursued by Helmut Kohl. Another reason offered by government officials who participated in the negotiation process is that the Austrian government, which held its first ever Presidency of the EU in the second half of 1998, was more concerned with ensuring a fairly smooth, friction-free, Presidency than with making significant progress on CAP reform.[313] Thus, the Austrian Presidency avoided tackling controversial issues and merely settled for getting the Agriculture Council to confirm its commitment to the March 1999 deadline for reaching an agreement.

When the negotiations finally got under way in late 1998 / early 1999, they were strongly influenced by the financial aspects of the reform proposals. In its Agenda 2000 proposals, the Commission had proposed an increase in total budgetary expenditure by around 2.7 per cent annually, in real terms. However, by late 1998, it became clear that a majority of countries strongly opposed a real increase in the EU's overall budget. A large coalition of countries, led by the UK, France and Germany, advocated a stabilization or 'freezing' of the budget in real terms at current levels. At the Vienna Council in December 1998, the Finance Ministers of France, Germany, the Netherlands, the UK, Sweden, Denmark and Finland expressed their support for such a solution. A further important indication for this development came in early December 1998, when France and Germany "said jointly … that they supported a medium-term freeze in EU budgetary spending".[314] France, Germany and the UK, supported by most of the other Member States, thus advocated a policy of real budgetary stability, that is, a budget rising only in line with inflation.

A restrictive budget would limit severely the possibilities for increasing the budget of the CAP over the same time period. Furthermore, Finance Ministers were threatening to cap agricultural spending of the EU at its

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[313] Interviews with Commission and government officials.
[314] *The Economist*, "Viktor Klima, Europe's Summiteer", December 12, 1998. See also *The Observer* , "Tight-fisted EU jeopardizes its own expansion: Britain's call to retain its rebate sounds like just another selfish bid to escape paying for enlargement, reports Patrick Wintour in Vienna", December 13, 1998.

1997 level, in real terms. A freeze in agricultural spending stood in direct conflict with the Commission's Agenda 2000 proposals for CAP reform which foresaw a substantial increase in the CAP budget. By late 1998, therefore, the Agricultural Council therefore saw itself under increasing pressure to reach an agreement on CAP reform quickly if it did not want Finance Ministers to make the decision for them by freezing the agricultural budget. In addition, at the Cardiff Summit in June 1998, the European Council had set March 1999 as the deadline for reaching political agreement on Agenda 2000. The aim was to conclude the negotiations well before the European Parliament elections in June 1999.[315] This deadline was confirmed at the Vienna European Council in December 1998. When it took over the EU Presidency in January 1999, Germany assigned top priority to reaching agreement on the Agenda 2000 proposals.[316] It declared that agreement by March was a vital prerequisite for the timely enlargement of the EU.

The pressure coming from the EU budget negotiations combined with the general desire to complete negotiations by March 1999 led to a burst of activity in the Agricultural Council and its Working Groups starting in January 1999, which lasted until the compromise on CAP reform reached by Agriculture Ministers on March 11, 1999. To speed up the process, the Agriculture Council had agreed in November 1998 to the creation of a High-Level Group – suggested by the Commission – which was to assist the Agriculture Council in the negotiations.[317] Composed of national representatives at State Secretary level and meeting for the first time in mid-January, the High-Level Group was charged with advancing negotiations on the arable, beef and dairy regimes, whereas the SCA was responsible for the horizontal regulations as well as issues concerning rural development and the common market for wine. While the High-

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[315] See European Union (1998). According to the *Financial Times*, the Commission wanted conclusion of a deal well before the European Parliament elections in June 1999, in order to prevent that "regional aid would turn into a political football for MEPs in their own campaigns, derailing the enlargement timetable". *FT*, "EU puts itself to the test with proposals to overhaul CAP and regional spending: Lionel Barber reports on the battles ahead as Brussels plans to tighten the rules governing the two biggest items in the Union's budget before enlargement eastwards", March 18,1998, and *AE*, June 5, 1998, EP/8.

[316] Already in June 1998, *Agra Europe* wrote that "Prospects of the Agenda 2000 proposals being agreed around March next year gained ground this week, after it emerged that the German government is planning a special summit next spring to finalise the package of proposals". *AE*, June 5, 1998, EP/8

[317] The procedure of creating High-Level Group had already been applied, again at the suggestion of the Commission, in the final stages of the MacSharry negotiations in 1991/2.

Level Group succeeded in raising issues to the political level, it could not solve the problems.

In January 1999, German Foreign Minister Joschka Fischer stepped up the pressure on Agriculture Ministers by presenting a proposal for imposing a ceiling on agricultural spending at the current level in real terms.[318] Though EU Foreign Ministers failed to endorse Fischer's proposal to impose a ceiling before Agriculture Ministers had reached agreement on the CAP reform package, a majority of Finance Ministers agreed on a statement calling for an agricultural budget that was "'more in keeping with actual spending'" by 2006.[319] Then, at the ECOFIN meeting on February 8, a majority of Finance Ministers agreed to limit EU agricultural expenditure at around current levels, prompting *Agra Europe* to comment: "It is now clearer than ever that EU governments will no longer offer a blank cheque book to agriculture ministers as they plan policy reforms".[320]

In effect, Finance Ministers agreed that the agricultural budget be 'capped' at 40.5 bn euro in real terms or a nominal budget of 46.5 bn euro in 2006 assuming two per cent inflation. The agreement by Finance Ministers, however, left considerable room for interpretation. In particular, it was not clear whether the limit of 40.5 bn euro included the rural development measures which the Commission proposed should be added to the existing CAP budget or not. In addition, Finance Ministers only agreed that spending should be frozen in real terms over the entire period 2000-2006, leaving open how agricultural expenditure should be allocated in each year covered by the period. Thus, it was possible for agricultural expenditure to increase initially, to finance reform, as long as it sank enough afterwards to ensure real stability over the period as a whole. There was no doubt, however, that the costs of a reformed CAP, along the lines of the Commission proposals, substantially exceeded the suggested limit on agricultural expenditure of 40.5 bn euro annually in real terms. Depending on whether rural development measures where included or not, the gap between the ceiling agreed upon by Finance

[318] *AE*, January 29, 1999, EP/1 & A/1.
[319] Quoted in *AE*, January 29, 1999, EP/1.
[320] *AE*, February 12, 1999, EP/4.

Ministers and the Commission proposals ranged between 6.5 bn euro and 26 bn euro, in nominal terms, for the period as a whole. Although Heads of State and Government failed to underwrite the agreement reached by Finance Ministers to cap agricultural expenditure, when the former met at the Petersburg informal summit on February 26, 1999, it became more and more clear that, "[u]nless farm ministers deliver a satisfactory farms agreement their more senior finance ministers may do the job for them".[321] This threat of Finance Ministers and Heads of State and Government taking over decision-making on CAP reform, via the budget, dictated the course of negotiations in the Agriculture Council. Thus, even though the attempt to strip the Agriculture Council of a decisive part of its decision-making power failed, it was clear that its room for maneuver was severely limited by the general budgetary restraint.

Once it became clear that Finance and Foreign Ministers would no longer consent to the habitual increase in the CAP budget, the negotiations in the Agriculture Council centered on how to adjust the Commission proposals for agricultural expenditure to make them more compatible with the reality of a budgetary restraint. Several Member States, and the Commission, presented different solutions for reducing the budgetary impact of the proposed CAP reform. The first such proposal was referred to as co-financing. It implied that Member States pay for a portion of the costs incurred by direct payments paid to farmers in their respective countries. Thus, rather than everything being financed through the EU budget, national budgets would assume part of the costs of the CAP. On October 7, 1998, in response to the growing pressure for budgetary stabilization and for a correction of the budgetary imbalances of the net contributing countries to the EU budget, the Commission presented a paper addressing the budgetary imbalances of Germany, the Netherlands, Austria, Sweden and the UK in the financing of the European Union. As one of several options for reform, the paper discussed the possibility and consequences of introducing co-financing, or, what it referred to as a "partial reimbursement of CAP direct aids".[322] The Commission stressed that its paper did not constitute an official proposal but merely

[321] *FT*, "EU farm ministers close to radical CAP plan: Unless farm ministers deliver a satisfactory agreement their finance ministers may do the job for them, says Michael Smith", February 23, 1999.
[322] European Commission (1998d), pp.31-32 and Annex 5.

an examination of a number of issues arising in connection with the financing of the European Union. Co-financing had two important effects. Firstly, it reduced the financial burden of direct payments on the EU budget. Secondly, it corrected the budgetary imbalances of net contributors to the CAP budget. In the words of the Commission,

> The essential idea is to take advantage of the fact that all the Member States that record large budgetary imbalances have a share in the financing of the EU budget much higher than that in EU agricultural spending, and that a reduction in the overall amount of spending would improve their budgetary balances.[323]

Not surprisingly, co-financing was strongly supported by the largest net contributors to the EU budget, in particular Germany, and the Netherlands, whereas net beneficiaries rejected the idea. France, which was a net contributor to the EU budget overall but the largest beneficiary of the CAP, was the most adamant opponent of co-financing.[324] Thus, France categorically rejected the idea with Agriculture Minister Jean Glavany stating in February 1999 that "'France will oppose co-financing to the bitter end'".[325] France and Germany's diametrically opposed views on co-financing created a serious rift in the traditionally close relationship of these two countries within the EU.[326]

France's strong opposition to co-financing led it to reconsider a different policy option for reducing the budgetary costs of the CAP which it had previously rejected or simply ignored, namely degressivity. Degressivity referred to the gradual reduction of direct payments over time. It was

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[323] ibidl., p.32.

[324] According to *Le Monde*, the French government was not categorically opposed to the idea from the beginning, but when president Jacques Chirac declared his rejection of co-financing, the delicate balance of 'cohabitation' described in the country chapters above, forced prime minister Lionel Jospin, to adopt an equally negative position. See, *Le Monde*, "Un calendrier européen compliqué par la cohabitation", October 9, 1998, p.13, "Ouverture du débat sur la contribution de chaque Etat membre au budget européen", October 14, 1998, p.3, and "Le rééquilibrage du budget européen menace la politique agricole commune", October 1, 1998, p.3.

[325] Glavany quoted in *Agra Europe, AE*, February 26, 1999, EP/1.

[326] The disharmony in the Franco-German relationship was widely commented in the press. See, for example, *Le Monde*, "Paris déplore les contradictions de la politique européenne de Bonn", February 3, 1999, p.2, "Divergences franco-allemandes et manifestations paysannes à Bruxelles", February 23, 1999, p.2, "Les mésententes franco-allemandes menacent l'Europe agricole et budgétaire", February 27, 1999, p.2, *Der Spiegel*, "Das zerbrochene Porzellan", March 15, 1999, and "Manchmal schnauzt man sich an", March 22, 1999.

not a new idea. It had already been proposed, though unsuccessfully, by the Commission in the MacSharry negotiations on CAP reform. Sweden and the UK had been advocating the idea for a long time. They had reiterated their views on degressivity at the informal Agricultural Council in Echternach in September 1997, when they expressed their disappointment over the Commission's failure to include the concept in its Agenda 2000 proposals.[327] As supporters of a fundamental reform of the CAP, Sweden and the UK had always argued that direct payments could only be justified as a temporary measure. They saw degressivity as a natural way of gradually phasing out direct payments.

In January 1999, French Agriculture Minister Jean Glavany indicated his willingness to accept the degression of direct aid payments to farmers[328], and in early February, he presented a proposal for an annual reduction in direct aids of three per cent for arable crops and one per cent for other aids starting in 2001. France's willingness to accept the gradual reduction of direct income payments hinged on two conditions: firstly, that one fourth of the money thus saved would be redirected into rural development, and, secondly, that co-financing was dropped. In a thinly veiled attack against Germany, the French government claimed that its proposal reduced budgetary expenditure by using methods that, in contrast to co-financing, were compatible with the basic principles of the CAP. Small farms were to be exempted from these cuts, thus excluding a large number of French family farms. In its proposal, France stated that degressivity should only be introduced into the ongoing negotiations once co-financing had been eliminated as a reform option. The French government thus made it perfectly clear that degressivity and co-financing were two mutually exclusive alternatives.

In addition to France, the UK and the Commission also presented proposals for making direct payments degressive. The British proposal suggested a four per cent annual reduction in direct payments. The main difference compared with the French proposal was that the UK advocated that degressivity apply to all farmers, that is, that small farmers not be exempted from degressivity. Sensing a possible consensus among

[327] See country analyses.
[328] *AE*, January 15, 1999, EP/6.

Member States, the Commission presented its own, unofficial, proposal for degressivity at the High-Level Group. A large majority of Member States was generally in favor of some form of degressivity, or at least not strongly opposed. More importantly, in contrast to co-financing where the differences of opinion between France and Germany were threatening to paralyze the Agriculture Council, on degressivity there seemed some common ground and thus the possibility of compromise. Germany did not reject out of hand French and British proposals for degressivity. The Commission suggested a three per cent annual reduction in direct payments, but left it open whether there should be threshold exempting small farmers, through the introduction of a 5000 euro franchise or not. All three proposals suggested recycling a portion of the budgetary savings back into rural development. The net budgetary savings of the French and British were estimated at around 8 bn euro, 17 bn euro, respectively. The Commission proposal was expected to generate between 8 bn euro and 4 bn euro, depending on whether small farmers where excluded or not. In addition to the degressivity proposals, Austria presented a proposal for 'modulating' direct payments by reducing direct payments that exceeded certain thresholds, thus targeting large farmers to the benefit of small family farms. The proposals were discussed in the High-Level Group on February 8. The negotiations centered primarily on whether degressivity should be applied uniformly or whether small farmers should be exempted. The Commission estimated that a 5000 euro franchise would exclude between 67 and 73 per cent of all EU farms from degressivity.

Countering the proposals for degressivity, the Austrian delegation presented an alternative proposal for making budgetary savings. The Austrian initiative suggested that the individual ceilings for payments to farmers, proposed by the Commission in the Agenda 2000 regulation proposals, be reduced to 75,000 euro, compared with the Commission's figure of 100,000 euro. The proposal was estimated to generate extra savings of approximately 1.4 bn euro.

In addition to the above described alternatives for reducing CAP expenditure, some Member States argued that a less radical sectoral reform might be an additional way to reduce CAP expenditure. Since the Commission proposals were based on the premise that price cuts be compensated by direct payments, lower price cuts would imply smaller direct payments. In particular, a growing coalition of Member States argued that a postponement of dairy reform beyond 2006 would generate savings of up to 8 bn euro in total. The countries, which had opposed dairy reform from the beginning – France, Austria, Belgium, Ireland, Luxembourg, the Netherlands and Portugal –, were also the advocates of a postponement of dairy reform, which they argued, in any case, was unnecessary and expensive. On the other side, the UK, Sweden, Denmark and Italy, which formed an alliance in favor of reform of the dairy sector referred to as the London Club (see appendix 1), fiercely opposed the postponement of dairy reform as a way of realizing budgetary savings.

The High-Level Group met for the fourth and last time on February 8, 1999. The negotiations in the High-Level Group failed to lead to agreement on how to realize the budgetary savings necessary to make CAP reform compatible, or at least more compatible, with overall budgetary restraint. The question was therefore passed on to the Agriculture Council, which convened from February 22 to 26. At the Agricultural Council, discussions centered primarily on dairy reform, in particular, whether it should be postponed or not, and on degressivity and individual ceilings, or 'aid capping', as it was sometimes referred to. On February 25, after three days of difficult negotiations, consisting primarily of bilateral meetings between the Presidency and Member States, the German Presidency presented a compromise proposal (SN1777/99). Regarding dairy reform, the Presidency proposed a continuation of the quota regime to the year 2006, with quotas increased only for Greece, Italy, and Spain. Intervention prices were to be cut by 10-15 per cent, starting in 2000, and the Agricultural Council committed itself to undertake a mid-term review in 2003, on the basis of a Commission report, with the goal of letting the quota system expire after 2006. Concerning the financial framework, the German Presidency suggested either degressivity with a 5000 euro franchise or individual ceilings along the lines of the Austrian proposal. It is important to note that both co-financing and uniform degressivity, that is degressivity without an exemption for small farmers, were excluded in the compromise proposal.

The compromise proposal provoked strong reactions from Member States, particularly on dairy reform. France, Austria, Belgium, Ireland, Luxembourg, the Netherlands and Portugal protested against the special treatment accorded to Greece, Italy and Spain and insisted that dairy reform was unnecessary and expensive and should, therefore, be postponed. The UK, Sweden, Denmark, Italy, Spain, Greece, and Finland were more positive, though the former three reserved their position regarding the future of the milk quota system. They criticized that the compromise did not go far enough towards phasing out milk quotas altogether. Overall, the Agricultural Council failed to reach even a provisional agreement on the basis of the Presidency compromise. The meeting was therefore suspended on the morning of February 26 with negotiations scheduled to continue on March 2. However, the meeting was postponed by two days, and the negotiations resumed on the evening of March 4, with a dinner meeting where Agriculture Ministers discussed financial questions in light of the informal Petersburg summit, which had taken place on February 26.[329] Agriculture Ministers disagreed over how to interpret the outcome of the Petersburg summit regarding the need to keep budgetary expenditure within the sum of 40.5 bn euro plus two per cent annual inflation. Some Member States interpreted the outcome as requiring the budget to stabilize at 40.5 bn euro plus inflation by 2006, whereas others argued that the figure referred to the maximum average expenditure throughout the entire financial period.

At the outset of the meeting that convened on March 4, the Presidency distributed a second compromise proposal (SN2017/99) as a basis for continued discussion. In addition, the German Minister Funke stated that co-financing in order to stabilize the budget was no longer an option to be considered. The principal change of the second compromise paper, when compared with the first compromise, was the proposal for a linear increase in the dairy quotas for all Member States by 1.5 per cent, complemented with an additional specific increase of quotas for Greece, Spain, Ireland and Italy. In contrast with the first compromise paper, the Presidency also presented an estimate of the financial impact of the

[329] According to *Agra Europe*, the meeting "was delayed until Thursday evening as German farm minister Karl-Heinz Funke and his French counterpart Jean Glavany sought to patch up serious differences over the CAP reform issue". *AE*, March 5, 1999, EP/1.

compromise proposal. In addition, the Commission distributed a table showing that, including the outstanding requests by Member States and the cost of the compromise, the total cost of CAP reform would exceed the financial framework endorsed by a majority of Member States at the Petersburg summit by 25 bn euro, or eight per cent. Both the Commission and the Presidency hoped to increase Member States' willingness to compromise, and perhaps shock them into cooperation, by spelling out the large discrepancy between what Member States wanted and what the budgetary reality required. To illustrate, and perhaps overstate, its point, the Commission calculated that an annual reduction, degressivity, of direct payments by 15-20 per cent would be necessary to accommodate the demands of Member States within the financial framework.

Responding to the compromise paper and the table illustrating the need for budgetary savings, a growing number of Member States, - Belgium, Austria, the Netherlands, Luxembourg, Ireland, and France -, advocated lower price cuts, and thus lower direct payments, as a way of reducing the cost of reform. The same countries, plus Portugal, reiterated their demand for a postponement of dairy reform as a further way of saving money. The UK, Denmark and Sweden emphasized their support of degressivity, applied without any exceptions, as their preferred solution for reducing expenditure. A number of Member States repeated their specific national requests, for quota increases, special aids, recalculation of historical reference yields, etc.

On March 5, in an unusual and widely criticized step, Germany presented a national position paper, proposing how to make the budgetary savings necessary to meet the budgetary requirements.[330] The main elements were a lower reduction in beef and cereals prices than proposed by the Commission, and the abandonment of dairy reform. In essence, the German Presidency was proposing a much less ambitious reform as a way of reducing costs. Degressivity, as well as individual ceilings, had disappeared.

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[330] *Agra Europe* wrote that, "With this paper the debate has completely opened up and all 15 delegations could soon follow with their own statements, effectively tearing up all last week's limited progress and existing compromise papers and forcing a re-start from scratch". *AE*, March 5, 1999, EP/1.

The Agricultural Council broke up on March 5, again without having reached even provisional agreement on the main issues. The negotiations resumed on March 9. Based on its second compromise paper, the German Presidency asked Member States to give their opinion on a number of questions concerning what the Presidency had identified as the two most difficult areas, namely milk and beef. Asked whether an agreement without a dairy reform would be acceptable, six delegations – Belgium, France, Germany, Ireland, Luxembourg, and Portugal – answered yes, while all other delegations with the exception of Greece insisted that dairy reform must be part of the final agreement. Italy, Sweden, Denmark and the UK threatened to veto a renewal of the quota system in 2000 if there was no reform. However, eleven delegations could agree to delaying the reform by two years, with three of these delegations, Spain, Greece and Italy, making their agreement to delay conditional upon increases in their respective quotas. The UK, Sweden and Denmark did not rule out a delay on the condition that reform was 'worthwhile'. Based on Member States' reactions to the list of questions posed by the Presidency, Germany then presented what it referred to as its third, and final, Presidency compromise on March 10 (SN 2021/99). After making a few additional concessions, German Agriculture Minister Funke concluded on March 11 that there was a qualified majority in the Agriculture Council for the amended final compromise proposal. The compromise agreement reached by Agriculture Ministers on March 11, 1999, is summarized in Table 9 below. The main elements of the compromise, when contrasted with the Commission's original proposals, were a smaller reduction in intervention prices for beef and a postponement of dairy reform until 2003.

The compromise negotiated in the Agriculture Council suffered from two important flaws. Firstly, the compromise exceeded the budgetary limit of 307.1 bn euro set by Finance Ministers in late February in Petersburg, by 7 bn euro for the seven year reform period.[331] Secondly, two delegations, France and Portugal, declared themselves unable to accept the compromise. While Portugal generally rejected the compromise, France expressed a reservation linked to the overall agreement on

[331] This figure excludes the new structural measures to be financed from the agricultural budget.

Agenda 2000. In addition, Agriculture Minister Glavany declared his reservation, firstly, on the substance subject to consultation with the French President of the Republic and the Prime Minister, secondly, on the financial framework which had not been respected, and, thirdly, on the need to increase expenditure on the second pillar of the CAP, that is, rural development. Emerging from the Agriculture Council, Glavany denied that there had been an agreement at all, stating that "'I can't consider that a decision has been taken because there was no vote'".[332] As a result of these two flaws, the compromise reached by Agriculture Ministers was still subject to approval by Heads of State at the Berlin Summit on March 24/25, and thus susceptible to substantial renegotiation. Indeed, the Berlin Summit, modified considerably the agreement reached by Agriculture Ministers, leading to the final outcome reached on March 25. In the final agreement, dairy reform was postponed further until 2005/6, cereal prices were cut by 15 per cent instead of 20 per cent. The new agreement allowed for agricultural expenditure to remain within the financial framework agreed to at the Petersburg summit, provided that the new rural development or structural measures to be financed from the CAP budget were excluded.

Between the compromise deal reached by Agriculture Ministers and the Berlin Summit, on March 16, the entire college of Commissioners resigned, after months of allegations of fraud and misconduct.[333] The resignation of the Commission marked the low point of the worst credibility crisis for the European Union, as an institution, since the beginnings of European integration. The impact of the severely weakened position of the Commission for the outcome of the Agenda 2000 negotiations will be discussed later. At the Berlin Summit, European Heads of State and Government agreed unanimously to replace the outgoing European Commission President, Jacques Santer, with former Italian Prime Minister, Romano Prodi.

Compared with the original Agenda 2000 proposals, in the final agreement reached on March 25, 1999, price cuts were smaller than originally

[332] *AE*, March 12, 1999, EP/1-3.
[333] The crisis began in December 1998, when the European Parliament refused to ratify the budget for 1998 presented to it by the Commission for approval.

proposed, 20 per cent as opposed to 30 per cent in the beef and 15 per cent as opposed to 20 per cent in the cereals sector (see Table 9). Dairy reform was postponed by five years until 2005/6 with an agreement to review the dairy regime in 2003. Quotas were increased slightly less than initially suggested, but, in contrast with the original proposal, they were to be increased before, rather than simultaneously with, the price cut. Degressivity and co-financing, which had not featured in the original proposals but were introduced by the Commission at a later stage, disappeared. Modulation and individual ceilings were left up to member countries discretion. The total budget for the entire financial period amounted to 323 m euro.

Table 9: Agenda 2000 negotiations: the outcome compared with the initial proposals

	regulation proposal 1998/03/18	**Compromise 1999/03/11**	**Berlin Agr. 1999/03/25**	**Difference Cols.3 & 1**
Arable crops				
Intervention price	20% cut in one steps	20% cut in two steps	15% cut in two steps	Price cut lower and later
Compensation for price cut	50%; (21.9% increase)[a]		50%; (15.9% increase)	Same
Beef				
Intervention price	30% cut in three stages	20% cut in three steps	20% reduction in two stages	Lower
Compensation for price cut	80%		Higher, esp. for suckler cows[a]	Higher
Dairy				
Quota regime	Extended until 2006	Extended until 2006	Extended until 2008	Later
Quota increase	2%	2.4%	Total increase by 2.4% starting 2003/4 (immediate increases for E, I, Ire, UK)	Total increase by 2.4% Starting in 2005 (immed. increases for E, I, Ire, UK)
Intervention price	15% cut in four annual steps starting 2000/1	15% cut starting 2003/4	15% cut in three annual steps starting 2005/6	Same but later
Compensation	70%		70%	Same
Horizontal regulations				
Modulation	Payments modulated based on labour force used on holding	Optional (left up to Member States' discretion)	Optional (left up to Member States' discretion)	
Cross-compliance	Linking payments to the fulfillment of environmental conditions	MS draw upon their own cross compliance schemes	MS draw upon their own cross compliance schemes	
Individual ceilings	20% reduction on payments between 100,000 and 200,000 ECU and 25% reduction on amounts above 200,000 ECU	Deleted (Left up to MS discretion - MS can use modulation to apply ceilings)	Deleted (Left up to MS discretion - MS can use modulation to apply ceilings)	
Rural development	see Table 2 in chapter 3	No major changes	Adopted w/o major changes	
Co-financing[b]	not part of the original proposal	Rejected	Rejected	Rejected
Degressivity[c]	not part of the original proposal	Rejected	Rejected	Rejected
Budget (bn euro)	312.5 (332.9 incl. RD measures)	314.0 (329.0 incl. RD measures)	322.5 (incl. RD measures)	Lower

a: premium payments per hectare for each cereal crop (Source:European Commission (2000b)
b: Proposal presented by the Commission on October 7, 1998.
c: proposals presented by the Commission, France, and the UK (and Austria?) in January and February 1999.

Conclusion

The decisive stages of the Agenda 2000 negotiations on CAP reform were dominated by budgetary considerations. As shown above, the Commission's proposal for reform foresaw a significant increase in EU agricultural expenditure. In the CAP reform preceding Agenda 2000, the MacSharry reforms in 1992, the agreement on price cuts had been made possible by a substantial increase in budgetary expenditure of the CAP, to accommodate for the shift from price support to direct income payments. In the Agenda 2000 negotiations, however, the financial leeway was much more limited. Contrasting the Agenda 2000 negotiations with the MacSharry reforms, *the Economist* observed that, "[l]ast time the EU negotiated a seven-year 'financial framework', in 1992, with no new members in sight, oodles of new money was on offer, and the budget ceiling rose to 1.27% of the EU's GDP".[334]

It could be argued that the absence of any sufficient pressure up until December 1998 explains the lack of progress in the Agenda 2000 negotiations on CAP reform. The UK pushed hard to advance negotiations during its Presidency, hoping to thus create favorable momentum for agreeing on far-reaching reform. However, these efforts were met with the passive resistance of France and Germany, which were in no hurry to speed up negotiations on CAP reform. One could argue that both countries were counting on the budgetary negotiations to put a damper on any ambitions for far-reaching CAP reform. If this was their plan, it proved successful, since negotiations, once they finally entered a decisive phase in January 1999, were completely dominated by budgetary considerations, which, in the end, ensured a much less ambitious compromise than the reform originally proposed by the Commission.

5.2 Explaining/analyzing the outcome

Introduction

How can the outcome of the Agenda 2000 negotiations on CAP reform be explained? What factors determined the negotiations which in turn led to the Berlin Agreement in March 1999? The previous chapter section analyzed the national determinants of agricultural policy in four key

[334] *The Economist*, "The EU's coming budgetary squeeze", March 21, 1998.

countries. This section defines and evaluates the win-sets of these four countries in the Agenda 2000 negotiations on CAP reform. It also studies possible issue linkages and side payments affecting the negotiations. After examining the role of the Commission in the Agenda 2000 negotiations, the section concludes with an assessment of what factors explain the outcome of the Agenda 2000 negotiations on CAP.

Crisis – what crisis?

In the past, CAP reform has only been possible in the face of strong internal or external pressures, or both, for change. Thus, reform has been undertaken to prevent immediate crisis. In the case of the 1988 stabilizer package and the 1984 introduction of dairy quotas, imminent budgetary crises or severe market imbalances, or a combination of the two, constituted the main pressures for reform. In the 1992 MacSharry reform, the final impulse for reform came from without, in the form of the threatening collapse of the ongoing trade negotiations in the Uruguay Round of the GATT. In game analysis terms, the Uruguay Round negotiations taking place on the international level, level I, influenced decisively the negotiations at EU level on CAP reform, level II in a three-level game.[335]

When presenting the Agenda 2000 proposals for CAP reform, the Commission listed a number of internal and external factors that necessitated a far-reaching reform (see chapter 3). Regarding international, or level I, considerations, it pointed to the upcoming WTO round of trade negotiations, and the danger of losing international market shares if EU agricultural products did not become more competitive. On the EU level, level II, the Commission warned that enlargement, future market imbalances, and the need for simplification constituted important reasons for reform. Finally, the Commission listed environmental considerations, consumer interests, and problems of legitimacy as additional pressures for changing the CAP. These pressures might be classified as having the most direct impact in the domestic arena, that is, level III.

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[335] For a game analysis of the MacSharry negotiations and the 1988 stabilizer package on CAP reform, see, for example, Coleman and Tangermann (1999) and Patterson (1997). For an analysis of the 1984 introduction of dairy quotas, see Petit et.al (1987).

In the Agenda 2000 negotiations, these issues were either too remote – enlargement was a distant prospect, market imbalances or budgetary problems were not immediate, the WTO round had not even started –, or too abstract – legitimacy, simplification, and environmental considerations were difficult to quantify –, to exert palpable pressures for CAP reform.[336] Throughout the Agenda 2000 negotiations, several countries questioned the general premise for the CAP reform proposed by the Commission (see, for example, Germany, in the country section). They argued that nothing in the present or immediate future posed a sufficient threat to warrant the suggested changes.

Whereas the MacSharry negotiations received decisive impulses from ongoing international trade negotiations, in the Agenda 2000 negotiations on CAP reform, the mere expectation of a level I negotiation in the WTO in 1999, failed to provide the stimulus necessary for Member States to agree that change was necessary.

Level I considerations could nonetheless be argued to have played a role, particularly in the final phase of the Agenda 2000 negotiations. However, they did not mitigate in favor of far-reaching reform. In the first half of 1999, EU Heads of State and Government shared a common desire to strengthen the image of the EU as an institution capable of acting on the international scene. The recent scandals and consequent resignation of all Commissioners on March 16, 1999 had severely damaged the credibility, both internationally and in the eyes of EU citizens, of the EU institutions. The EU's inability to agree on a common foreign policy position, not to mention a common course of action, in the crisis in Yugoslavia dealt a further serious blow to the image of EU's decision-making capability. In light of the ongoing Kosovo crisis, Heads of State and Government were anxious to show that the EU could overcome internal divisions and make important decisions.[337] Failure to reach agree-

[336] To quote *The Economist*:

> Farm ministers have repeatedly shown that they will reform only when faced with an immediate crisis. Even by 1999, food surpluses will still be modest. The next round of trade talks, which will chip away further at the CAP's protectionist carapace, will only just have begun. EU enlargement will still be some years off, and the applicants will anyway face long transition periods before they get the full benefit (and cost) of the CAP."Wanted: a farming revolution", *The Economist*, September 6, 1997.

[337] See also Ackrill (1999), p.22.

ment on the Agenda 2000 negotiations would have further undermined the credibility of the EU as a powerful international player. Thus, according to *Agence France Presse*, German Chancellor Gerhard Schröder "warned his EU allies that after last week's mass resignation of the EU commission amid allegations of fraud and cronyism the EU must show that Europe can still act".[338] Moreover, there was some concern that a further EU crisis, after the mass resignation of the EU Commission would hurt the newly launched and already plummeting common European currency, the euro.[339] The desire to show strength and unity increased countries' willingness to compromise, which in turn facilitated overall agreement. By strengthening the overall spirit of compromise, level I negotiations or considerations may be argued to have contributed to agreement on CAP reform. However, these pressures did not steer negotiations in the direction of far-reaching reform.

In previous negotiations on CAP reform, pressures, primarily on the international or on the EU level provided the impulse necessary to agree to change. In the Agenda 2000 negotiations on CAP reform, neither international nor EU-level circumstances exerted sufficient pressure to create a sense of urgency, which in turn might increase countries' willingness to accept reform. If anything, both level I and level II considerations mitigated against far-reaching reform. Moreover, in the absence of level I and II pressures, level III considerations were too weak to provide the necessary stimulus for reform.

Domestic politics and national win-sets

The Agenda 2000 negotiations on CAP reform revealed a sharp difference of opinion between Member States regarding the function of the agricultural sector and the role of agricultural policy in general. Roughly speaking, Member States can be divided into advocates of a radical reform of the CAP towards a more market-oriented policy, and opponents of such a change. One of the crucial factors distinguishing reformers from those opposing far-reaching changes is the "view that agriculture should be treated as an economic sector like all other, not one with

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[338] *Agence France Presse Intl. (AFM),* "(Advancer) Schroeder Doomed to succeed at EU summit in Berlin", March 23, 1999.
[339] *Die Zeit*, "Solo für Schröder", Christian Wernicke, Nr.12, March 1999.

unique problems deserving of special state intervention".[340] Reform-oriented countries generally subscribe to what William Coleman refers to as "retrenchment in agriculture", which he defines as "changes in policy that move state-society relations from a state-assisted paradigm toward a market-liberal one".[341] As has been shown in the country analyses above, countries differ significantly in their view on this question. Domestic factors play a vital role in determining national views on agricultural policy, and, consequently, Member States' attitudes on the CAP, and the need for reform.

National views on agriculture and agricultural policy go a long way in explaining the positions adopted by the Member States in the Agenda 2000 negotiations on CAP reform. One of the first issue determining Member States' positions on the Commission proposals for CAP reform was whether reform, that is, any policy adjustment beyond the annual price reviews, was necessary or desirable at all, and, if so, for what reasons. The UK and Sweden had long been calling for a fundamental reorientation of the EU's agricultural policy. They claimed that the CAP was inefficient and costly, and that reform should be aimed at increasing the market orientation of agriculture. They welcomed the Commission's proposals as a step in the right direction, although they expressed their disappointment that the proposals had not gone further. In contrast, Germany and France questioned, firstly, whether there was any need for reform at all, and, secondly, the principles guiding the reform proposals. They criticized the Commission for relying on too narrowly defined efficiency criteria, both in assessing the appropriateness of the existing CAP, and in formulating proposals for reform. They rejected the argument used by the Commission and the reform supporting countries that the CAP had to be reformed because it was inefficient and costly, and pointed instead to the multifunctional role of agriculture. Based on these views, Germany rejected the Commission proposals in principle. France, while less categorical in its rejection of the need for reform, was generally very negative to the reform package proposed by the Commission.

[340] Coleman et.al (1997), p.456.
[341] ibid.

‘Win-sets’ provide a useful tool for analyzing the Agenda 2000 negotiations on CAP reform, and for explaining their outcome (explained in chapter 1). Of all Member States, Sweden and the UK were arguably the countries pushing most strongly for far-reaching reform. Chapter 3 showed that this position can be explained by a combination of level I, II and III considerations. At the domestic level, agricultural interests in these countries weigh less heavily, in relation to consumer, environmental and other interests, than in less reform-oriented countries. Concerning the EU budget and what they were getting out of it, level II, both Sweden and the UK regarded the CAP to be a waste of resources from an economic efficiency perspective and a policy which cost them more than their were getting out of it. At the international level (I), both countries advocated that the EU adopt an offensive strategy in the upcoming WTO negotiations, by reforming its agricultural policy and thus putting pressure on others to follow suit, rather than the other way around. In general, the two countries disapproved of the EU’s insistence on high protection and subsidies for agriculture in WTO negotiations at the expense of other EU bargaining interests.

Although CAP reform was an outspoken priority of the Swedish and British governments in the Agenda 2000 negotiations, in the domestic politics of these countries the CAP was not a highly political or controversial issue. In contrast, in France and Germany, CAP reform was a highly politicized and also, politically, more complex topic of discussion.[342] The agricultural interest in both countries strongly and manifestly opposed any reduction in EU or government support, and it rejected flat out the proposals for CAP reform presented by the Commission. Moreover, in France and Germany, farmers enjoyed the support or at least the sympathy of a much larger share of the electorate than in Sweden or the UK. Robert Putnam claims that:

> Politicization often activates groups who are less worried about the costs of no-agreement, thus reducing the effective win-set. … As a general rule, the group with the

[342] see chapter 4.

> greatest interest in a specific issue is also likely to hold the most extreme position on that issue.[343]

Putnam's observation certainly applies to the case of French and German farmers in the Agenda 2000 negotiations on CAP reform. Particularly in France, numerous mass demonstrations and protests by farmers, as well as frequent visits of farm representatives to high-level politicians and officials indicate the greater extent to which the CAP reform negotiations activated interest groups than in other, pro-reform, Member States. Moreover, the militant nature of the protests and of the statements of the farm lobby in response to the Agenda 2000 proposals confirms Putnam's claim that the agricultural interest assigned a relatively low cost to non-agreement in the negotiations. In France and Germany, farmers clearly had the greatest interest in the CAP reform negotiations. They opposed far-reaching change of the CAP, particularly in the direction proposed by the Commission, and their words and action made it clear just how strongly they resisted any reduction in farmer welfare. As a result, any change in the CAP that might lead to a reduction in farm income, when compared with the status quo, could be expected to expose the French, and, albeit to a lesser extent, the German government to severe, and politically damaging, attacks at home.

In the absence of any significant political counterweight to the agricultural interest, the greater degree of politicization of CAP reform effectively reduced the win-sets of France and Germany, when compared with the UK and Sweden, where the CAP reform negotiations triggered very little response by agriculture, consumer or other interest groups.[344]

In the French case, the win-set was further restricted by the unique French phenomenon of cohabitation discussed in the country analysis. In the case of co-financing, for example, the French newspaper *Le Monde* claimed that, initially, Prime Minister Lionel Jospin was not categorically opposed to co-financing.[345] He preferred it to the alternative proposed by

[343] Putnam (1988), p.445.
[344] Patterson makes a similar observation when analyzing the MacSharry reform negotiations in 1992. Thus, she claims that France and Germany had relatively small win-sets, "the contours of which were set by strong and vocal farm lobbies", whereas the UK "had a larger win-set as a result of a more heterogeneous set of domestic interest groups". Patterson (1997), p.151.
[345] *Le Monde*, "Un calendrier européen compliqué par la cohabitation", October 9, 1998.

the Commission of a rebate for the net contributors beyond a certain cut-off. However, when Jacques Chirac came out strongly against co-financing, rejecting it categorically, Jospin saw himself forced to match Chirac's resistance to what the latter portrayed as going against France's national interests. Without cohabitation and the strong politicization of CAP reform, the French government might have been more amenable to the idea of co-financing, particularly when considering the alternatives. Given the domestic political constraint, however, the government instead pushed for a third alternative, degressivity. In the end, the strategy led to the abandonment of the option of co-financing without its replacement with any other alternative. The French case is a good example of a greater domestic political constraint, when compared with pro-reformers, increasing the country's bargaining power at the international negotiation table.

In contrast, in Sweden and the UK, any reduction in support prices agreed upon in the Agenda 2000 negotiations could be portrayed as going in the right direction, when seen from a consumer perspective. Therefore, one could argue that any agreed price cut could be 'sold' in Sweden and the UK as a negotiating success. The general public in these countries was concerned not so much with the level of the price reduction but more with the trend, that is, the fact that support prices declined, thus benefiting consumers.

For reform supporting countries, therefore, any reduction in price support and direct compensation could be passed off as a negotiating success at home. In contrast, any reduction benefits accruing to farmers, be it through price cuts or lower direct payments, would be subject to severe domestic criticism in reform opposing countries. In the case of France and Germany, therefore, public choice analysis – which seeks to explain the disproportionate leverage of a minority interest group on policy choices – complements Putnam's analysis to provide a very useful framework for understanding the strategies and win-sets of these reform opponents (see chapter 4).

Based on this analysis of the strongest representatives of both sides of the negotiations it could be argued, therefore, that the resolve of reform supporting countries to ensure change was weaker than the determination of the reform opposing countries to resist change. In addition, domestic developments in the UK during the course of the Agenda 2000 negotiations, further undermined the resolve of one of the strongest reform supporters to push for far-reaching change. When the British Labour Party, under Prime Minister Tony Blair, came to power in 1997, it had ambitious plans to shake up agricultural policy, both domestically and on EU-level. Jack Cunningham was appointed Minister of Agriculture with the task, among other things, of dismantling the Ministry of Agriculture, Fisheries and Food (MAFF) and creating instead a Department of Rural Affairs. The reorganization was to emphasize a shift away from traditional agricultural policy with its focus on farming and farmers, and towards a policy of rural development, which included environmental and employment issues. However, in the course of 1997, several issues and developments created a growing resistance among the rural population to Labour's 'new' policy orientation regarding farming and the countryside. Firstly, there was Labour's proposal to outlaw fox hunting, while supported by the majority of the British population, provoked an outcry among segments of the rural population, mainly Conservatives, farmers and landowners, who claimed that such a measure was an indirect threat against their traditions and their way of life. Secondly, the strength of the pound vis-à-vis the euro, combined with the ongoing BSE crises, had resulted in a sharp decline in UK farmers' incomes. These factors, among other things, combined to bring together several interest groups in a united front against Labour's plans regarding agricultural policy and the countryside. The resistance culminated in the widely publicized 'Countryside March' which took place on March 1, 1998. The size and force of this mass protest had a significant impact on British governments policy plans. On the domestic level, the government shelved its plans for creating a Department of Rural affairs. Jack Cunningham was replaced, as Minister of Agriculture, by Nick Brown, who was considered to be more farmer-friendly. On the EU level, the domestic developments certainly did nothing to strengthen the UK's resolve to work for far-reaching reform. Furthermore, the domestic opposition to the government's agricultural policy stance weakened its negotiating position in the talks on CAP reform going on at the same time in the Council of Ministers. Having set out to revamp agricultural policy both at home and in the EU, the Labour Party thus saw itself obliged to soften its stance over the course of the Agenda 2000 negotiations, as a result of domestic developments.

Even if the unique development in the UK during the Agenda 2000 negotiations is disregarded, this analysis has shown that, in negotiations on CAP reform, the win-sets of the advocates of reform tend to be larger than the win-sets of the countries opposing reform. This has two important consequences. The smaller win-set makes negotiations on CAP reform more treacherous for opponents to change since there are fewer possible agreements that will be accepted at home. At the same time, however, smaller win-sets increase reform opponents' leverage at the negotiating table.[346] Thus, France's bargaining position at the EU negotiating table was strengthened and made more credible by the manifest strong resistance to reform at home which severely restricted its room for maneuver and thus its win-set in the Agenda 2000 negotiations. According to Putnam's framework on multi-level game analysis, one could argue, therefore, that negotiations on CAP reform are biased in favor of reform opponents, since these countries tend to have smaller win-sets than reform supporters.

[346] According to Putnam, "[T]he larger his [the negotiator's] win-set, the more easily he can conclude an agreement, but also the weaker his bargaining position vis-à-vis the other negotiator". Putnam (1988), p.450.

Table 10: Initial country positions on some key aspects in the Agenda 2000 negotiations

Commission proposal	Reform proponents		Reform opponents		Outcome (compared with the original proposals)
	UK	**Sweden**	**France**	**Germany**	
Price cuts in arable and beef sectors	OK or greater	OK or greater	Lower or none	Lower or none	Lower
Compensation	Lower	Lower	Higher	Higher	Same or higher
Dairy reform Price cuts Phase out quotas	 For For	 For For	 Against Against	 Against Against	 Same but later; Same, higher quotas (2.4 instead of 2.0)
Modulation / individual ceilings	Against	Against	For	Against	Not included (natl. discretion)
Degressivity[a]	For	For	For (?)	?	Not included
Co-financing[a]	For	OK	Against	For	Not included
Budgetary increase to finance reform	OK (preferably lower)	OK (preferably lower)	Contain budget (through less reform)	Contain budget (through less reform)	Budget contained through less reform

a: unofficial Commission proposals made at a later stage in the negotiations.

Issue linkage and side payments

The Agenda 2000 negotiations on CAP reform differed significantly from the 1992 MacSharry negotiations in that the former were undertaken simultaneously with negotiations, on both a sweeping reform of the EU's structural funds, the second largest item in the EU budget after the CAP, and the financial perspective of the EU until 2006.

EU negotiations on specific issue are not self-contained events. Agreements reached on one topic generally affect not only future negotiations on the same topic, but also have consequences for negotiations in other policy areas. Issue linkage or package dealing therefore plays a particularly important role in EU negotiations.[347] David Spence observes that:

[347] Peterson and Bomberg (1999), p.56.

> EU negotiation is …, *par excellence*, an example of a 'nested game', where focusing on one negotiation and its outcomes may mislead the observer in his attempt to identify the overall stakes in the game and where a compromise in one area may seem to contradict published views on minimum requirements. The point is that any one negotiation is part of a whole series. An outcome in one area may only be explicable if set against the background of other elements in the package.[348]

Peterson and Bomberg claim that, in EU negotiations, "… it is often easier to get linked decisions adopted than it is to strike bargains on a range of decisions between actors in only one sector".[349]

Issue linkage played a crucial role in the final outcome on CAP reform in the Agenda 2000 negotiations. There can be little doubt that the agreement reached on CAP reform was significantly influenced by the concurrent negotiations on the overall EU budget. The reopening of the agriculture deal by Heads of State at the Berlin Summit and the conclusion of a new agreement, which differed significantly from the original compromise, proves this point.

The large share of the CAP in the EU budget, combined with the substantial increase in the CAP budget proposed by the Commission in order to finance reform, created a strong link between the negotiations on CAP reform and the simultaneous negotiations on the overall financial framework for the EU for 2000-2006. In addition to this obvious link, however, the two negotiations were connected through the trade-offs and brokered deals that characterize EU decision-making even where policy issues are not naturally or obviously related.

Both reform opponents and supporters sought to use the budgetary restraint to strengthen their case. In seeking to make CAP reform more compatible with budgetary restrictions, not surprisingly, Member States chose solutions that were compatible with their policy preferences regarding both CAP reform and the future EU budget. Thus, opponents of

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348 Spence in Westlake (1999), p.371.
349 ibid.

the Commission's reform proposals argued that the only way to reduce agricultural expenditure was to opt for a less ambitious reform. They claimed that smaller price cuts than the ones proposed by the Commission would result in lower direct payments thus exerting a smaller strain on the budget. Regarding dairy reform, the budgetary restraint provided the opponents of a major policy change with a welcome, and in the end convincing, argument against the proposed reform.

Reform proponents, on the other hand, tried to use the budgetary restrictions as an argument in favor of a far-reaching reform of the CAP. They claimed that the reforms proposed by the Commission would lead to a lasting reduction in the budgetary burden of the CAP, particularly if they were combined with making direct payments degressive over time.

The Agenda 2000 negotiations on CAP reform were inextricably linked to the simultaneously ongoing debate over the future development of EU expenditure and Member State contributions to the EU budget. Therefore, one cannot explain countries' strategies and positions in, and the outcome of, the CAP negotiations without examining the interplay between Member States' agricultural policy objectives, on the one hand, and budgetary interests, on the other. The interaction between the two goals and the relative priority assigned to each in the context of domestic politics provides crucial insights into the decision-making process in the Agenda 2000 negotiations.

As shown above, Germany is by far the biggest net contributor both to the overall EU budget and to the CAP. In light of growing public resentment at being the paymaster of the European Union, one of the principal aims of the German government in the Agenda 2000 negotiations was to correct this imbalance. The German government sought to reduce its national contributions to the EU budget by stabilizing expenditure and by reweighing Member States' contributions with the aim of reducing Germany's share in the overall financing of the EU. Germany carried its budgetary objectives over into the negotiations on CAP reform by insisting that the prerequisite for any agreement was that it did not increase the net financial burden of the EU budget on Germany. From an agricultural policy perspective, Germany strongly, and categorically, opposed the Commission's proposals for CAP reform. This position changed somewhat when the Social Democrats came to power in October 1998. The new government was more receptive to reform than the Christian Democratic government with its strong ties to the West German agricultural interest. However, even if it was less concerned with protecting farmers' interests than its predecessor, the new government was not about to make enemies with the agricultural interest, by becoming a champion of CAP reform, particularly, since it saw no net political gain from doing so.[350] From a purely budgetary perspective, a radical reform of the CAP, with large price cuts and less compensation than proposed by the Commission, would have been the ideal solution for Germany. However, domestic politics mitigated against such a radical reform. Moreover, strong resistance, particularly from France, against such a reform, would probably have prevented Member States from reaching agreement by the date set by the German Presidency. The lack of interest in CAP reform combined with the overarching priority to reduce Germany's net contributions to the EU budget, and the will to reach a political agreement explain the German position in favor of the 'mini-reform', which was eventually achieved. In the end, it could be argued that Germany agreed to continue to finance the CAP in return for a largely symbolical adjustment of its net contributions to the EU budget.[351]

From a domestic perspective, this compromise allowed the new German government to claim some victory in the Agenda 2000 negotiations while avoiding a major confrontation with the powerful West German farmers' lobby. On the EU level, Germany could complete the Agenda 2000 negotiations, as it had set out to do, during its Presidency of the EU and within the designated deadline. Moreover, it avoided a total breakdown in the already damaged Franco-German relationship. The Franco-German relationship is widely regarded as the motor of European integration.[352] At a time when the European Union was preparing the acces-

[350] This is due to the relatively greater politicization of the agricultural interest discussed in the section on national win-sets and in the country analysis.
[351] In effect, Member States agreed to grant Austria, Germany, the Netherlands and Sweden a 'rebate on the UK rebate'. As a result, these countries' financing share of the UK rebate was reduced to 25 per cent of the normal share.
[352] Moreover, many authors consider France and Germany to be the decisive forces in shaping agricultural policy in the EU. See, for example, Kay (1999), Tracy (1995), Webber (1998&1999).

sion of new Member States, a high priority for Germany, and, when European cohesion was threatened by the loss of face of the Commission, the German government attached particular importance to avoiding a major rift with France. Finally, the ability to reach agreement in time was considered vital for the EU's image as a major international player.

The French budgetary situation differed significantly from Germany's. While France was a net contributor to the overall EU budget, though by a much smaller margin than Germany, it was the largest net beneficiary of the CAP. From a budgetary perspective, France's negotiation objectives were to protect the existing CAP from the changes proposed by the Commission, and thus to prevent an increase in its net contributions to the EU's overall budget.

Similar to Germany, France insisted that CAP reform be negotiated as part of an overall package, which included budgetary aspects. Thus, in February 1999, Agriculture Minister Glavany succeeded in delaying agreement in Agriculture Council on agriculture, by arguing that the EU finances had to be settled first.[353] In particular, France succeeded in tying the question of CAP reform to the maintenance of the UK rebate.

France had two reasons for insisting on linking agreement to CAP reform to overall agreement on Agenda 2000. Firstly, budgetary restraint was compatible with France's overall aim of maintaining the CAP in its existing form. Since CAP reform was more expensive than maintaining the status quo, the French argued that budgetary restraint strengthened the case against reform. Moreover, by pitting CAP reform against the UK rebate, France ultimately succeeded in getting the UK to renounce the former in return for maintaining the latter.[354] Secondly, by tying the CAP negotiations to the negotiations on the EU budget, the former became subject to unanimity decision-making. The statement made by Jacques Chirac to the press after the Berlin outcome, on March 26, 1999,

[353] France was seen as "holding up all demands for fundamental reform on the grounds of cost". *AE*, February 26, 1999, EP/9.
[354] *Agra Europe* quotes Glavany as saying "'Can we accept that France and its agriculture should be the only ones to pay for German budget savings while other Member States retain their guarantees?' ... Glavany specifically referred to the UK's budget rebate and the Cohesion Funds, paid to Ireland, Spain, Portugal and Greece."*AE*, February 26, 1999, EP/1.

testifies to the deliberate, and successful, French strategy, namely to avoid being outvoted by ensuring that CAP reform be based on unanimity decision-making:

> 'In effect, the Agricultural Council from March 11 had ended with propositions which had not been accepted by the French Minister of Agriculture, but which many of our partners pretended to regard as agreed upon, partially because there had been, admittedly, large support for the propositions, and partially because some of them considered agricultural matters to be decided by qualified majority, and since such a majority obviously supported the propositions, one could conclude that an agricultural decision was in place and that, consequently, this decision could no longer be changed other than modifying certain details. This was of course not our assumption, this was not our view of the situation and therefore, there was a need, in the agricultural dossier, to retrace our steps, so to speak.' [author's translation][355]

Thus, issue linkage allowed the French government to reopen the negotiations on CAP reform even after the overwhelming majority of Member States, that is, all other countries with the exception of Portugal, had agreed to a compromise.

France's position as a net contributor to the overall financing of the EU explains its support of budgetary stability. In addition, by maintaining budgetary stability, France hoped to avoid any major changes to the EU's current system of financing. Any such changes were likely to worsen France's net balance, either by reducing the benefits it derived from the CAP or by increasing its payments to the overall budget. In particular, France wanted to avoid the introduction of co-financing.

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[355] Jacques Chirac, at a press conference in Berlin, March 26, 1999. (www.elysee.fr/cgi-bin/auracom/aurweb/search_ang/file?aur_file=discours/1999/ALLE9904.html). The original statement was:

> En effet, le Conseil agricole du 11 mars s'était terminé par des propositions qui n'avaient pas été acceptées par le ministre français de l'Agriculture, mais que beaucoup de nos partenaires faisaient semblant de considérer comme acquises, à la fois parce qu'il y avait eu, c'est vrai, une large adhésion, et ensuite parce que certains considéraient que, les affaires agricoles étaient décidées à la majorité qualifiée et celle-ci existant manifestement, on pouvait considérer qu'il y avait un paquet agricole et que, par conséquent, on ne pouvait plus y toucher, ou alors de façon tout à fait superficielle. Ce n'était naturellement pas notre thèse, ce n'était pas notre vue des choses et il a donc fallu, sur ce volet agricole, remonter en quelque sorte la pente.

When co-financing appeared to gain support among both the Member States and from the Commission, France proposed degressivity as a, mutually exclusive, alternative to co-financing. Tangermann admired the shrewdness of the French strategy:

> France played the degressivity card as a very direct and unconditional alternative to the option of co-financing, tabling its degressivity proposal explicitly on condition that all discussion of co-financing was dropped. … The tactic of presenting co-financing and degressivity largely as alternatives to each other was remarkably successful. There is in fact no reason whatsoever why these two approaches could not be combined, because they aim at completely different, though not at all mutually exclusive, objectives… In the end, … French tactics proved even more successful as degressivity, too, was left out of the final package. (…One factor in the equation may have been lack of interest in, if not outright resistance to, degressivity among German agricultural policy makers.)[356]

In the end, issue linkage allowed France to negotiate an agreement, which cut beef prices much less than originally proposed and delayed dairy reform, while avoiding co-financing or any other policy that might reduce the net benefits it derives from the CAP, or reweigh Member States' contributions to the EU budget to its disadvantage.

Throughout the Agenda 2000 negotiations, the CAP, in particular French resistance to any major changes along the lines proposed by the Commission, was a top priority of the French government. The priority assigned to the CAP and the consistency and tenacity with which it pursued its objectives concerning the CAP distinguish France significantly from the other three countries examined here. In contrast to the other countries, France carried its CAP objectives into the European Council in Berlin. There, it met little resistance to its demands, since the major reform supporters, in particular the UK and Sweden, abandoned their CAP objectives in the final negotiations in Berlin. Thus, it can be argued

[356] Tangermann in *AE*, May 28, 1999, A/1-2.

that France consistently assigned a higher priority to the CAP than any of the other three countries.

The UK pursued two principal goals in the Agenda 2000 negotiations, - the maintenance of the UK rebate and a far-reaching reform of the CAP. During its EU Presidency in the first half of 1998, the UK formally listed CAP reform as one of its priority issues. When forced to chose, however, the UK prioritized the rebate over CAP reform. More specifically, the UK sacrificed CAP reform to the maintenance of its rebate. This decision was a rational choice given the assessment made by the UK government that the maintenance of the rebate was a more important political achievement at home than if it had prevailed on CAP reform.

In early March 1999, the Select Committee on European Communities of the House of Lords warned against sacrificing CAP reform for British insistence on maintaining its rebate:

> We … take the view that the rebate should be negotiable as part of an overall settlement delivering the result of fairer net contributions. It would be regrettable if the entire package (including CAP reform and the possibility of funding enlargement) were to be lost because the United Kingdom Government insisted that there was only one way of solving its problem. Equipping the European Union to handle enlargement is a very big prize: we urge the Government not to throw it away. It seems to us that a realistic negotiating result for the United Kingdom would be agreement to forgo the abatement on the condition that – and only when – the loss can be made up on a permanent basis through the savings of a reformed CAP and a stabilisation of expenditure overall by 2006, and possibly through increased EU expenditure in the United Kingdom.[357]

In the Agenda 2000 negotiations, the British government clearly chose the UK rebate over CAP reform. This choice confirms the validity of an observation made by David Colman regarding British policy on the EU in 1992, when he claimed that

[357] House of Lords (1999), paragraph 18.

> [p]olitical concern over the budgetary cost of UK membership has continued to be weighed more heavily than the cost to consumers, despite estimates that the latter has been approximately twice as large as the former.[358]

When interviewed by the Select Committee on the financing of the European Union, the Economic Secretary to the Treasury, Patricia Hewitt, stated that although fundamental CAP reform would

> deliver substantial economic benefits in the form of lower prices to consumers, there would be no substantial benefit for the United Kingdom taxpayer in the form of our own net contribution. Therefore, a successful outcome of negotiations on CAP reform does not mean that in turn we can make concessions on the abatement.[359]

Regarding the negotiations over Member States' contributions to the EU, the British win-set was very limited. Based on its assessment of the domestic political situation, the British government perceived the maintenance of the UK rebate to be absolutely critical for political survival. For similar reasons, for most of the other Member States, it was unacceptable that the UK rebate should remain as a one-country exception. In particular, governments of other net contributors to the EU budget felt that the UK rebate made them look bad, since they had not been able to secure a similar exception for their own country. One could argue that there was no point at which the win-sets of the Member States overlapped when it came to the UK rebate. However, linking the budgetary negotiations with CAP reform opened up new policy alternatives, which made possible an agreement on both issues. Conceding the continuation of the UK rebate in return for a much less ambitious agricultural reform than the one initially proposed by the Commission, was an acceptable tradeoff, particularly for France, which had been one of the strongest opponents of the UK rebate.

Throughout the Agenda 2000 negotiations, the UK advocated a policy of budgetary restraint. In the final phases of the negotiations, reform-

[358] Colman (1992), p.34.
[359] quoted in House of Lords (1999), paragraph 88.

opposing countries increasingly claimed that the budgetary restraint made far-reaching CAP reform impossible. Paradoxically, budgetary considerations presented a greater problem for supporters of a more market-oriented CAP than for its opponents.

Sweden went into the Agenda 2000 negotiations with three overriding policy aims, one for each of the main policy areas covered in negotiations. Regarding the EU budget, it sought to reduce its national contribution to the EU budget, either relatively or absolutely. As a net contributor to the overall EU budget, and in line with the three other countries examined here, Sweden advocated a policy of budgetary restraint. On agricultural policy, it wanted a far-reaching reform of the CAP.[360] Concerning the proposed reform of the EU's structural funds, Sweden attached high priority to maintaining the regional aid directed particularly to the northern part of Sweden. Sweden pursued its objectives regarding CAP reform by forming an alliance with other reform supporters in the so-called London Club.[361]

Initially, therefore, CAP reform was a priority of the Swedish government. However, in the final negotiations in Berlin, the Swedish government abandoned its ambitions regarding CAP reform. Once the government came to the conclusion that an ambitious CAP reform could not be achieved, it focused its energy, successfully, on securing a reduction of its financing share, and some concessions in regional aid, in return for dropping its demands on CAP reform.

As in the UK, CAP reform was initially a high priority of the Swedish government in the Agenda 2000 negotiations. However, as in the UK, in the final package deal, budgetary considerations outweighed initial objectives regarding CAP reform. Once it became clear that the UK would choose its rebate over CAP reform, and that Italy would abandon its demands for dairy reform in favor of additional dairy quotas, the remaining reform supporters, that is, Sweden, and to a certain extent, Denmark, were left on a sinking ship. At that point, Sweden abandoned its campaign for CAP reform and join the chorus of Member States

[360] The reasons for its advocacy of CAP reform are analyzed in the country sections in chapter 4.
[361] See appendix.

clamoring for special national concessions. Whereas Sweden had consistently argued for far-reaching reform throughout the Agenda 2000 negotiations, in the European Council in Berlin, Sweden's main concern regarding the CAP was to secure a special subsidy for drying grass, which had already been granted to Finland. Instead of far-reaching CAP reform, therefore, Sweden returned home with two very visible feathers in its hat: a reduction in its net contributions, through a reduction in the share of its financing of the UK rebate[362], and a special subsidy for Swedish farmers. Domestic political considerations explain why Sweden abandoned CAP reform, in favor of clear national side payments. A further important explanation for Sweden's decision to forgo CAP reform was that the reform proposal that was on offer was neither very ambitious nor was it guaranteed to lead to a reduction in CAP expenditure in the foreseeable future. Had there been a proposal for more substantial CAP reform, Sweden might have been less eager to abandon reform in the final round of negotiations.

In the final phase of the negotiations on CAP reform, pure national interests drove Member States' positions. In particular, for most Member States, enlargement had become irrelevant as a motivating factor for reforming the CAP.

The influence of the Commission on the negotiations

As mentioned in the introductory chapter, the Commission has the exclusive right of policy initiative in European Union legislation and decision-making. This exclusive right confers certain powers onto the Commission, which are sometimes referred to as the agenda-setting powers of the Commission.[363] Applied to the Agenda 2000 process, these powers gave the Commission considerable discretion both in the drafting of the proposals and in the choice of strategy during the ensuing negotiations. As this section shows, the Commission made several deliberate and strategic choices in the Agenda 2000 negotiations on CAP reform. The question is to what extent the actions and strategies chosen by the Commission influenced the outcome of the Agenda 2000 negotiations on CAP re-

[362] The same reduction was granted to Germany, Austria and the Netherlands.
[363] See, for example, Pollack (1997) and (1999).

form. In other words, would the outcome have been significantly different if the Commission had acted differently? This section examines some of the choices made by the Commission and then discusses the relevance of the Commission choices for the outcome. It is argued that, in the Agenda 2000 negotiations on CAP reform, the power of the Commission to influence decision-making was very limited.

One of the first choices facing the Commission in drafting the Agenda 2000 proposals for CAP reform was what sectors to include in the reform package, and, by consequence, what sectors to exclude. Thus, cereals, beef and dairy products were targeted for reform, while fruits and vegetables, sugar, rice, sheep and goat meat, for example, were not. Concerning the tobacco and the olive oil regime, the Commission refrained from making specific suggestions on price cuts and compensation payments as it had for beef, cereals and dairy products. Instead it proposed, rather vaguely, a "further strengthening of the market orientation" of these sectors, suggesting, "as a possible option a further shift from price support to direct payments and a radical simplification of these payments", and announced that it would present detailed proposals "[a]s soon as the necessary debates have taken place". For wine, the Commission merely referred to a reform proposal that had been pending at the Council level since 1994, announcing its intention to update the proposal in the general spirit of the Agricultural Strategy Paper once the 1997 situation had been analyzed.

Examining the Commission's choice of sectors to be included in the Agenda 2000 package on CAP reform, the inclusion of a proposal for dairy sector reform was arguably a natural choice given the expiration of the quota system in the year 2000. As for beef and arable crops, Table 11 shows that these two regimes constitute by far the two largest items of expenditure in the EU's agricultural budget. Their share in EU expenditure might therefore explain why these two sectors would be included in any attempt at substantial reform of the CAP. It does not explain, however, why the Commission limited its proposals to three sectors, when several other sectors, such as sugar or olive oil, for example, were also in obvious need of reform. One possible motivation for the Commission's decision could be that it feared that if too many sectors were included, the negotiations would become unmanageable and that it was better, therefore, to concentrate on a few sectors. Whatever the reasoning behind it, one of the first deliberate choices made by the Commission in its drafting of the Agenda 2000 proposals for CAP reform was to limit its proposals to beef, cereals and dairy products.

Table 11: Allocation of resources under the Guarantee section (EAGGF), 1998

	billion ECU	**%**
Arable crops	17945	46.3
Beef	5161	13.3
Dairy products	2597	6.7
Olive oil	2267	5.9
Accompanying measures	1847	4.8
Sugar	1777	4.6
Fruit and vegetables	1510	3.9
Sheep and goat meat	1535	4.0
Tobacco	870	2.3
Wine	700	1.8
Other products and measures	2539	6.6
	38748	100

Source: European Commission.

Once the Commission had agreed on the sectors to be proposed for reform, the next question that presented itself was what kind of reform should be proposed. In addition to the price cuts, which were eventually proposed, the Commission also considered measures aimed at limiting supply directly. In particular, the Commission envisaged a possible increase in set-asides to reduce output in the cereals sectors, while in the dairy sector the Commission contemplated a modification of the quota system as an instrument for containing milk production.

Initially, and as late as March 1997, the Commission considered presenting two to three alternatives for reform for each of the three sectors in question. Thus, for cereals, for example, the alternatives were, firstly, a continuation of the status quo, secondly, a significant increase in set-asides, and, thirdly, a price cut. The eventual decision by the Commission to present only one option for reform was another, clearly tactical, choice.

Another issue was related to direct payments. Interviews and documents reveal that the Commission judged it to be politically impossible to obtain an agreement on price cuts without compensating farmers. Given that it saw compensation as inevitable, the next question that presented itself was whether these payments should be phased out over time, that is, whether to suggest some element of degressivity, or not. The Commission had already attempted, in vain, to attach a degressivity clause to compensation payments when they were first introduced in the MacSharry reform in 1992. Important officials within the Directorate General for Agriculture were highly critical of compensation payments. They argued that it was a serious strategic error to coin the term 'compensation payments', as had been done in the MacSharry reform negotiations, since it created an expectation, among farmers, that every price cut had to be compensated. This also explains why, in the Agenda 2000 proposals, the European Commission referred to 'direct' rather than 'compensation' payments. In the Agenda 2000 proposals for CAP reform, the Directorate General for Agriculture again seriously considered the possibility of including a proposal for making direct payments degressive over time as late as March 1997. When the Agenda 2000 package was negotiated within the Commission, at least one Commissioner argued strongly in favor of degressivity.[364] In the end, the Commission decided against degressivity. In contrast to the MacSharry reform negotiations, however, the Commission proposed that direct payments should only partially compensate for the suggested price cuts.

The Commission did eventually present a proposal for degressivity. However, this proposal came at a very late stage of the negotiations, namely in February 1999, when a majority of countries seemed to be leaning in favor of reducing direct payments over time, which by then had been proposed by both France and the United Kingdom.

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[364] According to Christer Asp, member of Commissioner Anita Gradin's cabinet before the Swedish Parliament. Sveriges Riksdag (1999), p.14.

The above examples show that, in preparing the Agenda 2000 proposals for CAP reform, the Commission made several strategic decisions (see Table 12 for a chronological overview of some of these choices). These choices concerned not only the selection of sectors to be reformed, but also the general policy orientation of the reform, by choosing price cuts over supply control and only proposing partial compensation for farmers, for example. In addition, negotiating tactics clearly determined the choice to present one instead of several alternatives for reform.

The Commission's choices regarding the Agenda 2000 proposals for CAP reform were widely commented and often criticized. Thus, Ingersent and Rayner remarked that "[a] major omission … was the future of the EU's sugar and milk quota regimes".[365] The *Financial Times* commented on the Commission's "cautious approach" to CAP reform.[366] The same newspaper quotes agricultural economist Michael Tracy as criticizing that the Commission had "'shirked the crucial issue of the length of time for which compensatory payments would be made'".[367] *Agra Europe* attacked the Commission proposals for increasing budgetary expenditure rather than decreasing it, for failing to prepare the EU for the next WTO round or eastward enlargement, and for not addressing demands for a more pronounced agri-environmental policy.[368] Agricultural economist David Harvey claims that a major revision of the CAP requires leadership from the European Commission. He criticizes that in the Agenda 2000, this leadership was "timid".[369] He quotes a House of Commons Select Committee report from June 1998 to strengthen his point:

> 'A more positive lead from the Commission would have forced the Agriculture Council to confront these issues directly, and it is regrettable that the Commission has not

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[365] Ingersent and Rayner (1999), p.372.
[366] *FT*, "Comment and Analysis: The great survivor: The CAP is being reformed cautiously, says Michael Smith", November 2, 1997.
[367] *FT*, C&Agr: "Brussels attacked over CAP reform", October 28, 1997.
[368] For a discussion and critique of the problems the Commission failed to address in the Agenda 2000 proposals, see *AE*, July 11, 1997 P/1-3.
[369] Harvey (2000), p.37.

> felt able or willing to provide such a lead in Agenda 2000.'[370]

Generally, economists complain that the proposals should have gone further, although, it should be pointed out that a few regarded the Commission's proposals as being quite daring:

> By endorsing inter alia reduced reliance on price support and improved competitiveness of EU agriculture, the Commission was being considerably more radical than its predecessors. The Commission also made a quite radical proposal under the heading of simplification in that it proposed five-year (rather than annual) negotiations over CAP price support and related instruments.[371]

The widespread criticism of the Commission's proposals for CAP reform in Agenda 2000 indicate an implicit assumption, on behalf of the critics, that the Commission's choices matter. This is, however, precisely what political scientists debate over, namely to what extent the Commission can influence decision-making in the EU. Thus, as summarized in chapter one, the literature is divided over the extent to which the Commission influences the course and outcome of negotiations in the EU. The following questions illustrate this point in the context of CAP reform. The Commission was widely criticized for not including a proposal for sugar reform and for failing to propose degressivity. Was the sugar regime not reformed because the Commission did not include a proposal for its reform in the Agenda 2000 package? Or did the Commission omit the sugar regime from the Agenda 2000 package because it saw no chance of countries agreeing to reform?[372] Similarly, would degressivity have been accepted by the Council of Ministers if it had been proposed by the Commission from the beginning, rather than having been intro-

[370] Quoted by Harvey (2000), p.37.
[371] Ingersent and Rayner (1999), p.372.
[372] Recent events indicate that sugar reform is thwarted by strong Member State resistance, rather than by the Commission's failure to propose reform. Thus, when the Commission proposed a very modest reform of the sugar regime in the summer of 2000, the fierce and categorical resistance of the large majority of Member States resulted in lengthy and difficult negotiations and an agreement which was even more watered down than the original proposal. Thus, essentially, aside from a few minor adjustments, the sugar regime was simply extended until 2006. Furthermore, in the so-called 'everything but arms' agreement aimed at liberalizing trade in agricultural products with developing countries and concluded in the spring of 2001, though it was included in the agreement, sugar, together with rice, was granted excessively long transition periods.

duced into the discussion, by individual Member States, during the course of negotiations? Or would degressivity have been rejected in any case?

As usual, the answer can be found somewhere in the middle, as becomes clear when examining the final outcome. The final agreement for reform covered those sectors, and only those sectors, proposed for reform by the Commission. At the same time, however, the reforms agreed upon deviated so far from the Commission proposals that they might be claimed to have nothing in common with the original. Price cuts for beef and cereals were considerably lower than the level, which the Commission had claimed was necessary to ensure future market stability. Dairy reform was postponed until 2005/6. Modulation and individual ceilings were left up to Member States' discretion, since no common agreement could be reached. In addition, both solutions presented by the Commission in the course of the negotiations for reducing the financial burden of CAP reform, namely co-financing and degressivity, were rejected. The conclusion to be drawn from this is twofold. Firstly, the Commission disposed over some persuasive or other powers, which ensured that Member States felt constrained to stick to the original three-sector package. Secondly, however, the Commission could not stop Member States from distorting the reforms to the extent that some argued they made a mockery of the original proposals and of the declared intentions for reform.

The Commission's strategy to secure a consensus on the basic principles of reform before presenting its detailed proposals – that is, the so-called regulation proposals –, provide another example of the limits of its ability to influence decision-making.[373] This was a strategy, which it had pursued, successfully, in the MacSharry negotiations on CAP reform. After presenting the general principles of reform in July 1997, therefore, Agricultural Commissioner Franz Fischler toured the European capitals in an attempt to gain Member States' support of the basic principles of the reform the Commission proposed. In November 1997, Member States did agree on a joint statement regarding the need and the basic guiding

[373] 1992 CAP reform – "The broad principles of the reform were discussed before the Member States saw any figures which quantified the likely impact on their national agriculture." Grant (1997), p.152.

principles for CAP reform.[374] The Commission hoped that, once Member States had found a common platform, they would work together towards a common goal of reforming CAP. However, in order to accommodate the, frequently diametrically opposed, national views regarding both the need for reform and the possible policy choices for the future CAP, the joint statement had to be so vague and all-encompassing as to be meaningless. As a result, it did nothing to improve countries' willingness to compromise for a common goal and thus to facilitate constructive decision-making in the Council of Ministers. In the end, it can be argued to have been irrelevant for the final outcome, thus underlining the Commission's limited ability to influence the course of negotiations on CAP reform.

Finally, the High-Level Group constitutes a further, in the end, futile, attempt by the Commission to influence the negotiations on CAP reform. The High-Level Group was created on the initiative of the Commission. The Commission hoped that this group would advance the process of reaching agreement at a time when negotiations in the SCA and Agricultural Council seemed to have reached an impasse. Arguably, the High-Level Group succeeded in raising issues to the political level. However, it could not actually solve the problems. In the end, solving most of these problems was relegated again, firstly to the Council of Agriculture Ministers, and, in the final instance, to the European Council.

There is no question that, by choosing certain proposals and strategies over others, the Commission sought to influence decision-making in the Agenda 2000 negotiations. An analysis of the objectives and motivations driving the Commission's behavior would exceed the scope of this paper. One factor complicating such an analysis is the fact that, in addition to being a rather closed institution, the Commission is far from being a unitary actor with homogenous preferences.

Whatever the objectives pursued by the Commission, in the Agenda 2000 negotiations on CAP reform, its ability to influence decision-making was considerably limited. In the absence of a common crisis, and

[374] *AE*, November 21, 1997, EP/3.

given the redistributive nature of bargaining characterizing the negotiations, national preferences completely dominated the course and outcome of the negotiations on the CAP, thus thwarting any attempt at substantial reform.

Overall most economists have been scathing in their criticism of the Agenda 2000 proposals as failing to even come close to addressing the fundamental problems of the CAP. Few economists distinguish, however, between the objective need for change and the Commission's ability to propose such changes, given the necessity of finding de facto unanimous approval for its proposals in the Council of Agriculture Ministers. Alan Swinbank is one of the few to acknowledge the dilemma, which the Commission finds itself in when it comes to reforming the CAP:

> The European Commission is in an invidious position. It has the responsibility for proposing policy changes in the Council of Ministers, and to achieve any measure of success in the convoluted qualified majority decision-making procedures it must, perforce, tailor its proposals to pander to the prejudices of farm ministers. Thus it is easy to say that *Agenda 2000* is not radical enough, but more difficult to explain how a more radical package could be made acceptable to the Council.[375]

Stefan Tangermann also implicitly recognizes the constraints placed upon the Commission's ability to propose reforms: "…even though economists, and some Member States, might have preferred an even more determined CAP reform, the Commission proposals went in the right direction, at an acceptable speed".[376]

The discrepancy between the Commission's proposals and the final outcome, indicate that the Commission's ability to influence the Agenda 2000 negotiations on CAP reform was very limited. The resignation of all 20 Commissioners in March 1999 certainly did not increase the bargaining power of the Commission in the final phase of the negotiations.

[375] Swinbank (1999), p.53.
[376] Tangermann in *AE* (1999), "Agenda 2000: tactics, diversion and frustration", May 28, 1999, A/1.

However, even without this event, the Commission's leverage was relatively small. The Commission stood little chance against the national interests of those Member States who opposed reform. The initial compromise by Agricultural Ministers was reached before the resignation of the Commission. Arguably, the Commission was already weakened before its resignation. However, even without the scandals and resignation its ability to influence or steer decision-making was limited.

It could be argued that the Commission was more successful in obtaining its goals in the MacSharry reform negotiations, since, then, the final agreement were very close to the Commission's proposals while the Agenda 2000 agreement on CAP reform differed significantly from the original proposals.[377] The crucial difference, however, between MacSharry and Agenda 2000 was not so much the fact that, in the latter case, the Commission was weakened by scandal and resignation. Rather, the absence of a crisis combined with the above-described issue linkage across policy areas explain why the Commission was less able to achieve its objectives than in the earlier attempt at CAP reform.

If the Commission had relatively little influence over the reform process, then it cannot be blamed for the outcome, which is widely regarded as a disappointment. The outcome fell far short of the Commission's original proposals. One might ask whether a more ambitious proposal would have led to a more far-reaching reform (according to the principle that "the more you demand the more you get"). However, given the fierce resistance by reform opponents combined with the rather comparatively meek support from reform proponents it is unlikely that such a strategy would have been successful. Moreover, a decision deliberately to exaggerate the proposed reform with the hope of ending up at the desired level would have seriously undermined the credibility of the Commission as the initiator of 'reasonable' policy proposals, both in the ongoing and in future negotiation rounds. In addition, such a strategy might have a dangerous 'inflationary' effect. If it was widely anticipated that the Commission overstated its point, by presenting more drastic steps than the ones it actually hopes to achieve, then the Commission would have

[377] ibid.

to compensate for this factor in future reform negotiations by presenting even more exaggerated proposals.

Table 12: Timetable of selected events

April 1997	Commission publishes its long-term outlooks predicting problems (market imbalances) in beef, cereals, dairy without reform
May/June 1997	informal sounding out of Member States on reform proposals by the Commission
July 17, 1997	Commission presents Agenda 2000
July 1997	In its "Situation and Outlook" on cereals, the Commission shows the ineffectiveness of set-asides (AE, August 29, 1997)
September-November 1997	Fischler tours European capitals to 'lobby' for Commission's proposals; Commission seeks consensus on general principles (is reform necessary, why, …) before presenting the regulation proposals
November 1997	joint statement by Member States on consensus regarding CAP reform
February 1998	Commission publishes CARPE report ('lying around' since mid-1997)
March 18, 1998	Commission presents regulation proposals
May 1998	joint statement by MS on consensus for reform
October 7/8, 1998	Commission presents proposals on co-financing proposals
November 1998	Commission proposes the creation of a High-Level Group
Early March 1999	Fischler presents a table listing all extra wishes voiced by national governments, which, if they were all to be realized, would mean that reform would cost 25 bn Euro more than allowed. Fischler points out that France accounts for 60% of these wishes.378
March 11, 1999	Agriculture Council compromise agreement
March 16, 1999	Commission resigns
March 26, 1999	Berlin Agreement

Conclusions

This section has shown that, in the Agenda 2000 negotiations on CAP reform, neither level I (international) nor level II (EU level) factors were powerful enough to exert any real pressure for reform. Internationally, the next WTO round of trade negotiations had not even begun. At EU level, enlargement was either too remote or not a priority for all Member States. Budget restraint, paradoxically, operated as an obstacle against, not in favor of change. The weakened position of the Commission, following the scandals and resignation, further undermined any level II pressures for reform that might have existed, but it did not make or

[378] *Der Spiegel*, "Mit mir nicht", 10/1999.

break the outcome. Overall, the absence of sufficient level I and level II pressures for reform left the field wide open for national interests to dominate the negotiations.

Since reform was more expensive than the status quo, and in the absence of any degressive element in the proposed compromise, the budgetary pressure from the ongoing negotiations on the financial framework for 2000-2006 strengthened the bargaining leverage of the countries opposing far-reaching reform. Moreover, linking the CAP reform talks to the negotiations over EU financing made the former subject to unanimity decision-making. This factor strengthened particularly the position of France, which had opposed the compromise reached by Agriculture Ministers on March 11, 1999.

At the European Council, two factors increased France's chances of achieving its goals on CAP reform. Firstly, French President Jacques Chirac was the only Head of State with a background as a former Farm Minister. Amidst colleagues not much accustomed to taking decisions on the cumbersome technical details of the CAP, former Farm Minister Jacques Chirac managed to achieve a final outcome that was friendlier to farmers even than that which Ministers of Agriculture had previously envisaged.[379]

Secondly, and more importantly, the French government managed to present far-reaching CAP reform as being mutually exclusive with budgetary restraint. In doing so, it counted on the fact that, when forced to choose, the most ardent supporters of reform would sacrifice CAP in return for budgetary gains. The outcome proved it right.

Robert Ackrill claims that "the experiences of (the reforms agreed upon in) 1992/3 and 1999 demonstrate that the reform *process* [emphasis in original] is such that the speed of reform can be successfully dictated by the slowest moving member state. On both occasions, this was shown to be France".[380] It is true that, in both cases, France resisted the strongest to change. However, France was only able to go as far as it did in achieving

[379] Tangermann in *AE*, May 28, 1999, A/2.
[380] Ackrill (1999), p.21.

its goal, of preventing far-reaching reform, because the other Member States either shared some of the French objectives, such as maintaining a high level of intervention and protection or not wanting to alienate farmers, or because they chose, for various reasons, not to stand up to France on CAP reform. In the end, the strongest supporters of far-reaching reform assigned greater priority to other negotiating objectives than to reforming the CAP.

In a situation, as was the case in the Agenda 2000 negotiations, where reform opponents assigned a higher priority to maintaining the status quo than reform supporters assigned to change, and, in the absence of sufficient external pressure for reform, the ability of the Commission to influence decision-making was severely limited.

6 Conclusions

> That a group of political leaders who had previously strongly argued that the CAP was in urgent need of reform finally proved to be less reform-inclined than their own farm ministers, with their intrinsic tendency to protect agriculture, is one of the remarkable features of the Agenda 2000 process. Historians will also be interested in clarifying to what extent indecisiveness by the German Presidency, and lack of countering tactics on the part of all other 14 Member States which could have balanced the French approach, ultimately contributed to this outcome.[381]

The analysis of the Agenda 2000 negotiations shows that Member States determine decision-making on important issues in agricultural policy in the EU. In particular, in Agenda 2000 the process and the outcome were clearly determined by the policy preferences of the most powerful Member States. Whereas the Commission may play a significant and policy-shaping role in smaller issues of agricultural policy-making, when it comes to negotiations on CAP reform, its influence is much more limited.

Putnam's multilevel game analysis provides the best model, so far, for explaining agricultural policy-formation in the EU. By focusing on firstly, national policy preferences, secondly, the interaction between different levels of negotiations, and, thirdly, issue linkage, it provides a suitable framework for capturing the crucial components of negotiations on CAP reform.

Overall, the analysis has shown that agricultural policy-making in the EU is characterized by the paradox that as one of the most 'europeanized' policy issues, and the one with the longest tradition, and in spite of a clear asymmetry of information and expertise in favor of the Commission, it is the policy area in which supranationalism has been the least successful in moderating the intergovernmental nature of decision-

[381] Tangermann in *AE*, May 28, 1999, A/2.

making in the Council of Ministers. Failure to extend the influence of the European Parliament, the continued reluctance to vote and, particularly, outvote Member States, and the redistributive nature of negotiations, all combine to explain the prevalence of a lowest-common-denominator dynamic.[382] The analysis also reveals the severely limited ability of the Commission to erode the intergovernmental character of decision-making in spite of clear attempts to do so.

Contrary to claims stating the opposite, there is no indication of a trend towards increased qualified majority voting on important issues in the Council of Ministers, at least not in the Agriculture Council. Thus, while there might be evidence of increasing use of qualified majority voting in areas concerning technical or minor regulations, on big decisions, such as CAP reform, the search for consensus and the unanimity rule still prevails in EU negotiations.

The Agenda 2000 negotiations on CAP reform, and, in particular, the involvement of Heads of State and Government in the process, confirm that agricultural policy is still clearly a high-politics issue in EU decision-making. In this sense, EU negotiations on agricultural policy reform can be compared to EU negotiations on institutional issues, the most recent example of which being the Nice Summit in December 2000. This conclusion raises the question why agricultural policy still occupies such a prominent role in EU decision-making. While an exhaustive answer to this question exceeds the scope of this analysis, domestic politics and the preferences of key Member States provide one important explanation to this phenomenon. In other words, the CAP is so important because France and Germany, among others, have chosen for it to be, and, because countries such as the UK have chosen not to prioritize its downgrading. In particular, when it comes to reforming the EU's agricultural policy, this analysis has shown that reform opponents assign a higher priority to the CAP than reform supporters.

[382] It should be pointed out here, that increased influence of the European Parliament in decision-making on CAP reform cannot be automatically assumed to lead to more far-reaching reform towards greater market orientation.

The MacSharry reforms from 1992 confirmed that budgetary pressure can exert a significant pressure to modify agricultural policy when it becomes sufficiently extreme. However, as this analysis has shown, budgetary pressures do not necessarily lead to far-reaching structural change of the CAP. In particular, they do not necessarily lead to greater market orientation.

What are the prospects for CAP reform in the future? This analysis has revealed that, by far, the most important impetus for far-reaching reform of the CAP must come from changes in key Member States' national policy preferences. The recent developments in Germany provide one possible example of such a shift in national preferences regarding agricultural policy. Germany's overall agricultural structure has changed significantly as a result of unification, undermining in turn the influence and platform of its traditional very united and powerful farmers' union, the DBV. Furthermore, growing widespread concerns with food quality and safety and with environmental concerns, currently appear to be shifting the focus away from farmers' needs and towards consumer interests. One of the interesting questions for future analysis is to what extent the prospective enlargement of the EU will affect the possibility of reforming the CAP. Enlargement will bring in a group of relatively poor, agriculture-heavy countries. Their inclusion in the CAP will require either increased contributions from existing Member States or a change of the CAP. As a result, enlargement could affect the national priorities and preferences of the existing Member States regarding the CAP. Secondly, it could alter the balance of supporters and opponents of far-reaching CAP reform. In this regard, the preferences of Poland in particular, which will become the fifth largest Member State after Germany, France, the UK and Italy, will play an important role in future negotiations on CAP reform.

Overall, the conclusion of this analysis is, however, that the CAP will undergo far-reaching change only when key Member States make it a priority to do so.

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Appendix 1: Dairy reform - the London Club

A closer analysis of the negotiations over dairy reform in the Agenda 2000 negotiations is interesting for several reasons. Firstly, reform of the dairy sector was one of the most controversial issues in the Agenda 2000 negotiations. Specifically, the questions were whether support prices should be cut, and by how much, and what to do about the quota system, which was set to expire in 2000. Secondly, the dividing lines in the negotiations over dairy reform correspond roughly to the Member States' general attitudes towards CAP reform, with advocates of a radical reform – aimed at making the CAP more market-oriented – supporting dairy reform, and opponents of a far-reaching CAP reform also opposing reform of the dairy regime.

Member States were essentially divided into two camps: those favoring a more market-oriented dairy regime, with substantial price cuts and the gradual abolition of the quota system, and those opposing radical changes. The UK and Sweden were the strongest supporters of the former view while the majority of countries adhered to the latter.

Sweden and UK had similar views and objectives on a number of relevant aspects of CAP reform. Regarding dairy reform, they both wanted an agreement to end milk quotas as soon as possible, and they wanted larger cuts in dairy intervention prices than the 10 or even 15 per cent proposed by the Commission. They were strongly opposed to making permanent direct income payments to farmers, initially presented as compensation for price cuts, and instead advocated introducing a mechanism, referred to as degressivity, for gradually reducing and phasing out compensation payments.

Neither Sweden nor the UK derived important net financial benefits from the CAP. In the case of the UK the budget rebate was actually initially introduced to compensate for what was perceived to be an excessively disadvantageous treatment in the CAP. In general, British and Swedish views on agricultural policy were strongly influenced by consumer concerns, explaining partially their rejection of what they perceived as the pronounced producer and production orientation of the policy. Moreover, they were skeptical of the highly interventionist nature of the CAP, arguing that a more market-oriented agricultural policy would be more efficient, less costly, less cumbersome and more beneficial to consumers in terms of lower prices. Overall, Sweden and the UK were long-standing critics of both the objectives and the instruments of the CAP, for reasons outlined in the country analyses above. Both countries were particularly dissatisfied with the dairy regime. In their view, it combined the market distorting features of quotas and intervention prices to create a costly, inefficient and highly sheltered sector.

Both the UK and Sweden made clear their views on CAP reform to the Commission before it presented its proposals in July 1997. In particular, the UK lobbied strongly for the introduction of degressivity in the reform proposals. While there were indications that high-ranking officials in the Directorate General for Agriculture were sympathetic to the concept of degressivity, they judged it politically impossible to include it in the Agenda 2000 proposals.

Sweden and the UK also clearly expressed their desire for a far-reaching reform of the dairy regime well before the Commission had completed the drafting of its Agenda 2000 proposals. At the Agriculture Council in February 1997, the UK presented a paper arguing for the gradual reduction in dairy prices to world market levels over a five-year period, the phasing out of quotas and a temporary income support to producers to help them adjust to the removal of intervention prices and quotas. At the same meeting, Sweden welcomed a dairy reform and stated that the goal should be the abolition of the quota system. At the informal Agriculture Council in Domburg, the Netherlands, in May 1997, Agriculture Ministers were asked to express their views on dairy reform, giving the Commission a final opportunity to sound out Member States' views before presenting the official Agenda 2000 reform proposals. At this meeting, the Swedish and British ministers reiterated their earlier stated views, with the British minister Jack Cunningham calling for a price cut of 30 per cent over five years, and Swedish Minister of Agriculture Annika

Åhnberg demanding an immediate end to quotas combined with price cuts.[383]

However, most other countries strongly opposed both the abolition of dairy quotas and large price cuts. While some countries – in particular Germany and Austria – rejected changes outright, arguing that the current system was working fine and that no changes were needed, others – with France and Denmark at the forefront – acknowledged that a change was necessary, but advocated a two-tier pricing system, with low export prices but continued high internal prices.[384]

Presumably as a result of the overwhelming opposition to changes in the quota system and price cuts expressed at the informal council, the Commission proposed in its original Agenda 2000 proposals in July 1997 that the quota system be extended until 2006, and that support prices be cut by ten per cent with farmers being partially compensated for the price cuts.[385] The regulation proposals, presented in March 1998, proposed instead a 15 per cent, again partially compensated, decrease in support prices. The quota system was to be extended until 2006, as in the first proposal, but, in addition, dairy quotas were increased by two per cent, with the increase being divided equally between young farmers, on the one hand, and producers in mountainous or arctic areas, on the other hand. The Commission argued that price cuts were necessary to improve, or maintain, competitiveness of EU dairy products in world markets, to avoid large increases in surpluses as a result of EU enlargement and in anticipation of the next round of WTO negotiations.[386]

When the Agenda 2000 proposals were presented, both the UK and Sweden, while welcoming the proposals as a step in the right direction, expressed their strong disappointment at the too timid nature of the reform proposals. In particular, they were dissatisfied with what they considered to be too timid price cuts, the failure to introduce a time limit or degressive component for compensation payments, and the proposed

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383 *AE*, May 30, 1997, E/2.
384 ibid.
385 As late as early July 1997, the Commission claimed to still be considering price cuts up to 20% per cent.
386 The EU was expected to continue to rely heavily of subsidized exports as a means of containing its dairy surpluses. International agreement to reduce the limits for subsidized exports, which was predicted for the upcoming WTO round, would severely restrict the EU's ability to export its surpluses.

continuation of the dairy quota regime until 2006. In their strong criticism of the dairy reform proposals, the UK and Sweden were joined by Denmark and Italy, and to some extent, Greece. The first four countries alone formed a blocking minority in the council of ministers, allowing them, theoretically, to prevent the adoption of the Commission's proposals on the dairy sector, should it come to a vote.[387] The fact that the quota system was to expire in 2000 if Agriculture Ministers failed to reach an agreement on the dairy regime should have significantly increased the bargaining power of the opponents to the continuation the quota system in the current form.

This group of four, the UK, Sweden, Italy and Denmark, took on the name of London Group, but later came to be referred to as the 'London Club' or 'Gang of Four'. In September 1998, the London Club stepped up the pressure for dairy reform by presenting an alternative joint proposal for dairy reform. Based on calculations and assumptions for future market developments, prices and price elasticities, the paper proposed a 30 per cent cut in intervention prices phased in over a six-year time period, an increase in milk quotas of four per cent to be implemented simultaneously with the price cuts, a removal of milk quotas by 2006, and the replacement of intervention with a system of private storage aid. In addition, direct payments to dairy farmers were to be increased to an average of 290 ECU per unit, that is, roughly twice the amount proposed under the Agenda 2000 proposals. The London Club estimated that its proposal would ensure that, for most of the transition period, that is, until quotas were abolished, the increase in milk production, as a result of the four per cent quota increase, would be offset by an increase of similar magnitude in EU milk consumption, as a result of the price decrease. The London Club judged that these measures would enable the transition to a quota-free regime in 2006, by when the price reductions should have removed the necessity for export refunds and internal consumption aids. One important consequence would be that, in contrast with the Commission proposal, EU applicant countries would no longer have to introduce milk quotas.

[387] See box 1 in chapter 2 on distribution of votes and minimum number of votes necessary for a blocking minority.

The London Club also considered the possibility of higher quota increases, presumably with the aim of attracting countries that wanted larger quotas to join the alliance.[388] However, larger quota increases, by six or eight instead of four per cent, were predicted to result in significant increases in milk surpluses, given that prices did not change, necessitating in turn greater budgetary expenditure on export refunds and intervention purchases. Therefore, higher quota increases were never officially proposed.

In early November 1998, the Commission presented its assessment of the alternative reform proposal presented by the London Club. Whereas the Commission conceded that an abolition of quotas was possible in the medium term or even sooner, the calculations by the Agriculture Directorate General found that the proposed cut in support price would barely be sufficient to bring EU prices down to world market levels. The Commission questioned the London Club estimations of the effects of the removal of quotas and price intervention on aggregate supply, warning that production might be higher than foreseen by the London Club. Thus, the Commission claimed, the proposal left no safety margin allowing for unforeseen developments and warned that "[I]f the mechanism for export refunds were removed or no budget refunds were available there could be considerable pressure on internal prices during some periods". Moreover, according to the Commission, the proposed greater increase in direct aids would result in an increase in budgetary expenditure of 1.4 bn euro when compared with the Commission's own proposal. The Commission concluded:

> It is open to question whether a 6 year transition period is sufficient time for the complete removal of quotas, particularly if it is decided that milk production should be kept in certain fragile regions where it might have particular social or environmental relevance.

In the run-up to the Vienna Summit, the bi-annual meeting of heads of government, in December 1998, it emerged that a majority of countries, including Germany, France and the UK, would seek a 'freezing' of the

[388] The main candidates were Greece, the Netherlands, Belgium, and Spain.

EU budget at 85 bn euro plus inflation for the years 2000-2006. For agriculture, this would mean a significantly smaller budget than envisaged in the Commission's Agenda 2000 proposals for CAP reform. In November, the London Club members became increasingly concerned that the opponents to dairy reform would use the anticipated 'freezing' of the budget as an argument for removing dairy reform from the agenda, since the reform, as proposed by the Commission, was projected to cost considerably more than the maintenance of the status quo. In particular, the Austrian presidency, with the support of France, was thought to be seeking an agreement at the Vienna Summit that would eliminate a reform of the dairy sector from the overall reform package. In the end, mainly as a result of Spain's resistance, no reference to stabilizing EU spending was included in the closing statement of the Vienna summit, which, in turn, temporarily weakened the case of dairy reform opponents for striking milk reform off the list of reforms to be considered.

As of January 1999, only France, Belgium, Luxembourg and Portugal, completely resisted any dairy reform, including price cuts accompanied by compensation. Germany was more receptive to a reform but opposed an increase in quotas. Several of the remaining countries outside the London Club proposed a review of the quota system in 2003/4.

On January 12, 1999, the German Presidency circulated a paper in the high level group, outlining possible alternatives to the original Commission regulation proposals. In addition to the proposal put forward by the London Club, it listed a no-change situation as a further alternative, that is, a scenario with no price cuts, no quota increases and a continuation of the quota regime as it was. The only 'concession' in this third scenario was the agreement to a mid-term review of the dairy regime in 2003/4. Five countries – France, Ireland, Belgium, Luxembourg and Portugal – favored the status quo alternative, four Member States – Austria, Germany, Finland, and the Netherlands – supported the Commission proposal, while the London Club, naturally, backed its own proposal. Spain and Greece made it clear that an increase in their national quota took priority over the actual reform agreed upon. By this time, cracks appeared in the united front displayed by the London Club, with Italy conceding that it could accept the Commission's proposal if its specific needs of increased quotas were met.

At the Agriculture Council on January 18 and 19, the Swedish and British ministers of agriculture declared the willingness of their governments to accept a temporary increase in budgetary expenditure, in order to finance 'worthwhile' reform, as long as the budget was stabilized again at current levels in real terms by the end of the period. The UK and Sweden, in addition to France, also endorsed the idea of making direct payments degressive as a means of containing budgetary expenditure.

In the meeting of the High-Level Group on February 2, 1999, Agriculture Director-General Guy Legras, indicated that the Commission might consider postponing the implementation of dairy reform until 2002 as a way of achieving a compromise on the question.

The agreement reached eventually by Agriculture Ministers on March 11, 1999, accepted the 15 per cent cut in intervention prices but postponed its implementation by three years. The quota system was extended until 2006 and quotas were to be increased by 1.5 per cent starting in 2003/4 to match the postponement in price cuts. However, Greece, Spain, Ireland, Italy and Northern Ireland were to be accorded extra increases in quotas starting in 2000. As a result, the total quota increase amounted to 2.4 per cent. In the final agreement reached in Berlin on March 25, 1999, the price cut and the general quota increase were further postponed until 2005/6, while the specific quota increase for the countries mentioned above was still to come into force in the year 2000.

One could argue that the only visible concession granted to the formal demands made by the London Club was the introduction of the so-called mid-term review, committing the Commission to present a proposal in 2002/3 for abolishing quotas by 2006. The obvious explanation for the failure of the London Club to obtain more of its demands is that, in return for increases in its dairy quota, Italy abandoned the strategic alliance, depriving the London Club of its blocking minority. However, one could argue that, in the end, the remaining members of the London Club lacked the political incentive to insist on dairy reform. Negotiating success on dairy reform was unlikely to significantly improve the governing parties chances for re-election in Sweden, Denmark or the UK. Furthermore, when forced to chose, as these countries were in the big show-down in Berlin, other issues, such as the rebate in the case of the UK, and a reduction in contribution to the EU budget in the case of Sweden, promised greater political rewards at home than dairy reform.

Appendix 2: Interviews

Name	Function/affiliation	Time and place
Dirk Ahner	Director, European Commission; Agriculture DG; Directorate A - Economic analyses and evaluation	June 2000 (Brussels)
Alan Buckwell	Formerly European Commission (Agriculture DG); Professor, Wye College; currently CLA	June 2000 (London)
Jerzy Glücksman	Former Swedish Agricultural Counsellor, Permanent Representation to the EU	December 2000 (Stockholm)
Dominique Gomel	Agriculture Section, French Permanent Representation to the EU	June 2000 (Brussels)
Dietrich Guth	German SCA delegate, Permanent Representation to the EU	June 2000 (Brussels)
Lindsay Harris	UK SCA delegate, Permanent Representation to the EU	June 2000 (Brussels)
Emmanuel Jacquin	European Commission (Agriculture DG)	June 2000 (Brussels)
Anders Klum	Swedish SCA delegate, Swedish Ministry of Agriculture	June 2000 (Brussels)
Francisco Xavier Matut	Director, General Secretariat of the Council of the European Union; Directorate-General B - Agriculture - Fisheries; Directorate II - Agricultural structures policy; agri-monetary and agri-financial questions; harmonisation of plant health legislation; organic products	June 2000 (Brussels)
Jorge Nunez Ferrer	Formerly researcher, Center for European Policy Studies (CEPS), Brussels; Currently European Commission (Economic and Financial Affairs DG)	June 2000 (Brussels)
Erik Rudal	Swedish Agricultural Attaché, Permanent Representation to the EU	April 2000 (Brussels)

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