'The MacSharry Reforms of the Common Agricultural Policy: A Challenge to Public Choice Theory'

by Adrian Kay BA (Hons)

Thesis submitted to the University of Nottingham for the degree of Doctor of Philosophy, April, 1997.

ACKNOWLEDGEMENTS

I would like to thank the following people for their help in completing this thesis.

(i) My supervisors Mr Bob Hine and Professor Paul Heywood. I am indebted to Bob for rescuing me from the City and giving me the opportunity to do this Ph.D. The late Peter Morris was involved in the initial stages of the project, his intelligence and humour was always an impressive advert for academics and academia.

(ii) Mum and Dad. Thank you very much for putting up with me being a student for another three years. Your support was always appreciated.

(iii) My fellow economics postgraduate students. Without the constant discipline and work ethic you imposed upon me, I probably would have finished in half the time but enjoyed myself only half as much. Special commendation to Darrin who persuaded me at one stage that, (a) a Ph.D. was worth doing, and (b) this Ph.D. was worth doing.

(iv) A thesis takes a long time to construct and a number of different people, at different times, and in different ways have had an influence. These are too numerous to mention, but also numerous enough to ensure that only rarely did the Magnus Magnusson justification for ploughing on ('I've started so I'll finish') prevail. For that I am grateful.

TABLE OF CONTENTS

1. INTRODUCTION 1

1.1 Background to the thesis 1
1.2 The CAP decision-making system: Introduction 3
1.3 The CAP decision-making system: Element One 5
1.4 The CAP decision-making system: Element Two 7
1.5 The CAP decision-making system: Element Three 13
1.6 Layout of the Thesis 16

2. AN ECONOMIC ANALYSIS OF THE CAP 18

2.1 Economic Justifications for Agricultural Policy 19
2.2 The Evolution of the CAP 22
2.3 A Welfare Economics Approach to the CAP 37

3. THE HISTORY OF CAP REFORM 47

3.1 Positive versus Normative Approaches to CAP Reform 51
3.2 Reforms of Structural Policy 62
3.3 The Milk Quota Reforms 1984 62
3.4 The Budget Stabilisers Reform 1988 67
3.5 Similarities in the Milk Quotas and Stabilisers Reforms 77
3.6 Conclusion 79

4. THE PRESSURES FOR THE MACSHARRY REFORMS 81

4.1 Introduction 81
4.2 The Operation of the Stabiliser Regime 1988-92 82
4.3 The Oilseeds Dispute 90
4.4 The Uruguay Round 1986-90 100
4.5 Conclusion 124

5. THE PUBLIC CHOICE PARADIGM OF DECISION-MAKING 126

5.1 Introduction 126
5.2 The Diversity of Models 131
5.3 Public Choice Approaches to CAP Reform 136
5.4 Rationale for a Public Choice Approach in this thesis 139
5.5 Three Frameworks: Introduction 139
5.6 The Interest Groups Framework 143
5.7 The Prominent Players Framework 147
5.8 The Institutions Framework 156
5.9 Use of the Institutions Framework in this thesis 165
5.10 Conclusion 168

6. THE POLICY PROCESS OF THE MACSHARRY REFORMS 170

6.1 Event One: Initiation of Reform proposals 171
6.2 Event Two: Adoption of COM (91) 100 by Commission 194
6.3 Event Three: The Council Meeting 4 February 1991 205
6.4 Event Four: The 1991/92 Price Package 210
6.5 Event Five: Agreement of COM (91) 258 211
6.6 Event Six: Oilseeds Agreement 212
6.7 Event Seven: The Dutch Presidency 215
6.8 Event Eight: The Portuguese Presidency 219
6.9 Event Nine: The March 1992 Council Meeting 220
6.10 Event Ten: The 1992/93 Price Package 221
6.11 Event Eleven: The MacSharry Reforms 225
6.12 Conclusion 232

7. THE EFFECTS OF THE MACSHARRY REFORMS 235

7.1 Introduction 235
7.2 The Economic and Financial Effects: Ex Ante 237
7.3 The Economic and Financial Effects: Ex Post 243
7.4 Support for the Institutions Framework 249
7.5 The Uruguay Round 253
7.6 The Oilseeds Dispute 267
7.7 Conclusion 271

8. INTERPRETATIONS OF THE MACSHARRY REFORMS 273

8.1 Introduction 273
8.2 The Interest Groups Framework 274
8.3 The Prominent Players Framework 276
8.4 The Institutions Framework 283
8.5 The MacSharry Reforms Compared 286
8.6 Conclusion 288

9. CONCLUSION 291

9.1 Introduction 291
9.2 Understanding the MacSharry Reforms 292
9.3 The Differences between CAP Reform Episodes 294
9.4 The Institutions Framework 297
9.5 Concluding Remarks 300

APPENDIX 302

BIBLIOGRAPHY 317

ABSTRACT

This thesis draws on the insights of economics, political economy and political science to study the MacSharry reforms of the CAP enacted in May 1992. It has two objectives. First, to understand the MacSharry reforms in terms of why they happened, when they did and in the form that they did. Second, to develop a more general framework for the interpretation of CAP reforms.

The thesis is in two parts. In the first, the public choice paradigm of decision-making systems is introduced as an alternative to neo-classical agricultural economics. It is employed to generate three frameworks of CAP reforms; the interest groups, the prominent players and the institutions. The evidence from the histories of previous reforms of the CAP provides the bias that the institutions framework is the most insightful for understanding the reform process.

The second part of the thesis is a case study of the MacSharry reforms. It is constructed from primary and secondary sources. Seventeen in-depth, individual interviews with key participants in, or observers of, the reform process were conducted. These are complimented by an extensive survey of the general news commentary on, the academic analysis of, and specialist agri-business views of the the reforms. The institutions framework drawn from part one of the thesis is used to interpret this evidence to achieve objective one of the thesis. The central claim with regard to the second objective is that previous attempts at understanding the CAP reform process and its outcome have tended to underestimate the importance of the institutional structure of decision-making.

CHAPTER 1: INTRODUCTION

1.1 Background to the Thesis

From the point of view of a student of economics, agriculture is an industry which holds much interest. Almost throughout the developed world it is subject to government intervention. These interventions are grouped under the heading 'agricultural policies'. The longevity and scale of agricultural policies in advanced industrial economies have taken agricultural markets well away from the textbook microeconomics description of a perfectly competitive market. Agriculture is one of the most heavily regulated industries in advanced industrial economies. As such any account of agricultural policy must include some analysis of the role of government.

The Common Agricultural Policy (CAP) is the agricultural policy of the European Union (EU)[1]. It has existed, at least in some form, since the Stresa conference of the original six members of the EU in 1958. It was the first common policy of the EU and has remained its largest in terms of share of the EU budget, accounting for around 47.5% of budget expenditure in 1994. On these terms alone the CAP demands attention. In addition, its constituency has been shrinking. The agricultural sector accounted for almost 14% of total EU employees in 1970, but this had fallen to under 6% by 1992. It has appeared resistant to a substantial reform which tackles

[1] The European Union (EU) has, at various times in its history, been called the European Economic Community (EEC) and the European Community (EC). For convenience, this thesis assumes that the European Union has been the EU throughout its history. Only where it has been necessary to make a distinction for reasons of describing history are the terms EC and EEC used in this thesis.

either the policy's failure to deal with the farm income problem or the surpluses and budget expense that its operation has generated. As such the CAP, and more particularly reforms of the CAP, are of interest to a student of government.

The MacSharry reforms, enacted in May 1992, are the latest section in the history of the CAP, following reforms in 1984 and 1988. In a number of ways these reforms are different from previous reforms of the CAP. First, in the circumstances in which they were enacted, there was not the familiar sense of EU crisis in which the European Council was required to intervene in the CAP decision-making system[2] in order to agree a response to pressing circumstances. Second, the factors which prompted the reform process appear to have been more varied than in previous reforms. Third, the type of CAP that the MacSharry reforms have brought about is new, even though the overall effects of its operations may remain similar.

The main objective of thesis is to provide an analysis of why the MacSharry reforms were enacted, when they were enacted and in the way that they were enacted. The first question refers to the pressures which started and finished the MacSharry reform process. An answer to the second question requires an account of the context of those pressures; the circumstances which affected the timing of the MacSharry reforms. The third question looks at the substance of the MacSharry reforms; why that type of reform was enacted in response to the pressures and

[2] Sartori (1976:46), when discussing party systems, defined a system as having two properties '(i) the system displays properties that do not belong to a separate consideration of its component elements and (ii) the system results from, and consists of, the patterned interaction of its component parts, thereby implying that such interactions provide the boundaries, or at least the boundedness of the system'. Such a definition covers the use of 'decision-making system' or 'political system' in this thesis.

circumstances outlined for the answers to the first two questions. In order to provide such an account, this thesis has adopted an inter-disciplinary approach, that is, it examines alternative approaches to the standard neo-classical agricultural economics' analyses of the CAP. An inter-disciplinary approach recognises that agricultural policy is made by governments and is affected by economic and political pressures as well as having economic and political effects. In order to provide an inter-disciplinary approach this thesis has been jointly supervised by the Economics and Politics Departments of Nottingham University.

1.2 The CAP Decision-Making System

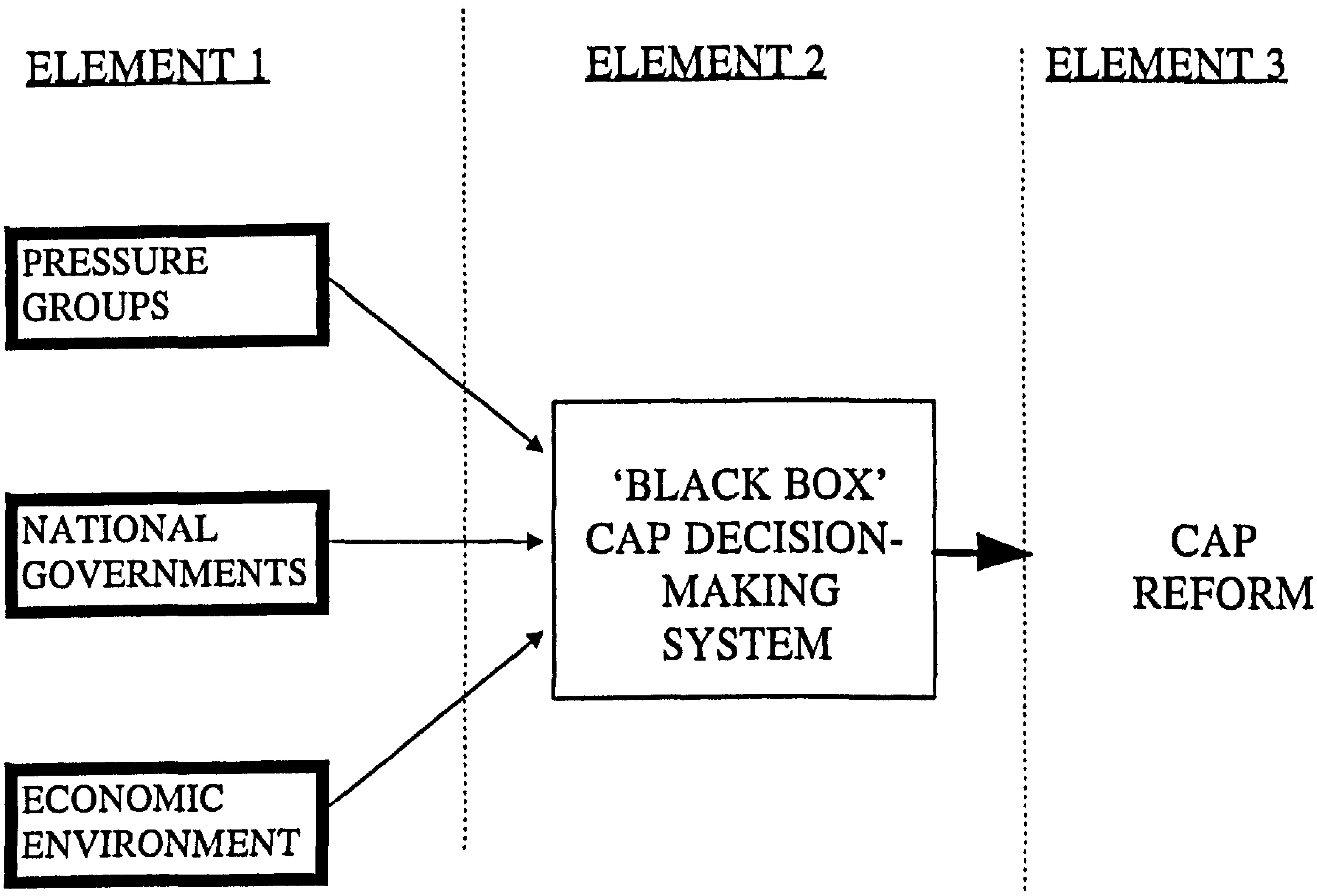
Since agricultural policy is made by governments it is the product of some decision-making system. The CAP decision-making system consists of three elements. These are first, the pressures or inputs in the system which prompt the second element, the process which translates those pressures or inputs into the third element of the CAP decision-making system, the actual observed decision about the CAP (the system's output).

Figure 1 below sets out these elements. Element one consists of pressure groups, national governments and objective, economic circumstances. All of these feed into the policy process, which is element two. It is in the policy process that the first elements of the system are translated into actual observed policy decisions. It is titled here the *black box* of CAP decision-making. The term is used here to highlight the common assumption in the political economy literature; that the numerous and relatively complex causal links which operate in the policy process are unimportant in the output of any decision-making system. Element two is, therefore, assumed away as a black box. This thesis directly challenges this assumption. It aims to shed light on the black box and demonstrate that the policy process is the most important factor in understanding the CAP decision-making system.

Section 1.4 describes the black box of the decision-making system in a formal way, in terms of the prescribed competencies of each of the institutions involved. The term black box also helps to define a research agenda into which this thesis aims to fit; how inputs into and pressures on the decision-making system are translated into observed public policies. This thesis is a study of a policy process. It starts with the third element of the CAP decision-making system, the MacSharry reforms and works back to the questions of why were the reforms were enacted, when they were and in the way that they were?

Chapter 5 sets out three competing analytical frameworks of CAP reforms for application to the MacSharry reforms. Each framework focuses on different elements in the CAP decision-making system as the most important in understanding the output of that system i.e. the decision to reform the CAP. The chapter also selects one of the three frameworks as appropriate for understanding the MacSharry reforms.

Figure 1: The CAP Decision-Making System



1.3 Element One

1.3.1 Pressure Groups

There are many and varied organised interest groups in the CAP decision-making system. The national farm unions have traditionally been regarded as having strong influence over their national representatives in the Council of Agricultural Ministers (CoAM). The Comité des Organisations Professionnelles Agricoles (COPA) is a supranational umbrella organisation which brings each of the national farm unions together to agree a common position with regard to Commission proposals for the CAP. Other interested groups in the CAP are consumer groups, environmental groups and agribusiness organisations. The influence of agribusiness organisations has been at times seen as important but in the absence of a public forum or union, the influence of this sector is difficult to assess. It has been argued that environmental groups have played an increasing role in national and EU agricultural policy agenda since the mid 1980s. Consumer groups have traditionally been regarded as ineffectual, but the MacSharry reforms may provide substance to the argument that their influence has grown in the 1990s.

1.3.2 National Governments

National governments have specific functions in the black box of the CAP decision-making system. How they exercise those functions is determined by factors outside that system. Domestic politics is an important variable in CAP decisions and is included in the figure above.

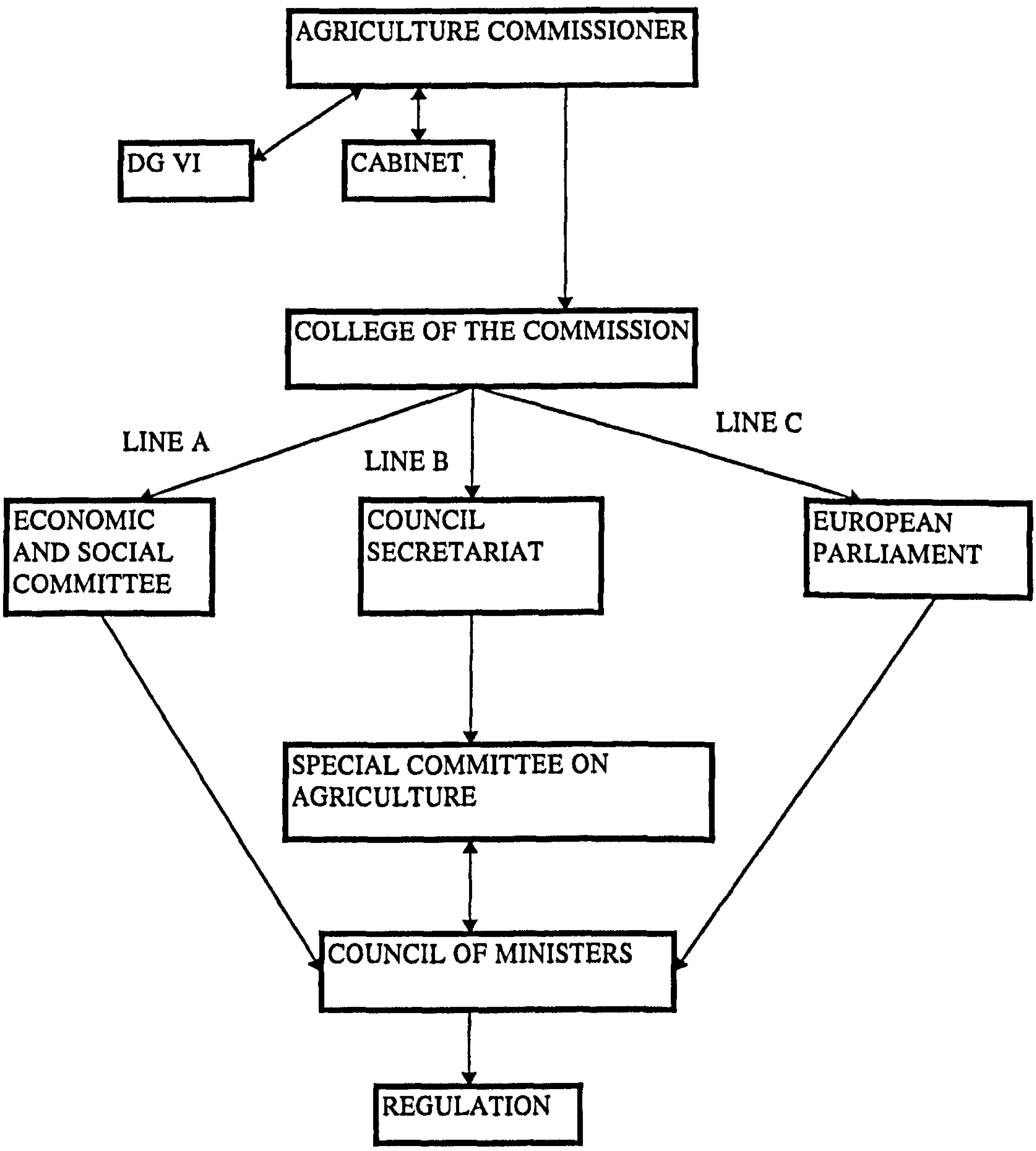
It is important to appreciate that subnational governments often have relationships with various parts of the Commission. However, their input into CAP reform only comes through representations to their national government. They do not have a formal position in CoAM negotiations.

1.3.3 Economic Environment

EU agricultural markets are subject to the vagaries of nature as well as the vagaries of government regulation. Further, there is a world market for agricultural products. The EU does not sit in subsidised isolation. A combination of the state of both these markets creates economic circumstances for EU farmers and the EU budget. These are inputs into the black box part of the CAP decision-making system.

1.4 Element Two

Figure 2: The Black Box Element of the CAP Decision-Making System



This section presents a description of the institutions included in the black box of CAP decision-making. It is deliberately formulaic, outlining what the role of each institution in the policy process. This only gives a limited insight into the factors which are important in a CAP reform process. The description is included here for two reasons. First, the institutions involved in CAP decision-making are introduced at various points in this thesis as crucial factors in understanding CAP reforms and the MacSharry reforms in particular. Secondly, in a thesis about EU public policy, it is important to understand the process through which policies are designed and implemented.

1.4.1 The Commission

The Commission enjoys the sole right of initiation of legislation in the EU. The Council cannot take a decision on a subject without a proposal from the Commission. It may agree something different than the Commission's proposal but this requires unanimity among member states in the Council. As Meester and Van der Zee (1993:134) state 'The Commission's proposal is formally and also materially the basis of the subsequent negotiations'. The main day-to-day work of the Commission is the management and implementation of policies legislated in the Council. However, proposals for the reform of the CAP are generated in the Commission; hence it is an important institution in a CAP reform process.

The College sits at the head of the Commission. It consists of 20 Commissioners (now 17 until the recent accessions of Austria, Finland and Sweden to the EU), two from each of the large member states and one from each of the remaining member states. Commissioners are political appointees nominated and appointed by the agreement of the member state governments. They are nominally independent, but the research for this thesis confirms a tendency to favour the interests of the government of their country of origin (often with strong lobbying from that government).

Each of the Commissioners is allocated an area of responsibility under the Treaty of Rome. They are assisted by their cabinet; a small staff of advisers who act as the Commissioner's *think tank*. They also act as a line of communication with the Commission Services, the 23 Directorate-Generals (DGs) which are the administrative departments of the EU. DG VI is in charge of agricultural policy.

1.4.2 The Council of Ministers

The Council is the primary legislative body of the EU. Each Council is composed of representatives of the member state governments. There is a separate Council for each policy area. The Council of Agriculture Ministers (CoAM) meets at least once a month (along with the Foreign Affairs Council it is the Council which meets most frequently). It holds the ultimate power to enact a CAP reform. In addition it agrees the various institutional price levels, structural policy and has some influence over trade policy.

The European Council is composed of the heads of state or government of the member states together with the Commission President and meets at least twice a year. It has resolved serious issues of contention in the development of the CAP, chapter 3 presents the histories of the reforms of 1984 and 1988. The political power of this institution has been significant in the CAP reform process.

Each separate Council is chaired by a representative of one of the member states on a six monthly rotation. The Presidency acts as arbitrator and mediator in the Council and can engineer compromise initiatives. This role should be considered in conjunction with that of the Agricultural Commissioner. The balance of power between these two individuals is variable, depending on a number of different circumstances.

The Council is assisted in its deliberation by a Secretariat. This set of officials is independent of the Commission and the member states. It provides documentation, advice and background material for the committees which process the draft legislation before formal discussion and negotiation by the Council.

The majority of CAP legislation is agreed by qualified majority voting in the CoAM. Each member state has a weighted vote in the Council according roughly to its population size. The weights run from ten votes (Germany, France, Spain, Italy and UK) down to one vote (Luxembourg). A qualified majority prior to the 1995 accessions was 54 out of 76 votes. After the 1995 accessions, it is 62 votes out of 87. If the Council wants to agree a policy different from that proposed by the Commission, unanimity is required. In practice, the Commission will usually accept the final Presidency compromise as its final proposal if it appears that proposal commands a qualified majority in the Council.

1.4.3 The European Parliament

The powers of the European Parliament (EP) have remained marginal in agricultural policy decisions, despite growing significantly in certain areas of EU legislation after the Single European Act (1986) and the Treaty on European Union (1991). For Council decisions about the CAP, the EP only has to be consulted; the CoAM can ignore (and often does) the formal opinion of the EP. Further, the budgetary powers of the EP, which are extensive for some types of EU expenditure, are limited for CAP expenditure. Spending through the European Agricultural Guarantee and Guidance Fund (EAGGF) is classified as *compulsory* expenditure. This means that the EP only has the right to propose modifications to the draft budget (not to reject it). These can only be added to the draft budget by the agreement of a qualified majority in the Council. Failure to achieve a qualified majority in the Council means that that the modifications are not made. This is significantly less influence than the EP enjoys for *non-compulsory* expenditure.

In the case of the MacSharry reforms, the Farm Committee of the EP failed to agree on a report. Such a report usually forms the basis of the EP's opinion on proposed CAP legislation. In the case of the MacSharry reforms no substantive opinion was agreed by the EP and therefore the influence of the EP was marginal in the reform process.

1.4.4 The Economic and Social Committee

The need to 'have regard for the opinion of the Economic and Social Committee' is established in the Treaty of Rome (Article 198). The Committee has little influence on policy-making. It is a body of 189 members drawn from various interest groups. Its opinion on the agricultural reform proposals in COM (91) 258 (the MacSharry reform proposals) was delivered to the CoAM on 26 February 1992 and published in the Official Journal on 21 April 1992 (OJ C 98). The opinion rejected the price reductions proposed and the regional yield factor in the compensatory payments. Neither of these criticisms was addressed by the Commission or the CoAM.

1.4.5 Special Committee on Agriculture

The role of the Special Committee on Agriculture (SCA) is hard to assess. It is composed of representatives of the member states' governments, specifically senior civil servants, advisers and experts. The body never formally votes but can develop agreement on points in the Commission's proposals (known as *A points*) which can be sent to the CoAM for confirmation. Further, the SCA provides technical analysis of proposals or scenarios which may become the subject of political debate in the Council. The role of the SCA in the MacSharry reforms is hard to assess as its findings and proceedings have never been made public. The SCA is *special* because in all other policy areas this function is performed by the Committee of Permanent Representatives (COREPER).

1.5 Element Three

Decisions about the CAP, including CAP reforms, are the output of the system described above. A complementary objective of this thesis associated with the central objective of understanding the MacSharry reforms, is to develop a richer understanding of the CAP decision-making system. There are three basic questions which confront analysts of the CAP as the product of a decision-making system. First, in what sense is the CAP stable, and how is this property explained? Secondly, and at the same time, why is it subject, periodically, to reform? Thirdly, what explains the nature of those reforms?

Stability in the CAP can be defined at two levels. First, the CAP can be thought of as evolving over the long term through conflict and responses to that conflict. The operation of the CAP and its associated effects (financial, economic, political, international, etc.) comes into conflict with interests within the EU and external to the EU. This conflict produces pressure for change. However, the response of the CAP decision-making system in the short run to such pressure is muted. Examining the CAP on a year-by-year basis, its development seems to be dominated by the existing *status quo*, any change takes place on an incremental basis and the policy seems resistant to reform. These characteristics of the CAP decision-making system led to the CAP being described as stable. When reforms are periodically enacted, they never fully satisfy the pressures for change and contain within them the catalysts of pressures for further change. This leads to a second and deeper understanding of the stability of the CAP.

The distribution of the costs and benefits of the CAP at a national aggregate level have been relatively stable over the history of the CAP. Changes in world markets, the structure of agriculture and changes in CAP regimes have altered the distribution of costs and benefits between different types and sizes of farms, and between consumers and taxpayers, yet each member state's net payoff from the CAP has remained relatively stable (Ackrill, *et al.*, 1995). The CoAM has consistently supported a fixed political bargain between the member states. Chapter 7 on the effects of the MacSharry reforms surveys the evidence in this regard.

In this context, CAP reforms can be stated as turbulence against a long run trend of stability. Turbulence refers to the political battles associated with reforms of the CAP. The system of distributing CAP benefits is changed, the incentive structure of farmers is reformed but the underlying pattern of national member states' net payoffs from the CAP remains stable. A CAP reform which upset this balance of national member states' net payoff from the CAP would be something more than turbulence. Such a reform could be termed *radical.*

A consideration of feasible policy options is useful in elucidating the distinction between turbulence and stability. There have been a number of different systems in the history of the CAP for distributing the benefits of agricultural intervention. The CAP has been most notably reformed in 1984, 1988 and 1992. Each of these reformed systems of the CAP was a feasible policy option, in the sense that they supported the second level of stability outlined above. Each system of the CAP has been stable at the first two levels, but not unique. The movement within the set of feasible policy options is associated with turbulence. Turbulence is the adjective chosen to describe the reform process; it is intended to capture the observation of political battles, machinations, and the 'blood and sweat' associated with moving the CAP from one non-unique feasible policy option to another.

The demand to provide an answer to the three questions at the beginning of this section raises issues about the order of explanation. The standard way is to start with an explanation of the stability of the CAP. From this starting point, an account of CAP reform and turbulence can be developed. However, this thesis holds that the order of explanation should start with the reform process. The CAP reforms of 1984, 1988 and 1992 are the salient features of the history of the CAP since 1980. By explaining the nature of turbulence and why it does not affect the underlying stability of the CAP, the characteristic of stability is explained. It is easier to explain stability through an account of turbulence than turbulence through an account of stability.

The order of explanation in this piece of work starts from an account of the MacSharry reforms. From this particular episode, a more general understanding of the CAP reform process can be developed using the frameworks outlined in chapter 5. This aids a richer understanding of the CAP decision-making system and the history of the CAP.

1.6 Layout of the thesis

The thesis consists of two parts. Part one consists of chapters 2, 3, and 4. Chapters 5,6, 7 and 8 form part two of the thesis, with chapter 9 as the conclusion. Part one sets up a framework for analysing the MacSharry reforms of May 1992. Chapter 2 considers the neo-classical agricultural economics critique of the CAP. That is, the standard welfare analysis of the CAP as a means of transferring income to farmers plus a consideration of the consequences for the EU budget of the trends in EU production under the CAP. Chapter 3 describes the history of the reform of the CAP and demonstrates the limited influence of the CAP reform prescriptions of neo-classical agricultural economics on actual, observed CAP reforms. Chapter 4 describes the possible causes of the reform process by outlining the emerging pressures, external and internal, on the CAP in the early 1990s.

Part two is the case study of the MacSharry reforms. Chapter 5 introduces the public choice paradigm as an alternative to neo-classical agricultural economics as a means of understanding CAP reforms. It develops, within the public choice paradigm, three rival frameworks for understanding CAP reforms; the interest groups, the prominent players and the institutions frameworks. Each of these focuses on different elements in the CAP decision-making system as influential in the outcome of a CAP reform process. Section 5.5 selects the institutions framework to employ in the construction of the MacSharry case study. The policy process which links the cause and effect of the MacSharry reforms is the subject of chapter 6. This is the key chapter of part two. It is an examination of the causal links in the chain between the pressures for reform (chapter 4) and the effect of the reforms (chapter 7). It is here where the account of how the black box operated in the MacSharry reform process is given. Chapter 8 considers whether the evidence of the MacSharry reform process might be better interpreted using one of the rival analytical frameworks of CAP reforms rejected in chapter 5. Chapter 9, the conclusion, draws together the two main strands of the thesis, an understanding of the MacSharry reform process and how that understanding contributes to analyses of how the CAP decision-making system operates.

CHAPTER 2: AN ECONOMIC ANALYSIS OF THE COMMON AGRICULTURAL POLICY

This chapter has three aims. The first is to provide a description of the workings of the CAP and the different instruments employed to achieve the objectives for a common agricultural policy laid down in the Treaty of Rome. This will introduce the terminology which will be used through the rest of the thesis.

The second aim of this chapter is to provide a basic economic critique of the CAP. The costs and benefits of the CAP will be described from the perspective of standard, neo-classical welfare economics. The benefits will be judged against the objectives for the CAP stated in Article 39 of the Treaty of Rome. The costs comprise the direct financial consequences of the CAP as well as the indirect economic costs. Taken together, the first two aims of this chapter will provide an agricultural economics' interpretation of the CAP and its evolution. This neo-classical agricultural economics analysis of the CAP is based on standard welfare economics. It is concerned with demonstrating the inefficiency of the policy in terms of achieving its declared aims. The third aim is to outline the academic response to the diagnosis of the CAP. The main CAP reform proposals made by agricultural economists during the history of the CAP will be outlined.

This chapter is organised into three separate sections, corresponding to the aims set out above. Section 2.1 looks at the general economic rationale for government intervention in agriculture. Section 2.2 sets out the basic economics of the development of the CAP and the emergence of pressures for its reform. Sections 2.3.1 and 2.3.2 present the standard partial equilibrium (PE) welfare analysis of a tariff and an export subsidy. This informs the diagnosis of the CAP as an inefficient means of redistributing income to farmers. Section 2.3.3 surveys the prescriptions offered by agricultural economists to this diagnosis of the CAP.

2.1 Economic Justification for an Agriculture Policy

A strict agricultural economics approach to the analysis of the CAP starts with a justification of government intervention in agriculture. The rationale for intervention centres on the special economic characteristics of agriculture, specifically, the existence of a chronic farm income problem. The factors which contribute to the farm income problem can be categorised according to whether they affect the demand side or the supply side of agricultural markets.

The demand side of an agricultural market is characterised by Engel's Law which states that the income elasticity of the demand for food decreases as income increases. As European households' incomes are relatively high, their income elasticities of demand for food is low. It should be noted, however, that the income elasticities for certain foods have risen with incomes because of the quality, luxury or convenience aspects of the demand for food. The marketing margin in the food processing and retail industries has increased in certain areas of the food industry. Engel's Law can be restated in terms of farm output. The demand for farm output has remained relatively stable as household incomes have risen in developed countries. However stated, low income elasticities of demand for agricultural products are a key part of the agricultural industry's relative decline as the western European economy has developed. The other important aspect which has constrained the rate of growth of demand for agricultural products in Europe has been the low population growth which has characterised most of the European economies since the 1960s.

The limited growth in demand for agricultural products only poses problems for the profitability and economic viability of the sector when considered with the issue of supply in agricultural markets. It is here where agricultural economists' analysis of the farm income problem has been concentrated.

Supply in agricultural markets is subject to the problem of long lead times from production decisions to actual output. Price signals influence production decisions. An increase in price, signalling strong demand relative to supply, only finds an output response some period later when the original market conditions may have changed (in that commodity market or its close substitutes). This leads to a tendency for commodity markets to be over- or under-supplied at any time; price adjustments tend to be exaggerated. Cohen (1959) provides an analysis of these cycles in agricultural markets. This is one element of what farmers call the 'farm income problem', that is, instability or variability in farmers' incomes due to exaggerated volatility in market prices.

Tweeten (1971), examining the supply of agricultural products, defines the farm income problem in terms of low rates of return on resources employed in the farm sector. In other words, farm resources earning less than their opportunity costs. This implies a disequilibrium in the resources employed by a farm, the mix of inputs is not optimal and this inefficiency implies low rates of return in the agricultural sector. Economic growth and inflation force constant adjustments in the efficient mix of farm resources just as they do in the non-farm sector. A characteristic of agriculture since the Second World War has been the widespread and consistent application of technological advancements. For a given level of inputs in the agricultural sectors of the industrialised world, there has been constantly expanding output. Demand for agricultural products, as described above, has neither rapidly increased or exhibited a high price elasticity. The combination of output increasing quicker than demand has led to depressed prices and incomes for farmers.

The reasons why the agricultural sector has not seen an adjustment at the required rate in the resources employed (in order to avoid the situation described above) are the reasons why there is a farm income problem. The fixed asset theory is the main explanation of this phenomenon used by agricultural economists (Martin, 1958; Hathaway, 1963; Johnson, 1960; McCrone, 1962; Tweeten, 1971). The theory holds that farm resources, especially labour, tend to be relatively fixed in agriculture. They are not easily transferable to the non-farm sector. Johnson (1960) notes that a consequence of this resource immobility is that there typically exists a substantial divergence between the acquisition costs and the salvage value of farm assets.

Martin (1958) attributes the poor intersectoral labour mobility from agriculture, to the age structure of farmers, their poor education (which has become less of an issue since the 1950s) and lack of transferable skills. Martin (1958) broadens the debate about the limited intersectoral mobility of farm labour by introducing the concept of negative economic rent. A farming life brings a number of intangible benefits. These benefits led to the acceptance of pecuniary incomes less than elsewhere in the economy, farmers accept *negative economic rent*. Tweeten (1971) points out that also the opportunity cost of being in agriculture for a farmer or farm labourer is often zero or the level of unemployment benefit.

Howarth (1985), at the time of mounting EU surpluses, noted that, 'It is farmers, not milk and wheat, which are in oversupply' (Howarth 1985:51). The fact that farmers cannot or will not leave agriculture depresses agricultural incomes relative to other sectors in the economy. Low incomes have been used as a rationale for government intervention in the agricultural sector. Some kind of state support is almost universal in advanced, industrialised economies.

2.2 The Evolution of the CAP

This section makes the step from a general economic rationale of government intervention in agriculture to the specifics of the history of the CAP. The first important point to appreciate is that each of the original member states prior to the creation of the EEC had long-standing national agricultural support policies, as did the UK, Denmark and Ireland when they joined in 1973. Greece, Spain and Portugal had more limited state intervention schemes in place when they joined the Community[1].

To understand how and why the CAP came into existence and was the first common policy of the then EU requires a section of diplomatic history.

2.2.1 The Establishment of the Common Agricultural Policy

The Spaak Committee Report commissioned by the 1955 Messina conference of the European Coal and Steel Community (ECSC), the forerunner to the EEC, laid a plan for a common market in the ECSC area and explicitly included agriculture. France, Italy and the Netherlands insisted that agriculture must be included in any common market that was envisaged in the drafting stage of the Treaty of Rome. Indeed many have understood the EEC as an alliance between German industry and French agriculture. In addition, the importance of the German position in CAP reform negotiations will be shown in chapters 3 and 6.

Article 39 of the Treaty of Rome (1957) sets out vague objectives for a common agricultural policy. These were put into more concrete form by the first Mansholt Plan, begun after the Stresa conference of 1958. The guiding principles of the CAP

[1] Tracy (1989) provides the most complete histories of these pre-CAP national support regimes for agriculture.

gradually became market unity, Community preference and financial solidarity. In 1962 the CoAM passed a timetable for common intervention prices for the domestic market, as well as threshold prices for the operation of variable import levies. Agriculture had little or nothing to do with the common market in industrial goods, because it was heavily supported by the Six prior to the CAP. The very fact that the acronym was CAP and not CAM (Common Agricultural Market) suggests that the debate was centred on a common intervention policy. Tracy (1994) provides a comprehensive account of the Stresa conference and the various interests and demands that were being negotiated there.

The CAP was the first European policy and remains the most extensive. Agriculture was probably the easiest area to start because there existed six national policies already; the abnegation of national responsibility for a difficult and expensive problem held some political attractions. This is known as the *restaurant bill* phenomenon in welfare economics. When the bill is being paid for collectively there exists an individual incentive to spend more money than they would have done if it was the individual alone who was paying for the bill. As the rest of this chapter will show, the financing of this restaurant bill has been one of the most controversial aspects of the CAP.

Agricultural economists have analysed the history of the CAP in terms of the objectives stated for a common agricultural policy in Article 39 of the Treaty of Rome;

(a) to increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilisation of the factors of production, in particular labour;

(b) thus ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture;

(c) to stabilise markets;

(d) to assure the availability of supplies;

(e) to ensure that supplies reach consumers at reasonable prices.

Article 39 is a statement of objectives which began to be interpreted and implemented at the Stresa conference of 1958. The three *pillars* of the CAP emerged in the following five years.

(a) a single market, allowing the free movement of agricultural commodities;

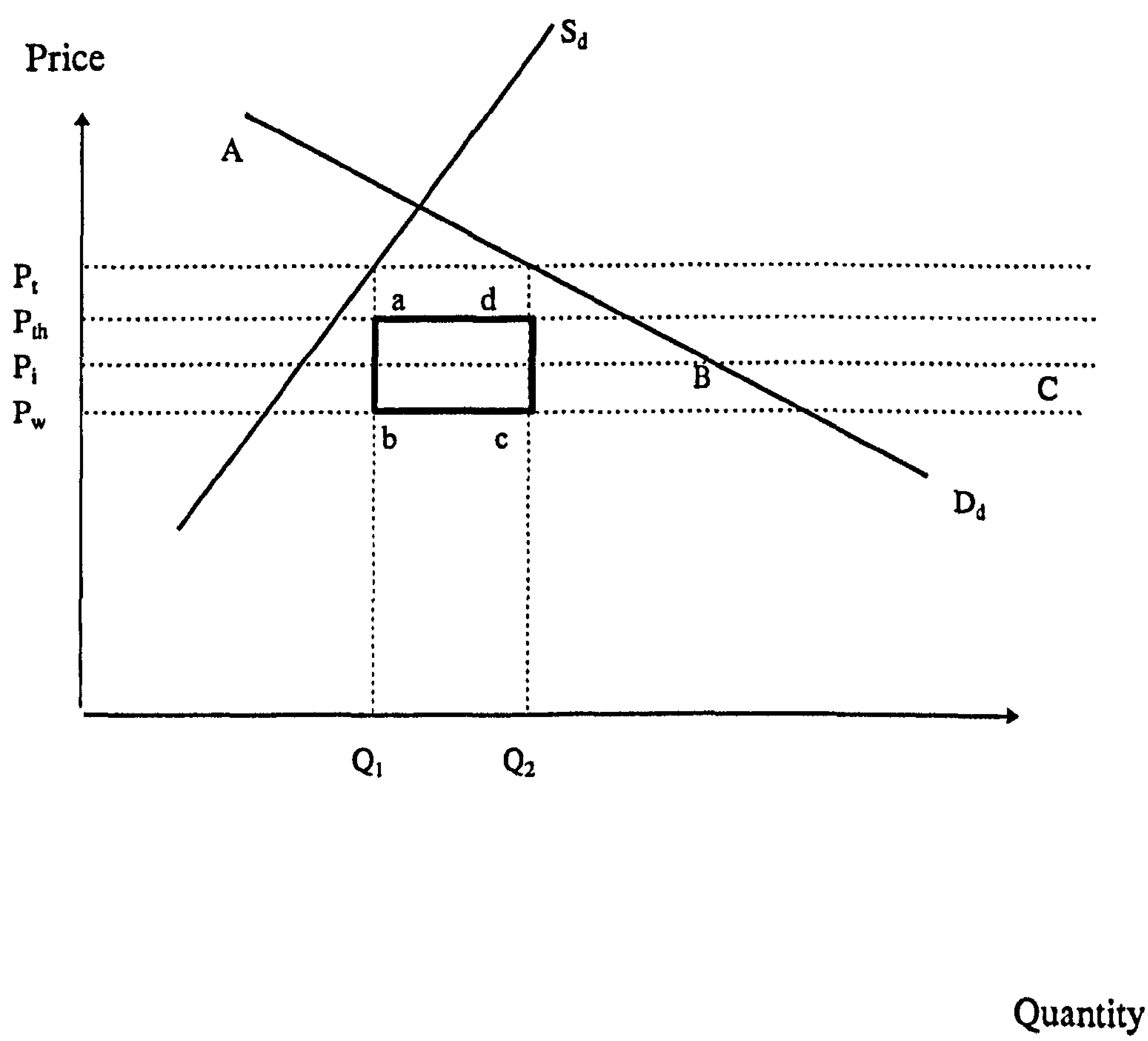
(b) community preference, protecting EEC farmers from cheaper imports;

(c) financial cohesion, reinforcing the *common* nature of both the policy and its shared funding through the EEC budget.

2.2.2 The CAP in Practice.

The CAP as it evolved from Article 39 was a price support system; in practice this has meant direct intervention, or the threat of direct intervention, in EU agricultural markets to support producer prices. The central feature of this kind of price support system is that the burden of support falls on consumers rather than taxpayers (the MacSharry reforms have shifted the burden of the support of European agriculture from consumers towards taxpayers). The market price of the EU was generally set at a level above world prices. The validation and support of this market price required the EU to administer three prices. These are represented in Figure 1.

Figure 1: The EU as net importer of agricultural commodities



In figure 1, domestic demand for an agricultural commodity is D_d and its domestic supply is S_d. The target price (P_t) represents the desired price in the EU agreed by the CoAM each year. To ensure that the market price exists within some range of the target price two further prices are administered. The threshold price (P_{th}) is the minimum price for imports entering the EU. It is below the target price in order to reflect some notional cost of transport from this port of entry to final market. A variable import levy (VIL) was set as the difference between the threshold price and the lowest offer price from exporters looking to sell their cereals in the EU (this price is a proxy for the world price, marked P_w on the diagram). The VIL is variable because although the threshold price is fixed, the world price moves with changes in world supply and demand.

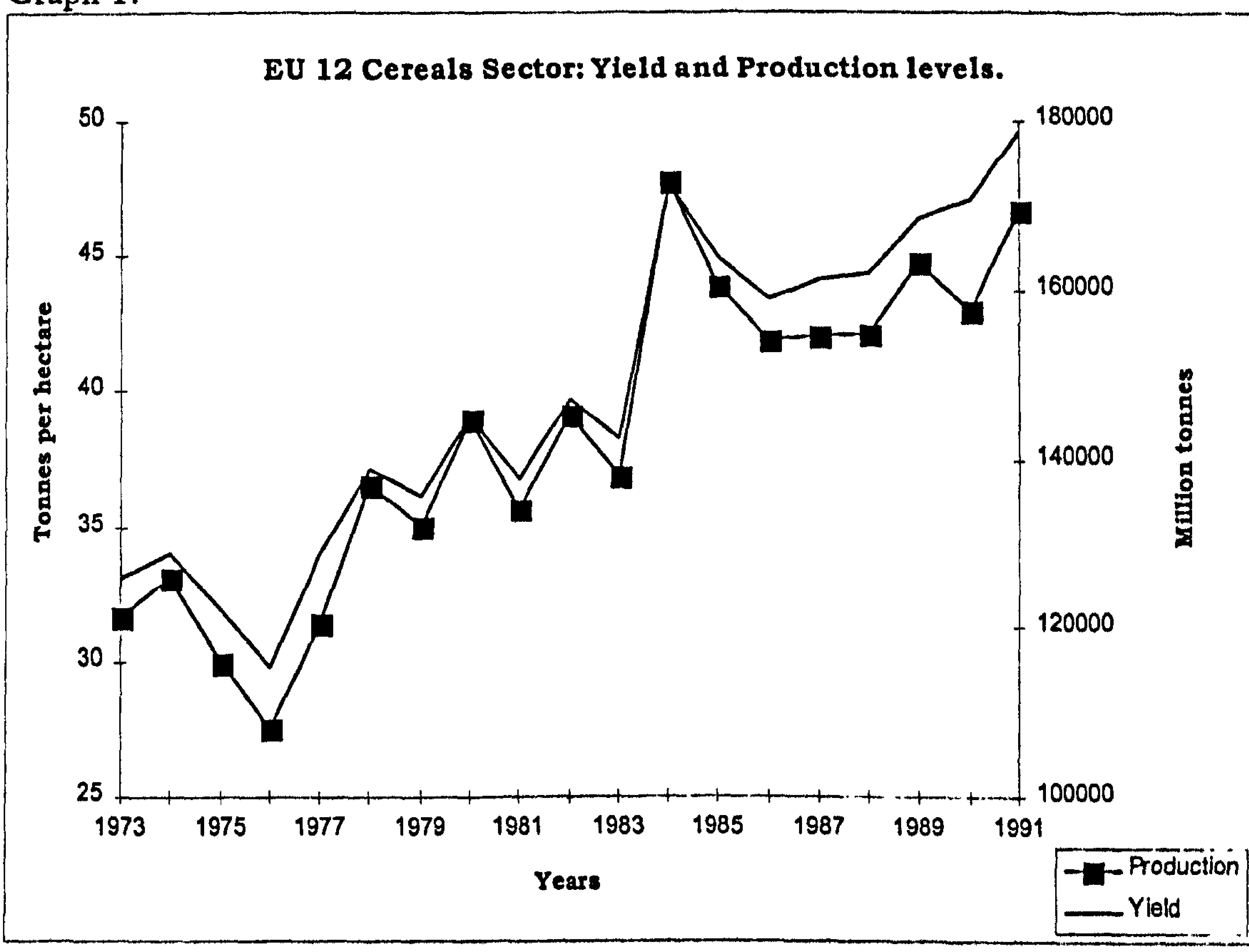
The third administered price is the intervention price (P_i). This is the floor to the market, the price at which the EU through a system of intervention buying using national governments, agrees to buy everything that farmers can supply at P_i. The effective demand curve for agricultural products is ABC.

Exports of CAP products from the Community receive a subsidy or refund. This means that the sale price received is the high internal EU price and not the lower world price. The variable export subsidy (VES) is equal to the difference between the market price in the EU and the price at which exporters sell in third country markets.

A strict agricultural economics account of the development of the CAP is a history of how this system has increasingly been strained by a series of different pressures. It is these strains which have led to CAP reforms. This support system was designed for the agricultural situation in the EEC6 in the 1960s. A common market with a common price in the EEC was effectively completed in 1969. A system of price support was seen as vital to the prosperity and continued development of European agriculture. It is generally considered that agreeing a common price increased average EU prices. The burden of price support could be placed on consumers; high prices were a feature of the national agricultural support systems of the EEC6 which relied on a continued wartime sentiment that agriculture was a necessary industry. Most pertinent for the subsequent development of the CAP was that the budget implications at the time were favourable (indeed the CAP was originally intended to be self-financing). As a net importer of agricultural commodities, the EEC budget gained more in VILs than it paid out in VESs. This is represented in figure 1 by the box *abcd*.

The link between the budget cost of the CAP and the excess of production over consumption came to dominate agricultural economists' thinking about the problems of the CAP in the 1980s. This complemented an existing critique of the CAP in terms of its ineffectiveness at supporting low income farmers - see section 2.3. The growth in EU productivity and output is well documented. Productivity gains have been achieved in all agricultural sectors; these have fed through to an increase in total production. All agricultural economics models involve some guess of this trend of rising productivity. This productivity growth did not solve the farm income problem. Cochrane (1958) posited the theory of an agricultural treadmill. The theory starts from the point that innovations which increase supply will tend to depress prices as there is a low price elasticity of demand in advanced countries. Supply boosting innovations are generally introduced by a small number of pioneers who take the risk with new techniques, processes and machinery. As the innovations increase aggregate supply, the market price falls, and producers using the old technique (and therefore producing at a higher cost) begin to incur a loss. The rate of adoption increases, aggregate supply increases further and the market price falls further. All farmers are eventually forced to adopt the new technique to minimise their loss of income, given a falling market price.

Graph 1:



Source: Agricultural Situation in the Community; FAO Production Yearbook

Graph 1 shows that productivity levels and total production levels in European agriculture have trended upwards under the CAP. Since the 1960s the EU has gone from being a net importer of many temperate agricultural commodities to being the world's second largest exporter. This is a key economic fact in the history of the CAP. Table 1 and Graph 1 are both evidence of this economic trend.

Table 1: EU Self-Sufficiency Levels (Percentage of EU consumption covered by EU production)

		Cereals	Sugar	Butter	Total Meat	Beef
1973	EU9	91	91	104	93	99*
1991	EU12	120	128	121	102	107

*=1974
Source: Agricultural Situation in the Community

Before considering the effects of this on the operation and fiscal situation of the CAP, it is worth noting that the rapid rise in EU production did not happen independently of the support regime in place at the time. The CAP has been a major factor in the generation and adoption of productivity boosting innovations and this trend of continually increasing production. The high prices in the CAP have provided an incentive for research and development of these types of innovation. The CoAM could have responded this trend by cutting institutional support prices in real terms in order to maintain a balance in EU agricultural markets. Fearne (1991) presents the history of decisions by the CoAM to incrementally increase nominal institutional support prices at the annual price review. The relationship between the Commission and the CoAM in the agreement to ratchet support prices upwards will emerge as one of the main themes of this thesis.

Table 2: Commission price proposals relative to Council decisions (cereals sector)

	Council decision		Commission proposal	
Year	ECU	National Currency	ECU	National Currency
1968	0.0	0.0	0.0	0.0
1969	0.0	0.0	0.0	0.0
1970	0.0	1.5	0.0	1.5
1971	3.5	4.0	0.0	0.5
1972	8.0	9.8	6.5	8.3
1973	5.0	6.5	2.8	4.3
1974	13.5	19.9	11.2	17.6
1975	9.6	13.6	9.2	13.2
1976	7.5	11.4	7.5	11.4
1977	3.9	8.2	3.0	7.3
1978	2.1	8.5	2.0	8.4
1979	1.3	7.4	0.0	6.1
1980	4.8	10.5	2.5	8.2
1981	9.2	10.8	7.8	9.4
1982	10.4	12.1	8.4	10.1
1983	4.2	6.9	4.2	6.9
1984	-0.4	3.2	0.8	4.4
1985	0.0	1.3	-0.3	1.0

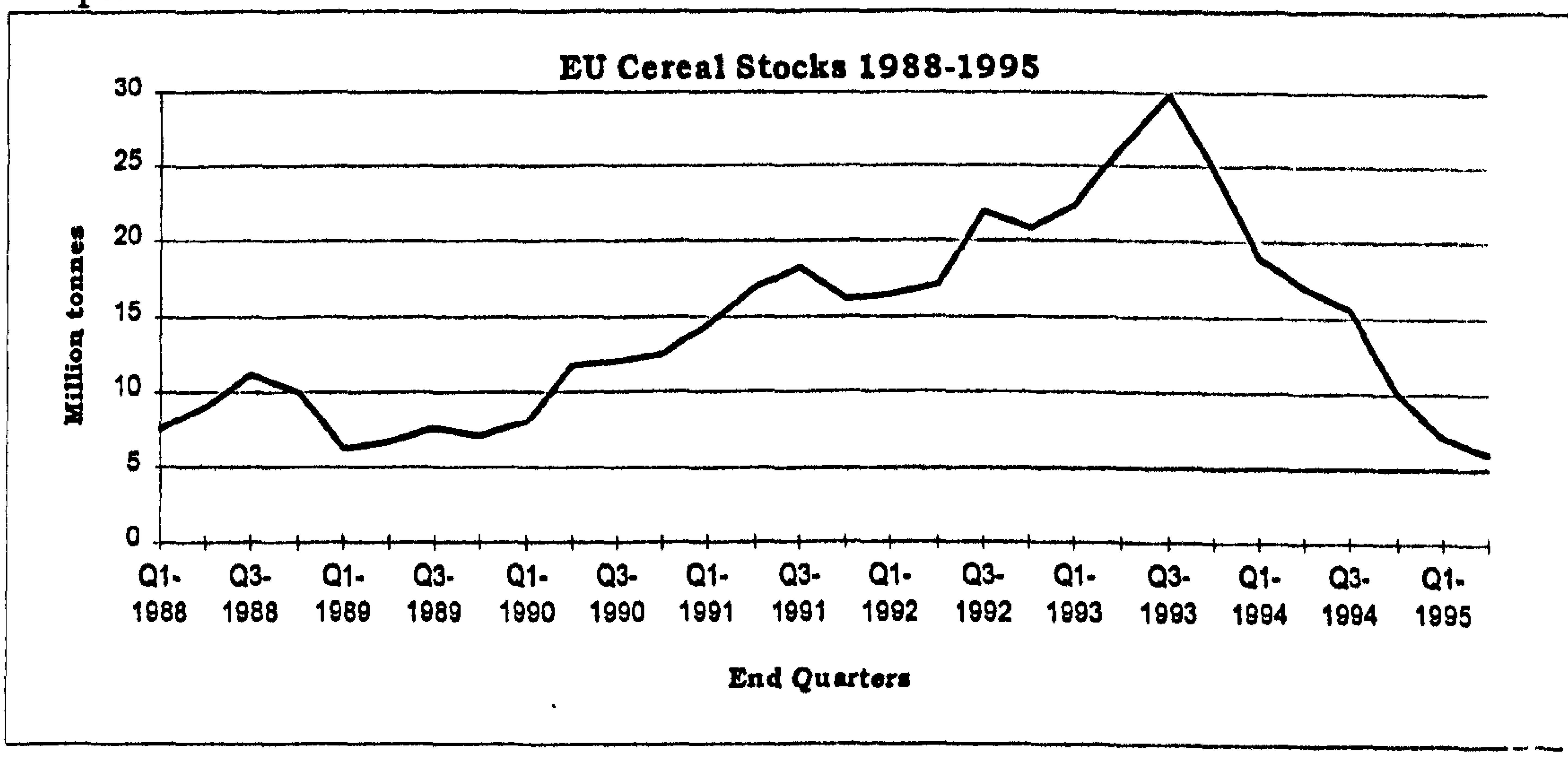
Source: Fearne (1988:108)

A generous price support system has two effects on the economics of investment in agricultural innovations. The first is a reduction in the uncertainty of future market conditions; the EU through the intervention price effectively guaranteed to purchase everything farmers could produce at P_i on figure 1.

Secondly, the structure of farming is atomistic. Each farmer is unaware of the relationship between his/her expansion and any downward pressure on price. The CAP, by maintaining a high institutional support price, has resisted this downward pressure on price. Therefore, the price mechanism no longer acts as a disincentive to increase output. Hence, production has been encouraged to expand under the CAP.

The economic conditions fostered by the CAP have resulted in a split in European agriculture between an efficient sector which would be able to compete internationally at world commodity price levels, and small-scale farming which would be bankrupted without EU support. CAP subsidies, however, are linked to production. The main beneficiaries of CAP spending have been the most efficient and productive farmers, those who *need* support least. The often-quoted statistic during the MacSharry reform process was that 80% of CAP spending goes to the most productive 20% of farmers. The views of agricultural economists on the effect of the CAP on the farm income problem is surveyed in sections 2.1 and 2.3. However, this is not the factor which has precipitated reform. The growth in EU agricultural production has been the key factor in this respect. The first effect on the operation and direction of the CAP has been persistent surpluses in EU production leading to the growth of publicly purchased and stored stocks. Graph 2 provides some evidence of this.

Graph 2:

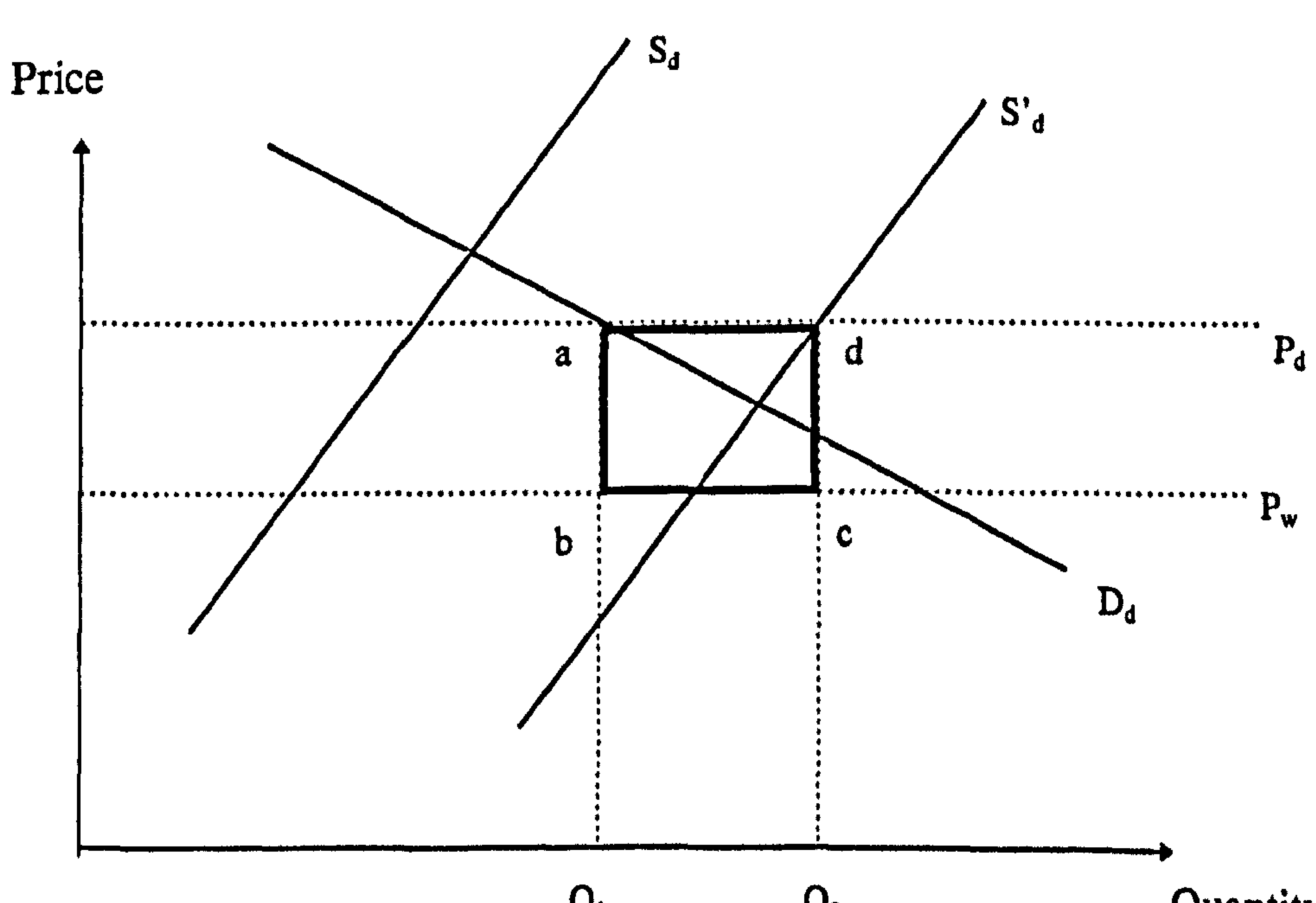


Source: Agricultural Situation in the Community; Ockenden and Franklin (1995)

These surpluses have been disposed of in two ways, both of which impose a financial burden on the EU budget. Method one was that the EU bought the surpluses. Oversupply forced the market price down to the intervention price level. The intervention part of the CAP support system was designed so that the EU could act as buyer of last resort in response to temporary surpluses in markets. However, the consistently increasing production levels in agriculture have often forced the EU to be buyer of first resort. Temporary surpluses could be purchased (through the EU budget) and released at some later point onto the internal market; hence the cost to the budget would be a storage cost. However, as surpluses became entrenched the main outlet for intervention stocks was the world market. These stocks were sold at tender at the world price, in budget terms this was the same as an export subsidy.

The second method of surplus disposal is through the use of an export subsidy. It has generally been the case that the EU market price has been higher than the world price. In order that farmers receive at least the EU market price, any exports at the world price are subsidised through VESs which are paid directly from the EU budget. Hence, surpluses disposed of either way impose financial burdens on the EU budget. The shift from net importer to net exporter which implies a reduction in VIL receipts, plus the cost of disposing of surpluses, had nearly bankrupted the EU by the mid-1980s. In 1984 and 1985, member states had to make an extra one-off payment to the EU budget.

Figure 2: Shift from Net Importer to Net Exporter of Agricultural Commodities.



Comparing Figure 1 and Figure 2, domestic supply has shifted from Sd to S'd as the EU has moved to being a net exporter of agricultural commodities. If it assumed that the domestic market price is at P_d, then surplus domestic production is $(Q_2\text{-}Q_1)$. Assuming this surplus is immediately exported then the cost to the EU budget can be represented by the box *abcd* (i.e. there are no storage costs).

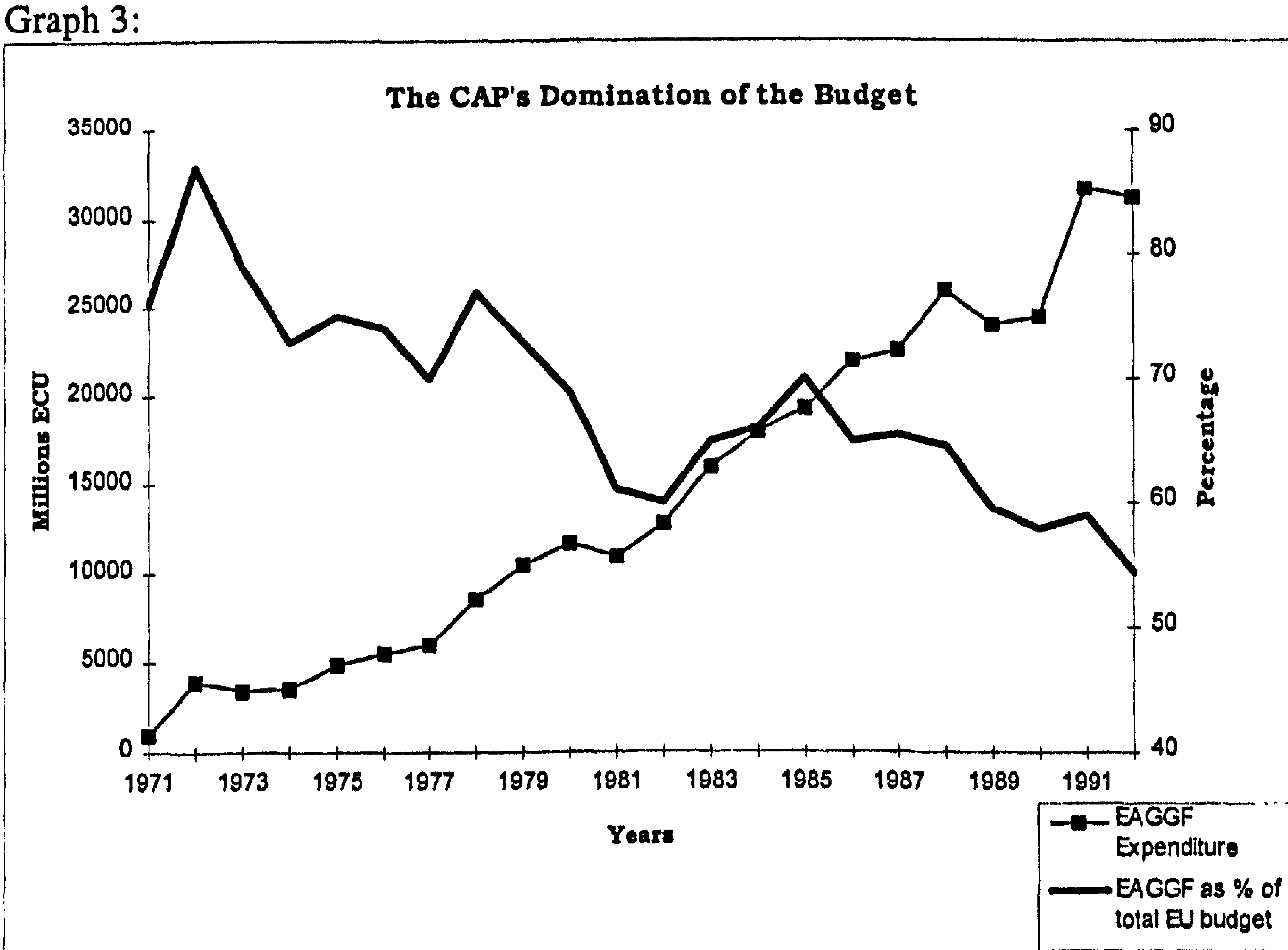
In practice, these budget costs have been exacerbated by exchange rate problems. The absence of a single currency meant that the operation of foreign exchange markets threatened the objective of a common price and a common market for commodities covered by the CAP (see earlier about the 'three pillars' of the CAP). Institutional farm support prices (e.g. intervention price) were defined in terms of a common unit, initially in Units of Accounts (UAs), which were linked to the US dollar, and subsequently the ECU, and later the *green* ECU. The problem with defining and setting prices in terms of a common unit is that agricultural markets actually trade using national currencies. As these national currencies change relative to the common unit, so the price of an agricultural commodity in each national currency changes in absolute and relative terms; farmers face unstable prices which rather defeats the purpose of a price support system.

To counteract instability, this the exchange rates between the common unit of agricultural support prices and national currencies, the green rates, were fixed for some period of time. However, the actual exchange rate in the financial markets continued to vary. The combination of fixed exchange rates for agricultural commodity support prices and floating market exchange rates created arbitrage opportunities and artificially induced trade. Traders could buy agricultural products at a low price (in the weak currency country) and sell at a high price (in the strong currency country). To avoid this situation the EU introduced monetary compensatory amounts (MCAs). These were taxes and subsidies applied at the borders to intra-EU agricultural trade. Imports of agricultural commodities to weak currency countries were subsidised and imports to strong currency countries were taxed. Periods of exchange rate volatility in the 1970s and 1980s and a reluctance to alter green rates, meant that the system of MCAs became extremely complicated and almost destroyed the ambition of creating a common institutional support price in the EU.

The exchange rate mechanism (ERM) of the european monetary system (EMS), established in 1979, eased the tensions on the system of MCAs by reducing exchange rate volatility and the need to change green rates. However, by 1984 the continued strength of the Deutschemark (DM) led to the introduction of the *switchover* mechanism. The adjustment of green rates to take account of a strong DM had led to a reduction in support prices for German farmers and a rise in support prices in weak currency countries. The switchover mechanism was designed to counterbalance this effect.

The switchover mechanism set the common unit of agricultural support prices, the green ECU, effectively as a proxy for the DM. Realignments in the green rates were made against the DM, and the DM was never significantly revalued against the green ECU (with the associated cut in nominal DM support prices). Instead all other currencies were devalued (their nominal support prices increased) against the green ECU. This had the same effect as the CoAM agreeing higher support prices, with all the attendant budget problems noted above.

Graph 3:



Source: Agricultural Situation in the Community.

2.3 Welfare Economics Approach to the CAP

2.3.1 The Welfare Effects of a Tariff

Figure 3 sets out a standard PE analysis of the welfare effects of the imposition of a tariff on a product in a country which imports that product. An ad valorem tariff, at rate t, would raise the domestic price from P_w to P_t, but lower the export price from

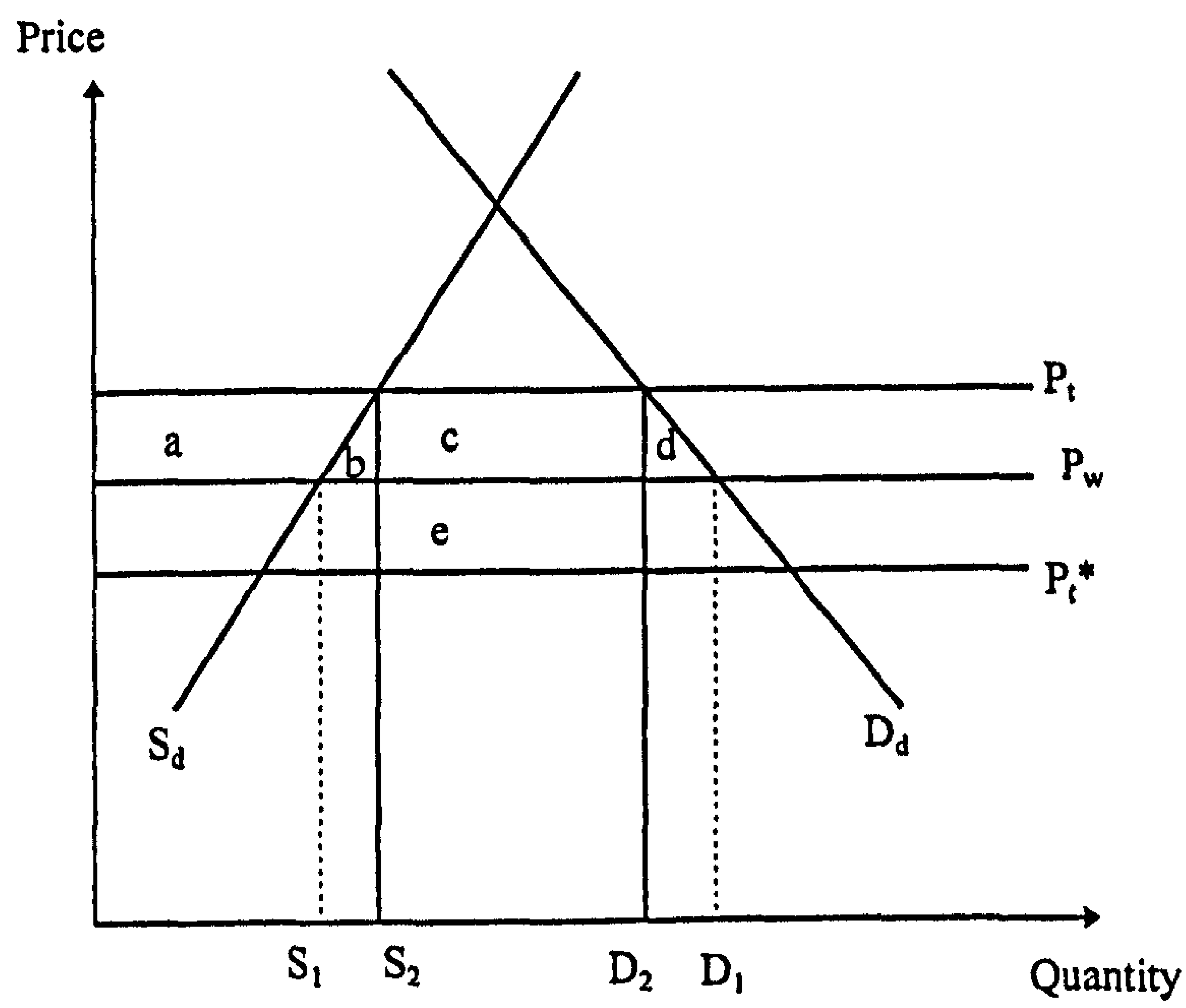
P_w to P_t^* (it is assumed that the country imports enough of the product to affect the world price). Domestic production increases from S_1 to S_2 in response to the higher domestic price, but domestic consumption falls to D_2. The costs and benefits of the tariff can be expressed in terms of the areas; *a,b,c,d* and *e*.

Domestic producers gain area *a*, due to the higher domestic price, P_t, increasing producer surplus. The higher domestic price makes domestic consumers worse off by area, $a+b+c+d$, this is a loss of consumer surplus. The government receives tariff revenue represented by the area $c+e$. This is the tariff rate, t, multiplied by the volume of imports, where, (i) $t=P_t-P_t^*$, and (ii) volume of imports$=D_2-S_2$. The net welfare effect of the imposition of the tariff has three elements;

$$\text{Consumer Loss} + \text{Producers Gain} + \text{Government Gain}$$
$$-(a+b+c+d) + a + (c+e)$$
$$=-b - d + e$$

On the standard assumption (discussed below) that a costless system of compensation is possible, the net welfare effect outcome depends on the balance between the deadweight loss of a tariff ($-b - d$) and the terms of trade gain ($+e$). For a small country there would be no terms of trade gain and hence the net welfare effect of the tariff is negative.

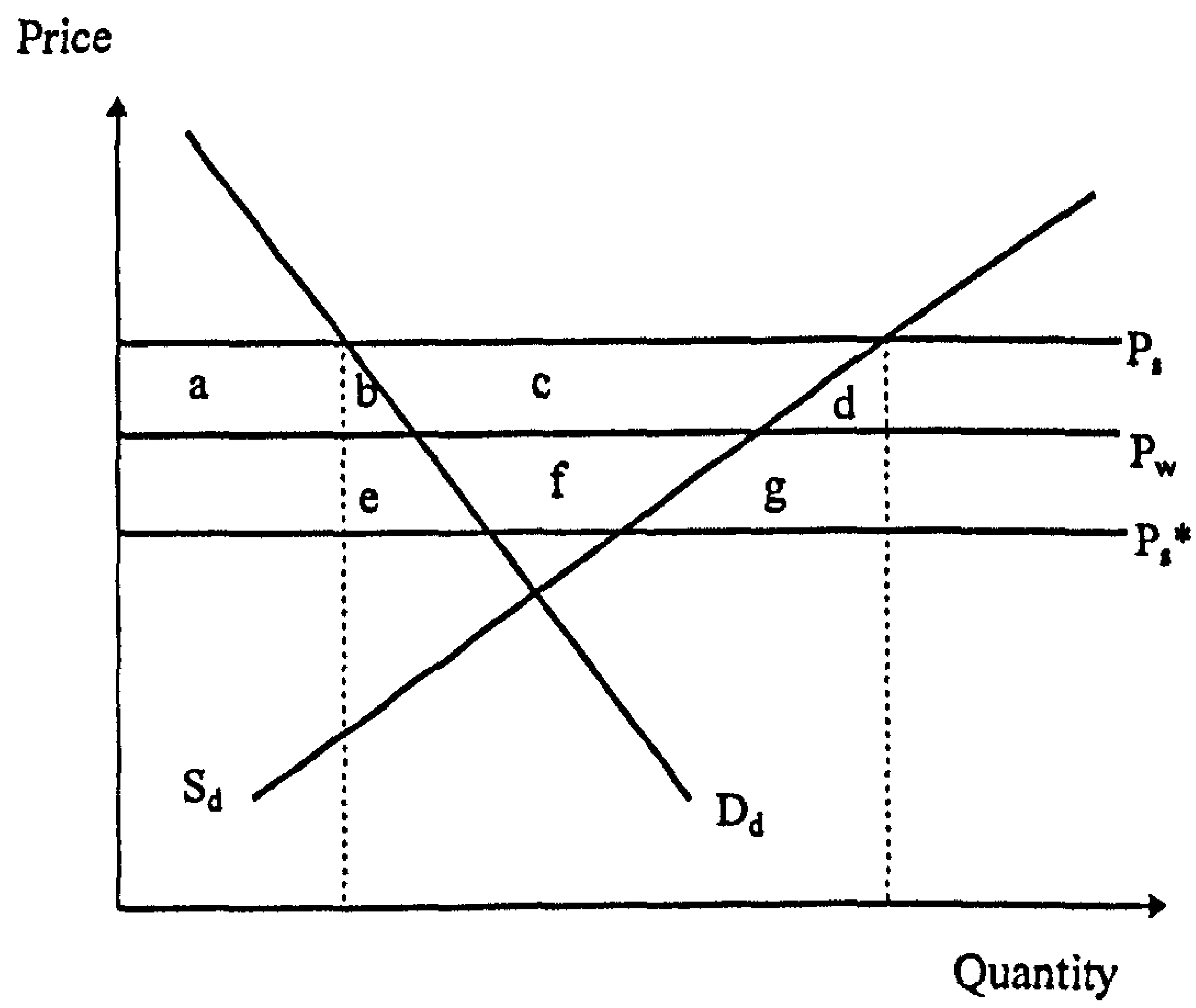
Figure 3: The Welfare Effects of a Tariff



2.3.2 Welfare Effects of an Export Subsidy

Figure 4 shows the welfare effects of the subsidisation of the export of a product. The movement in prices as a result of an export subsidy is exactly the opposite of that for the imposition of a tariff (Figure 3). The price in the exporting country rises from P_w to P_s. This is less than the value of the subsidy because it is assumed that the country exports enough of the product to affect the world price, which falls from P_w to P_s*. The welfare effects are as follows; consumers lose, producers gain and the government loses because it has to spend on the subsidy. The consumer loss is area $a+b$; the producer gain is the area $a+b+c$; the government subsidy is area $b+c+d+e+f+g$. The net welfare loss is, again assuming that a costless system of compensation is possible, the sum of the areas $b+d+e+f+g$.

Figure 4: The Effects of an Export Subsidy



Two points emerge from the calculation of a net welfare effect in the case of a tariff and export subsidy. The first is that in both cases there is an associated deadweight loss of welfare. These deadweight losses are the basis of the criticism that domestic price support and export subsidies (the two main instruments of the CAP before the MacSharry reforms) are inefficient devices for transferring income to farmers. Production and consumption are distorted resulting in a net loss of welfare. In the case of the tariff this deadweight loss is equivalent to the sum of area *b* and area *d*. The export subsidy produces a deadweight loss equivalent to areas *b* and *d* on figure 4. This results from a similar distortion of production and consumption. The analysis in figures 3 and 4 has provided the base for the prescriptions for CAP reform given by agricultural economists. These prescriptions are outlined in section 2.3.3.

The second point is more general and concerns the assumption that a net effect is able to be calculated for economic policies which transfer welfare. In the calculations above, it is assumed that the changes in welfare of consumers, producers and the government can be traded off against each other to reach an overall net change in welfare figure. Bonner (1986) imagines a policy which restricts the import of wine and encourages domestic cheese production. There would be more cheese and less wine available for domestic trade and consumption; cheese consumers and producers are likely to be better off, while wine importers and wine consumers are likely to be worse off.

There are two tests which must be simultaneously satisfied in order to claim that the policy has improved social welfare i.e. there is a positive net welfare effect. The first is the *compensation test*. There are two results for the test, compensation possible and compensation impossible. Compensation is possible if the gainers could compensate the losers (i.e. make them as well off as they were before the change) and still be better off themselves. Secondly, there is the *bribery test* which again has two results, bribery possible and bribery impossible. Bribery is possible if before the implementation of the policy, the potential losers can make the potential gainers as well off as they would have been with the introduction of the policy and still be better off themselves in the *status quo* position.

There are four combinations for the two test results. These are set out below.

		COMPENSATION	
		Possible	Impossible
BRIBERY	Possible	1	2
	Impossible	3	4

Only in situations 2 and 3 is there an unambiguous net welfare result for a policy. The two tests fail to provide unambiguous results in circumstances 1 and 4[2]. This is an important point. It highlights the assumption behind the standard welfare economics analysis of government policies. It is not always possible to arrive at a figure for the net welfare effect of a policy. Therefore there is a gap in the analytics of standard welfare economics. Any normative judgement between two economic policies depends on the assumption that the transfer of welfare takes place according to situations 2 or 3. The reliance on this assumption highlights the lack of an account of the government decision-making system, and the role of interests in society in affecting that system, in the standard economic welfare analysis. This provides a rationale for the discussion in the subsequent two chapters of alternative approaches to CAP reforms.

2.3.3. Prescriptions for CAP Reform

Hubbard and Ritson (1991) describe an academic consensus which emerged in agricultural economics' neo-classical, normative approach to the CAP. The

[2] Circumstances 1. and 4. arise because utility possibility curves can intersect. See Bonner (1986) for a full explanation.

following critique is at least as old as the CAP itself. Josling (1973) notes that a similar kind of analysis of US agricultural support regimes was made in the 1950s and 1960s. The CAP as a price support system is a highly inefficient way of redistributing income to small-scale, low-income farmers. The high support prices benefit larger farms (because as described the CAP spending is distributed pro rata to the amount produced). The scheme encourages high cost, inefficient production. The disposal of the surpluses resulting from increasing EU production has burdened the EU budget and fuelled tension with international trading partners.

Josling (1993) provides empirical estimates of the extent of the deadweight losses associated with different commodity regimes of the CAP during the 1980s. These estimates are expressed as a percentage of the 'pure' welfare transferred (i.e. the welfare transfer that would have been effected without any deadweight losses). Between 1985 and 1990, deadweight losses ranged from 7.5% to 18% of the 'pure' welfare transfer in the wheat regime, from 20% to 30% in the beef regime and consistently over 30% in the sugar regime.

The reform plans which have been proposed by academics throughout the history of the CAP in order to solve the problems identified in this chapter have concentrated on reducing the level of support prices and/or the introduction of some kind of direct income payments scheme. The Wageningen Memorandum of 1973, produced by a group of agricultural economists at a conference at Wageningen University, proposed the shifting of relative prices so that products in short supply should have their prices increased and those in surpluses should have their prices reduced. As most agricultural sectors covered by the CAP had moved into surplus by the mid-1970s, thinking moved on. Josling (1973) proposed a scheme of reducing intervention prices, combined with direct income payments linked to output. The level of the direct income payments would be insufficient to provide inefficient farmers with a reasonable standard of living. These inefficient farmers would get discretionary income supplements limited either in duration or to the incumbent generation of farmers. Thus, the inefficient producers would not be penalised but their replacement by future generations would be discouraged. Koester and Tangermann (1977) propose a direct income payments system which would be *decoupled* from production. They argued that this would be a more efficient way of redistributing CAP support spending in favour of small-scale, low-income, marginal farmers.

Marsh (1977) proposed a system of common trading prices set near to the world price. Member states would be able to offer their national farmers whatever price they wished, but when CAP commodities were traded between member states the price charged would be the common trading price. If one member state wished to maintain an internal price above the common trading price then any exports from that member state would have to be subsidised (to the difference between the internal price and the common trading price) by that member state. This proposal took more account of member states' desire to support national agricultural support prices than the reform proposals noted above. The proposal informed much of the later debate on the renationalisation of the CAP (Wilkinson, 1994). Further, it was different from the Josling (1973) proposal, in that it anticipated that it would be the budget issue rather than the inefficiency of the high price supports as a solution to the farm income problem which would force the reform of the CAP.

2.4 Conclusion

The farm income problem stems from the fixity of resources in the agricultural sector. There is an oversupply of resources in farming, especially labour, and this keeps returns on resources employed there chronically low. The CAP is an inefficient and expensive way of trying to rectify the farm income problem because it is a price support system. Inefficient because there is a deadweight loss in economic welfare due to the distortion of consumption and production. Expensive because as section 2.2 shows that CAP spending is linked on a *pro rata* basis to production. Under the CAP, the EU has gone from being a net importer to a net exporter of most agricultural commodities. This trend has contributed to the CAP's domination of the EU budget. The prescriptions of agricultural economists for CAP reform have generally been aimed at correcting the inefficiency of the policy, although some have recognised that the budget expense of the CAP may be a stronger motivating factor for policy-makers seeking reform.

CHAPTER 3: THE HISTORY OF CAP REFORM

The following steps are made in this chapter. Section 3.1 argues that the neo-classical, normative welfare economics approach to the CAP, outlined in chapter two, ignores the policy process as a factor in the reform of the CAP. This thesis holds that an understanding of CAP reforms must be based on an explicit account of the policy process which leads to the enactment of a particular reform. The argument is made that there exists a requirement for a positive theory of why the CAP gets reformed, when it does, and in the way that it does.

The histories of the following reforms of the CAP are described in sections 3.2 to 3.4; the Mansholt Plan, the milk quota reforms and the introduction of the stabiliser regime. The descriptions include the policy processes involved as well as an economic analysis of the reforms. These histories show that with one exception, the input of agricultural economists has had a negligible effect on the reform of the CAP.

Section 3.5 draws parallels in the episodes of CAP reform before the MacSharry reforms of 1992. These parallels between the three reforms described in this chapter are used in chapter 5 to support a common analytical framework for CAP reforms. This framework is applied to the MacSharry reforms in chapters 6 and 8.

3.1 Positive Versus Normative Approaches to the Analysis of CAP Reform[1]

The Mansholt Plan of 1968 seems to have been informed to an extent by the analysis of factor immobility provided by agricultural economists (see chapter 2). The proposals for structural adjustment were a response to the conclusion that the lack of labour mobility (out of agriculture) was a central factor in the farm income problem. Further, the farm income problem was accepted as the main rationale for government intervention in agriculture. However, the description of the history of CAP reforms provided in sections 3.2 to 3.4 points to a limited influence for the analysis of agricultural economics in the reform process. The prescriptions of agricultural economics (described in section 2.3) seemed to have had little influence on, or even relevance to, the agenda of CAP policy-makers in the 1980s. As Pelkmans (1985) termed it, there was a 'dialogue of the deaf' between policy-makers and agricultural economists on the subject of CAP reform.

The neo-classical, normative agricultural economics approach to the analysis of the CAP can explain the emergence of pressures for reform. Specifically, budget crises in 1983/84 and 1987/88 are identified in sections 3.3 and 3.4 as important in producing CAP reforms. However, the aim of this thesis is to provide an understanding of the MacSharry reforms of the CAP. Neo-classical economics can nominate pressures which have built up due to the operation of the CAP as causes of reform, and it can also provide an economic analysis of the effects of a CAP

[1] The positive/normative distinction follows that made in the political economy literature. Stigler (1971) argued for the need for the economics discipline to move beyond the normative analysis of economic policies and prescriptions of which policies *ought* to be implemented, to a positive analysis of why certain polices *are* chosen.

reform. What the neo-classical approach has been unable to answer is why the dictates of economic rationality have had such a limited effect on the CAP reform process; why there has been a dialogue of the deaf.

A full understanding of the MacSharry reforms requires some answer to each of the following questions; why were those reforms were enacted, when they were and in the way that they were. To provide such answers requires an analysis of the policy process, why certain pressures are important, and in certain places and at certain times in the decision-making system. For example, the neo-classical, normative agricultural economics approach of chapter 2 has no real way of answering why the policy process responded with a CAP reform to the budget problem rather than the farm income problem. It is the claim of this chapter that an understanding of how the CAP decision-making system responds to pressures and why reforms are enacted, when they are, and in the way that they are, requires a positive analysis of the CAP decision-making system.

There is the danger of material determinism through the *ex post* argument that the reforms that were enacted were inevitable because of the dire financial situation of the EU budget. This can lead to the view that the CAP decision-making system is a black box which responds to objective, material pressures with inevitable reforms. Material forces cannot, of course, be avoided. They form the context of any CAP reform. However, policy-makers do not view them as an agricultural economist would. These material forces do not motivate an ambition for economic efficiency amongst policy-makers, and the interest of economic rationality and efficiency is not obviously represented in the CAP reform process.

Marsh (1985: 120), when discussing future potential for CAP reform, stated that '...it is not necessary to be a cynic to believe that ministers, even prime ministers, may prefer the confused unsatisfactory packages of stop-gap measures to shore up the CAP rather than *reform* in any fundamental sense.'. A positive approach to the study of CAP reform is aimed at answering the question of why the CAP decision-making system responds in such a way to pressures for CAP reform. This is a separate question to why budget pressures emerged through the history of the CAP.

In the 1980s, there was an intellectual movement towards positive approaches to CAP decision-making motivated by the ambition to explain when, why and how the CAP was reformed. The argument was that neo-classical, normative agricultural economics failed to analyse CAP decisions as the product of a system. The decision-making system of the CAP did not respond in an inevitable way to the economic and financial pressures or to the logic of economic rationality. Hagedorn (1983) was a seminal paper in encouraging a positive approach to studying CAP reforms and a more complete view of the CAP decision-making system.

Hagedorn (1983) sets up the view that agricultural policy exists in two domains. His claim is that a strict agricultural economics approach only analyses one domain. As such it cannot either fully understand the reform process or provide policy advice of practical relevance. The two domains of agricultural policy are market co-ordination and political co-ordination. The strict agricultural economics approach, outlined in this chapter, understands the history of the CAP in terms of the situation in agricultural markets and its consequences for the EU budget. This is the market co-ordination domain. This approach ignores the political co-ordination domain of agricultural policy, '...the various institutions regulating the politician's decisions and the policy process, for example: elections, collective action, constitutional agreement, interest groups, bureaucracy, negotiations, coalitions, etc.' (Hagedorn 1983: 304). Hagedorn's Reflections on the methodology of agricultural policy research (1983) makes three main points. First, the operation of the CAP directly affects the agricultural markets of the EU and the global commodity markets. Second, decisions about the operation of the CAP are the product of a political system. Third, agricultural policy decisions, including decisions to change it, are both affected by, and affect, that political system. CAP decisions politically co-ordinate those parts of the state and polity which have an interest in agricultural policy. Hence, CAP reforms cannot be fully understood without some appreciation of this political co-ordination domain of agricultural policy.

Hagedorn (1983) was followed by Pelkmans (1985), Senior-Nello (1984) and Hagedorn (1985). All attempt to understand the two domains of agricultural policy-making noted in Hagedorn (1983). Accounts of the CAP reforms of 1984 and 1988 have been written by agricultural economists, but using approaches which try to take account of the decision-making process which produces CAP reform. Tracy (1989), Moyer and Josling (1990), and Hubbard and Ritson (1991) account for stabiliser reforms using approaches beyond strict normative agricultural economics. Petit *et al.* (1987) similarly explain the introduction of milk quotas in 1984.

The intellectual development from a normative agricultural economics approach has been part of a broader sweep in economics generally, in which economists have attempted to give a positive and more substantial account of government and public policy decision-making systems. The models developed have been at a very abstract level, but agricultural support polices are mentioned as empirical examples. Downs (1957) and Stigler (1960) were pioneers in this field. The public choice paradigm described in chapter 5 is part of the answer to this demand for a positive theory of how governments and the wider political system work.

3.2 Structural Reform

The policy process associated with the Mansholt Plan (1968), aka *Agriculture in 1980*, for a structural adjustment in European agriculture is included in this chapter for four reasons. First, it was the first CAP reform proposed and secondly, the lack of action taken by the CoAM at the time became typical of future reform proposals. Thirdly, the Mansholt Plan predicted many of the problems which were factors in the reforms of the CAP in the 1980s. The Mansholt Plan is the one significant example of the analysis of agricultural economists, prior to the MacSharry reforms, having some input into the reform process.

The fourth reason for interest in the Mansholt Plan is that the failure to adopt fully the Plan's structural adjustment programme is an example of how the question *for what purpose does the CAP exist?* has never been properly answered in the history of the CAP. After 1969, and the failure to establish a structural policy, price policy alone has been used to try and satisfy two answers to this question. There is the *technocratic* answer and there is the *social policy* answer. The technocratic premiss for the existence of a CAP is that agriculture in Europe should be made efficient and competitive in terms of world agriculture. The alternative premiss for the CAP is that agriculture is a declining industry and agricultural policy is about managing that decline in a socially acceptable manner, so the CAP should be a social policy. Chapter 2 illustrated how price policy and its consequences have dominated the history of the operation of the CAP.

3.2.1 Background

This section describes and evaluates the debate over the structure of agriculture as it existed in the EU between 1958 and the implementation of the directives known collectively as *mini Mansholt* in 1972. This section also describes what structural policy is, and how it contrasts with price policy as a method of intervention in agriculture. It also details the six structural policies which were operating at the national levels before the introduction of the CAP. Section 3.2.2 outlines the Mansholt Plan of 1968 (different from the 1960 plan also known as Mansholt), what it proposed and what was eventually enacted, concentrating its focus on the difference. Section 3.2.3 briefly outlines what happened to the structure of agriculture in the European Community up to 1980, the period which the Mansholt

Plan covered. This provides a background to the kind of pressures for reform which existed in the 1980s and which led to the enactment of CAP reforms in 1984, 1988 and 1992.

Structural policy is something which has existed in the member states of the EU from the Second World War onwards. The term is generally used to describe attempts to make the agricultural sector more efficient in its use of land, labour and capital inputs. It concentrates on the supply side of agricultural markets; in particular, the capacity of the agricultural industry to supply efficiently. The demand side of that equation i.e. what quantity is bought and at what price, comes under the purview of price policy. The national policy-makers' focus on structural policy was induced by the exigencies of wartime and the immediate period thereafter. The capacity of European agriculture to supply the demand for food was a genuine concern in post-war Europe. According to Hallett (1968), structural policy consisted of the consolidation and amalgamation of the fragmented holdings prevalent across continental Europe. Tracy (1989) provides an account of the history this fragmentation. Consolidation refers to the bringing together of scattered strips within the same farm holding, whereas amalgamation is the grouping of smaller separate farm holdings into a larger single enterprise. However, the term structural policy has developed a wider meaning to encompass labour reforms, such as the retraining of farmers when leaving agriculture, or pension inducements for older farmers, and capital usage measures, e.g. tractor grants.

At the time of the Mansholt Plan, France had the most developed structural policy of the six founder members of the CAP. A 1945 government report estimated that 10 million hectares (mha) required *remembrement* or consolidation, of which just under half was completed by 1965 (Butterwick and Neville-Rolfe, 1965). However, consolidation does not itself affect the number or average size of holdings. The 1960 Loi d'Orientation Agricole established SAFERs (Sociétés d'Amenagement Foncier et d'Établissement Rural). SAFERs were designed to extend structural policy to create new holdings as well as reshape existing ones. SAFERs bought agricultural land offered on the market and resold it to 'suitable' purchasers within five years. They enjoyed pre-emption rights in the purchase of any land freely offered but had no compulsory purchase right. These powers were strong, contrasting with the relatively weak powers enjoyed by the Agricultural Land Commission in the UK. The declared aim of SAFERs was to increase the number of viable family holdings, as opposed to creating an internationally efficient scale of farming in France. This reflected public opinion which was against the extension of very large holdings. As Butterwick and Neville-Rolfe (1965: 553) noted: 'The purposes of SAFERs are at least as much social as economic.'

The need for structural reform in UK agriculture was first explicitly recognised in the 1967 Agriculture Act which was founded on the following statistics. Half of the holdings in England and Wales could support only part-time farming and a further quarter which were run full time were too small to be viable. The main provisions of the Act were small retirement pensions for older farmers and amalgamation grants. Hine (1973) demonstrates that the scale of these provisions was too small for the Act to have any significant effect.

Hallett (1968) observed that the size of the viable farm is being constantly revised upwards. This insight may provide an explanation of why the farm problem has never died out - young people entered farming in the 1960s on a scale which was then viable but which has subsequently become non-viable. The target of the modern, efficient farm was, and is, a moving one.

Germany, Denmark, and Holland had similar schemes by the mid-1960s; structural policy occupied the agenda of national governments. This section will show is that the Mansholt Plan failed to produce a consensus that the issue of the structure of European agriculture should be dealt with at a European level. Further, this failure is characteristic of the CAP decision-making system.

3.2.2 The Mansholt Plan of 1968

The 1960 Mansholt Plan provided the basic principles of the CAP. It was based on Commission discussions after the Stresa conference and included reference to structural policy as well as price support. Rolfe (1984) argues that political expediency meant that this section of the Commission's plan was dropped until the completion of the common market in agricultural products, that is, the whole project of a CAP would be lost if common market and structural proposals had been made simultaneously. This view is supported by a document in Weigall and Stirk (1992:136) entitled 'Sicco Mansholt on the Reform of the CAP' written in 1970.

Mansholt argues there that the Mansholt Plan (1968) was not proposed earlier by the Commission (i.e. in parallel with the completion of the common market for agricultural produce) because the member governments 'wouldn't hear of it'. The completion of the price support regime of the CAP was expending all available political energies. Thus, as soon as the single market was completed for most goods in 1968, the Commission introduced the Mansholt Plan, with the view that the CAP would be ineffective so long as the majority of holdings were incapable of providing an adequate income (even with price support). Price policy was politically easier than structural policy to gain common agreement, because it promised to raise the support price for the majority of farmers in the EC rather than the Mansholt Plan which aimed to remove five million farmers from agriculture.

There were four main aspects to the Mansholt Plan. Part one was what Rolfe (1984) describes as a 'forthright' statement against price policy described by Mansholt (Weigall and Stirk (ed.), 1992) as 'based on consensus politics rather than economics'. Agriculture in 1980 predicted (in 1968) that such a price policy would lead to a structural surplus which would soon bankrupt the Community. There was no alternative to structural reform to create 'modern, viable farms', Mansholt argued in that paper that 'financing farms with five cows is tantamount to financing chronic destitution...'. The second main aspect of Agriculture 1980 was a plan to move five million agricultural workers out of farming by 1980. Three million could be removed by pensioning off farmers over the age of 55, and the remainder were to be taken by the creation of 80,000 new jobs per annum in the less industrialised areas of the EU. Aspect three of the 1968 Mansholt Plan was the 'creation of agricultural enterprises of adequate economic dimension' (Rolfe (1984:302)). Grants were to be made available to production units (PUs), where PUs were defined as production on a scale laid down for each product group. This would encourage pooling or sharing of farm resources on a product-by-product basis - it was known at the time as partial amalgamation. Also in Agriculture 1980 was the concept of the Modern Agricultural Enterprise (MAE) to encourage the complete amalgamation of farms by making grants available to units covering the production of several commodities. The fourth aspect was to extend the scope of common financing of structural measures. The EAGGF would fund half of the total expenditure of national programmes to take people off the land, compared to the situation of funding not more than 25% of a few selected programmes.

The reaction in the CoAM to the Mansholt Plan was negative; each member state found something unacceptable in it. The French government worried about the control the Commission would be gaining over farm structures; they argued that the power to intervene directly in agriculture, as opposed to indirectly through the price mechanism (though the end result may be the same), was a much stronger one. The MAE and PU sections took up half of the document, encouraging the view of one Guallist deputy of a 'frigid technocracy' (Rolfe 1984:304) emerging in the Commission. The German government's reaction was equally hostile. Two arguments were made. The first was that to define the efficient scale of inputs, commodity by commodity in a mixed farm, does not ensure the efficient mixture of those inputs. Most factor inputs will have a certain transferability across sectors, in which case the scale for each individual commodity did not have to be as high as the

Commission proposed. The second and more fundamental point was an unwillingness to bear the cost of the alteration of the farm structures of other countries. The Mansholt Plan contained certain assumptions about economic growth and the migration of workers leaving agriculture up to 1980. The German government were worried about the potential cost of structural policy should those assumptions not be correct. Ertl, the Minister of Agriculture, proposed to maintain prices but limit the level of surpluses by using quotas as discussed in sections 3.3 and 3.4, the demand for supply-side management through quotas has been a constant theme in the German government's attitude to the CAP over 20 years. Meanwhile, existing national policies would continue to smooth the adjustment taking place in agriculture.

Mansholt addressed the Council of Agricultural Ministers in October 1967, trying to instil a sense of urgency to his view that the aim of parity with non-farm incomes pursued solely by price policy would eventually bankrupt the Community through enormous surpluses. However, such dire warnings failed to pave the way for the agreement of a structural policy along the lines proposed in the Mansholt Plan. The political struggle of completing a common price policy in agriculture had just finished and the member states were far from receptive to a proposal calling for fundamental reform of that policy. The Vedel Report (1969) was commissioned in 1967 by Faure the French Minister of Agriculture. The Vedel Report addressed the problem of creating an agricultural sector capable of adapting production to the needs of the market at competitive prices (Marsh and Ritson, 1971). Vedel shared Mansholt's technocratic view of agricultural policy. The Vedel Report proposed price support cuts to bring agricultural markets near to balance, as well as a form of set aside to take out 11 or 12 mha of land out of production (bearing some similarities with the MacSharry reforms). The report was similar in philosophy and tone to Mansholt. The French government delayed its publication by three months to placate criticism and immediately distanced itself from the Report's proposals or conclusions. The reaction to its substance, in the country with the most developed structural policy in the Community, gives an example of the climate of opinion into which the Mansholt Plan had been pitched.

The failure of the Mansholt Plan to gain any sort of political momentum in the CoAM led the Commission to pare down the proposals; the revised plans were collectively known as mini Mansholt and were published in November 1969. The background to this version of this Plan were the negotiations for the final arrangements for the financing of the CAP, the difficulties of agreeing a price package for 1970/71 and the problems of nascent surpluses. All of these were to be considered at the Hague Summit of December 1969. The mini Mansholt Plan proposed reducing support prices for 1970 in sectors in structural surplus, i.e. grain, milk and sugar. The funds saved would be used to finance limited Mansholt restructuring. The Plan also insisted on a structural solution to persistent surpluses before there was any final agreement on the financing of the CAP.

The Hague Summit concluded agreement on the common financing of the CAP and the 1970/71 price package. This was done without serious discussion of structural reform. Summit packages normally grow in size and complexity. Extra issues can be used to trade off against outstanding issues, in order to achieve an overall compromise. In this case, the introduction of structural policy to the agenda was not required to achieve agreement.

3.2.3 The Effects of the Failure to Agree the Mansholt Plan (1968)

Some structural directives (Reg.159/72, Reg.160/72, Reg.161/72) were enacted in 1972 (Rolfe (1984) correctly calls them 'very modest'). These were agreed when the Commission agreed higher support prices for 1971/72 than they had originally proposed. This was the beginning of the history of the CAP, the need for agreement in the annual price review dominating the agenda of the CoAM. Any different ambition for the CAP had to be subordinated or somehow linked to this annual price review.

One consequence of the failure to agree a common structural policy at the EU level was that the national structural and social policies came to be used by member states to '...compensate domestic agriculture in the case of 'insufficient' price decisions at the Community level' Schmitt (1986:340). This is a classic moral hazard problem. The EU has committed to bear the cost of an outmoded farm structure through the price supports of the CAP. There exists no incentive for any national member state to incur the financial and political cost of farm structure reform. Instead, the financial burden of an increase in agricultural production in a member state is externalised through the EU budget. Therefore, so long as a member state is a net beneficiary of the EU budget, there exists an incentive to use national structural policies to boost national production - the costs are spread through all member states, but the benefits are concentrated in that particular member state.

Rolfe (1984) argues that the effect of these structural directives has been fairly marginal - the Commission was still producing draft regulations recognising the failure of structural policy in the EU, especially in more backward areas, in 1983. The three directives of 1972 mark the high point of the EU's attempt to reform the structure of European agriculture. Reform since then has concentrated on the problems of the CAP price policy.

Figures in Clout (1984) suggest the failure of the various national schemes to address the question of the structure of farming. From 1970 to 1980, the number of farms of one ha or more in the EU dropped by 14%. Between 1975 and 1980 the average size of farms rose from 15 ha to 18 ha. Only those in Italy and Greece were significantly smaller than this average size, and only the UK and the Paris basin are significantly greater. Clout (1984) cites France as an example of how national structural policies have failed to produce a 'revolutionary change in farm size'. The ownership of one third of all French farmland from the 1960s to 1980 was transferred through SAFERs. However, the implications for increasing farm size by encouraging amalgamation were limited because of complicated regulations safeguarding family farming. This again brings attention to the question of agricultural policy at national or EU level - what purpose does it serve? technocratic efficiency or social ends.

By the 1980s, the issue of structural reform had disappeared from the agenda of agricultural policy-makers in the EU, primarily because of the persistently high unemployment levels in the non-agricultural sectors of the EU economy. There was little point in moving uneconomic farmers into urban unemployment.

3.3 The Milk Quota Reforms 1984

The development of the dairy sector in the EU is closely linked to the debate over structure. The milk market was the first area to display the characteristics of structural surpluses predicted in the Mansholt Plan. By the end of the 1960s, the Community was producing more milk 'than could be consumed internally at prevailing prices' (Marsh and Ritson, 1971). The German Agricultural Minister's proposal of quotas were aimed specifically at the milk sector. The price review for 1969/70 was upset by the emergence of milk surpluses. The CoAM did not want to cut prices in response - a position which became familiar through most of the 1970s and 1980s. The issue was eventually resolved by agreement on the premium provided for the slaughter of dairy cows which Marsh and Ritson (1971) describe as having a 'negligible' effect on total milk production, at best slowing the rate of increase. The key point here is that the problem of milk surpluses and the idea of milk quotas as a solution had existed for 15 years before they were actually introduced in 1984. The relevant questions are why was the solution so long in coming, and what factors determined that milk quotas became the 'unavoidable' solution in 1983/84 but not in 1969? It is not just hindsight which predicts the burgeoning milk surpluses through the 1970s and early 1980s; surpluses were emerging in 1969 and were predicted to grow substantially. The milk sector shows how the agricultural policy-making apparatus of the EU only produces solutions or CAP 'reforms', when the problem is immediate i.e. there was a possibility that the Community could have run out of money in 1984 without some measures to curb the cost of financing milk surpluses.

3.3.1 Background to the Milk Quota Reforms

The rising budget costs of the milk sector had resulted in the introduction of a co-responsibility levy in 1977, which was initially set at 1.5% of the value of production, later raised to 2.5%. The early 1980s saw the budget of the milk sector grow rapidly; in 1982 it was 3.3bn ECU, in 1983 4.4bn ECU, and by late 1983 it was being predicted to rise to 5.8 bn ECU in 1984. Petit *et al.* (1987) have termed this the 'cost of not taking a decision'. Their thesis is that the causal factor in removing the *status quo* as an option for the CoAM was the rising budget costs of the milk sector. The European Council meeting at Stuttgart instructed the Commission to provide some plans for 'concrete steps' to control agricultural expenditure by August 1983.

3.3.2 Reform Process

In July 1983 the Commission submitted COM (83) 500 to the CoAM. COM (83) 500 included proposals for a system of farm level quotas for milk production and a special levy on milk produced by intensive methods. This plan was controversial within the Commission, only passing by one vote in the College. Petit *et al.* (1987) state that several commissioners preferred price cuts to quotas and others thought

COM (83) 500 was overly concentrated on milk, pushing 'Mediterranean' products in the CAP down the agenda. The CoAM set the Commission a timetable to turn the COM (83) 500 plan into a dossier for consideration at the European Council in Athens, 4-6 December 1983. By this time, quotas had gained some kind of grudging acceptance because of the Commission's prediction that the alternative scenario was a 12% price cut to stabilise or reduce production.

Despite two half days out of a total 48-hour summit being devoted to the dairy issue, there was a failure to achieve unanimous agreement on COM (83) 500. The major obstacle was the issue of quotas. This failure precipitated a sense of crisis in the EU because of the genuine threat of the budget simply running out of money.

Petit *et al.* (1987) comment that the French Agriculture Minister, Rocard, who was President of the CoAM in the first six months of 1984, proved diligent and successful in establishing agreement in the CoAM. This was similar to the effect of the West German Presidency in the first half of 1988 (section 3.3.4).

In March 1984, the CoAM agreed a package including milk quotas, the dismantling of MCAs (another part of COM (83) 500), and the agricultural prices for 1984/85. This agreement was made conditional on the European Council sorting out certain agricultural and budgetary issues. The European Council of 19-20 March failed to do this - it postponed the issue of the UK budget rebate (eventually agreed at the Fontainebleau summit in July) and could not decide whether quotas should apply in

Ireland when the Irish government claimed a vital national interest to obtain special dispensation.

The Commission brought new proposals to the CoAM which formalised the conditional agreements of 5-6 March and added measures which dealt with Irish milk quotas. The CoAM finally reached agreement on the introduction of milk quotas with special treatment for Italy, Greece and Ireland. The overall package has been described by Petit *et al.* (1987) as 'strikingly close' to COM (83) 500.

Domestic politics also intervened in the relationship between the CoAM and the European Council on the issue of CAP reform. Petit *et al.* (1987) describe a strong rivalry between President Mitterrand of France, and Rocard which manifested itself in a rivalry between the European Council (of which Mitterrand was President for the first six months of 1984) and the CoAM (of which Rocard was President in the first half of 1984). The competition was muted by them being members of the same government. Their relative offices in the French government meant that in the early period Rocard could not risk outright support for milk quotas for fear of being overruled by the President. He considered CAP reform to be an issue of such political importance that it had to be considered by the European Council before the CoAM could reach agreement. It was only when the Athens Summit failed to reach a final solution to the surplus problem that Rocard brokered an agreement in the CoAM around milk quotas. Against this background the conditional constraint imposed on the CoAM decision of 5-6 March could be interpreted (suggested by Petit *et al.* 1987) as a gamble by Rocard to claim the credit for the solution to the dairy issue. Rocard gambled that the European Council would be unable to reach agreement on the 5-6 March consensus in the CoAM. The CoAM provided a final agreement a few days later.

Even if this interpretation is correct, the President of the CoAM still felt that on a major CAP reform the European Council had to discuss and reach some kind of broad consensus before the CoAM could reach a final agreement. It is the function of the CoAM to make decisions about the CAP and this power was effectively abnegated by making the 5-6 March agreement conditional on the European Council. Agreement, formal or informal, in the European Council was made a necessary condition for CAP reform.

3.3.3 The Economics of Milk Quotas

The imposition of a quota system restricts domestic supply. This could have the effect of increasing aggregate farm revenue. In most cases the demand for agricultural products is inelastic, further the EU market can be considered to be isolated from the world market. Any increase in domestic supply will tend to bring forth a more than proportionate fall in price, reducing aggregate farm income. A policy of restricting supply could, in such circumstances, increase aggregate farm income.

There are two basic disadvantages associated with a quota scheme. First, they introduce rigidity into the farming sector, preventing expansion by low-cost producers and preserving high-cost ones. Initially milk quotas in the EU were not transferable unless the farm was sold, leased or transferred by inheritance. However, after 1987 the sale of milk quotas was officially sanctioned. This had the effect of reducing the rigidities imposed by quotas; the more efficient producers could buy the right to produce from the less efficient. However, while small farmers who could sell their quota would gain in income terms, the purchase of the right to produce is a cost which represents an impediment to larger farm size as a method of improving the incomes of some producers. There is to some degree a trade-off between improving the productive efficiency of a quota system and improving its efficiency as a method of income support.

The second basic disadvantage of a quota system is their administrative cost, which becomes greater as both the number of producers involved increases and the scheme attempts to introduce flexibility. This factor is often ignored by economists but has been a large issue in the operation of the EU's milk quota system. At the time of the MacSharry reforms, Italy had still not implemented the quota system citing administrative problems as the reason.

3.4 The Establishment of the Budget Stabiliser Regime

This section is divided into five. The first looks at the background to the reform process which resulted in the enactment of the stabiliser regime. The next three sections cover the three distinct phases of the policy process which led to the stabiliser regime. The fifth section looks at the economic analysis of these reforms.

3.4.1 Stabiliser Reform Process: Background

The stabiliser regime was enacted on 13 February 1988 by the European Council. It was part of the overall agreement of a five-year budget plan for the EU. Subsequently, this package of budget measures came to be known as Delors I. Delors II was enacted at Edinburgh in December 1992 to provide another five-year budget Guideline for the EU. These packages were so-called because of the influence Delors and his cabinet had in their construction and enactment. Delors was also instrumental in the MacSharry reforms (see chapter 6).

The budget agreement in 1988 included a new fourth resource for the EU; a strict limit on growth of EAGGF expenditure to 74% of the growth of EU budget spending and a doubling of funds available for regional policy. Chapter 4 contains a description of how the stabiliser mechanism worked in practice and became a factor in the MacSharry reform process.

The reform process took a year. It started with the adoption of COM (87) 100 'Making a Success of the Single European Act: A New Frontier for Europe' by the College of the Commission. This 'reflections' document noted the need for increased budgetary resources and increased budgetary discipline to help the financial situation of the Community. Agriculture was (and still is) the largest item of expenditure in the EU budget and was therefore central to any medium-term budget agreement.

COM (87) 100 described an emerging budget crisis. The 1984 Fontainebleau budget agreement had not controlled the growth of EAGGF spending. Instead of the 2% per annum prescribed growth in CAP spending, between 1984 and 1987 the average per annum increase had been around 18%. (AgraEurope 26 June 1987). Only clever accounting had concealed a budget shortfall of 4-5bn ECU in 1987 (Moyer and Josling, 1990). COM (87) 100 contained a serious estimation that the EU would run out of money to meet its obligations sometime in 1988. The cereals sector of the CAP had been displaying the greatest growth in expenditures. Strong EU production levels combined with a weak dollar after the Plaza Accord of 1985 had increasingly burdened the EU budget. Cereal support budget costs in 1987 were forecast to reach 5.9bn ECU in 1988, close to the 6.5bn ECU spent in the dairy sector. The dairy sector had triggered the milk quota reforms; in 1984 dairy sector spending was over 5bn ECU, with cereals expenditure under 2bn ECU.

Three distinct phases in the reform process can be set up. Phase one was the development of the reform proposals and their submission to the CoAM on 22/23 September 1987. Phase two was the subsequent negotiations in the CoAM culminating in the collapse of the Copenhagen Summit in December 1987. The third phase culminated in the agreement of the stabiliser regime on 13 February 1988.

3.4.2 Reform process: Phase One

COM (87) 100 was a reflections paper, followed by COM (87) 101 in February 1987, which focused on the need to control expenditure. Automatic budget stabilisers were proposed to try and limit the growth in agricultural support spending. These budgetary stabilisers were to work as follows. A spending Guideline would be set for each commodity. If this was exceeded during the year then the Commission would have powers to adjust prices, intervention levels, etc., to keep spending within that Guideline. A budgetary overspend in any one financial year would prompt action by the Commission in that year to keep total spending within the Guideline. The general theme of the document was the need to correct the deficiencies in the EU's agricultural policy decision-making system which allowed the CoAM to consistently spend beyond the previously agreed Guideline.

The development of the reform proposals in the six months after COM 100 and COM 101 is characterised by Moyer and Josling (1990) as being driven by initiatives from Commissioners and their cabinets rather than the Directorate-Generals. This was the zenith of Delors' influence within the Commission (Ross, 1994, 1995; Grant, 1995). Christophersen (Budget Commissioner) and Andriessen (Agriculture Commissioner) saw the problem of the agricultural budget as part of a wider budget issue of the future financing of the EU and ultimately the future priorities of the EU. This Delors, Christophersen, Andriessen axis was the driving force behind the reforms; Moyer and Josling (1990) describe an *inner circle* dominated by these three Commissioners and their cabinets. The inner circle was an *ad hoc* grouping composed of these Commissioners, their advisors and key officials. A similar type of grouping was involved with the MacSharry reforms (see chapter 6).

The milk quota proposals were much more closely associated with the senior levels of DG VI (Petit *et al.* 1987). Moyer and Josling (1990) attribute this difference to the following factors. The first and most important was the combination of personalities in 1987/88; Delors as Commission President and his vision for a SEM, alongside Christophersen and Andriessen who were senior and successful Commissioners. Their respective cabinets were able to rise above the daily administration of the CAP and impose a broader view of the situation. Moyer and Josling (1990:86) 'The success of Delors, Andriessen and Christophersen in forming an inner circle reflects both the severity of the crisis and the leadership capacity of individuals'.

This inner circle helped speed the reform process within the Commission in the six months after COM (87) 100. The alliance proved powerful enough that other Commissioners and their attendant national interests in agriculture did not have to be compensated in the bargaining process. The influence of personalities is also central to the MacSharry reform process. The development of a public choice approach to CAP reform in chapter 5 raises the structure versus agency debate. The debate concerns the relative influence of individuals and the structure in which they operate, on the policy process. The role of Commissioner MacSharry in the 1992 reforms is discussed in chapter 6, while chapter 9 discusses how this can be reconciled with the institutions framework set out in chapter 5.

Moyer and Josling (1990) note that the decision to propose production stabilisers to the College of the Commission was made by eliminating other options. Price cuts were unacceptable to the German government; mandatory quotas likewise for the UK and the Netherlands; and set aside was considered by the inner circle to be expensive and had not seemed to work in the US. Further, the idea of budget stabilisers triggered by a financial overspend was considered politically unacceptable, so stabilisers triggered by production were the preferred option. These production stabilisers were also judged to have a further advantage; they could be presented to the different national constituencies as a variant on the Guarantee thresholds which had operated since the mid-1980s and therefore not a radical, far-reaching reform.

Moyer and Josling (1990:88) sum up this process: 'The Commission kept both governments and the farm lobby at arm's length from its planning process, but was ever mindful that its final proposal would have to achieve approval in the European Council'. The speed of the process in 1987 in the Commission was slowed by the need for agreement of the 1987/88 price package (something which was repeated in the MacSharry reforms).

At the end of July 1987 the College agreed COM (87) 410 'Review of action taken to control the agricultural markets and outlook for the CAP'. Although the document contained no official figures, it formed the basis of the full legislative (and quantitative) proposals to the CoAM in September 1987 (as discussed below). Included in the document were proposals for a new, fourth budgetary resource and a maximum guaranteed quantity for EU cereals production, any production beyond which would trigger unspecified penalties. A figure of 155 mt was mentioned as the total annual level of EU cereals production before penalties would be triggered.

A significant difference in the circumstances of the enactment of the stabiliser regime compared to the milk quota reform was that the former was agreed as part of a wider budget agreement. This wider agreement was being sought by the Commission to attempt to redress the institutional imbalance in CAP decision-making which allowed the CoAM to agree a level of agricultural spending which consistently exceeded any guideline set for it. The introduction of milk quotas in 1984 was accompanied by no such wide-ranging budget agreement and was much more a *fire-fighting* exercise to control the budget costs of the milk sector.

The Delors I Plan, promulgated in February 1987 and quoted in AgraEurope (26 June 1987:E/3) talked of the need for budget stabilisers, whether triggered by financial or production levels, 'Application of these principles would change significantly the present situation where agricultural regulations have direct repercussions in budget terms. Instead agricultural rules will be applied or amended in such a way as to ensure that pre-determined budget allocations are respected.'

The automatic nature of stabilisers and their implication for the executive powers of the Commission were a point of some contention during the reform process.

3.4.3 Reform Process: Phase Two

The full legislative proposals based on COM (87) 410 were presented to the CoAM on 22/23 September 1987. The stabiliser regime proposed for the cereals sector was as follows; an Maximum Guaranteed Quantity (MGQ) for total cereals production of 155 mt, which if exceeded incurred the penalty of a combination of price cuts and increases in the co-responsibility levy. This penalty was to be applied in 1% slices (1% increase in production equals a 1% increase in the penalties) with the first 1% exempt, up to a maximum penalty of 5%.

The initial debate in CoAM was characterised by consensus on the need to act to keep agricultural spending growth 'reasonable'. However this term was sufficiently ambiguous that any consensus based on it was spurious. Agriculture ministers were split over whether budget or social priorities were the greatest considerations in reforming the CAP. The UK and Dutch representatives concentrated on the budget. West Germany was joined by the Mediterranean countries, Ireland, Luxembourg and Belgium in being staunchly against automatic price cuts. The French position, like that for the reforms of 1984 and 1992, reflected an ambivalence in its government's attitude to the purpose of the CAP.

The specific issues were a demand for an MGQ of 165 mt by France and Germany, plus a German demand for a set-aside programme which was opposed by the Commission, arguing that it would not be effective at controlling production. The situation in the CoAM during the last three months of 1987 was one of limited movement. This was due to a combination of the budget problem not yet being at full crisis level (the EU would not run out of money for another six months) and a weak Danish Presidency (Moyer and Josling, 1990).

This drift meant that agriculture was the outstanding element of the budget package considered by the European Council at Copenhagen on 5/6 December 1987. The summit collapsed when Kohl refused to negotiate because the Council Presidency's document contained no reference to set aside. Further disagreement centred on how automatic and how big the penalties of the stabilisers should be.

3.4.4 Reform Process: Phase Three

The central feature of January and February 1988 was Germany's occupation of the Presidency of the Council of Ministers. This led to a change in the German position. The priority of providing leadership of the EU to protect its credibility within the member states and in international negotiations competed with purely German farm interests. Moyer and Josling (1990) described the German Farm Minister Keichle as working diligently for acceptable compromise. A consensus was reached by the end of January and it had the following form. An MGQ of 160 mt, the consistent German opposition to price cuts as a means of controlling budget expenditure was dropped to secure UK and Dutch support, and in return a set-aside programme was agreed. The penalty in the mechanism was to be the Commission's proposed mixture of price cuts and increases in the co-responsibility levy. Further, the maximum penalty was reduced to 3% (against the Commission's 5%).

The reform process of the stabiliser regime was able to be concluded when the West German government changed position. The West German position after 1985 had favoured of some kind of change in the CAP and had concentrated on trying to influence that change. Their objective for the CAP remained constant; the need to protect their small farmers. Their opposition to price cuts (especially when automatically imposed) remained through the period 1985 to 1988. When this opposition to price cuts was relaxed (and traded for other country's compromises) a unanimous agreement was able to be reached in the European Council.

The 1988 reforms were agreed by unanimity because of their tie with the future budget arrangements of the EU. This was how Kohl was able to scuttle the Copenhagen Summit. Moyer and Josling (1990) attribute the flexibility of the West German government's position in January 1988 to their occupancy of the Presidency. Petit *et al.* (1987) make a similar attribution to the French government's position in the milk quota reforms. It is an important point because, as will emerge in chapters 4 and 6, the cumulative effect of the automatic price cuts which occurred under the stabiliser regime was an important factor in the enactment of the MacSharry reforms.

3.4.5 Economics of the Stabiliser Regime

Figure 1 illustrates the partial equilibrium effects of the additional CRL and lagged price cuts introduced in the stabiliser reforms. Prior to the reforms, output Q was produced in response to the support price P_s. The difference between total production and domestic demand at this price level, $Q-Q_d$, is exported at the world price. The introduction of an MGQ of Q_t and a CRL of P_s-P_{s1} shifts the supply curve for output above Q_1 to S_1, reduces output to Q_1 and exports to Q_1-Q_d. P_{s1}-P_{s2} in figure 1b represents the lagged reduction in support prices. As a result of a P_{s1}-P_{s2} fall in the intervention price, output falls further to Q_2. The effects of the lagged price reduction are similar to those of the increased CRL except that the lagged price reduction leads to a slight increase in domestic demand to Q_{d1}.

Figure 1: The Economics of the Stabiliser Regime

Figure 1a The CRL

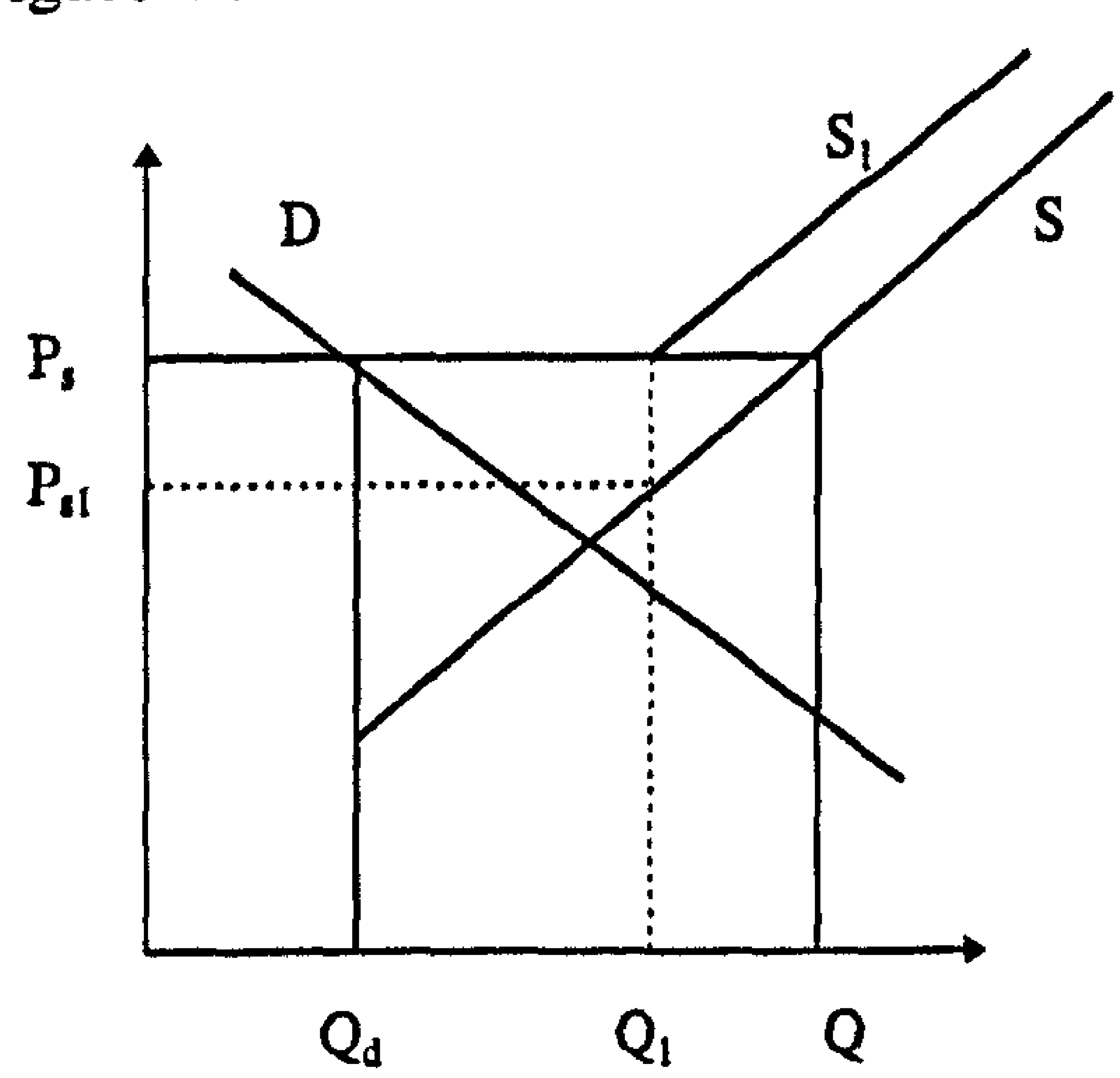
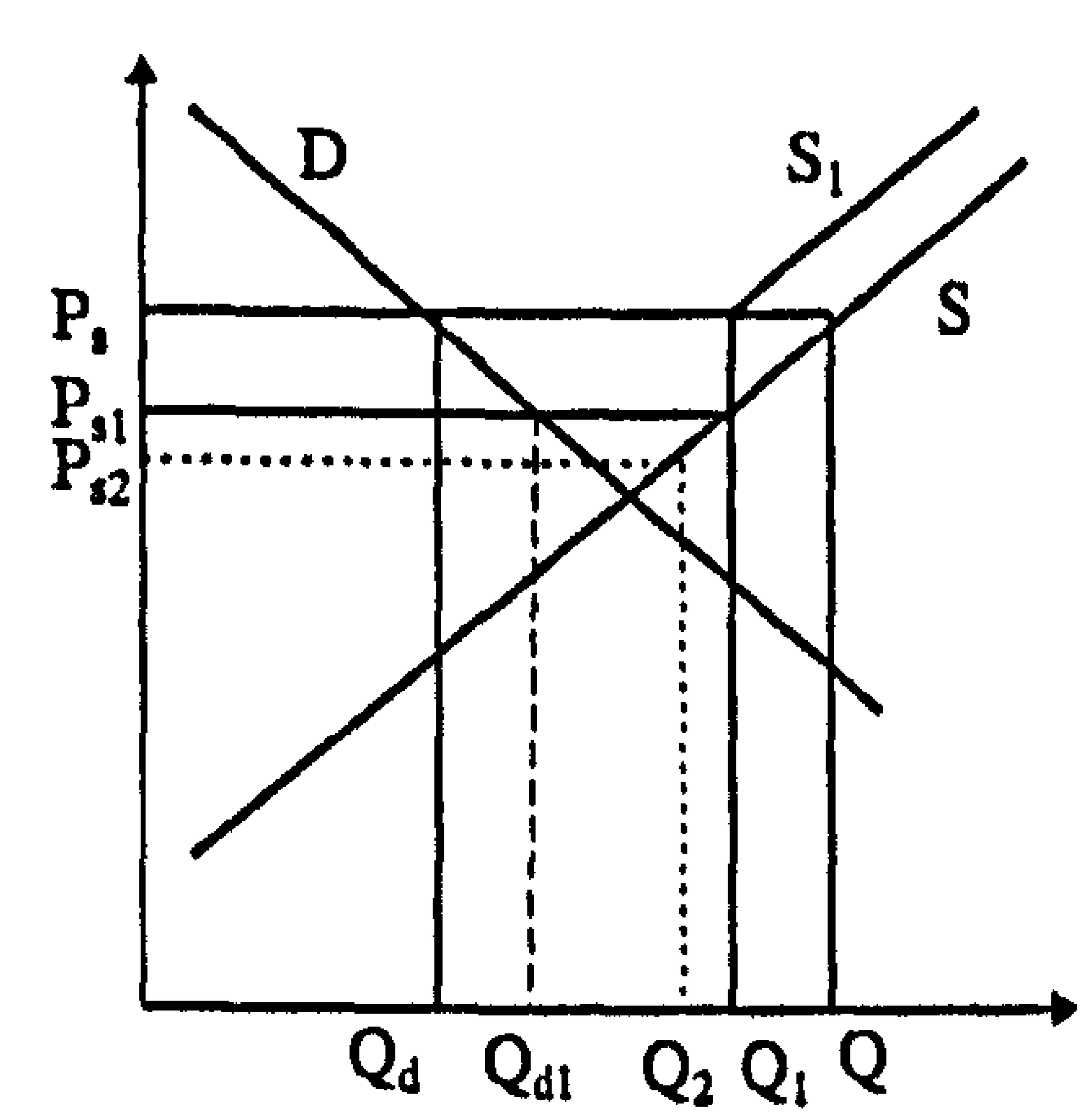


Figure 1b The Price Cuts



3.5 Similarities in Milk Quotas and Stabilisers Reform Processes

This section briefly highlights the similarities in the policy processes associated with the CAP reforms of 1984 and 1988. It is the argument of chapter 5 that these observations can be interpreted and organised using the common analytical framework. Chapter 8 considers whether the same framework can be applied to the MacSharry reforms.

The first similarity between the milk quota reforms and the stabiliser reform is that the debates in the CoAM which led to their enactment only became serious when a major budget crisis arose. In both cases the final agreement was very similar to the Commission's proposals with only the numerical levels altered (in both cases made less tough/more generous by the CoAM). Even though the CoAM eventually accepted the type of CAP reform in the Commission's proposals and only changed the numbers, the reform process still took over a year and the near bankruptcy of the EU to reach its conclusion.

The second similarity is that both reforms seem to display the characteristics of a fire-fighting exercise. The Commission's proposals focused on the milk sector in 1984 and the cereals sector in 1988. These sectors were at the time displaying the most rapid growth in expenditure.

Thirdly, Moyer and Josling (1990) note that, except for the UK and Dutch representatives, each CoAM member was motivated almost exclusively by the farm interest when considering the reforms. Further, international pressure for reform of the CAP appeared inconsequential in the stabiliser and milk quota reform processes.

The fourth similarity is that the European Council provided an important role in both reform processes. In 1984, the conditional part of the CoAM's agreement at the 5-6 March meeting illustrates an unwillingness to take a final decision to reform the CAP without the European Council having had an opportunity to reach agreement. The European Council was ceded the lead role in CAP reform; only when it failed to achieve agreement did the CoAM reach a reform agreement. The reforms agreed effectively resolved the few outstanding issues left after the European Council of 19-20 March, the large part of the final agreement had already been informally agreed by the European Council (see Petit *et al.* 1987). The European Council actually agreed the 1988 reforms. As will be described in chapter 6, the European Council played a much less prominent role in the MacSharry reform process.

The reform processes in both 1984 and 1988 were concluded when the French and German governments' positions came together. Further, the reform negotiations in both cases were conducted on the basis of achieving unanimity. This ensured in both cases a complex package with balanced benefits and sacrifices between all member states.

3.6 Conclusion

This chapter has argued that a positive approach is required when trying to account for CAP reforms. Such an approach requires a full consideration of the political and the economic aspects of a reform process. A description of the political and economic circumstances surrounding the Mansholt Plan, the milk quota reforms and the introduction of the stabiliser regime has been provided. These accounts have shown that there is some degree of comparability between these significant attempts to reform the CAP before the MacSharry reforms of May 1992. There is a pattern to these reforms. Reforms are only enacted in a sense of crisis. The CoAM is the central institution and enjoys a negative power in the reform process. It can delay or halt the reform process due to inactivity. This delay creates tensions with other ambitions of the EU (international trade negotiations or control of budgetary expenditure). This tension fuels the sense of crisis in which the European Council, as the highest political authority in the EU, gets involved. The reforms that are eventually enacted in response to this crisis are not substantially different from the initial proposals from the Commission. This is the why the power of the CoAM in the CAP reform process is negative.

CHAPTER 4: THE PRESSURES FOR THE MACSHARRY REFORMS

4.1 Introduction

Chapter 3 by discussing the milk quota and stabiliser reforms emphasised the need for a positive approach to the CAP reform process. Such an approach would provide an account of the pressures which trigger the process, and the mechanisms which link those pressures to the eventual enactment of a CAP reform. This chapter examines the pressures which generated the environment for the MacSharry reform process.

A description of the circumstances, both economic and political, which were necessary for the MacSharry reform process, is part of an understanding of that process. The environment within which the proposals for CAP reform were drafted and promulgated, affected both the reform process and its outcome. This chapter is divided into three sections. The pressures for CAP reform can be divided into those with an external source and those internally generated. The internal pressures came from the operation of the stabiliser regime. These are covered in section 4.2. External pressures, i.e. those resulting from the effect of the CAP outside the EU, had two sources in the MacSharry reform process; the oilseeds dispute and the Uruguay Round (UR). The first of these is dealt with in section 4.3, and the latter covered by section 4.4.

4.2 The Operation of the Stabiliser Regime 1988 to 1992

The basic details of the operation of the stabiliser regime are provided in this section. There is a brief survey of how the system operated between 1988 and 1992. Next, the histories of the price packages agreed in 1991/92 and 1992/93 are described. These coincide with the formal progress of the MacSharry reforms described in chapter 6.

4.2.1 The Stabiliser Mechanism: An Outline

The stabiliser regime was agreed for the cereals sector of the CAP in February 1988, by the European Council, as part of a wider budget agreement. This budget agreement set up guidelines for the next four years; the annual growth in the EAGGF spending was limited to 74% of the growth in EU GNP, starting from the ceiling for 1988 of 27.5bn ECU.

The stabiliser regime consisted of the following arrangements. The basic co-responsibility levy (CRL) of 3% of the intervention price (in place since 1977) was retained. The scheme introduced a MGQ of cereals production. This was set at an annual ceiling of 160 mt for EU cereals production for the four marketing years after 1988/89. An additional or supplementary CRL of 3% was levied at the beginning of the marketing year. If cereals production exceeded the MGQ in any marketing year then two things happened; first, a levy proportionate to the amount of the overshoot and up to a maximum of 3% of the intervention price would be calculated. If this figure was equal to 3% then nothing would be returned; anything less than this 3% and the appropriate adjustments would be made for producers. The second effect of production exceeding the MGQ was an automatic 3% reduction in the intervention price for the next marketing year.

The February 1988 agreement also created a 'monetary reserve' account of 1bn ECU to mitigate the effect of ECU:$ exchange rate variations on the EU budget's export subsidy bill. This could be drawn upon, provided that the exchange rate movement had adversely affected the budget to the extent of 400m ECU or greater.

4.2.2 A Survey of How the Stabiliser Regime Operated 1988-1992

The following table presents the basic figures which describe how the stabiliser regime operated. The MGQ was exceeded in three of the four years before the MacSharry reforms were agreed. The additional CRL was waived in 1989/90 because the amount of overshoot was judged insubstantial (the automatic price reduction was triggered for 1990/91).

Table 1

	1988/89	**1989/90**	**1990/91**	**1991/92**
Guideline (mt)	160	160	160	160
Cereal production (mt)	162.6	160.5	158.9	168.9
% overshoot	1.6	0.3	n/a	5.6
Cereal stocks (mt)	9.9	11.7	18.7	26.4
Price cut triggered?	Yes	Yes	No	Yes

An important date to examine with regard to a description of the MacSharry reform process was the harvest in 1990/91. This did not exceed the MGQ and therefore there was no automatic price cut in 1991/92 and the additional CRL was returned. This was described as a 'fluke' by a senior official in DG VI, and nothing to do with the operation of the stabiliser regime controlling production (interview DR[1]). This affected the negotiation of the 1991/92 price package and progress of the MacSharry reforms. The MGQ was exceeded in 1991/92 and this affected the environment in which CAP reform was being negotiated. This difference is described below as the negotiations of the 1991/92 and 1992/93 price packages are separated. These dates are concurrent with the formal progress of the MacSharry reforms described in chapter 6.

As noted the stabiliser regime was enacted as part of a wider EU budget deal in 1988. Its stated aim was to control the growth in EAGGF (Guarantee) expenditure. Any consideration of the operation of the stabiliser regime must include a brief look at its budget effects. Further, as described in chapter 2 most agricultural economics analyses of CAP reform are centred on detailing the pressures for CAP reform, in particular the budget imperative as the cause of reform.

Table 2

	1988	1989	1990	1991	1992*
Guideline	27500	28624	30630	32511	35039
Expenditure covered by Guideline	26400	24406	25069	30961	35039
% growth in expenditure	17.3	-7.5	2.7	23.5	13.2
Total Expenditure	27687	25873	26453	32386	

[1] The fieldwork interviews conducted for this thesis are referenced according to the initials of the interviewee. The key for these initials is contained in the appendix to this thesis.

* The figures for 1992 are deliberately provisional. They are the figures of the 1992 budget agreed in December 1991. These are the figures which the CoAM had in May 1992 when they agreed the MacSharry reforms.

The success in controlling the growth of EAGGF in 1989 and 1990 was accredited by a member of the MacSharry team to the strong dollar helping to reduce the export subsidy element of the EAGGF budget. It was noted above that the penalties of the stabiliser mechanism were not triggered for 1991/92, but this period was characterised by a deteriorating budget situation. The reasons for this are described in section 4.2.3. Although the final expenditure figure quoted above was well within the guideline, considerable political effort was required in the agreement of the 1991/92 price package in order for this to be achieved.

4.2.3 The Price Package 1991/92

MacSharry originally intended that the proposals for the 1991/92 price package and proposals for CAP reform be concurrent. The GATT negotiations were cited by the reform team as delaying the publication of the latter (interview PH). COM (91) 100 was only a 'reflections paper' and not at that stage a formal proposal. The 1991/92 price proposals were introduced separately by the Commission. This separation was something that MacSharry and his reform team were keen to maintain throughout the negotiations which led to the 24 May and 18 June 1991 agreements of the prices for 1991/92.

The College of the Commission agreed the 1991/92 price proposals on 27 February 1991. The debate inside the Commission was heated. The proposals agreed were very similar to those proposed by MacSharry and prepared by DG VI. The background against which they were agreed was a pending budget crisis. The latest DG VI estimate of EAGGF expenditure for 1991, in February 1991, was 33bn ECU. The 1991 budget (agreed in December 1990) had set EAGGF expenditure at 31.6bn ECU.

AgraEurope (editions late January and early February) estimated that 400m ECU would be brought in from the monetary reserve account because of the effect of the fall in the value of dollar versus the ECU. This left a supplementary budget requirement of 995m ECU for the estimated 1991 EAGGF expenditure to be funded. Depending on the use of the monetary reserve account (which was budgeted outside the Guideline) and certain flexibilities in the calculation of the Guideline, AgraEurope (in its editions of March 1991) predicted that total EAGGF expenditure would exceed the Guideline for the first time since the 1988 budget agreement.

The option of solving the budget crisis by raising the Guideline was vehemently opposed by MacSharry. The MacSharry cabinet believed that any relaxation of the Guideline would have compromised the impetus for fundamental CAP reform. The raising of the ceiling on EAGGF expenditure was supported by Delors. This was one of the low points of a difficult relationship between MacSharry and Delors. Grant (1995) provides an account of this dispute. Delors wanted the College to agree a 1.3bn ECU increase in the budget Guideline, excused by the *exceptional* nature of German unification. The College agreed with MacSharry's opposition to raising the Guideline and agreed price proposals which kept predicted spending within the Guideline. After an exchange between the two about whether Delors would defend the position in public, communications were broken off for a period.

The price package agreed by the College was very similar to that proposed by DG VI and MacSharry's team. The sectors targeted were beef, sheepmeat, milk and tobacco which were diverging by 100%, 31% and 6.5% respectively from their 1991 budget estimates. The following proposals were agreed. Price cuts of 15% in the intervention price for tobacco, 5% for sugar, 7% for durum wheat and 3% for rice, were agreed. Further, the beef intervention regime ceilings were tightened and the global milk quota cut by 2%. With respect to the stabiliser regime, a doubling of the basic CRL (to 6%) was proposed, along with a special one year set aside scheme.

These proposals were first presented to the CoAM on 4 March 1991. The Councils of 4 March and 25/26 March were notable for what MacSharry's team termed a 'strong' warning from the Agriculture Commissioner that the 1991 Guideline was about to be breached. Only the UK and the Netherlands spoke in favour of respecting the Guideline and discussing the price package as proposed. All of the other members spoke against the severity of the Commission's price proposals and argued in favour of raising the Guideline.

MacSharry stated that if the Commission had proposed raising the Guideline this would have required unanimity in the CoAM and/or the European Council. Gummer, the UK Secretary of State for Agriculture, was definite in stating that he would veto any move to raise the Guideline for 1991. There was a similar 10-2 majority in favour of raising the Guideline in Ecofin as well. The reason cited by the majority of these ten was German unification represented an 'exception' provided for in the 1988 budget deal.

The 22 April meeting of the Council of Agriculture Ministers failed to agree a 1991/92 price package and the 10-2 majority in favour of raising the Guideline persisted. AgraEurope 27 April 1991 reported talk of a softer package and accounting gymnastics, based on the acceptance of the 1991 Guideline of 32.5bn as an impassable constraint in the agreement of a price package.

The worry of the MacSharry team was that a deadlock in the price package negotiations would mean that the issue was forced onto the agenda of the European Council meeting at the end of June (similar to previous budget crises in 1984 and 1988). The convention of price reviews was that agreement was reached by the end of April. This deadline was exceeded in the mid-1980s (the record stands at 17 July 1988). A European Council agreement on the farm budget and its future constraints would pre-empt the MacSharry reform proposals. In particular, it might produce CAP reforms of the type of 1984 and 1988, which MacSharry believed had produced short term solutions to immediate fiscal problems, whereas the proposals of COM (91) 100 augured a new direction for the CAP (interview RM).

Agreement was partially reached on 24 May 1991. The prices for the cereals regime were agreed at the subsequent CoAM, 18 June. The bare details were that institutional prices were rolled over from 1990/91 for most products. The basic CRL was raised from 3 to 5%. A one year special set aside scheme was agreed, a 2% cut in milk quotas, a1.5% cut in oilseeds and protein crops prices and a 2% cut in basic sheepmeat prices. At the June 18 CoAM a 3.5% reduction in intervention price for durum wheat was agreed with the 1990/91 intervention prices for common wheat, barley, maize and other cereal crops rolled over to the next year.

The reaction of AgraEurope was to rail against what it considered a classic budgetary 'smoke and mirrors' agreement. The CoAM agreement would bring 1991 EAGGF spending to a level well below the Guideline. This was achieved through a number of reworkings of the original budget. The most important of these was the extrapolation of the benefits of a recent strength in the dollar on the export subsidy bill through the next two financial years; this took 300m ECU off the 1991 budget, and between 1bn and 2bn ECU off the preliminary draft for the 1992 budget.

The rejection of the Commission's proposed 5% cut in sugar prices meant that 300-400m ECU could be saved from the 1991 budget, because the import threshold and thus import levy revenue would be higher. AgraEurope 31 May 91 also cites optimistic calculations in the re-worked 1991 farm budget of the effects of the milk quota cuts and tightening in the operation of the beef intervention regime.

Members of the MacSharry cabinet reckon the rise in the value of the dollar in early summer 1991 was most helpful in expediting the 1991/92 price package agreement (interview PH).

4.2.4 The 1992/93 Price Package

Chapter 6 details how the need to agree 1992/93 price package was the key factor in the conclusion of the MacSharry reform process at the May 1992 CoAM. This section notes that it was the toughness of the operation of the stabiliser regime which provided the backdrop to the debate on the 1992/93 price package and ultimately the MacSharry reforms. This toughness was the series of automatic price cuts detailed in table 1. The toughness is in terms of the view of a qualified majority of the CoAM rather than agricultural economists.

The difference between the 1991/92 price package and the 1992/93 price package was the context of automatic price cuts implied by the operation of the stabiliser regime in 1992/3 but not 1991/2. In a sense, the effectiveness of the stabiliser mechanism in controlling and cutting the level of nominal support prices was one of the key factors prompting the MacSharry reforms.

4.3 The Oilseeds Dispute

The oilseeds dispute, which persisted between 1985 and 1993, warrants its own section as a cause of the MacSharry reform process for a number of reasons. There is the general interest point that it provides an illustration of how neutered the

GATT was in its role of world trade policeman, and demonstrates one of the challenges that faces the WTO. More specific to this thesis, the oilseeds regime enacted in November 1991 (prior to the MacSharry reforms) affected the decision to reform the cereals regime in May 1992. The extent of this influence is described in this section and developed further in chapter 6.

The decline in the competitive position of the EU cereals sector was given by MacSharry as one of the concerns he had for European agriculture during his time as Commissioner (interview RM;PH). The French government also lobbied very hard on this issue as well. The specific concern was the growth in the amount of cereal substitutes entering the EU from the US under very low rates of duty. The Dillon Round had allowed energy and protein crops to enter at zero tariff. Manioc was energy and soya was protein, also maize gluten feed a by-product of the production of ethanol could be fed to cattle, again imported at a zero rate of duty.

MacSharry brought this concern to his agenda for CAP reform and the UR negotiations. It is in the oilseeds dispute that the link between international pressure and CAP reform is most clearly observed. Oilseeds were already under the auspices of the GATT, but, as discussed below, the Uruguay Round and the oilseeds dispute became intertwined.

The link between international negotiations in the UR and the oilseeds, and the various changes in the oilseeds support regime by the EU in the period described is not straightforward. This section is an attempt to develop a background to allow some kind of examination of its role as a causal factor in the MacSharry reform process. Section 4.3.1 provides a background to the development of an oilseeds industry in the EU and the contribution of the support system to that development. Sections 4.3.2 to 4.3.4 look at the oilseeds dispute before the enactment of the MacSharry reforms. This chapter considers the oilseeds dispute as a possible cause of the MacSharry reforms and therefore stops the account of the oilseeds dispute here. The effect of the enactment of the MacSharry reforms on the resolution of the oilseeds dispute is detailed in chapter 7.

4.3.1 Background to the Oilseeds Dispute

The oilseeds industry comprises three parts; seed harvest, processing cake, production of oil. The background aggregate data is usually presented in terms of three units; seed equivalent, cake equivalent, oil equivalent. The industry has growers, feed compounders and crushers. The latter two are grouped as processors.

The growth of a significant EU oilseeds industry since the 1960s had created US resentment. EU production of oilseeds ballooned from 600,000 tonnes in 1966 to over 12 mt in 1990 (the middle of the oilseeds dispute). These figures are from various issues of Agricultural Situation in the Community and are in oil equivalent. This resentment was exacerbated in the 1980s. The US Department of Agriculture (USDA) presented the argument that EU imports from the US were $3bn in the early 1980s but less than $2bn by 1988. Over the same period EU output rose from 2.5 mt to 10.3 mt (oilseeds equivalent). Indeed in the period 1985 to 1992 during which the oilseeds dispute took place, production grew further to close to 12.5 mt (of oilseed equivalent) in 1990.

The US resentment was derived from the perception that a competitor to the US oilseeds industry had been created by *unfair* government support. EU farmers were guaranteed two to three times the world price for rapeseed, sunflower seed, soya beans, beans, peas and lupins. The specific charge made by the US was that processors were given a direct aid so that EU oilseeds were bought ahead of imported ones.

This resentment took legal form in a complaint to the GATT Panel in 1985. Importantly, the oilseeds industry was already under the auspices of the GATT after the Dillon Round of 1960-62. The EU had a standing commitment from 1962 to charge zero duty on imported oilseeds (under AII of GATT (the original 1947 agreement) which provides for schedules of concessions to be agreed). Thus, unlike all the rest of the CAP regimes, the oilseeds regime has always been under the auspices of the GATT. As can be noted from the figures above this was initially no great concession on the part of the EU - the industry had been tiny.

The EU, when establishing a support regime for oilseeds in 1966, had worked around this constraint (as part of the construction of the CAP). There would be a guaranteed price for growers varying from two to three times the world average. A direct income payment (DIP) would be made to the processors on the basis of the difference between the world price and the Community guaranteed price which the processor had to pay for oilseeds of EU origin. Theoretically (at least in bureaucratic terms), the purchase of EU oilseeds was subsidised to a level where the net price to the processor was the same as the world price. However, it was the operation of this system which provided the greatest grist to the US mill and led to the referral to the GATT Panel.

4.3.2 The Oilseeds Dispute Prior to the MacSharry reforms

In December 1989, a GATT Panel found the EU oilseeds subsidy regime in violation of the basic principles of the GATT (laid down in the original 1947 agreement). The GATT Panel found the EU 'guilty' on two counts. Count one was a violation of AIII.4 of the GATT by the processor subsidy scheme, which favoured domestically produced oilseeds versus imported ones. The operation of this scheme is described below. Count two is that the same processor subsidy scheme contravened the 1962 commitment to charge zero duty on imported oilseeds.

Article III.4 of the original 1947 GATT agreement deals with ensuring that there is no national bias to any regulation or taxation. Specifically, it mentions the 'regulation of the mixing, processing or use of a product'. This means that there can be no amount guaranteed for domestic producers, and that a contracting party to the GATT cannot restrict the 'mixing, processing or use of a product' in order to protect a small-scale national industry in that product.

The Panel found that the operation of the EU's oilseeds regime contravened the Article in the following sense. The *world price* used to calculate the subsidy for the processors was a *reconstructed* world price and could, in certain circumstances diverge from the actual world price. Hence, the possibility existed of compensation greater or less than the difference between the EU guaranteed price and the price that was trading on the world market. Further, under the EU scheme processors did not have to provide any guarantees that the price they paid was equal to the EU guaranteed price. If processors could manage to get them cheaper, then with the subsidy, the EU oilseeds were effectively cheaper than those on the world market.

The regime was open enough to the possibility of over-compensation and discrimination that the Panel felt able to rule against the EU under AIII.4. This also extends to count two where this discrimination was ruled to *nullify* the legitimate expectations of the 1962 deal viz. that the US would enjoy free trade and allow its competitive advantage in the production of oilseeds and would be free to exploit it. The ruling called on the EU to *adjust* the regime, but it was given a *reasonable* period to do so.

4.3.3 Response One: The Rebalancing Option

The Commission acquiesced to most of the report. There was the obligatory stab back that the US was guilty of the same practices in its dairy and sugar sectors (neither of which were covered by GATT). The expectation was that the issue would be thrown into the UR for settlement with the rest of agriculture by December 1990 at Brussels. This was the genesis of the EU's proposal for rebalancing; that reductions in trade-distorting farm subsidies should be measured against an AMS or *global* yardstick, not on a commodity-by-commodity basis. This way, oilseeds could be brought back into line with the rest of the arable crop sector of the CAP with the 1962 pledge, in effect, being waived.

The EU offers in the UR before the collapse at Brussels focused on the rebalancing option; all this based on idea that the EU could escape the GATT negotiations by offering a reduction in some measure of aggregate EU farm support in exchange for protection from grain substitutes. However, this response was premissed on a successful conclusion to the UR by December 1990. This did not happen; thus another response was required by the EU.

4.3.4 Response Two: A New Oilseeds Regime

This response was to reform the oilseeds regime to the satisfaction of the original ruling. After much debate and compromise, the CoAM agreed a new oilseeds regime on 22 October 1991 (two years after the original ruling). This was, according to the Commission, 'a compensatory payment system with per hectare aids paid direct to the producers'. Direct compensation was paid to the grower for selling his/her oilseeds at the unsupported world price. This replaced the processor subsidy of the old regime. The guaranteed price level in the EU was removed, with the processor able to choose between EU and imported oilseeds, which should trade at similar prices.

The compensation was area-based. Each farm had a defined Maximum Guaranteed Area (MGA) equal to the current area planted of the three oilseeds (rapeseed, sunflower seed and soyabean). Compensation was based on, and limited to, this MGA. The compensation was paid in two parts. Producers automatically receive;

(Target - World Price) x Average Yield x MGA

The average yield figure could be adjusted up or down on a regional basis; each member state had the choice of using the oilseed or cereals yields for each region - subject to overall compensation for that member state not being greater than if oilseed or cereal yields had been used in all regions of that state. The choice of which yield to use was designed to avoid unbalancing the relationship between rape and sunflower seed production (by trying to provide two different compensation schemes for the two products). The second payment was equal to the difference between the automatic payment and the full payment due on the basis of the actual *observed* reference price. The world price, labelled above, was an initial *projected* reference price.

The compromise paper required at the CoAM on 21-22 October to reach agreement on this system, made it clear that any agreement on oilseeds did not in any way affect the CAP reform debate. The new regime was only agreed to apply to rapeseed, sunflower seed, and soyabeans harvested in 1992. The scheme was only enacted for one year, because plans for an oilseeds regime already existed in COM (91) 258 (the MacSharry reform proposals). This oilseeds regime was a temporary measure to meet the immediate demands of the GATT ruling. The longer-term objective of the MacSharry reform team was to enact an oilseeds support system as part of the MacSharry reforms, which was similar to that for cereals and from which a similar GATT position as that for cereals, could be negotiated (ending the 'special' status of oilseeds described in section 4.3.1).

Even though the CoAM *communiqué* which accompanied the agreement of the one year oilseeds scheme, stressed that there was no link with CAP reform, a mechanism discussed in chapter 6 is the psychology of an agreement on a major sector of the CAP, even for a year, which moves the CAP in a similar direction to that proposed in COM (91) 258. This direction is towards an area-based direct income compensatory payments, although the system itself was effectively a deficiency payments system. The scheme infuriated the US and they again referred the oilseeds regime of the EU to the GATT.

In April 1992, the EU oilseeds regime of October 1991 was ruled to involve 'a systematic offsetting of the effect of the general movement of import prices on production levels'. Producers were directly compensated for any price advantage imported oilseeds might enjoy. This compensation was product specific and directly linked to current production levels. This meant that it contravened the tariff concession of the original 1962 agreement. The second compensation insulated producers from movements in import prices, thus denying the possibility of imports enjoying some price advantage. This time the Panel called upon the EU to implement the ruling without delay, unlike in the first case.

The MacSharry reforms were the response to the second GATT Panel ruling on the oilseeds regime. They brought oilseeds into line with the arable crop regime (i.e. DIPs and set aside - see chapter 6). The whole of the MacSharry reforms were then part of the negotiations in the agriculture section of the UR. Chapter 6 discusses political leadership in terms of MacSharry's attempt to get the oilseeds dispute settled as part of the wider UR agreement (when in fact it was a distinct dispute from the UR). A reduction in the vulnerability of the European cereals sector to import substitutes was always an objective of the MacSharry reform team (interview DR;PH). The US negotiators were faced with the following options. Firstly, they could reject the MacSharry reforms as an acceptable system of support in the GATT and risk jeopardising the entire UR or second, accept the MacSharry reforms as part of a post-UR GATT. The latter option contained the additional link that once the MacSharry reforms of the EU arable sector were accepted under new rules (those agreed in the UR) then international politics would not allow the oilseeds regime to be condemned under old rules. Once the US agreed that the MacSharry reformed CAP was acceptable in the GATT, then the EU's 1962 pledge was effectively rescinded.

The oilseeds regime was thus brought into the UR negotiations (despite the fact it was already under the auspices GATT and had twice been ruled against). This aroused American ire. Carla Hills, the United States' Trade Representative (USTR), threatened punitive action if the EU did not reform its oilseeds regime in a way that obviously was in accordance with the GATT Panel ruling, the MacSharry reforms on oilseeds did not obviously do so. Hills argued that the whole credibility of

GATT as a multilateral trade organisation was at stake despite the US trying to lever agreement using unilateral sanctions.

4.4 The Uruguay Round 1986 to 1990

The negotiations of the agriculture section of the Uruguay Round (UR) were close to the MacSharry reform process both in their timing and the substance of what was being discussed. Hence it is an obvious thesis that the UR at different times was a causal factor in the MacSharry reform process. In order to describe such influence this section concentrates on the periods where the CAP decision-making system was directly affected by the demands of the UR negotiations, that is, when the EU had to present a position, respond to a position or prepare a negotiating mandate. Three times the agriculture section of the UR entered the politics of the EU from the realm of international negotiation; in 1990 and the run up to the initial date set for the conclusion of the Round, the publication of the Draft Final Act (DFA) to try to restart the collapsed Round and after the enactment of the MacSharry reforms the agreement of Blair House in December 1992 and its subsequent ratification by the CoAM. This chapter looks at the causes of the MacSharry reforms, so section 4.4 comprises subsections which describe the first two occasions that the imperative of a GATT agriculture agreement affected the CAP decision-making system. The effect of the MacSharry reforms on the conclusion of the agriculture part of the UR is considered in chapter 7.

The description of the UR as a causal factor concentrates on the bilateral negotiations between the EU and the US on agriculture. The Cairns Groups had some influence in the negotiations, but it was the bilateral relationship the EU and US which was the key to any agreement on agriculture being reached in the UR.

The background question is why these two participants were playing this game of negotiating reductions in agricultural support levels? It is not complete to take an economist's view of patterns of global trade and make inferences about the need for an extension of the GATT. To understand why these two entities agreed to discuss agricultural trade liberalisation over seven years requires detailed analysis of interests and institutions on both sides. This is a complex task beyond the scope of this thesis. The question with regard to the explanation of the MacSharry reforms is: If the demands of the UR was at least one causal factor in the MacSharry reforms, why did the EU allow agriculture to be included as part of the UR in 1986? Two answers can be provided for this question. The first is that in previous GATT rounds US had signed final agreement without any genuine progress on international agreements affecting domestic agriculture support systems. The reason why the EU was playing this game was the belief in the Commission and member states that this pattern would repeat itself.

The alternative view is that the Commission and the member states wished to preserve the GATT or some kind of multilateral international trading system and also enjoy the benefits of the UR. They believed that the US would only participate in both these wishes if agriculture was included in the UR. Hence, the Commission and the member states were willing to consider international constraints on the CAP.

The background to world trade in agriculture in the 1980s is instructive for a consideration of the positions of both the US and the EU; between 1980 and 1989 the volume of world agriculture trade grew by 26% (roughly a third of the figure for manufactured goods trade); for 1970 to 1979 the comparable figure for agriculture was 54% (roughly equal to trading in manufactures). Over half of the growth in agricultural trade in the 1980s was internal to the EU, and therefore to an extent stimulated by the CAP. Agricultural production in the EU soared, and through subsidised exports had substantially eroded US market shares. Farm exports as a percentage of total US exports had fallen from 25% in 1974 to 11% by 1990 (figures from The Economist 6/10/90). The recovery of market share in world agricultural trade was one reason for the US to push for agricultural trade liberalisation.

Both the EU and the US faced budget difficulties against a backdrop of the rising cost of agricultural support. The producer subsidy equivalent (PSE) according to OECD figures grew in the crop sector from 45% to 66% in the EU, and from 8% to 45% in the US, between 1979 and 1986. (All figures from chapter 'Agriculture and GATT' by Ingersent, Rayner and Hine in Rayner and Colman (ed.) 1993, page 80). The EU was facing the budget squeeze which led to the establishment of the stabiliser regime in February 1988 (Section 3.3). Similarly, around 1985 to 1986 was the height of the 1980s growth in the US Federal budget deficit and the time of the Gramm-Rudman-Hollings Act of deficit-reduction measures. Thus, both sides had an interest in controlling the growth in agricultural support spending.

It is possible that the interests of each side evolved and changed during the seven years of the UR. The period 1989 to 1990 was marked by a severe drought in the US Midwest. World cereals prices rose and the cost of agricultural support fell in both the EU and the US. Hence, one pressure for negotiated reductions in support was mollified. The recovery of market share objective existed for the US throughout the UR.

4.4.1 Punta del Este Declaration

The Punta del Este declaration of September 1986 committed the contracting parties to negotiate a 'greater liberalisation of trade in agriculture' and 'more operationally effective GATT rules and disciplines' regarding 'all measures affecting import access and export competition'. The commitments made were no more specific than there would be an 'increasing discipline' of domestic agricultural subsidy. However, the fact that the reform of domestic agricultural subsidy regimes was on the agenda represented a break from the way agricultural negotiations had gone in previous GATT rounds. In the Kennedy Round (1964 to 1967) and the Tokyo Round (1973 to 1979) the EU had gravitated to a position of proposing concerted market-sharing agreements, but being explicit in the principle that the CAP would not be the subject of international trade agreement. It seemed that the Punta del Este declaration changed that position. The progress of the subsequent negotiations, however, could support the argument that the view of the EU of the relationship between the GATT and the CAP remained unchanged.

The negotiations for the Uruguay Round began in February 1987 and by the end of 1988 each side had tabled their opening negotiating positions. The US called for the elimination of all forms of trade distorting farm subsidies over ten years. Only fully *decoupled* (i.e. not linked to production in any way) DIPs would be allowed. This became known as the *zero option* and much of the history of the first part of the UR centres on the EU's reaction to it. The EU's initial response to this pre-emption was to emphasise short term reform. Proposals were made for the reduction of instability and volatility on world commodity markets by international market management. This included plans to reduce world surpluses by a series of concerted actions for problem commodities; sugar, dairy, cereals, rice, oilseeds and beef.

In October 1988, the EU proposed an unquantified reduction in support over five years from a 1984 base. Any reduction in agricultural support would have to be measured by some kind of AMS which gave credit for domestic supply control independent of price and exchange rate fluctuations, and is also flexible enough to allow some increases in sector specific supports. The EU introduced the support measurement unit (SMU) in this October 1988 proposal. Further, this proposal contained the explicit point that variable import levies and export subsidies were inviolable in any negotiations of agricultural subsidy reduction. Thus, despite the words of Punta del Este, the EU was conducting the agricultural negotiations no differently from the Tokyo or Kennedy Rounds. However, the EU seemed to have misjudged the intentions of the US which were very different from those previous Rounds.

4.4.2 Mid-Term Review, December 1988

The GATT contracting parties met in Montreal in December 1988 to review progress across the whole UR. Agriculture, known as NG5 (negotiating group 5), was in deadlock, as suggested by the separation of the two opening proposals described above. Four problem areas, intellectual property, textiles, emergency import restriction measures and agriculture were adjourned to give time for the GATT Secretary General to sketch a compromise.

At this time a series of summit meetings between Yeutter (US Agriculture Secretary) and MacSharry took place in which the EU regarded themselves as trying to secure 'a major tactical advantage' over the Americans, Financial Times (FT) 16/3/89, by focusing on short term demands. This included pressuring for immediate reductions in target prices and a reversal of the recent relaxation of the US set aside programme. Further, the EU was pressing hard for a *flexible freeze* in farm subsidies in 1990 ahead of expected medium term reform. The tactic was clearly that a counter to the US position of holding to the zero option proposal.

During this period the first reports emerged of a split in the EU camp between Andriessen (External Affairs Commissioner) and MacSharry. The former is quoted in the FT 30/1/89 that agriculture is 'not so important that the whole GATT Round should fail. That price would be too high'. MacSharry was much less enamoured with the politics of keeping the US happy to secure a wider agreement in the UR (interview MH).

4.4.3 'Geneva' Compromise April 1989

Dunkel (GATT Secretary General) got the negotiations underway after the mid-term hiatus with a compromise paper that stated that agricultural negotiations should proceed on the basis of 'substantial progressive reductions in agricultural support and protection sustained over an agreed period of time' rather than the 'elimination' of the US's zero option. Agreement was made to freeze the level of farm support immediately until the final agreement in the UR, which was expected at Brussels in December 1990. The EU acceded to 1986 rather than 1984 as the base year for the measurement of support reduction. The main intention of the Dunkel draft was to get a dialogue and a gradual closing of positions on the agriculture issue over the 18 months before Brussels. The main groups were required under the Geneva accord to submit proposals for long-term reform. MacSharry believed victory had been achieved by EU - 'crowing' was one description (FT 11/4/89). The concession of a 1986 start date still meant that the EU had considerable 'credit' already on the reduction of farm subsidies.

The US presented their submission on long-term reform as required by the Geneva Accord in October 1989. This mapped out three areas; first, internal support; second, market access; and thirdly export subsidies. Under heading one, internal supports would be divided into *red, amber* and *green* boxes. Red box supports are those definitely trade-distorting and would be completely phased out over ten years (this was close to the zero option supposedly abandoned at Geneva and this infuriated the EU). Amber box supports would be monitored and subject to GATT discipline. Green box supports were those supports judged to create no trade distortions and would be allowed to continue. Under heading two, the US proposed that all import barriers not explicitly allowed under GATT rules would be eliminated. Those 'permitted' non-tariff barriers (NTBs) would continue subject to conversion to tariff quotas in the short run (phased out after ten years) and bound simple tariffs in the long run. The export subsidy heading had a proposal for the complete phasing out of these subsidies in five years.

In the 'propaganda war' outlined later this set of proposals had two distinct advantages. The US was explicit in stating that this meant the end of their Export Enhancement Program (EEP)[2] and the end of their deficiency payments system. If agreed by the EU, it would have meant the end of VILs and VERs and thus the CAP as it was then operating. The fact that the US was proposing an overhaul of their own agricultural support system as part of international trade negotiations caused discomfort to the EU. This was perhaps a lesson learnt for the MacSharry plan for CAP reform (interview CH). MacSharry was forced onto the defensive. It was his judgement that the CAP was more vulnerable in the UR than the US support systems. Accusations were made that the US had reneged on the Geneva agreement. An FT leader (6/11/89) called the proposal 'arguably even more draconian than its stand at Montreal a year ago...'.

[2] The Export Enhancement Program was a system which granted a proportion of public stocks free to traders for export to markets where there was competition from the EU.

The EU position was delivered late in December 1989. The proposal was very general and contained no substantive figures to precipitate negotiation. It was a commitment to a gradual reduction in internal supports over five years. This *implied* reductions in the other two fields identified in the US offer. The position was explicit in rejecting US demands for specific commitments under their three headings. There was also some hint of *partial tariffication.* At least part of the VIL would be fixed and subject to reduction as a quid pro quo for rebalancing. There would still be a variable element to reflect currency and 'other' fluctuations. Rebalancing was the EU's proposal which allowed the raising of tariffs in some sectors against an overall or total fall in support.

Legras (Head of DG VI) was voluble at this time in citing the traditional arguments against a too market-based regime - price volatility creates income fluctuations. The talks again reached impasse. The US would not accept the EU's unwillingness to make commitments in any area other than internal supports (the US was especially keen on export subsidies) or its insistence on rebalancing which it regarded as a tactic for introducing tariffs on oilseeds. Section 4.3 has described this separate dispute which was already covered under GATT rules. The 15 negotiating groups of the UR were to produce 'framework' agreements by mid-1990 in order to give six months for the final details to be worked out.

Early in 1990, MacSharry was angry about the US Farm Bill on two counts. First, the proposal to extend the EEP and secondly, the part of the Bill which allowed farmers to keep DIPs if they switched production to oilseeds. Further, there was no limit put on the budget allocation for the Bill. Yeutter for his part denied that the Bill was intended as a lever in the GATT negotiations, but he was willing to make a clear link between domestic policy reform and ongoing international negotiations. Yeutter stated that 'it would be foolish to say that US Farm legislation will not be affected by the GATT negotiations or vice versa' (AgraEurope Green supplement February 1990). The 1990 US Farm Bill was described at the time as relatively aggressive in press commentaries (see AgraEurope editions at that time). The further trouble was that it encouraged an EU view that the US was 'bluffing' in its strident demands for agricultural support reductions. The calculation was as follows; by the time UR is to enter its final stage then this Bill would be an Act and the US would have changed their system of support in a way that was nothing like the substance or language of the zero option proposal in the UR. It is not credible to believe that the US Congress would immediately rescind the legislation. The Bush administration would have a major problem getting the Senate to ratify anything then agreed in the UR which changed this Farm Bill. Hence, the EU would be negotiating with the US in the final stages of the UR on the basis of the 1990 Farm Bill.

The Andriessen/MacSharry split was again in evidence at this time. In an interview with the FT 6/4/90 Andriessen stated that in practice agricultural matters were dealt with 'very largely' by the Agriculture Commissioner, but that the overall responsibility for the Round was his and he would not allow the discharge of that function to be affected by adverse progress in one sector.

On 31 May 1990, an OECD meeting broke up in public disagreement with the usual diplomatic niceties not being observed. The US had again pushed the programme of October 1989 and levelled criticism at the EU stance. MacSharry went on the offensive. A total elimination of farm subsidies would mean EU farm prices dropping by between 20% and 35% and two to three million farmers being forced off the land. MacSharry referred to an informal trade ministers' meeting at Mexico in April that separated farm discussion under the three headings of the US, and which Andriessen had attended. MacSharry rejected such an approach because it could mean that the EU negotiated away its export subsidies while other countries kept other kinds of subsidies. MacSharry was gaining reputation on both sides as hardline, he was quoted in the FT 1/6/90 as saying 'We haven't come up the river in a bucket'.

4.4.4 De Zeeuw Draft Paper 27 June 1990

The De Zeeuw paper was published as the basis for a compromise at the G7 Summit at Houston between 8-11 July. At the summit, the rumbling agricultural trade negotiations dominated proceedings ahead of aid to the Soviet Union - the issue of CAP reform forced itself above the end-game to the Cold War. Some agreement was reached by the leaders based on De Zeeuw. The final *communiqué* reiterated the intention to agree 'substantial progressive reductions' in agricultural support (in line with Geneva) using 'a common measure of support' and commended the De Zeeuw paper 'as a means of intensifying negotiations'. This was the outcome of intervention at the highest political level. However, the EU was in no way committed - only four of its leaders were there and the final communiqué only 'commends' the De Zeeuw paper. The US and Cairns Group again seized the initiative by adopting De Zeeuw as the vehicle for compromise. Two deadlines were agreed at Houston. By 1 October all contracting parties were required to submit to the GATT Secretariat an estimate of their current level of agricultural support (measured using the OECD's PSE), and by 15 October details of the reductions they were prepared to offer and over what time period.

The De Zeeuw paper was a middle position between the EU and the US. It was closer to the US on the export subsidy issue (the paper was described as 'least compromising' on the point that export subsidies should be reduced), but closer to the EU on the mechanics of internal support reduction; 1988 would be the base year and the EU's AMS would be the measurement tool. The actual question of how much and how quickly was left for the substance of the negotiations - a clear indication of how far behind the talks were in terms of the December deadline. The De Zeeuw paper was in no way the framework for the final agreement; it was still mainly about procedure.

The export subsidy issue was the crux of the problem for the EU. It highlighted the Andriessen/MacSharry battle. MacSharry went public with new figures that the end of export subsidies would mean the end of the CAP, and three to four million farmers coming off the land. MacSharry was much more robust and open about his interest in defending the CAP than he had been previously. For example, his public comments were about the CAP as 'social cement' and one of the 'central pillars' of the Community. The export subsidy issue was the one chosen by the US to increase the pressure on the EU. It had appeal to the Cairns Group and was used by the US to try to isolate the EU.

4.4.5 The Agreement of the EU Position Ahead of the Intended Conclusion of the UR at Brussels in December 1990

MacSharry presented proposals to the College of the Commission for the final negotiating position of the EU in the agriculture section of the UR on 19 September. The proposal contained three main elements. The first was a reduction in internal support for agriculture by 30% over the period 1986 to 1995. The date 1986 was chosen so that the EU could enjoy the advantage of the reduction in measured support which had occurred since the Punta del Este declaration. The base from which the reduction would be taken, was an AMS calculated on the average support levels between 1986 and 1988. The second main element was the tariffication of non-tariff import barriers. An element of this total tariff would be defined as fixed and reduced by 30% over the period. The calculation of the fixed element would be made on the average prices (world and domestic) for 1986 to 1988 also. There would be a concomitant reduction in export subsidies by 30%. The rebalancing proposal of December 1989 was retained.

The proposal was rejected at the 19 September meeting. Andriessen (Holland), Bangemann (Germany), and Brittan (UK) were important in voicing the following criticism. The 30% cut over 1986 to 1995 was too small and the rebalancing proposals were too excessive. A campaign by MacSharry and his team and the intervention of Delors brought the College to agreement on October 3 (something he was not consistent at through the UR, see Grant (1995) and the details in chapter 7 of the Blair House Accord (BHA)). The package was the same as before, except for a slight alteration in the wording, to allow Andriessen greater flexibility over the level of protection and export subsidy reduction being negotiated.

The proposal was sent to the CoAM for formal endorsement as a negotiating mandate. The next month contained seven CoAM meetings (only four of them serious) and one European Council on the subject of the proposal and represented the 'most emotional and protracted farm policy debates for years' FT 27/10/90. The CoAM first considered it on 8 October. Only the UK, Netherlands and Denmark initially agreed to it as a mandate for negotiations. Crucially, the French and German governments rejected it, the main criticism being that no study had been done by the Commission of the impact of the 30% cuts, nor any proposals brought about how any adverse effect on farm incomes could be relieved.

For a month, the agenda of the Trade and Agriculture Councils consisted solely of the need to agree a negotiating mandate. There was a classic game of 'buck-passing' between the two Councils. The CoAM passed the issue to the Trade Council after the 8 October meeting. The Trade Ministers refused to consider the proposal without an official opinion from the CoAM. The FT 11/10/90 noted that 'paralysis has gripped the EU'.

The German position hardened in October as their national elections (in December) approached. In the 15 October Council, the German farm minister, Keichle, opposed the 30% cut unless compensation measures had been agreed in advance. This line had been agreed by Kohl. AgraEurope No. 1411 said of Keichle that he was 'not going to sacrifice his farmers on the altar of free trade'.

An agreement was almost reached at a CoAM on 26 October. The German demand was met by a clause that the Commission would undertake 'to submit, rapidly, concrete proposals' which would re-orientate CAP spending to support the incomes of farmers at a 'viable' level. After 16 hours the meeting collapsed after Mermaz (France) balked at the effect on Community preference and import penetration in the EU. The EU could make 30% cuts in support levels by production control rather than price cuts; when tariffs are cut this would give imports to the EU a proportionately greater price advantage. Mermaz proposed that reductions in tariffs be linked to reduction in domestic prices.

The Rome European Council of 27-28 October collapsed over failure to get the agriculture part of the EU's 'final' negotiating position in the UR agreed (it went on for another three years). Delors delivered a rebuke to Thatcher for her exhortation to get the agriculture issue sorted out '...we are not the Americans who negotiate and then consult their Congress'.

Agreement was reached at the 6 November CoAM on the basis that reductions in tariffs could be no quicker than the reduction in domestic support prices. The proposals for a 30% reduction in support, tariffs and the value of export subsidies were maintained.

Against this EU turmoil, the US was able to achieve another propaganda victory by presenting its final package to the GATT Secretariat on 12 October before the deadline set at Houston. This proposal was submitted under the three headings the US had been using throughout the Round. Looking first at internal supports, red box subsidies should be reduced by 75% from a 1986 to 88 average over ten years from 1991 to 1992. Amber box subsidies would be reduced by 30% and same conditions as red box. All these reductions would be commodity specific, but allow that an AMS might be used to 'express and monitor' the overall effect. Under the border protection list, all NTBs would be turned into tariff equivalents (TEs), bound and reduced by 75% over ten years. Import access would be improved by the use of tariff quotas using 1986 to 1988 imports as a base, and expanded by 75% over ten years and then removed. Further, the submitted proposal targeted export subsidies for reduction by 90% from an 1991 to 1992 average both in terms of aggregate budget outlay and the total quantity of exports assisted.

The chasm that existed when the EU finally made an offer was great. The US would not accept the EU's unwillingness to make quantitative commitments on border protection and export subsidies. There was no acceptance of the EU's argument that agreement to reduce internal subsidies alone would also mean commensurate reductions in border protection and export subsidies.

In the period up to the final Brussels meeting the EU was very much on the defensive. The FT 28/11 stated that the EU appeared 'forced to defend a position that seems timid and protectionist and is highly unpopular with all save a small but vociferous interest group'.

4.4.6 Brussels 4-9 December 1990

Predictably, from these positions, no decision was reached. MacSharry had no flexibility in agriculture and the US was not willing to compromise on the principle of the three headings approach and quantitative limitations. A last minute paper by Hellstrom, the Swedish Agriculture Minister, was a microcosm of the whole UR, in terms of agriculture, up to that date. The proposal was a reduction of 30% over five years from 1991 based on 1990 support levels. Also there would be a 30% reduction in export subsidies over the same time period using 1988 to 1990 average. Hills accepted the offer as a 'basis for negotiation'. It was rejected by EU - the MacSharry offer was at the extreme of the 'politically feasible'. This part of the UR is important because of its timing - the MacSharry reform proposals were introduced within the Commission the week after the collapse of the UR at Brussels. This period is covered in greater detail in chapter 6.

4.4.7 Introduction: Uruguay Round 1990 to 1992: From Brussels to MacSharry

The history of the UR after the original deadline had been missed at Brussels, is centred on the proposal of Dunkel's DFA on 20 December 1991. This section will highlight this proposal as the base of the resolution of the outstanding issues. Any variable considered significant in the completion of the agriculture part of the UR must be ranked according to how it relates to this Final Act. Chapter 7 completes the history of the UR from 1992 to 1993, describing how the enactment of the MacSharry reforms by the EU affected the subsequent UR negotiations.

4.4.8 Background to DFA: The Restart of February 1991

Dunkel announced the resumption of the UR on 19 February 1991. The participants had agreed to negotiate 'specific binding commitments' under the three headings used hitherto only by the US; import access, internal support and export subsidy. This appeared to be a major concession by the EU. The view by Dullforce (FT 22/2/91) was that this represented, for the first time in the UR, a well-defined objective for negotiations. However, the extent of the concession can be judged by the fact that the EU did not publicly change its negotiating position through 1991.

On 4 February 1991 an initiative on CAP reform was promulgated by Agriculture Commissioner MacSharry (COM (91)100). The formal progress of the MacSharry reforms is the subject of chapter 6. These are described by Ingersent, Rayner, Hine (1993) as 'in the spirit of MacSharry'. However, the important point about this juncture is that a dialogue within the Community had been started - its apparently symbiotic relationship with the UR is the reason for this whole section on the UR as a causal factor. AgraEurope Green Europe supplement predicted as early as February 1991 that the EU's internal reform plans would be 'one of the most potent cards in the whole poker game' of UR agriculture negotiations.

4.4.9 February to December, 1991

The period from February to December 1991 was characterised by slow progress on the agriculture section of the UR. The Commission's policy-making focus was on CAP reform and the 1991/92 price package. This fact started a debate about the ordering of GATT negotiations and CAP reform. Peter Lilley (the UK Secretary of State for Trade and Industry) insisted that a successful conclusion of the UR must precede CAP reform; if the sequence were the other way round the UR would be threatened by the EU's 'limited capacity for flexibility' (FT 3/8/91). This 'sequencing' debate is a crucial one in trying to define a relationship between the UR and MacSharry reforms.

A certain optimism was generated by a Bush, Delors and Lubbers (President of the Council of Ministers) meeting in the Hague on the 9 November. This was the first high level political intervention since the collapse of the UR at Brussels in December 1990. EU officials were quoted in the FT 20/11/91 as advertising the possibility of a deal on agricultural trade. US officials were more cautious but agreed that the Bush intervention had relieved a 'political logjam'. The talk was of 30% to 35% cuts in the three areas over five years. Disagreement centred on the base period for the measurement of the cuts (US wanted 1986 to 1988 against the EU's demand of 1986 to 1990), the implementation period, whether export subsidy cuts would be measured by budget allocation or export tonnage, whether the DIPs envisaged in the MacSharry Plan of July 1991 (COM (91)285) would be placed in the 'green box' of exempt subsidies and finally, the EU's demand for rebalancing.

The optimism was dissipated as soon as the technicians went to work on the areas covered in the Hague meeting. Legras (Head of DG VI) left Geneva after one day of meetings with Richard Crowther (US Agriculture Under Secretary). Disagreement festered on the quantitative limitation on subsidised agricultural exports. The US proposed that two thirds of the 35% cut in export subsidy support should be in the form of the volume of subsidised exports. The EU would be constrained to export a maximum of 11 mt of cereals by the end of the implementation period. This compared with 20 mt in 1990, 23 mt then estimated in 1991 and a 1986 - 90 average of 17 mt. The US countered with the point that subsidised cereal exports stood at 13 mt to 14 mt tonnes when the Round began in 1986. All figures from the FT 6/12/91.

4.4.10 Dunkel's DFA, 20 December 1991

The DFA was the key proposal in the development of the negotiations on agriculture in the UR after 1990. It effectively formed the base for the final agreement. In terms of assessing it as causal factor in the passage of the MacSharry reforms, the beginning of 1992 is different to the beginning of 1991 because of this paper.

This proposal had a common implementation period (1993 to 1999) but two different base periods. Internal supports and border protection reductions would be measured against the average for 1986 to 1988, but export subsidies would be measured against the 1986 to 1990 average, thus splitting the difference of the demands described above. The Final Act was organised under the three headings; market access, internal support and export subsidies.

Market access was subject to an average 36% reduction in customs duties including those NTBs which had been tariffied. There would be a minimum 15% reduction in any line. Further, there would be minimum access opportunities, initially set at 3% of the importer's base period consumption and rising to 5% in the final year of implementation.

Under internal support reductions contracting parties were required to implement a uniform 20% cut in an AMS measurement of subsidies. The AMS defined was;

$$(P_s - P_r)Q_s$$

where P_s = internal price, P_r = external reference price defined in domestic currency and Q_s = production.

This measurement did not 'credit' the EU for supply control to the level that their SMU would have done. Here P_s is replaced by a shadow price which reflects the imposition of a quota or some form of production limit (for example the stabiliser regime's MGQ). Hence, measured AMS would have fallen in the EU before the internal price (P_s in the DFA measurement) was adjusted at all.

This section of the DFA also included a set of criteria for DIPs to qualify as decoupled from production, and therefore green box. If DIPs were to be related to prices, production or the employment of factor inputs then only a fixed base period could be used. Also, eligibility for payments could not be made conditional on continued production after the base period. The export subsidy heading called for a 36% reduction in budget outlays on export subsidies and a 24% reduction in the volume of subsidised exports.

The highlights of the differences between the DFA and the EU's official negotiating offer (Brussels, December 1990) are as follows. The base period was changed from 1986; the EU had informally been moving away from this point through 1991. The method of measurement of that baseline support level was changed. The DFA outlined 'specific binding commitments' in three areas not just in domestic support reduction. Further, there was an asymmetry in the actual reductions in these three areas; the market access and export subsidy constraints were larger than that for internal supports. The 20% cut demanded here seemed far from binding compared to the EU's offer of 30% in December 1990. Such a conclusion is supported by the fact that it was the proposals under the export subsidy heading which was the substance of negotiations on DFA. This comparison of these two positions one year apart is instructive, because it defines the step the EU had to make to achieve agreement in the UR. An assessment of the influence of the MacSharry reforms on making that step can be made from this.

The US agreed to the DFA as the point to proceed negotiations from. The EU held back from agreement with this; the 23 December CoAM called the DFA 'not acceptable, and therefore has to be modified'. DFA was 'not acceptable' on a number of counts. First, the market access proposal did not include rebalancing and tariffication did not include a margin of Community preference. Second, as described above, the AMS measurement did not give the EU's demand on credit for supply control. Thirdly, and the point which would rumble through the rest of the UR, the EU did not like the volume requirement in the export subsidy reduction programme. The final point was that the Dunkel requirements for green box status would exclude the DIPs envisaged in the MacSharry proposals for CAP reform.

The CoAM 10/11 January were considering CAP reform and GATT side-by-side. This was against a backdrop of protestations by senior Commissioners and Council members that the two issues were not linked. The UK, German, Dutch and Danish farm ministers were very keen for GATT agreement. Brian Gardner in AgraEurope 24.1.92 speculated that after the Council meeting of 24 January MacSharry was considering asking the College to change CAP proposals to fit in with the GATT negotiations. Specifically, there was a discussion about extending the transition period of COM (91) 258 from three to five years and a consideration of time-limited compensatory payments that would qualify for the GATT's green box i.e. judged as production neutral. AgraEurope 24 January 1992 (page 2) 'It is quite clear that the Commission's thinking, in trying to make the reform plan more 'GATT-able', is moving along these lines'. This is something MacSharry vehemently denied in the interview with him for this thesis in October 1994.

The Council's deliberations on 27/28 January were described as muted by Agence Europe and AgraEurope. This reflected Ministers desire not to talk about CAP reform and GATT together. AgraEurope 31 January 1992 reports that the majority view at this meeting was to the need to reach agreement on CAP before any concessions in the UR. The Council's basic position of the 23 December on the DFA remained and effort was employed in the first six months of 1992 towards the agreement of the MacSharry reforms.

4.4.11 MacSharry Reforms 22 May 1992

The Council of Ministers enacted CAP reform based on the proposals of July 1991. In some respects the MacSharry reforms exceeded the requirements of DFA. Subsidised EU cereals prices would be reduced by 29% over three years. This reduction in turn would allow subsidised beef prices to fall by 15%, pork to fall by 15% and butter to decline by 5%. These reductions in internal support were expected to eliminate the need for most export surpluses by 1996 to 1997. Hence the argument offered by MacSharry at the time of the enactment of the reforms that export subsidies would be eliminated rather than reduced as under the DFA, and this would be achieved by 1996 to 1997 rather than over the six years of the Dunkel plan. Export subsidies were 'the high octane fuel of the GATT row' according to Gardner (FT 22/5/92). However, the idea that CAP reform addressed this issue was a gloss added by the Commission. The EU was unwilling to agree to the 24% volume cut in subsidised exports proposed in DFA. The MacSharry reforms, by providing for compensatory DIPs to farmers, opened up another area under the

DFA. This concerned whether these payments would qualify for green box exemption.

This section has covered the history of the UR in terms of being a cause of and influence on the MacSharry reform process. Only that part of the UR which happened before May 1992 is therefore relevant to and included in this chapter. Chapter 7 contains the story of the UR after the MacSharry reforms were enacted.

4.5 Conclusion

This chapter breaks down the causes of the MacSharry reforms into three groups. These are first, the causes which are internal to the EU, namely the operation of the CAP in the period before the MacSharry reform process started. Secondly, the oilseeds dispute was a pressure for CAP reform from outside the EU. The third group of causes, also from outside the EU, are those associated with the negotiations of the agriculture section of the UR. This chapter has outlined each of these groups of causes in terms of which part of the EU decision-making system they affected, along with how and when they affected that part of the system. This provides a description of the environment within which the MacSharry reform process took place. There are two significant differences between the pressures for CAP reform emerging in the late 1980s and early 1990s, and the pressures which led to the milk quota and stabiliser reforms. First, there was the operation of the stabiliser regime which had not had the desired effect of controlling EU cereals production and the related budget consequences, but which was yet imposing politically difficult automatic price cuts. Secondly, there was an external pressure for reform. The EU was involved in international trade negotiations the agenda of which was dominated by the US's demand for substantial reductions in the level of border protection, internal support and export subsidies.

CHAPTER 5: THE PUBLIC CHOICE PARADIGM OF DECISION-MAKING SYSTEMS

5.1 Introduction

The increasing number and scale of interventions by governments in their economies since the Second World War has inevitably generated a commensurate research interest in economics. There is a vast, varied and long-standing field of scholarship pursuing this interest. The pertinent research material here are the answers to the questions of why economic policies are changed, when they are and in the way that they are.

This chapter describes the public choice paradigm alternative to the neo-classical economics approach to the issue of CAP reform. Section 5.1 develop the public choice approach. Section 5.2 discusses the diversity of models within the public choice paradigm. Section 5.3 looks at the application of public choice research to the question of explaining the reform of the CAP. Section 5.4 provides a justification of the public choice paradigm as appropriate to use to generate common analytical frameworks to employ in the understanding of the MacSharry reforms.

Three frameworks for understanding the CAP reform process are presented in sections 5.5 to 5.8. The arguments for and against the ability of each framework to aid an understanding of a CAP reform process are provided. Section 5.9 selects the institutions framework to confront with the evidence of the MacSharry reforms case study in part two of this thesis.

5.1.1 Introduction to the Public Choice Paradigm

The public choice nomenclature is equivalent to the *new* political economy, or The Economic Approach to Human Behaviour to borrow the title of Becker (1976). It is also in certain literatures the equivalent to rational choice theory and social choice theory. Mueller (1989) defines a public choice approach as the 'economic study of non-market decision making, or simply the application of economics to political science'. Economics applied to politics is the theme adopted by Becker(1976) and Northglass (1981). Becker (1976) borrows the famous Robbins' definition of economics, 'the scientific study of the allocation of scarce resources which have alternative uses' to suggest that the notion of scarcity is equally applicable to the non-market sector of an economy. The analogy of the market from microeconomics can be extended to a political market for government intervention and regulation.

The public choice paradigm has three basic premisses. These are the assumptions which cannot be challenged or altered without changing the paradigm. The first is methodological individualism. The unit of explanation of observed social phenomena is the individual. Public choices i.e. choices by any component of the political system, are ultimately made by individuals, and this is the base of any explanation of a decision that has been made.

The second premiss of the public choice paradigm is that individuals are rational actors. The three strict requirements of a rational actor are described in Elster (1986). The agent knows of a set of feasible alternatives. The agent has a set of beliefs about the causal connection of the agent's choice to an outcome. The agent ranks subjectively these outcomes and chooses an action from the feasible set which is expected to lead to the highest ranked outcome. The second requirement of the rational actor is that preferences are stable, so as to avoid the conundrum that most actions can be justified *ex post* as rational in terms of this is what the agent actually wanted. Third, opportunity cost is the standard by which ends are chosen and the non-market sector may often use shadow or imputed prices.

The third premiss of the public choice paradigm is that the preferences of individual agents in a political system are to some extent dictated by their position in that political system. This allows the modelling technique of the representative individual to be used. An abstract representative individual can be nominated for some component of the political system, an interest group for example. This individual's preferences can be stated as being conditioned by being a member of that interest group without any detailed knowledge being required about that individual. This relieves the research burden of accounting for how an individual agent in the political system has formed and developed his/her actual preferences. Using this technique the key mechanisms of interest group membership or actions can be studied.

This third premiss provides for a great diversity of public choice models. There are a large number of different conceptions about how political systems function. The subject of comparative politics examines how political systems differ, and on what basis they can be compared. Further, even for a given political system there can be strongly divergent views on where power lies and the relationship between different components of the system. This point about the diversity of public choice models is considered in section 5.2.

The public choice paradigm sets itself against naive empiricism, described by Bernstein (1976) as the lack of an explanatory foundation when correlations break down. Instead, the public choice paradigm seeks to support models which extend '...the scope and methods of debate and research in political science towards new forms of logically and mathematically informed reasoning...' Dunleavy (1991:259). The public choice approach also casts itself as the formaliser and organiser of arguments about observed social realities. It is a paradigm of how to analyse a decision-making system. Within this paradigm a number of frameworks can be developed. As will be emphasised throughout this chapter, public choice analysis provides no definitive answer, just a paradigm within which frameworks can be developed and considered.

5.1.2 Two Strands of Public Choice Research

Dunleavy (1991) and Green and Shapiro (1994) note that a bifurcation has occurred in the field of public choice between the elaboration of theoretical rational actor models and empirical applications of public choice. There is a large field of complex theoretical models in the public choice paradigm, which are based on restrictive assumptions about the degree of rationality and how political systems work, and therefore seem to have little relevance to the 'messy' empirical world of government decision-making.

The second field of public choice scholarship attempts to apply a public choice approach at an empirical level; to explain observed public choices. This class of public choice models aims to (Dunleavy, 1991 :2) '...offer a compelling, applied and relatively detailed account of how the core processes of liberal democratic politics operate'. They eschew the abstraction of the first strand of the public choice paradigm; to repeat, they use a public choice approach to try and explain observed government decisions. The MacSharry reforms are an observed outcome of the EU agricultural decision-making system. Thus, this thesis is placed in this second strand of public choice work[1].

The split between the two strands of public choice scholarship is not so complete that there is no cross-over. Insights and concepts developed in the abstract field have been used to try to understand government decisions. Therefore, the literature of the theoretical, abstract part of the public choice paradigm is briefly surveyed in sections 5.2.1 to 5.2.3.

[1] Some work in the first strand was completed at the end of the first year of this project. The results were disappointing in terms of the answering the questions set up in chapter 1 and hence the work is not included in this final version of the thesis.

5.2 The Diversity of Models and Frameworks Within the Public Choice Paradigm

The third premiss of the public choice paradigm, that individual preferences are governed to a large extent by that individual's position in the political system (Allinson, 1971), allows different specifications about how the political system works to be introduced. Different conceptions of the important elements and relationships in a political system can be used within the public choice paradigm.

This point leads into sections 5.5 to 5.9 which discuss three different frameworks for understanding the CAP decision-making system. These are based on different understandings of that system. One of the objectives of this thesis is to compare these different frameworks and choose one as superior in analysing CAP reforms. All three frameworks are within the public choice paradigm and a discussion of their relative merits does not imply an attack on the paradigm.

5.2.1 The Diversity of Public Choice Models: Examples from the First Branch of the Discipline

A brief examination of some of the central works of the first strand of scholarship in the public choice paradigm suggests a divergence in the theories of the state[2] employed in models. The different frameworks for understanding the functioning of the state can be divided into those with the state as an independent agent or series of

[2] Political scientists tend to use term 'state' in such discussions to preserve a distinction between the state and the government. The formal models in the first strand of the public choice literature commonly use the term 'government'. The two terms are used interchangeably in this chapter.

independent agents, and those where the state's activity, i.e. public policy, is the outcome or result of the interaction of the political system. The former category can be further divided into those with the state as an omniscient, benevolent, social welfare maximiser, and those of the *state centric* approach where the state pursues its own agenda, separate from any social welfare function, within constraints imposed by the society. This basic dichotomy is suggested in Przeworski (1985). In the political economy literature, a similar distinction is made by Bhagwati (1982) between models with a *self-willed* government maximising some objective function and a *clearing house* government which responds to the pressures from the political system.

The state, as social welfare maximiser, is simply a translation of the usual rational economic agent with a given preference function to government level with society's aggregate preference function. The usual Arrow's Impossibility Theorem dilemma is usually circumvented in the models by allowing dictatorship. Riker (1982) is a clear outline of Arrow's proof. The benevolent dictator model describes the state as choosing public policy, in the same way that a rational economic agent might spend the family budget.

The state centric approach, in its most complete form has the institutions of the state having solved the free-rider problem of collective action (Olson, 1985) both within the institutions of state and between the institutions of state. The state is still a unitary decision-maker, and an agenda is pursued and maximised subject to the constraints imposed by the ability of other organisations to muster political and economic power against the state. A less demanding interpretation has the state as a series of institutions who are competing with each other to control aspects of public policy, and who will use alliances with other groups in society to push issues and causes against other institutions of the state. This view has large scope for applying the techniques of game theory; state actions can be understood as the outcome of a series of games between institutions of the state and between those institutions and groups in society. The distinguishing feature of this version of the state is that the state controls the agenda of public policy and initiates public policy. It manages to do this by controlling information, monopolising the use of force and centralising economic power: the usual litany which comes under the title state power.

This concept of state contrasts with the view of the state as an abstract from the society below and whose power is *captured* by competing groups. Interests are said to compete for the rents that can be created by state intervention. The general point for this section is that public policy is the outcome of the political battle of various interests in society and the state itself is not an agent but rather a source of power to be won or controlled.

5.2.2 State Centric Approach

There is a class of public choice models in which there is a self-willed government maximising some weighted social welfare function. This is sometimes called a political or policy preference function (PPF). Rausser and Freebairn (1974) were the first to provide empirical estimates of a PPF (in their case the self-willed government of the US beef industry). They imputed the welfare weights in the PPF given to each sector affected by US beef import quotas. In an EU context, Burton (1985) used a PPF approach in the dairy sector to predict the level of milk quotas. Despite these empirical applications, the PPF approach belongs to the first strand of public choice literature. The underlying political process which produce these weights in the PPF is not accounted for.

5.2.3 Rent Seeking and Clearing House Models of Government

Rents are returns on factors of production in excess of that level of return required to keep that factor employed in its present position. Governments can produce rents by intervening in the economy. Interventions of this kind are thus desirable to those owning such factors. Hence, there exists a market in political support; interest groups or individual voters provide different forms of political support, from votes straight through to bribes, to politicians who respond by providing interventions and associated rents. Examples abound; Krueger (1974) describes the competition for import licences in India as one of the clearest examples of rent-seeking.

This literature is divided on the relative importance attached to interest groups or individual voters in producing the political pressure for politicians to respond with interventions in the economy which produce rents. Brooks (1995, 1996) and De Gorter and Swinnen (1994, 1995) disagree on the issue of whether voters are rationally ignorant of the effects and the costs of agricultural policies. The rationally ignorant voter was described by Downs (1957). Government interventions may have concentrated benefits and spread costs widely. The more diffuse is the incidence of the costs of the intervention, the less incentive there is for the individual voter to learn about that issue. The voter remains rationally ignorant.

Brooks (1996:370) states that the assumption that voters are rationally ignorant is '...intuitively central to an understanding of why most OECD countries subsidise their farmers...'. The application of economics to politics has consistently produced the conclusion that the information flow in the democratic process is filtered and noisy when compared to the economic market (see Riker, 1982). Voting is infrequent, one vote encompasses a series of issues, and everyone votes not just those directly associated with the decision. In the economic market agents do not vote on matters of no particular interest to them. Further, information is cheap (classic supermarket analogies apply here) in an economic market. This kind of market is a superior mechanism for revealing sovereign preferences, because people feel the full cost and benefit of their decision (assuming away externalities). In a world of rationally ignorant voters, interest groups are the key actors in the political system. Through collective action they produce political support and receive rent-creating interventions in return from politicians (aka *pork barrel* politics). In his model of interest groups, Becker (1983) notes 'voter preferences are not a crucial *independent* (my italics) force in political behaviour'. Rather, it is the observation that farm interest groups are relatively more efficient (compared with other interest groups) at producing political pressure that explains the structure of agricultural policies in OECD countries.

De Gorter (1994) and De Gorter and Swinnen (1994, 1995) argue that the activities of interest groups are not a fundamental factor in determining the structure of agricultural policies across OECD countries. Voters are rational, self-interested and fully informed about agricultural policies, rather than rationally ignorant. An understanding of the nature of agricultural policies in the OECD requires an analysis of the interaction of political support-seeking politicians and support-supplying voters. The politician-voter link is more important than the politician-interest group link.

5.3 Public Choice Approaches to CAP Reform

The literature looking at the specifics of a public choice approach to the CAP decision-making system belongs largely to the second strand of public choice paradigm research. Olson (1965, 1977) and Becker (1983) assert that farmers in industrial countries are relatively more efficient at producing political pressure than consumer groups, and therefore agricultural policies tend to favour farmers. This is a claim taken up by Senior-Nello (1984) and Averyt (1977) with regard to the CAP. The farm lobby has been historically strong in the member states and at a Commission level. This is because European farm lobbies are well organised and well resourced and have solved the free rider problem (Olson 1985). The concept of *exit and voice* introduced by Hirschman (1970) has been used here; the economic structure of agriculture means that farmers have limited exit from the industry, therefore as a group they tend to rely on voice i.e. political activity to sustain their livelihood.

Koester (1978) and Schmitt (1986) focus on the institutional peculiarities of the CAP decision-making process to explain a bias towards the farm interest and against consumer interests. This fits in with work done in the first strand of public choice on the importance of voting rules and the organisation of committees (Mueller, 1989; Riker, 1982). Senior-Nello (1984) and Schmitt (1986) highlight two peculiarities in the CAP decision-making system which affect the type of agricultural policy decisions taken and the manner in which they are made. The first is the operation of the convention of unanimity after the Luxembourg compromise of 1966. The easiest way to reach agreement in the annual price review among countries with different agricultural sectors and different inflation rates is to keep raising the common price to the extent that each member state is satisfied, i.e. will not employ the veto. This leads Schmitt (1986) to the conclusion that the increase in the level of prices under the CAP has been greater than would have been the case if there had been a series of national agricultural price support policies (the counterfactual of there being no CAP).

Petit *et al.* (1987) make the further point that the unanimity principle in the CoAM means that any one member can block an issue, so issues are forced into packages by a form of politicking known in US politics as *log-rolling*. The argument runs that there is a *core* to any package of issues that have a high cost to some countries and on which those countries might credibly threaten an indefinite veto. Around the core are 'peripheral' issues of importance to a small number of countries and which may be traded for positions in the core. The concerns of national ministers of agriculture about how the national constituency will react to any decision means that Council meetings can frequently be drawn out in order to give the impression of last ditch defending of certain interests, even when those interests have already been conceded to achieve agreement. Smith (1990) calls it the *blame game* with regard to the US Congress.

The number of CAP decisions taken according to the need to achieve unanimity has diminished substantially since Schmitt and Senior-Nello wrote their articles. The CoAM negotiations which led to the enactment of the MacSharry reforms were conducted by the President and the Commission, on achieving a qualified majority. The re-introduction of qualified majority voting in CAP decision-making (provided for in Article 148 of the Treaty of Rome) came at the same time that the Single European Act of 1986 provided for its increased use for measures to complete the single market.

The second peculiarity of the mechanics of CAP decision-making highlighted by Senior-Nello (1984) and Schmitt (1986) is the ability of the CoAM to spend without reference to Ecofin or the effect on the total EU budget. As noted in section 3.4, this was a prime motivation behind the Delors package of budget measures agreed in February 1988. As Schmitt (1986: 338) notes, describing this ability of the CoAM to spend beyond any previously agreed limit, it is '...a consequence of Article 42 which states that 'obligatory expenditures' have automatically to be financed by the budget. Financial expenditures connected with farm policy decisions are in almost every case such obligatory expenditures'.

5.4 Rationale for the Use of the Public Choice Paradigm in this Thesis

Sections 5.1 to 5.3 set up the public choice paradigm as an alternative to mainstream agricultural economics in the explanation of CAP reforms. It is employed in this thesis for two main reasons. First, it can provide different frameworks for understanding CAP reforms. This flexibility of the public choice approach is advantageous when analysing CAP reforms which have occurred at different times over a long period. Second, the public choice approach suits the issue of CAP reform. As argued by Hagedorn (1985), CAP reform should be seen as the result of a process. Within this process there are a number of links that can be established. The three premisses of the public choice paradigm encourage this search for smaller and smaller links, or reduction in the time between causes and effects; the whole thrust of a public choice approach is to break down a collective decision into its constituent decisions made by individuals. To understand the CAP reform process requires a disaggregated perspective and the public choice paradigm encourages the disaggregation of observed government choices.

5.5 Three Frameworks for Understanding the CAP Reform Process

The three frameworks for understanding the CAP reform process are presented in this chapter. All are within the public choice paradigm. They are; the interest groups, the prominent players and the institutions. Each of the three frameworks share the position that political systems can be discussed in terms of a state and a polity sectioned into groups. Each differs in its conception of the state and the nature of the relationship between groups and that state. This is the same point made in section 5.2 about the diversity of frameworks within the public choice paradigm.

The *interest groups* framework holds that the state is an abstract entity, a black box whose power is captured by groups competing in the polity. The socio-economic interests affected, or potentially affected, by state interventions compete for control of the state. The state is not itself a political actor, but a reflection of the competition of interest groups. Any analysis of what legislative decisions have been made, or will be made, must start from considerations of group competition. Moyer and Josling (1990) call these 'outside political inputs'.

The *prominent players* framework and the *institutions* framework both admit the state as a political actor. Further, both aim to open the black box of the state; the state is not a unitary actor, rather it is a set of institutions competing for legislative, bureaucratic and financial control of public policies. In common with the interest group framework, both assume that there are organised interests in society who are affected by state intervention and are hence interested in affecting state action. The prominent players and institutions frameworks both start from the position of a fragmented state and a plurality of interests competing for state action. They differ on how they define that relationship.

The prominent players framework is the view that CAP legislation should be viewed in terms of the outcome of the interaction of prominent players. In any public policy sphere, certain interest groups and certain state institutions are listed as prominent players. Their web of inter-relationships should be examined to see how institutional structures affect interest group influences on CAP decision-making.

Prominent interest groups enjoy the political power to force decisions to be made or not made. However, an integral part of their influence is the privileged institutional access they enjoy. Their relationships with the institutions of the state are central to understanding agricultural policy. Institutions matter because they affect '...the structure, scope and character of activity by interest organisations' (Grant 1993:44).

Smith (1993) provides a typology of these state institution/interest group relationships, running from closed, stable policy communities (Richardson and Jordan, 1979; Richardson, 1982) which have been applied to the EU generally and agriculture in particular (Grant, 1993; Smith, 1990) to open, unstable issue networks. The histories of the CAP reforms of 1984 (Petit *et al.*, 1987) and 1988 (Moyer and Josling, 1990; Tracy, 1989) have been written within the prominent players framework.

The *institutions* framework holds that when, how and what legislative decisions are made about the CAP is a function of the configuration of the path along which any legislative proposal must pass. The path begins where the power of proposal exists and finishes where the power of veto resides, or the power of formal enactment. It is the configuration of all those who hold some claim on the policy process; those components of the political system who are in a position to claim some stake in, and influence over, the proposed legislation.

The institutions framework holds that the actors with the greatest influence in the black box of CAP decision-making are the institutions directly involved in CAP policy. In contrast, interest groups are only able to achieve a very limited influence in the legislative process. They are not central to understanding why CAP reforms occur when they do, and in the way that they do. CAP reforms are conceived, constructed and enacted within the black box of state institutions. The institutions involved have their own agenda for, and compete for control of, public policies. This competition cannot be reduced to the pressure from interest groups, nor are interest groups important allies in this competition.

This remainder of this chapter sets out the different frameworks. The arguments for and against each framework's relevance to the understanding of CAP reforms are presented. This will serve to highlight the key differences between the three. Section 5.9 selects the institutions framework to confront with the evidence of the MacSharry reforms case study in part two of the thesis. The justification for this selection is also presented in this section.

5.6 The Interest Groups Framework

This section outlines the interest groups framework and traces and references its intellectual history. The criticisms of the framework are provided in section 5.6.1, with attention paid to its failure to support explanations of actual CAP reforms.

This framework holds that the stability of the CAP is explained by the strength of farm interest groups in the EU. Their organisation and political influence has allowed them to consistently and successfully capture the abstract state referred to earlier. The more general point is that it is group competition which drives public policy in the EU, including reforms of the CAP.

The use of the framework in agricultural policy analysis has two sources. First there is a literature of abstract, non-EU, and non-agricultural policy work which has been applied to the CAP. Secondly, the history of the development of state support for agriculture at an EU and member state level has been written in terms of interest groups.

The application to the agricultural policy of advanced industrial economies of general, abstract work completed on interest groups in political science and economics rests on the following calculation. There are well organised interest groups in every advanced industrial nation, as well as state support for agriculture. Interest groups enjoy strong functional relationships with the state and governments.

Ipso facto, there is a causal link from strong interest groups to well-funded, pro-farmer agricultural policy.

Agriculture is mentioned as an example of successful interest groups in the following works; Olson (1965) with the concept of free-riding; Stigler (1975) and Becker (1983) on the use of political markets; Hirschman's (1970) concept of 'exit and voice'. The farm lobby provides a ready example of a well-organised, disciplined group. Brooks (1996) provides a survey of the formal political economy models developed within the interest groups framework of agricultural policy analysis.

The second source feeding the dominance of the interest groups framework has been the histories of state support for European agriculture including the CAP. Tracy (1989) and Milward (1992) trace the construction of a common agricultural policy in terms of the political influence of national farm groups. The history of UK agricultural policy 1947 to 1973 is told in Self and Storing (1962), Smith (1990) and Tracy (1989) as the history of the strength of the National Farmers Union (NFU).

These histories also detail a system of institutional arrangements set up to provide a regular and routine interface between the farm lobby and government. Institutions are highlighted as an important factor in explaining the persistent influence of the farm lobby in the prominent players framework and the institutions framework (see sections 5.7 and 5.8).

5.6.1 Criticisms of the Interest Groups Framework

The interest groups framework has been criticised on two grounds. The first ground is the framework's ability to explain the stability of the CAP. Secondly, and the criticism more relevant to this chapter, is the account provided of periodic turbulence and reform of the CAP.

The first set of criticisms have been based on empirical investigations of the distribution of benefits of the CAP. If farm interest groups determine the CAP, why have average farm incomes remained stagnant in real terms and the numbers of farmers in Europe declined? Howarth (1985) provides a detailed exposition of these arguments. Harvey (1982) uses the Newcastle model of the CAP and some rough proxies for national interest to demonstrate a negative correlation between a national interest in improving farm incomes and how much the CAP has improved farm incomes in each member state. The interest group framework asserts that the stability of the CAP is explained by the political strength of farm interest groups. The question, given these kind of results, is why do interest groups allow the underlying stability of the CAP to persist?

These criticisms can be answered by arguing that farm groups are dominated by the interests of the leadership elite. A famous statistic quoted by Commissioner MacSharry during the reform process 1990 to 1992 was that 80% of CAP payments were enjoyed by 20% of farmers. That 20% provides the leadership of national farm interest groups. This point in a UK context reaches back to Self and Storing's

(1962) description of the leadership of the NFU being dominated by representatives from large arable farms.

The second category of criticism is more basic. Work conducted using the interest groups framework has failed to provide an account of the reform of the CAP which has any intuitive appeal. This is true for a number of reasons. The literature has interest groups as the explanatory variable of CAP stability and therefore the difficulty mentioned in chapter 1 occurs; using the terminology and concepts developed to account for stability to explain turbulence. An explanation of CAP reforms within the interest groups framework requires some account of a shift in the balance of power between interest groups associated with the CAP.

The frameworks presented in sections 5.7 and 5.8 do not doubt the history of the CAP written in the interest groups framework. However, the argument is that the forces which initiate public policy are not necessarily the forces which sustain and operate an established policy. The interest groups framework has produced clear and compelling accounts of the history of the setting up of the CAP, but has yet to produce such accounts of the history of CAP reforms.

The application of the framework to CAP reform has generally taken place in the first strand of the public choice paradigm. This has led to the stylising of the CAP decision-making system to achieve modelling coherence, which has led in turn to a reduction in the ability to explain observed facts about the periodic reforms of the CAP. This is the reason why the interest groups framework can sometimes appear to be an extreme form of pluralism, used by agricultural economists to construct abstract models of the black box of CAP policy decisions.

5.7 The Prominent Players Framework

The prominent players framework emphasises the series of systematic contacts and relationships between farm groups and the state in illuminating this problem of turbulence and stability. This section details the prominent players framework and the degree to which it benefits an understanding of CAP reforms. Section 5.7.1 describes the history of the prominent players framework and its general view of how the CAP decision-making system works. Section 5.7.2 sets out the specific claims on which the application of the framework rests. Section 5.7.3 looks at arguments against those claims - this leads into the institutions paradigm in section 5.8.

5.7.1 The Prominent Players Framework: An Overview

The prominent players framework suggests that the CAP policy-making system should be viewed in terms of prominent players. Interest groups affected by the CAP and the institutions involved in the formal enactment of agricultural policy are the prominent players. From the point of view of explaining CAP reforms, they are prominent because they enjoy some control of the resources which are necessary to the enactment of a CAP reform, be they political, financial or technical.

The basic assumption of the framework is that, '...the major farm policies survive because of the particular sets of institutions involved in the setting of policy and the structure of the decision framework which they operate, as well as the pressure from interest groups' (Moyer and Josling, 1990: 45).

The main development from the interest groups framework is that the institutions set up to regulate and depoliticise the contacts between the state and farm interest groups at European and national levels are themselves prominent players. They affect the balance of the competition between agricultural and non-agricultural interests. The fact that a farm group's absolute political strength may have declined does not necessarily affect their influence, because they do not have to compete with other groups for government's attention and financial support. Schmitt (1986: 342) highlights the 'absence of effective checks restricting and repressing the unilateral influence and pressure of the agricultural sector'.

The framework uses the term *agricultural policy interest group* to cover a wider range of groups than implied by the term farm lobby. Farmers, agribusinessmen and retailers all have a large economic interest in the CAP. Cox *et al.* (1986) in a UK context, encourage this wider interpretation of the political pressure from the agricultural sector. The framework makes no substantive claims about the relative influence of the interests within the agricultural policy interest group category, simply that there are different interests.

The system of state institutions administering support and agricultural policy interest groups can be described as a *policy network* (Marsh and Rhodes, 1992). Marsh and Rhodes provide a taxonomy of these policy networks. The type of policy network relevant to the prominent players framework is a policy community.

Richardson and Jordan (1979) and Mazey and Richardson (1993) describe a policy community as having the following characteristics: limited numbers of institutions and groups are involved in decision-making; the membership of the community is small, and continuous across time; the members interact frequently, across all aspects of the policy and there is a high degree of consensus as to the means and ends of the policy; the prominent players in a policy community regard power as a positive sum game, so that for each member their influence is maximised by being a member of the community as opposed to remaining outside it.

Policy communities can be placed at one end of a horizontal spectrum of policy networks, the other end being *issue networks* which possess none of the characteristics of a policy community defined above (Marsh and Rhodes, 1992). Smith (1993) suggests that it is also possible to vertically separate policy communities according to degrees of state autonomy. State autonomy is defined as the capacity of state actors and institutions to develop policies without the input of interest groups.

The term policy community was originally developed to argue that groups had significant resources and could limit the extent of state autonomy; the existence of a policy community was an illustration of a lack of state autonomy. Richardson and Jordan (1979) provide a detailed account of this view. However, Smith (1993) re-interprets the existence of policy communities as evidence of the autonomy of state institutions. The agenda of, and the mediation of different views within, the policy community is dominated by state institutions. By establishing these communities with affected interest groups, state institutions actually increase their capacity to act autonomously.

5.7.2 The Specific Claims of the Prominent Players Framework

The prominent players framework has three components. First, that the CAP decision-making system should be analysed as a policy community. Second, interest groups are prominent players and part of that policy community. Third, that the first two parts together will allow the questions of stability and turbulence raised in chapter one to be satisfactorily answered.

Any attempt to describe the CAP decision-making system as a policy community starts from the point that it will be more extensive and complex than the relationship between a ministry and its client groups (i.e. farm groups, food processors, agribusiness interests) at the level of member state governments. The EU is a supranational level of government, hence interest groups affected by agricultural policy have two lobbying strategies; at the national level and the European level. The national level refers to the lobbying of member states' vote on the CoAM. The second refers to lobbying the Commission directly through membership of the umbrella farm organisation, COPA. These two sets of relationships provide a wider policy community than those which exist in national policy arenas. The merits of following two levels of lobbying are discussed in Grant (1993) and Averyt (1977).

The role of COPA has been the subject of research. The literature provides the general conclusion that COPA only has a role in the bureaucratic functioning of the extant CAP system. COPA usually has 50% of the membership of the Commission's advisory committees which exist for each product regime. Hence Smith (1990) states, 'COPA's relationship with DG VI is...very close'.

However, Petit *et al.* (1987), Tracy (1989), and Moyer and Josling (1990) do not give COPA any role at all in the reforms of the CAP in the 1980s. COPA was forced to react to the CAP reform agenda. In the reforms of 1984 and 1988 COPA was unable to agree a response when the proposals were promulgated. This failure affects any account of interest groups as prominent players in a CAP reform process. If COPA has strong links with certain parts of DG VI on certain issues, e.g. sharing information on how the CAP is functioning in different parts of the EU, this does not seem to extend to having a position in any policy community regarding the issue of CAP reform.

For agricultural policy interest groups to be prominent players and members of a CAP policy community, they must materially affect the reform process and the reform enacted. In other words, they must aid the explanation of why reforms occurred at that time and why reforms of that particular type. The studies of COPA listed above and the results of the fieldwork interviews conducted for this work suggest that the organisation has had minimal influence over the timing or content of CAP reforms. If this level of lobbying is not successful for national groups, in the sense of making them prominent players, then the national CAP interest groups must affect national positions in the CoAM in order to sustain interest groups as part of the EU agricultural policy community.

Petit *et al.* (1987) list four factors which affect a national farm lobby's ability to manipulate their national government's positions. These are, firstly, the cohesion of the national farm lobby; secondly, the functional relationship with the national minister of agriculture; thirdly, the importance attributed to agriculture by a national government; and fourthly, the political power of the minister of agriculture within a national government.

It is on the positive existence of these factors that the prominent players framework rests. When these conditions, exist interest groups are prominent players and can be said to exist in a policy community. Without these conditions it is difficult to claim that interest groups are prominent players. This is one criterion on which the applicability of the framework to the issue of CAP reform can be judged.

5.7.3 Arguments Against the Prominent Players Framework

This section considers more general arguments which doubt the inference from (a) the observation that each national agriculture minister is committed to their nation's agriculture sector in a reform situation to (b) agricultural interest groups have influenced that commitment. The arguments can be marshalled around two questions. The first is; why do national agriculture ministers adopt pro-agricultural sector perspectives in the CoAM? Secondly, given these perspectives, how are they exercised in a reform environment?

The institutions framework holds that a national ministry's view of the nation's agricultural interest will generally coincide with the interests of the economically strongest part of the agricultural sector. This position taken by national representatives in the CoAM is a result of the institutional fact that they are ministers of agriculture and that is their department's *raison d'être*. Three of the four factors listed above (Petit *et al.* 1987) are institutional. The relevant counterfactual question is; if decisions about the reform of the CAP were made outside the CoAM, would the farm interest be so prominent?

The four factors of Petit *et al.* (1987) provide a limited view of the relationship between a national farm group and a national agriculture ministry. Five questions can be set up, the answers to which will provide a more substantial account of this relationship. Firstly, can interest groups influence to any extent the agenda of the relevant national ministry? Secondly, does the ministry control the production and distribution of information? Thirdly, what is the distance between national farm groups and the institutions at an EU level? Fourthly, who designs the language to describe the recent history of agricultural policy? (who controls the history?) Fifthly, what resources do interest groups possess which are necessary for the enactment of a CAP reform? The issues raised by these questions were considered in all the fieldwork interviews for this thesis. The results emerge in chapters 6 and

8 in the discussion of the institutions framework's interpretation of the MacSharry reforms.

The extent to which agricultural policy interest groups can influence the behaviour of the relevant national ministry in the CoAM can be limited. CAP reforms are, by their nature, compromises. These compromises are reached through political trading between each member states' initial bargaining position. The dynamics of this political trading are difficult for a national interest group to control. As noted earlier, successful national interest groups must have a dual lobbying role when dealing with European issues; through national representatives and direct to the institutions of the EU. A strategy concentrating exclusively on the national route runs the risk mentioned above; the manoeuvres of political trading runs beyond their influence or control. This is the nature of the black box for European policy. National agricultural policy interest groups are at one remove from the centre of CAP policy-making and can influence neither the agenda nor the bargaining process. This is the claim which divides the prominent players and the institutions frameworks.

To preserve agricultural policy interest groups as prominent players, it is necessary to claim that these groups influence their national agricultural minister's position. The Smith (1993) interpretation of policy communities can support this claim. The CAP is a series of national policy communities. The important factors are the structure of national agricultural policy-making institutions and their attitudes to the aims and objectives of agricultural policy. These result from that member state's history of national agricultural support policies, experience of the CAP and the economic position of their agricultural sector. These institutions decide which agricultural policy interest groups to include in a policy community, and make certain elements prominent. These alliances between the group and the institution are based on the institution's agenda. The decision of an institution to include certain agricultural policy interest groups in a policy community reduces the constraints on the ability of that institution to act in the agricultural policy process (at national or EU level).

The counter argument is that there is no single, national agricultural policy community. A number of different national government institutions are affected by the CAP, for example, the effects of the CAP have spilled over into the international trade and budget fields of a national government's interest. These institutions exist in a system of conflict, with competing ambitions for, and views of, the CAP. They do not share beliefs, perspectives and information on CAP reform. They fail to give the impression of being in a *community* or exhibit the characteristics of a policy community listed in section 5.7.1. In this competition of institutions for control of the national agricultural policy agenda, including attitudes to CAP reform, interest groups have marginal political resources and therefore have little influence.

5.8 The Institutions Framework

The central theme of the institutions framework is that the institutional context of the pressures for CAP reform is most important in understanding a CAP reform. The institutions of CAP decision-making are the transmission mechanisms from the pressures to reform the CAP (external or internal) to the enactment of certain CAP reforms at certain times.

This section will provide an outline of that institutional context. This will lead to a consideration of the claim that the institutions of CAP decision-making define the set of feasible policy options, and proscribe certain options for the reform of the CAP. The application of the framework can produce the conclusion that without a change in that context, radical reform addressed to the persistent economic problems of the CAP will not be enacted. This explains the property of stability discussed in section 1.5.

5.8.1 Institutions Framework: An Overview

The framework highlights the path along which any CAP legislation must pass as the relevant area to research in order to understand the CAP reform process. The following factors are material in the CAP legislation which is enacted. The first is a characterisation of each of the individual institutions in the chain; the various interests within them, their internal organisation, and the power they hold over the legislation which passes through them along the path. The second factor is the interrelationships between each institution in the path; the balance between constitutional powers and accepted conventions. The third material factor is the institution which arbitrates in the event of dispute between institutions in the path.

The path is a combination of the formal, legalistic and constitutional criteria, plus generally accepted government routines. Hence, *legitimacy* is often used in such analyses (Hagedorn 1985). This is what Moyer and Josling (1990) call in their schema 'inside political inputs'.

The difference from the prominent players framework is that agricultural policy interest groups are not in the path and hence are not a significant factor in explaining CAP decisions. Peterson (1995) charts the rise of *new institutionalism*, 'EU institutions may develop their own agendas and act autonomously of allied interest groups' (Peterson, 1995:81). Interest groups will have access to these institutions, but this does not equate to genuine influence in a reform situation. EU agricultural policy can be enacted legitimately without the support of interest groups. This is not to argue that state institutions enacting agricultural policy do not wish to have the support of agricultural policy interest groups, rather the claim is that agricultural policy interest groups do not hold the resources necessary to influence or veto the CAP reform process.

This view of the autonomy of institutions differs from Smith (1993) (in the prominent players framework) in the degree of political resources attributed to agricultural policy interest groups. The Smith (1993) view is that these groups enjoy a level of political resources, influence or power such that institutions wish to include them in the policy process through a policy community. The institutions framework attributes agricultural policy interest groups with much less influence.

The central institution of CAP decision-making is the CoAM. Twelve (now 15) agriculture ministers formally enact any CAP reform, hence all factors and mechanisms involved in the CAP reform process must be traced back from that point. To understand the CoAM it is necessary to first, examine the rules of the CoAM, e.g. what determines the agenda, who makes decisions, and what are the voting rules. Secondly, each member of the CoAM must be put into their political context (at both domestic and EU level). This will afford an understanding of their bargaining positions and 'domain of feasible compromise' (Petit *et al.* 1987).

Allinson (1971) illustrates how the bargaining rules can affect the outcome of that bargain. The convention of unanimity has operated at various times in the CoAM. Runge and Von Witzke (1986) apply the *n-person* veto model of Mueller to the CoAM. This shows that the convention of unanimity should have lead to an equalisation of benefits from the CoAM at member state level. It is sufficient at this stage to state that the CAP reforms of 1984 and 1988 were agreed using qualified majority voting.

Formally, the Commission controls the agenda of the CoAM. It enjoys the sole right to propose legislation, and for the CoAM to agree on something different from the initial Commission proposal requires unanimity. Hence a reform situation is created by the Commission by the proposal of reform. Peterson (1995) calls these 'meso-level' decisions. The ability to control the agenda is also the ability to affect the final policy outcome, even if the power of enactment exists elsewhere. The CAP reforms which are enacted are shaped by the reforms proposed.

These meso-level decisions are not the exclusive preserve of the Commission: there is a debate about the circumstances in which the Commission will propose a reform, i.e. exercise the policy-shaping function. The decision to promulgate reform ideas, which are always in some form circulating in the Commission, must to some extent be based on a political calculation of what the CoAM will agree. Hence, any explanation of the decision to propose a reform needs to specify what motivates the Commission, and what the Commission thinks motivates the Council. These will not necessarily be the same thing. Further, in the reforms of 1984 and 1988, the European Council was active in forcing a CAP reform agenda on the CoAM. The institutions framework encourages research into the perspective of different institutions on CAP reforms. The notion of process allows the conclusion that what motivated the proposal of CAP reforms by the Commission is not necessarily linked to what prompts the final enactment of reform by the CoAM or the European Council.

Bulmer and Wessels (1987) argue that the European Council has increasingly been forced into the role of 'Court of Appeal', as was the case in the reforms of 1984 and 1988, by failures in the EU decision-making system. They note the lack of a co-ordinating institution between various Councils. As public policies have become increasingly complex, they have traversed the functional divisions of the Councils, e.g. the *spillover* of agricultural policy issues into trade, foreign affairs and budget areas. The European Council does not co-ordinate - it has no regular agenda and does not allocate responsibilities among the various Councils. Instead, the various Councils engage in a series of *turf battles* with each other with the issues of greatest contention pushed up to European Council level for resolution. This is what happened in the CAP reforms of 1984 and 1988.

5.8.2 The Institutional Context of the Pressures for CAP reform

When a factor is specified as a cause of a CAP reform it is necessary to state where and what the incidence of that factor is, in particular, how it affects the Commission, the Commission's calculations about the Council, and the Council. Further, the reform process is generally long (over a year for the reforms of 1984 and 1988) and decisions are made by different institutions at different times. Thus, even if it is claimed that same factor affects all institutions, it affects them at different times and in different circumstances.

The institutional path starts with the Commission and ends with the CoAM. It is these two institutions which determine the characteristics of the CAP reform process and the CAP reforms. Each is considered in turn. The Commission provides part of the explanation of why the CAP is so difficult to reform; DG II (Economics) and DG XIX (Budget) have wrestled (unsuccessfully) with DG VI for control of the CAP agenda. The horizontal separation of DG VI by commodity division, hampers the construction of reform proposals in that institution. Reforms are conceived in small groups and cliques away from the main policy or administrative channels of

DG VI. The role of Commissioners' cabinets was a material factor in the reforms of 1984 and 1988.

The second part of the path which allows CAP reforms to be understood is an examination of the individual members of the CoAM. The third premiss of the public choice paradigm stated in chapter three applies here; the CoAM is pro-agriculture because its members are politicians who bring the perspective of incumbent ministers of agriculture. The influence of agricultural policy interest groups in the EU's black box is much less than the influence of this basic institutional fact. The source of explanation of CAP reform lies in why a qualified majority of members (at some time) are constrained to accept the inevitability of reform.

There are two ways to argue that the institutional context dominates interest group pressure as motivating a national government's position, with respect to a proposed CAP reform. The first emphasises that each member of the CoAM is a member of a national government, which has to agree at an executive level a negotiating position for the minister of agriculture to adopt in the CoAM. Swinbank (1989), in a UK context, quotes Peter Walker from 1981 as saying that the Secretary of State for Agriculture never negotiates beyond his brief agreed with Cabinet (including the Chancellor of the Exchequer). Walker regarded the view of the CoAM as a group of agriculture ministers who push up farm prices, oblivious or indifferent to the effect on the EU budget as a 'great myth'.

Walker's point is that because the position taken in the CoAM has to be agreed collectively by each national government, this will constrain the ability of the CoAM to expand the budget of the CAP. The key institutional point is that the position taken in the CoAM is that of the UK government, and not the Ministry of Agriculture, Fisheries and Food (MAFF). Farm interest groups have to compete with other ministries and their client interest groups for control of the UK government's position on the CAP.

The second argument focuses on the need for each member state to allow their representative to 'play the CoAM game'. A tough stance on CAP expenditure will tend to get out-voted. The game of the CoAM is a competition among member state agricultural ministries to maximise their view of the national agricultural interest. At the member state level of aggregation the policy is unequal; chapter 7 examines the literature which measures each member state's net pay-off from the CAP. The result is that most member states are net beneficiaries from the CAP; only Germany and the UK have always been net losers, joined by other countries in certain years. This means that without the national interest veto being employed (by convention requiring unanimity in the CoAM on that issue), then the competition of national agricultural interests will continue unchecked. In the absence of the will to use a veto, nothing is gained by not arguing strongly for your country's agriculture. Hence, the CAP inexorably grows in terms of total budget cost (even though agriculture is shrinking as an economic sector), the number of products covered, and the complexity of the rules required in its administration.

To understand why the issue of the CAP budget is not raised as being of 'vital national interest' by any member it is necessary to see the CAP as one element in a series of interstate bargains. These bargains exist across a series of policy areas. Overall the balance of these bargains must be perceived by each member state as positive for that state to remain in the Union or at least accept the *status quo*. If positive, that member state will not upset that pay-off by using the national interest veto on the CAP budget, even if the overall CAP pay-off for that member state is negative. A veto used in a vital area of EU activity would quickly provoke retaliatory action in other areas. This would effectively bring the EU to a halt (more crudely, a pay-off of zero).

In this framework members of the CoAM being *pro-agriculture* can be interpreted as defending the existing CAP system. This is the baseline against which any incumbent measures success at the job. To allow reform would be a surrender of what some earlier minister of agriculture (or themselves) had negotiated for their nation's farm interest. The surrender of the *status quo* is a political cost. This defensive posture means that the CoAM has been characterised as *myopic*. Preserving the CAP and their nation's pay-off from it in the short term is the negotiating stance of each member of the CoAM. This argument provides a way of answering the question of why the CAP is so difficult to reform.

5.8.3 Potential Weaknesses of the Institutions Framework

Three main weaknesses can be identified with the institutions framework. The first relates to the institutions framework down-playing the role of both COPA and national farm unions in the CAP reform process. It is noted that COPA has a relationship with the Commission, and the national farm unions have a relationship with their respective national agriculture ministries in the administration of the existing agricultural policy. There is an argument that this shared administrative agenda feeds into the CAP reform process. It is in these consultations that the problems of the existing CAP are identified and passed into the CAP reform agenda.

The second potential weakness is the underestimation of the influence of agribusiness interest groups. These groups will always tend to be less obvious or public in their political pressure than farmers. This is because they are not organisations with a large and often noisy membership like farm unions. However, the economic benefits that, for example, food processors and fertiliser manufacturers, gain from the operation of agricultural support, suggests that agribusiness ought to have an interest in influencing the direction of CAP reform. The institutions framework does not explicitly account for this, but admits that the agribusiness interest is another factor that could influence the positions of national agriculture ministers in the CoAM. This influence would be independent of any explicit lobbying by agribusiness interest groups.

The third potential weakness of the institutions framework concerns the role of individuals within institutions. The framework holds that it is the institutional context which affects an individual's perspective, their objectives and their actions in the CAP reform process. The framework does not provide any guidance on the effectiveness of individual's actions. Even if the overall strategy and actions of an individual are determined by their institutional context, it may be that some individuals' actions will be more effective than others. The effectiveness of an individual's action is a function of a wide range of factors which may be grouped under the category of political skills. In particular, political leadership is an issue in CAP reform processes. This is something revisited in chapter 6. The institutions framework holds that individuals affect the reform process. However, that effect is determined by a range of influences, not just the individual's institutional context.

5.9 The Selection of the Institutions Framework for Part Two of this Thesis

This section sets out the reasons for declaring an initial bias toward the institutions framework as the most convincing of the three rival frameworks to use in part two and confront with the evidence of the MacSharry case study. This declared bias is made on the basis of the institutions framework providing the most cogent interpretation of the histories of the reforms of 1984 and 1988. Although Petit *et al* (1987) and Moyer and Josling (1990) respectively wrote the histories of the 1984 milk quota reforms and the 1988 stabiliser reforms within the prominent players framework, it is the contention of this thesis that the evidence they collected could have been better interpreted through the institutions framework. There are three parts to this claim.

The first part of the claim is in terms of the interest groups framework; the accounts of the reforms of 1984 and 1988 contain no evidence of a shift in the balance of interest group power which created a pressure in the CAP decision-making system for reform. The second part states that the histories of the reforms of the CAP in the 1980s do not give the impression of the operation of policy communities at national or supranational level. Thirdly, the CAP reforms of 1984 and 1988 appear to be the product of a system of institutions in conflict in an atmosphere of political crisis.

The applicability of the interest groups framework depends on evidence of a changing balance of interest group power in the CAP decision-making system. An interest group becomes more powerful when either the payoffs to its lobbying activities increase or it enjoys more political resources to lobby with. Chapter 3 setting out the histories of the CAP reforms of 1984 and 1988 provides no evidence of either of these trends in interest group power. It appears that interest groups were not a significant factor in either the types of reforms proposed or the timing of the proposals.

Policy communities, highlighted by the prominent players framework, were not a feature of either CAP reform process at an EU institutions level. There was some limited evidence of their existence in certain member states, but an insufficient amount to support a claim that they were crucial factors in driving the reform processes in 1984 or 1988.

The more cogent analytical framework for the reforms of 1984 and 1988 is the institutions framework. It describes the black box of the CAP decision-making system as operating in a way that bears resemblance with how it appears to have operated in the reforms of 1984 and 1988 as described in chapter 3. This can be described as follows. Each member of the CoAM has a distinct view of their nation's agricultural interest. This is generally unchanging over time. However, the view of the minister as to how this interest is best furthered can change according to circumstances in the CoAM. It is the estimation of the political costs of agreeing CAP reform by a national agricultural minister which determines each member state's position in the CoAM.

The CoAM is a series of competing national interests in the CAP. The dynamics of the CoAM affect the judgement of each member about whether to agree to reform, specifically, whether the proposal will be agreed without his/her vote, and on that basis whether the political costs of not agreeing reform are greater than those of agreeing to a CAP reform.

The CoAM exists in conflict with other institutions in the black box most notably the Commission's ambitions for CAP reform. It is in the CoAM/Commission relationship that the key tension of the CAP reform process exists. Without the Commission's support, CAP reform proposals require unanimity, and agreement in the CoAM is consequently that much harder to reach. When the CoAM's incapacity to reach an outcome on CAP reform affects other aspects of the EU, notably the EU budget, the European Council may come involved. It is only here when the institutional stranglehold of agricultural ministers on the agreement of CAP reforms is broken. The outcome of the CAP reform process can be reached by heads of state or government weighing CAP reforms against their nation's wider interest in the EU.

5.10 Conclusion

This chapter has set out the public choice paradigm of decision-making and argued that it is appropriate to employ in the construction of a positive view of the CAP decision-making system. The essential characteristics of a public choice approach were set out as follows. The understanding of any public policy decision must be grounded on an account of the individual actions involved in that decision. Individual agents are, to a large extent, rational and their preferences and view of the decision-making system is to a large extent conditioned by their position within that system. Different views of the structure of decision-making systems produce a diversity of models within the public choice paradigm. The role of individuals within the structure of the CAP decision-making system is a theme throughout this thesis. This theme is drawn together and considered in section 9.4.1.

Three frameworks of the CAP decision-making system have been set up; the interest groups, the prominent players and the institutions. The institutions framework has been selected as the most appropriate to use in building the MacSharry case study in part two of this thesis. The CoAM/Commission relationship is highlighted by this framework as the key factor in influencing when, why and how the CAP gets reformed. The interest groups and prominent players frameworks both shed light on different parts of the CAP decision-making system.

These have some influence on the CAP reform process. The network of agricultural policy interest groups and farm ministries can affect national government's position during reform negotiations. Similarly, the lobbying activities of agricultural policy interest groups cannot be discounted as a factor. It is the contention of this thesis, however, that the germane elements of the policy processes associated with the CAP reforms of 1984 and 1988 are more obviously captured by the institutions framework.

CHAPTER 6: THE POLICY PROCESS OF THE MACSHARRY REFORMS

Chapter 4 described certain postulated causes of the MacSharry reforms. It examined how the CAP was at the time operating, noting that problems with the *status quo* have been central in previous reforms of the CAP. Further, the UR had been part of the agenda of EU agricultural policy-makers since 1986. The organisation of the world trading regime for agriculture and the CAP's part in it was an outstanding issue at the collapse of the UR at Brussels in December 1990. The oilseeds dispute was a separate, but related, international trading issue.

This chapter details the links between these circumstances, nominated as causes, and the enactment of the MacSharry reforms in May 1992. These links form a chain; the policy process. As described in the introductory chapter, any decision to reform the CAP is the outcome of a policy process. The policy process exists within the black box of the CAP decision-making system. This chapter gives a perspective on the operation of the black box in an actual observed policy outcome.

The MacSharry reform process ended with the enactment of Council Regulation (EEC) No. 1765/92 30/6/92, more commonly known as the MacSharry reforms. The process began with the decision by the MacSharry reform team to bring forward CAP reform proposals to the Commission. These are the first and last events in the chain which needs to be explained.

The first event cannot be dated accurately. December 1990 is taken as a proxy, because after the collapse of the UR at Brussels on the 6th, the information that MacSharry intended to bring forward CAP reform proposals gradually came into the public domain during the next week (Agence Europe 11 and 12 December 1990 and AgraEurope 14 December 1990). However, as shall be shown, the intention of bringing CAP reform proposals at some stage in MacSharry's tenure as Agriculture Commissioner had existed well before then.

The rest of the chapter is arranged around a further ten events. These define stages in the MacSharry reform process and form sections 6.2 to 6.11. Section 6.12 concludes with a discussion of the main causal links in the policy process of the MacSharry reforms.

6.1 Event One: Decision to Bring Forward Reform Proposals Within the Commission

The explanation of the decision to bring forward CAP reform proposals is the longest section of this chapter. It addresses the question of why there is a reform process at all. To this end, this section is structured around three questions; which individual agents were involved in the decision? what motivated their general ambition for CAP reform? and why was the formal process triggered in December 1990? These questions will help to identify the links operating at different times and at different levels in the reform process.

6.1.1 The Individuals Involved in the Decision

A team within the Commission had been considering plans for a reform of the CAP since the beginning of the second Delors' Presidency and the management of the agriculture portfolio by MacSharry. The official starting date of this presidency was 6 January 1989. The team was composed of MacSharry, Hennessy (Deputy Chef de Cabinet of the MacSharry cabinet), Legras (Director General of DG VI) and Demarty (the agricultural policy specialist in the Delors cabinet). The MacSharry cabinet met separately. In addition to Hennessy, it composed Verstaylen and MacDonagh, who worked on the construction of the reform proposals and Minch who specialised in UR issues. Larkin, the Chef de Cabinet of MacSharry, was a specialist in structural policy and not directly involved in the construction of MacSharry reforms.

The first element involved in the existence of an ambition for CAP reform within part of the Commission in 1990 was the selection of MacSharry for the agriculture portfolio in 1989. Delors had decided even by early 1989 that the CAP would require reform beyond the stabiliser regime (interview PH). Delors' view was that the stabiliser regime would only be a medium-term measure to control the rate of increase of the CAP's budget costs. If his long-term ambitions for the EU (e.g. EMU, large social and regional policies) were to be realised he believed that further CAP reforms would be necessary. Delors considered MacSharry a suitable proponent of such a CAP reform for the following reasons. MacSharry had an agricultural background and knew how national farm ministries and farm lobbies viewed the CAP. In addition, he had a definite personal commitment to the CAP. Further, he was the Commissioner from a country which historically has been a large beneficiary of the CAP. It is possible to trace the MacSharry reform process back to this choice by Delors. MacSharry's *political leadership* will be a theme throughout this chapter. At various times it is asserted as causal factor in the reform process. According to Gummer, 'Without MacSharry's drive and determination it must doubtful whether the reforms would have succeeded, at least in the form in which they eventually emerged'

The subsequent disagreements between MacSharry and Delors over the substance of the reform proposals and tactics of leading the process will be detailed in this chapter. MacSharry's tenure as Agriculture Commissioner does not conform to the Delors-Commissioner relationships characterised for the first Delors' Presidency (1985 to 1989) in recent studies of the Delors' Presidencies (Grant, 1994; Ross, 1994; 1995). Ross (1995) admits that a number of Commissioners of the second Delors' Presidency existed as counter-examples to his model of Presidential control of the agenda and the implementation of EU public policies. MacSharry was a high profile counter-example.

6.1.2 The Delors/MacSharry Relationship

It is important to establish some points about the Delors/MacSharry relationship early in this chapter. The argument will be made that Delors was an important factor in the enactment of CAP reform, in the background during the reform process. My research material and secondary sources focus on the MacSharry factor; MacSharry and his team conducted the CAP reform campaign. Delors was involved in the general ambition of a team within the Commission to reform the CAP.

Ross (1995) sets up a standard model of Delors/Commissioner relationships. The horizontal relationship between a Commissioner and the services of the areas of his/her portfolio can be variable. The variation depends on the Commissioner's ability to give a political and administrative lead. Delors made this relationship even more potentially volatile; he had a *strategic* view across whole range of policy areas and along with Lamy (Chef de Cabinet) built an inner circle of trusted Director Generals. This would allow the Delors cabinet to 'reach around' a Commissioner to his/her policy area. Delors would set out the main 'policy lines'(Ross 1994) in any area and it would be the responsibility of each member of his cabinet to work on the implementation of these policy lines. Pascal Lamy in Ross (1995) called it *autogestion militaire*.

Ross (1995) notes a difference between the first and the second Delors' presidencies. After 1989, the number of Commissioners who 'owed' Delors something on a personal scale dropped. The period 1985 to 1989 can be characterised as successful Delors initiatives creating pay-offs for certain Commission services and the associated Commissioner. Delors would allow the credit to remain there in return for support for other Presidential plans.

MacSharry inherited a high profile portfolio and had no direct personal allegiance to Delors. He had an effective cabinet with ideas and was himself a shrewd political operator. The reach around tactic, of going to services of a commissioner behind their back, was not possible with MacSharry, because he brought with him, and developed, his own agenda. This chapter shows that the role of MacSharry in the reform process is a worked counter-example to the standard model of Delors/Commissioner relations from Ross (1995).

After the collapse of the UR in December 1990, Delors and MacSharry agreed on the need for CAP reform, that this reform should come before the UR, and agreed on the main substance of the proposed CAP reforms. They shared a sufficiently close vision of the CAP that there was no battle for control of agricultural policy. Delors' enthusiasm for CAP reform was one cause in the College adopting proposals for CAP reform and therefore the initiation of a reform process. The factor of Delors' and his Cabinet's skills at Commission politics is described under the event two heading.

During 1991 to 1993, there were a number instances when the relationship between MacSharry and Delors soured and there was disagreement over agricultural policy. The most serious disagreement concerned the conduct of the GATT negotiations (the agriculture section of which was MacSharry's responsibility). The UR, the oilseeds dispute and the circumstances which precipitated MacSharry's resignation in November 1992 are covered in chapter 7. There was also the dispute over the Guideline of the 1991 farm budget noted in event four below and in chapter 4.

The reform team reflected MacSharry's desire for small, informal working groups. This helped a degree of secrecy to be maintained throughout the development of reform ideas. It is clear that few of the commodity division heads of DG VI knew that reform proposals were being prepared in 1989/90. Details only emerged in the public domain after MacSharry announced that reform proposals would be brought before the College. Legras also favoured this working style.

The preamble to this chapter explained how the institutions framework established in chapter 5 gives a role to political leadership in the explanation of the output of political systems. The question of the political leadership of Commissioner MacSharry being a causal factor in the CAP reform process is considered at different points in this chapter. The term political leadership is sufficiently broad to cover a range of the beliefs and actions of MacSharry and his team at various points in the reform process. As such, there is no single political leadership link in the chain of the reform process. Factors covered by the term are different and operated at different times.

MacSharry brought personal views and convictions about agricultural policy to the position of Agriculture Commissioner. These affected his, and the reform team's, reading of the recent history of the CAP before 1990 (interviews RM;PH). MacSharry's view of the CAP in 1990 rested on two instincts. The first was the conviction that the EU cereals regime was more vulnerable in international trade negotiations than the US's regime. The EU would face strong demands for large reductions in the internal prices of its CAP regimes. The point was that the CAP involved explicit import barriers and high consumer as well as producer prices whereas the US deficiency payments system avoided import controls and kept prices to consumers low. Also, the rapid import growth of cereal substitutes coming in under zero tariffs for oilseeds would be difficult to stem by increased protection in an atmosphere of agreeing reductions in total agricultural support. The rebalancing elements of the EU's UR submissions were controversial and occupied much negotiating time and capital with the US delegation.

The second instinct was that the central problem of the CAP was described by the statistic that 80% of EU farm spending went to only 20% of farmers.

MacSharry used to spend time studying tables showing the distribution of the benefits of the CAP at an EU and member state level (interview RM;PH). The MacSharry interview provided a number of anecdotes about ships sailing around the North Sea because there was nowhere else to store the grain and the profits levels of storage companies.

MacSharry's instinct was that the 80/20 statistic illustrated how the CAP as it had operated rewarded production. The link of support spending to production had two effects. Firstly, it was unfair because the majority of support was received by the most efficient farms, those who needed it least. Secondly, it had resulted in expensive surpluses. MacSharry had been aware of proposed income support schemes for a number of years (interview RM). They had existed in agricultural policy circles and academia for almost 20 years, for example Josling (1973). It was an act of political leadership to set a reform team in DG VI to work on CAP reform proposals which moved away from high support prices as the main channel of support for farmers.

The modulation of the proposed DIPs was an element which was personal to MacSharry. He viewed a function of the CAP as keeping the *maximum* number of the EU's ten million uneconomic farms in existence (interviews PH;DR). Modulation was an attempt to redistribute support away from the most productive 20% of farmers, achieving the twin objectives of redressing the imbalance in who receives CAP support and controlling surpluses.

His personal philosophy was described as a 'very west of Ireland view' and reflecting MacSharry's cattle farming background (interview PH). That support was just as acceptable through DIPs as through a price support system, and second, it was common sense that to control surpluses required a control of the most productive farms.

6.1.3 The MacSharry Reform Team's Reading of the History of the CAP

This chapter starts the history of the MacSharry reforms from the introduction of the stabiliser regime in 1988. The discussions of the reform team in 1989 and 1990 of the general requirements for a CAP reform started their history from this point (interview DR;GL). It is important to note how the reform team understood the stabiliser regime; it is part of the explanation of why the *status quo* was rejected and a general ambition to reform the CAP was converted into concrete proposals to bring to the Commission.

The stabiliser regime provided for price cuts in the case of cereals production exceeding the MGQ for that year's cereal production and introduced a voluntary set-aside scheme. The senior officials of DG VI discerned divergent views among the member states as to the role of voluntary set-aside (interview DR). It was possible to characterise two extremes, specifically the UK view and the German view. The UK considered that the voluntary set-aside scheme was a safety valve to mitigate the effects on farmers incomes of the inevitable price cuts that would happen under the stabiliser regime. The German view was that the voluntary set-aside scheme represented a structural measure to avoid price cuts.

Legras commissioned an internal DG VI review of the stabiliser regime. The report was carried out by the Special Studies unit of DG VI, headed at the time by Dirk Ahner. It was completed and reported to the reform team in July 1990. The report was constructed in secret like the deliberations of the reform team. Few of the commodity division heads of DG VI knew about either. However, its contents drew extensively on data and reports from the commodity divisions. The results of the report are hinted at in AgraEurope 14 July 1990.

The report's conclusion was that the stabiliser regime was not having the intended effects (interview PH). Specifically it had not arrested the growth in surpluses and budget costs which had promoted its introduction (see chapter 3). The background to the report were mounting problems in the cereals and livestock sector. There had been heavy and expensive intervention in sheepmeat regime. Beef surpluses had grown because of the BSE scare in the UK. This problem was compounded later in 1990 as the Gulf War cut exports.

Chapter 4 details the problems agreeing the 1990/91 price package. Although automatic price cuts were triggered there was considerable debate over the whole operation of the stabiliser regime. The reform team considered there to be a shift in the attitude of the CoAM towards the stabiliser regime. Importantly, they detected the Dutch position moving from the UK to the German view of set-asides and price cuts; that the set-aside part of the 1988 reforms was a supply control measure designed to avoid the automatic, uncompensated price cuts then being imposed by the stabiliser. Although an importer of cereals, the Dutch government reacted against the reduction in the ability of the CoAM to adjust CAP support prices annually and a perceived agglomeration of power in the Commission. The shift meant that the stabiliser regime was open to question and reform in the CoAM. The Dutch government had not been a traditional supporter of high prices in the CAP as Dutch agriculture has been among the most efficient in the EU. This change in the beliefs of the reform team about the CoAM's attitude to proposals of CAP reform was a factor in the decision to actually bring forward concrete plans.

The scheduled conclusion of the UR for December 1990 meant that the Commission required a negotiating stance. De Zeeuw had set 1 October as the deadline for the submission of final offers in the UR. As discussed earlier, this need for the CoAM to agree some mandate dominated its agenda in the autumn of 1990. This requirement was a causal factor in changing the nature of the debate about and the agenda for CAP reform. After seven meetings and the political turmoil, the CoAM agreed a negotiating mandate which included an offer of a 30% reduction in some aggregate measure of domestic agricultural support over the period 1986 to 1995. This offer was tabled by the EU on 7

November over one month late. The Commission's proposals to the Council reflected a desire to counter the zero option tabled by the US. The aim of the final offer in the UR was 'credibility' (interviews DR;MH;CH) - that the EU was serious about agriculture being part of the UR negotiations.

The eventual agreement of this offer, from the perspective of the MacSharry reform team, meant that arguments over the automatic 3% cuts of the stabiliser regime had become irrelevant. The view of MacSharry and his advisers was that these automatic price cuts would not have delivered the 30% reduction in domestic support offered in the agriculture part of the UR. The international arena had imposed a CAP reform agenda of substantial price cuts and the debate had shifted to compensation for those cuts.

The UR collapsed in Brussels on the night of 6 December 1990. The apparent chance of progress on the basis of a paper by Hellstrom, Chairman of the Agriculture Negotiating Group at Ministerial level, was based on the perception that the EU Commission was willing to use its 7 November offer as a starting point for negotiations (i.e. go beyond it for final agreement). This perception had faded by the evening of 6 December, when MacSharry stated that he could only negotiate to the limit of the 7 November offer and no further. The Brussels meeting broke up and the UR was suspended. The US and Cairns Group accused the EU of intransigence in admitting GATT constraints on the operation of the CAP, and blamed the breakdown of the UR on this intransigence in agriculture.

During the following week, Friday, 7 to Friday, 14 December 1990, the MacSharry reform team began to prepare to bring forward its reform proposals, and the press carried reports that the Commission was studying plans for a radical reform of the CAP. It is the link between these two events which needs to be elaborated to establish the factors involved in the trigger of MacSharry reform process.

6.1.4 The Link Between the Collapse of the UR and the Promulgation of the MacSharry Reform Plans

The official Commission line was that there was no link between the collapse of the UR and the start of the CAP reform process. It was admitted that the agreement of CAP reform would have effects on international negotiations, but the claim that this meant that the collapse of the UR had triggered the introduction of CAP reform proposals, was vehemently denied. This official interpretation of the link between the two events does not stand up to scrutiny, and was used by MacSharry and his reform team as part of their publicity campaign that CAP reform was being proposed for entirely domestic reasons.

The reason why the official interpretation of the link does not stand up to scrutiny is that it ignores the institutional rule involved; MacSharry was responsible both for any proposals for CAP reform and the agriculture part of the UR negotiations. In trying to achieve these two objectives, MacSharry has two constituencies. He could not ignore the fact that the issue of CAP reform existed in the UR. Even if CAP reform and the UR were not linked for the EU, they were for the EU's negotiating partners. It is for this reason that the official interpretation is inadequate. MacSharry's ability to make progress in the UR depended on his ability to make progress on CAP reform.

MacSharry links the two events, which means that understanding the political leadership of MacSharry is central to understanding the link between the collapse of the UR and the start of the CAP reform process which led to the MacSharry reforms. There are two interpretations of the political leadership of MacSharry and his reform team over this period.

The first interpretation has been suggested by Tangermann (1996), which takes the position that MacSharry in eventually achieving CAP reform and an agreement in the UR, pulled off a 'political masterstroke'. Specifically, MacSharry deliberately avoided agreement at Brussels in December 1990 in order to create the circumstances for a CAP reform and an eventual agreement in the UR. The second interpretation (and the one advocated in this thesis) of the link between the temporary collapse of the UR and the start of CAP reform proceedings, suggests that MacSharry's leadership strategy was very much limited by the circumstances of the middle of 1990. These circumstances forced MacSharry and his team into rescuing the EU's credibility in the UR, and ensuring that the negotiations were able to be completed (even if that was some time after the original deadline). The circumstances of mid-1990 were, to an extent, the result of a lack of political leadership by MacSharry.

The Tangermann (1996) interpretation makes the following steps,

(1) The 7 November offer of the EU, if it had been accepted at Brussels by the US and Cairns Group implied CAP reform.

Details of the 7 November offer are provided in chapter 4. The argument for this step is that the stabiliser regime as it was then operating would not have produced sufficient price cuts or limited production enough to meet the commitments of this 7 November offer. The argument is speculative - as discussed earlier there were no concrete export subsidy commitments in this offer.

(2) The sequence of UR agreement then CAP reform was not politically feasible.

To reform the CAP under the pressure of a legally binding international agreement was simply politically impossible. Tangermann (1996) invites the reader to 'imagine the political turmoil this would have caused in the EU'.

(3) Hence, the MacSharry reform team knew that CAP reform had to come before the UR agreement. Two things, (4) and (5) follow from this.

(4) MacSharry could not have accepted agreement in the UR at Brussels in December 1990. He and his team knew that the UR, or at least the agriculture part, would have to be delayed.

(5) Yet, given (4), he had to persuade the negotiating partners of the UR, principally the US and the CG, to delay the Round rather than give up on it entirely. For this it was necessary to persuade the US and CG of the credibility of the EU's desire to reduce domestic agricultural support levels.

(6) The manner of the collapse of the UR at Brussels in December 1990 was 'politically masterminded' by MacSharry.

The manner of the collapse was crucial to the MacSharry political leadership strategy. MacSharry managed to convince the EU's negotiating partners that the EU was serious about reductions in domestic agricultural support (and hence CAP reform), and agreement could be reached at some point in the future, while at the same time appearing to the domestic constituency as defending the CAP against international pressures by pulling the UR down. MacSharry maintained credibility in the international arena, while building credibility in the domestic arena, to the extent where he was able to claim that CAP reform proposals were being brought forward for purely domestic reasons.

(7) The fact that CAP reform was enacted in May 1992 and the agriculture part of the UR was concluded at Blair House in November 1992 (see chapter seven), shows MacSharry's actions at Brussels was strong political leadership. He deliberately avoided agreement at Brussels in such a way as to allow the UR to set the circumstances for domestic CAP reform, but not obviously cause those reforms. Simultaneously, the UR was kept alive, and MacSharry was able to show that the EU was serious about an internationally acceptable CAP.

The results of my fieldwork for this thesis suggests a second interpretation of the chronology of events from the middle of 1990 to the initiation of CAP reform proposals in the Commission in December 1990. This interpretation can be set out in the following steps,

(1) There had been a team planning CAP reform in the Commission since MacSharry began in the Commission in January 1989.

Fieldwork interviews provided this information and also evidence for step (2) in this second interpretation of the link between the collapse of the UR at Brussels in December 1990 and the initiation of CAP reform proceedings in the Commission in that same month.

(2) The MacSharry reform team believed that the order of the two events had to be CAP reform then UR agreement. CAP reform was necessary for the completion of the UR. This was because (i) there was limited chance of agreement with the US and CG because the EU could not move far enough, given the present CAP system, and there was not enough potential area for compromise and (ii) it was a politically difficult sequence from UR agreement to CAP reform.

(3) The MacSharry reform team failed to get a CAP reform agreed before the middle of 1990.

This may be attributed to poor political leadership by MacSharry or alternatively that there was a lack of time between MacSharry beginning in the Commission (January 1989) and the middle of 1990 to achieve CAP reform.

The planning of reform proposals was in progress during 1990 and it was a deliberate decision by MacSharry not to make the development of Commission thinking public during the first 11 months of 1990. Agence Europe 11/12 December 1990 reported that the promulgation of developmental reform proposals was delayed in 1990 in order to avoid affecting MacSharry's negotiating position in the UR. MacSharry confirmed this, stating that his position in the UR would have would have been weakened by 'ill-timed announcements'. MacSharry's team confirm that the proposals were inchoate at the time the EU required a negotiating stance in what was supposed to be the conclusion of the UR (mid to late 1990). Ross (1995) quotes an interview with Demarty in which Delors saw the collapse of the UR as a blessing in disguise, it allowed time for the reform proposals to be more fully completed.

The judgement of MacSharry's political leadership rests on the extent to which he was able to influence the circumstances of the middle of 1990, that is the EU having no CAP reform agreed and seemingly having no prospect of CAP reform being agreed.

Given the enactment of the stabiliser regime in 1988, and the usual cycle between CAP reforms, it is a fair point to argue that MacSharry could not have developed CAP reform plans any quicker than he did. However, the question remains whether MacSharry should have made public the kind of ideas that were being considered by the Commission during 1990 to try to help the EU's negotiating position in the UR. Instead there was step 4 of this alternative interpretation of the link between the collapse of the UR and start of the MacSharry reform proceedings.

(4) Step (3) meant that the EU was forced into a rescue operation to save the UR. The MacSharry reform team had to spend all their time battling to achieve the 7 November offer.

(5) The MacSharry reform team believed that the 7 November offer was incompatible with the CAP as it existed. This analysis rested on two beliefs. The first was that the stabiliser regime would not have produced sufficient reduction in domestic support in order to meet the targets of that offer. Secondly, the uncompensated automatic price cuts of the stabiliser regime were increasingly political difficult. The 1990/91 price package has been problematic. There was a key movement in the position of the Dutch government in the CoAM. The Dutch position was not usually associated with a commitment to high support prices; in the stabiliser reform debate they had broadly taken the UK view of set-aside (see above). However, the second year of uncompensated price cuts had been politically difficult enough for the Dutch to move their position towards that of the German government, namely, the CAP needs to be changed in a way which avoids annual uncompensated price cuts. Thus, the analysis of the MacSharry reform team was that the stabiliser regime as it was then operating was too tough for the CoAM; there was no prospect of tightening the system in order to meet the requirements of the 7 November offer. The operation of the stabiliser regime and the automatic uncompensated price cuts that it imposed are a central factor in why the CoAM eventually agreed to the MacSharry reforms in May 1992.

(6) The MacSharry reform team thought that the 7 November offer would not be enough to get agreement, but hoped it would be enough to keep the UR alive.

MacSharry admitted that the offer made by the EU on 7 November, 1990 acted as a constraint on the rest of the UR negotiations. His judgement was that an eventual UR agreement would depend on the EU validating that offer (interviews MH;DR;PH). After Brussels in December 1990, MacSharry elaborated his attitude to the connection of CAP reform and the UR in AgenceEurope 9 January 1991, CAP reform would help to 'strengthen the Community's credibility on the international scene by affirming our will to strengthen our farm policy' in the GATT negotiations. This leads to step (7) in the alternative interpretation.

(7) The promulgation of reform proposals so soon after the collapse of the UR at Brussels in December 1990 was part of an attempt to build EU credibility on agricultural support reduction. The aim was to avoid the failure to reach agreement at Brussels, and irrevocably damaging the UR.

The DG VI's GATT team and the MacSharry reform team met jointly a number of times in the week 8-14 December 1990. MacSharry was the common element of the two teams. They had the problem of a collapsed UR in which the EU's offers lacked credibility with the US and the Cairns Group and a stabiliser regime which they believed was not controlling surpluses and, in addition, producing politically unacceptable price cuts. The view of the GATT team was that the US wanted to end export refunds, but keep their deficiency payments system (interviews DR; AW). It was MacSharry's decision to proceed with proposals for a CAP reform based on substantial price cuts and compensatory payments.

(8) That decision concluded a successful holding operation by MacSharry; the UR was kept alive, something that was in no way inevitable given the events and circumstances of the second half of 1990. However, those circumstances were in part influenced by the failure to achieve CAP reform, or at least get reform on the EU's agenda before the original deadline of the UR.

MacSharry knew that the CoAM was responsible both for CAP reform and agreeing the UR negotiating mandate. He also knew that there was a basic political constraint that the two issues could not be publicly linked, that is, be discussed as part of the same agenda. Given this, MacSharry should have got some kind of CAP reform agenda agreed (even if not formally enacted in detail) before the scheduled final stages of the UR in the second half of 1990. There was no guarantee that the UR would survive a collapse at Brussels, so a strong political leadership strategy would have been based on the view that the UR was going to be completed at that time. It was weak political leadership to allow the circumstances of the middle of 1990 to develop as they did.

Under MacSharry's political leadership, the EU did agree CAP reform in May 1992 and did conclude the agriculture part of the UR in November 1992.

Chapter seven compares De Zeeuw's paper of 1990 with Dunkel's DFA of late 1991. It is speculated that one factor why the latter rather than the former became the basis of the UR Agriculture Agreement was that the prospect of CAP reform existed in late 1991 but not in the summer of 1990.

There are two main differences between the two interpretations of the collapse of the UR and the beginning of CAP reform proceedings. The first is that the Tangermann thesis ignores the fact that MacSharry and Delors had a team working on CAP reform for almost two years before December 1990. The failure to get CAP reform on the CoAM agenda was a failure of political leadership. The circumstances which forced MacSharry into the 'masterstroke' according to the Tangermann thesis were at least in part affected by MacSharry.

Secondly, the Tangermann thesis about MacSharry politically masterminding CAP reform stretches credulity. There was no guarantee that the UR would restart after December 1990, so it would have been a reckless strategy to deliberately collapse it. The alternative interpretation suggests that the MacSharry team did their best to achieve agreement at Brussels - indeed the premiss on which their estimation that CAP reform had to come before the UR was that which the EU could offer with the stabiliser regime would not be sufficient for agreement. In interviews members of the MacSharry reform team said they would have been very pleased to get agreement on the basis of the 7 November offer. They would have limited the international constraints on the future development of the CAP and could claim that the US had accepted their proposals for a post-UR agricultural trading system.

After the decision to proceed with proposals for CAP reform had been taken in December 1990, the work on different CAP regimes by the reform team was being pulled together with 'hard' figures and a full quantitative assessment of the effects of such a reform of the CAP. Agra Europe of 18 January 1991 printed *selected texts* from a copy of the initial reform document which it had obtained. The proposals were incomplete in the sense that the politics had not been added to the reform proposal. It was never intended for the public domain or even the College of the Commission. The research for this thesis did not produce a convincing account of why it was leaked.

6.2 Event Two: Adoption of COM (91) 100 by the Commission and Initial Reaction in the Public Domain

Event two forms an important chain in the CAP reform process. As highlighted in this section, the reform proposals progressed from the initial stage of small team discussions in DG VI (see event one above and the AgraEurope leaked document) to agreement by the College on 31 January 1991.

The reform team used the tactic of informal and individual consultation within the Commission; individual commissioners were targeted on a bilateral basis for discussion and negotiation as opposed to the regular channel of special chefs, then chefs' meetings followed by the College of the Commission. This was an example of MacSharry and Delors working together.

The highly irregular tactic of using a special weekend seminar of the full College replaced the usual procedure. By routing the proposals so as to avoid the cabinets, the risk of national interests viz. member states governments, becoming involved and using amendments and other tactics to sabotage the project, was minimised.

Members of the Brittan and MacSharry cabinets were willing to admit how explicit such lobbying was (despite the Treaty of Rome's view of commissioners) (interview PR;PH). The seminar on 20 January was important in getting the main parts of COM (91) 100 agreed so soon after (January 31). Only two College meetings were held to discuss CAP reform before the special weekend seminar (on 4 and 9 January). At neither of these was an official document presented.

Another effect of the weekend seminar tactic was to insulate the debate from the farm lobbies. The COPA Presidium expressed 'concern and reluctance' concerning possible Commission reform proposals to change the CAP from a system of price support towards DIPs. This was in reaction to press reports, COPA did not have access to any of the detailed proposals under discussion in the Commission. Aides at COPA confirm that they had been unaware that a reform team in the Commission had been constructing reform plans for the CAP, including DIPs, through 1990 (interview FR). Yverneau, COPA President, publicly expressed concern over the direction of the reform plans after an audience with MacSharry (AgenceEurope 11 January 1991). COPA effectively was in the public domain in terms of understanding the progress of Commission and Council thinking during the MacSharry reform process, that is, they did not have 'insider status' (Grant, 1989). The MacSharry cabinet thought the views expressed by the COPA presidium were reactionary and conservative; the reform proposals shattered the hard-won consensus that COPA had reached on the previous reform of the CAP in 1988.

The weekend seminar tactic was decided by the reform team. For the institutional procedure of the College of the Commission to be circumvented required the input of Delors. Delors was personally involved in this part of the reform process (interview PH). The tactic is an example of the ability of the Delors cabinet to impose a view on the Commission. The weekend seminar meant that no other Commissioner could provide an alternative vision because their cabinet did not have time to agree a response. This tactic was typical of those employed by the Delors cabinet in its irredentist activities in other policy areas described in Ross (1995).

The weekend seminar tactic changed the institutional path of the MacSharry reforms. It is necessary to judge whether this was a factor in the reform process. The leaked AgraEurope document provides a starting point to the assessment of the effect of the weekend seminar tactic on the MacSharry reform process. There was no definite evidence found that this was a deliberate leak by the MacSharry reform team. The proposals were where the reform team's thinking had reached as the UR collapsed, i.e. before they had been presented to the College or individual commissioners. Only members of the reform team knew about the details at this stage (interviews PH;DR). Hence, these were the initial MacSharry reform proposals before the politics within the Commission had been added. A comparison of this document and COM (91) 100 (what the College eventually agreed) will be provided at the end of this section.

The highlights of this initial reform document are as follows; in the cereals sector the target and intervention prices were to be cut by the end of the transition period to 100 and 90 ECU/t compared with the then current levels of 220 ECU/t and 165 ECU/t . Direct income compensatory payments were to be introduced. The levels of compensation would be modulated on holdings greater than 30ha; that is payments would be reduced by 0% for holdings up to 30ha, 25% on the next 50ha and by 35% on anything above this. Compulsory set-aside requirements were to be introduced; again these were to be modulated, the set-aside requirement was 0% of first 30ha, 25% of next 50ha and 35% for areas in production greater than 80ha. There was no mention of compensation for set-aside.

In the dairy regime the main point was a 5% cut in the global quota. This was also to be modulated. Farms of less than 200,000kg. annual production faced no quota cut, but those with greater annual production were subject to a quota reduction of 10%. In the livestock sector, beef intervention prices were to be cut by 15% and for sheepmeat there was a limit on the reference flock for which premia would be paid.

The informal and individual consultation between the reform team and commissioner produced alterations in the initial reform document. This document had not been presented to the College on 4 or 9 January. However, the proposals had been the subject of some lobbying by member states before the weekend seminar of 20 January. The UK's Permanent Representation to the European Union (UKREP) confirm that the UK government had a copy of the initial reform document in mid December. This was obtained through a 'leak'. Members of the MacSharry cabinet 'understood' that the French government also had a copy (interview PH).

An article 'Brussels examines deeper cuts in EC Farm Support' (FT 17/1/91) described the preparation of a 16-page document 'Development and Future of the CAP' for the special weekend seminar on the 19/20 January 1991. About 80% of the initial reform document survived (interviews DR;CH)

AgenceEurope 21/22 January 1991 and the members of the MacSharry cabinet confirm that there were two distinct sides in the College in response to the proposals presented by MacSharry on Sunday, 20 January. The was the first official document presented to the College on CAP reform.

The commissioners of the UK, Denmark, Holland and France all expressed reservations about the reform document presented. They wished to protect large farms and argued against the modulation of the compensatory DIPs. Andriessen (Netherlands) and Brittan (UK) were considered effective, senior Commissioners by the reform team and their arguments had prominence within the College. Both supported a quick CAP reform to facilitate a conclusion to the UR.

The Brittan cabinet felt that the reforms would add to the budget in the short run, even if the MacSharry team could devise scenarios in which the budget cost in the medium term is reduced compared to persisting with the *status quo*, stabiliser regime (interview PR). Andriessen emphasised the intuition that if budget problems are motivating CAP reform then the wisdom of introducing an element of support which was an addition to the budget, i.e. DIPs, must be questioned.

The opposing group centred around the following Commissioners: Pandolfi (Italy), Van Miert (Belgium), and Dondelinger (Luxembourg). These shared the personal philosophy of MacSharry. They supported the modulation of DIPs and set-aside requirements for larger farms. The aim of the CAP should be keeping the maximum number of uneconomic farmers on the land.

The weekend seminar finished with agreement to the principle of CAP reform but not on the concrete terms that MacSharry had submitted. The decision-making rule of the College is a simple majority vote, however, there is a strong disinclination to take a vote unless there is the prospect of a unanimous outcome. MacSharry was given a mandate to announce reform ideas to the CoAM meeting on 21 and 22 January.

Agra Europe 25 January 1991 describes the presentation of a 13-page version of the Commission weekend document (the vague and non-controversial elements) by MacSharry to the Council of Agriculture Ministers on Monday, 21 January. All of the figures of the original document had been removed. This presentation argued that measures to cut support should be aimed at the *top 10%* of farmers who were responsible for rising surpluses and hence expenditure. The stabiliser mechanism had failed because it did not tackle what this document called the *underlying problem* that CAP support is linked to production levels. The objectives of reform must be to control expenditure, increase EU competitiveness (for the inevitable increase in competition arising from GATT obligations) and to maintain rural population. This last objective is the only sensible thing for a developed rural policy, argued the proposal.

The debate in the Commission and Council over CAP reform ended its first stage when the Commission formally adopted COM (91) 100 at a full College meeting on 31 January 1991. This orientation paper encompassed Agriculture Council and Commission views on the original and subsequent drafts of the MacSharry plan for CAP reform. This proposal was then presented to the Agriculture Council as 'Communication of the Commission to the Council: The Development and Future of the CAP' on 4 February 1991. It did not contain formal legislative proposals for CAP reform, but was intended as a reflections paper to stimulate an EU-wide debate.

COM (91) 100 represented a substantial watering down of the initial reform document. The division in the Commission noted after the 20 January seminar over the distinction in the levels of compensation available to large and small farmers was healed by the compromise described below. Ripa di Meana voted against and Andriessen abstained because it did not allow enough flexibility in the UR.

There are five significant differences between the initial reform document as revealed in AgraEurope 18 January 1991 and the final version of the plan adopted by the Commission 'The Development and Future of the Common

Agricultural Policy' COM (91) 100. The first is that the later document contains no mention of modulating compensatory payments (i.e. those for the cut in support prices) in the cereals and oilseeds sectors. The original contained plans for reducing the amount of compensation for the area greater than 30ha of any holding.

Secondly, the two documents differ on set-aside requirements. The COM (91) 100 has a flat 15% set-aside requirement with compensation paid only on the first 7.5ha set-aside for farms larger than 50ha. Some modulation in the cereals sector survived the demands of Brittan, Andriessen and Christopherson. It is not clear, but there does not seem to have been any specific and separate compensation for setting aside land in the initial reform document.

The third difference is in the milk sector where the global quota cut was settled at 3% compared to the originally proposed 5%. The distinction in the incidence of the quota cut became less severe in the later document. The specific 10% cut in quota for producers greater than 200,000 kg. per annum, with no cut for those below that limit, contained in the original document did not survive. Yet some form of modulation did survive in the dairy sector and provided a target for the UK government's demands through the rest of the negotiations.

Fourthly, in the beef sector the premium for male bovines was increased from 120 ECU per animal to 180 ECU per animal, paid over three years. The payment was still made only on the first 90 animals, thus discriminating against large producers. Further, the annual suckler cow premium was increased from 40 to 75 ECU per cow with the modulation rule changed from payment on one cow per hectare of forage area to payment on the first 90 cows as above. The removal of modulation in this sector was one of the targets of the UK government's negotiating stance in the reform process. The proposals of the initial reform document for the ovine sector, limiting the premium for each producer to the first 750 animals of a herd in less favoured areas and 350 animals elsewhere, remained in place. This opposition to modulation plus the desire to reach a GATT conclusion meant that the usual UK insistence on budget stringency was not a feature of the CoAM debate on the MacSharry reform proposals.

The fifth significant difference was in the ambition. 'The Bulletin of the European Communities' No.1/2 1991 reports that the basic objective of COM (91) 100 was to 'enable a sufficient number of family farms to survive, thereby preserving the natural environment and contributing to rural development'. Sufficiency in this case had been substituted for 'maximum number' or 'large number' in previous drafts.

This thesis claims that the decision to pursue an informal consultation route to the College and eschew the normal procedures was an intentional act by MacSharry and Delors. Further, this informal consultation route was a causal factor in the MacSharry reform process; compared with the usual special chefs and chefs path, this leadership meant that COM (91) 100 was adopted quicker and in a different form than would otherwise have been the case.

These are separate claims. However, the same element operates in both claims. The informal consultation path through the Commission meant that the intervention of national governments was minimised. National governments are the only other institutions in the CAP decision-making system which could have produced alternative overall views of CAP reform. Hence, their lack of input at the Commission stage of the MacSharry reform process meant that COM (91) 100 was adopted more quickly and in a different form than would have otherwise have been the case.

Only two months elapsed between the trigger of the reform process after the collapse of the UR at Brussels on 6/7 December and the adoption of COM (91) 100 by the College on 31 January. The special chefs level would have meant direct input from member state governments. Cabinet members rely heavily on their national governments for technical advice on the CAP (interview PR). These inputs would have crowded the agenda and stymied the progress of the reform team's proposals at a sub-College level.

The reform proposals reached the College quickly and unscathed from competition with rival visions of CAP reform. The tactics of the reform team allowed the agreement of the principle of a CAP reform of the type envisaged by the reform team before any national government could suggest a different direction. Once the principle of a MacSharry-type reform had been agreed, the details could be agreed on a personal basis with individual commissioners. The reform team was very flexible in these negotiations; note the difference between the proposals as they started and finished in the Commission. Between 20 January and 31 January, modulation in the cereals sector was dropped (though remained in parts of the livestock sector). These proposals had been something very personal to MacSharry.

6.3 Event Three: The CoAM Meeting 4 February 1991

COM (91) 100 was presented as a 'communication' from the College to the CoAM, i.e. not a formal legislative proposal. MacSharry, in his verbal address, emphasised a more general necessity for a reform of the CAP. This emphasis accompanied MacSharry's presentations to CoAM right through 1991. The two favourite themes were the surpluses situation and the competitive situation of the cereals sector. The stabiliser mechanism was condemned as failing to curb production. Cereals intervention stocks were at 18.5mt compared with 11.5mt in early 1990. Beef surpluses were at 750,000 tonnes, greater than the previous record set in 1987. Butter surpluses were 260,000 tonnes and the surplus of skimmed milk had reached 335,000 tonnes. The increasing use of grain substitutes had resulted in the demand for cereals as an animal feed falling at a rate of 1.5mt to 2.5mt per annum.

The removal of the *status quo* as a policy option was the first tactical objective of the reform team and MacSharry's presentation was part of the achievement of this objective. A mood of 'things can't carry on as they are' was the specific aim of the team (interviews RM;PH). This aim was achieved gradually; event eight describes that it was December before the CoAM agreed an explicit, public statement that CAP reform was necessary. Event eight describes the communiqué from the December Council.

MacSharry's political skills within the Council are discussed as causal links at various points of the CoAM part of the reform process. One of the results of the fieldwork interviews conducted for this thesis was an emphasis on MacSharry's non-EU *political style* as affecting the reform process. This was common to different individuals in different institutions involved in the reforms.

The term political style is nebulous, but certain core characteristics of the way MacSharry conducted himself in the CoAM part of the reform process may be identified as relevant. The first set of core characteristics refer to the *spin* that MacSharry put on proposals in his presentations to the CoAM. He had a set of consistent and personal convictions about the CAP and would use these convictions to interpret the reform proposals. There was a definite element of the ownership of the reform ideas, these were *his* proposals for CAP reform. For example, MacSharry was strident in asserting that the ultimate objective of the CAP is the preservation of the maximum number of the ten million uneconomic farmers in Europe. This is not something that the College would necessarily have concurred with. Indeed it was an issue in the debate over the agreement of COM (91) 100. This political style meant that the reforms of 1992 came to be associated much more closely with MacSharry (this thesis adopts the usual title of the MacSharry reforms) than the reforms of 1984 (milk quotas) or 1988 (stabiliser system) did with the Agriculture Commissioners of the time, Dolsager and Andriessen.

The second set of core characteristics of the MacSharry political style relate to MacSharry's negotiation skills in bilateral or trilateral meetings with individual agriculture ministers and the Council President. Those interviewed as part of the fieldwork for this thesis all mention MacSharry's experience and background. He had been Irish Agriculture Minister from 1979 to 1981 and Opposition spokesman 1981 to 1982. Further, he had been involved in various agribusinesses before politics. This meant he was well placed to understand the demands of those he was negotiating with in the CoAM. Further, he was able to articulate responses to those demands.

This thesis does not aim to overplay the importance of the MacSharry style in the reform process. It claims that MacSharry's way of operating in the CoAM part of the reform process was different from previous agriculture commissioners involved in CAP reforms. Participants in, and observers of, the MacSharry reform process note this difference as a causal link which explains part of that reform process.

The identification of specific elements of the reform process affected by political style is difficult. This thesis judges the influence of MacSharry in terms of specific acts which can be identified as examples of political leadership. Acts of leadership are part of the chain which forms the policy process; they are causal links at various times and at various levels. Acts of political leadership can influence and organise a whole series of individual agent's actions. This will be shown throughout this chapter. However, the vaguer claim that MacSharry's political style affected the reform process is much more difficult to establish as a causal factor.

AgraEurope Green Europe supplement February 1991 reported a 'small majority' in the CoAM against COM (91) 100. MacSharry reckoned the vote at 7-5 against (interview RM). Rene Steichen (Luxembourg), then CoAM President, asserted at a press conference that the Council was unanimously behind the need for reform (although there was no agreed statement to that effect) and that more emphasis needs to be placed on 'rural development'. As noted above, the reform team regarded the removal of the *status quo* as a policy option as the first tactical objective of the CoAM part of the reform process. The rejection of COM (91) 100 did not signal the end of the reform process; it set up the debates in the CoAM over the next 16 months.

AgenceEurope charted the cleavages in the Council. The UK, Netherlands, Denmark issued what one Council Secretariat aide called a 'flat refusal' to the direction of COM (91) 100. The *southern bloc*, Greece, Spain, Portugal and Italy, were in general agreement with the proposals, their importance was limited by reform proposals not covering southern products. Italy spent most of the next 16 months in protracted arguments about its milk quota and was not substantially involved in the evolution of the arguments surrounding the rest of the MacSharry reforms. Germany and Luxembourg requested more concrete statistics before committing themselves. The French position was a microcosm of the wider debate over the MacSharry reforms; Mermaz argued that French farmers could lose 20bn Ffr of export subsidies per annum creating, what he termed a 'veritable economic disaster'. However, at the same time, he liked the idea of CAP reform in the terms MacSharry presented it; the concept of the *multi functional farmer* preserving rural areas. His suggestion was that any reform of the CAP in the fundamental way MacSharry had been talking about should be decided by the European Council. The UK position was to support the aim of reform but oppose strongly the idea of modulation.

6.4 Event Four: The 1991/92 Season Price Package

The agenda of the CoAM after February was occupied by the need for the agreement of the 1991/92 price package. The causal links were the annual CAP price review and the operation of the stabiliser regime. The 1990/91 price package involved some difficult politics in the CoAM. The vagaries of nature determined that the MGQ was not exceeded in the 1991 harvest and thus automatic price cuts for 1991/92 were not triggered.

As described in chapter 2, the EAGGF budget is sensitive to the world price because of VESs. There is no automatic correlation between the size of surplus production and the EAGGF budget. At the time of the 1991/92 price package, even though the level of cereals production had not exceeded the MGQ, MacSharry claimed that to roll over the 1990/91 prices would lead to the budget breaking the 1988 Guideline for EAGGF spending. It has already been established that MacSharry was successful in making the College agree a proposal of price cuts and not the raising of the Guideline as a way out of the problem (this was against the wishes of Delors). The CoAM then had to achieve unanimity to raise the spending Guideline to prevent tough price cuts. Only the UK's vote prevented this.

The budget problem was resolved with accounting gymnastics. It was an illustration that members of the CoAM care more about price cuts than the budget expenditure of the CAP or meeting the Guideline . The stabiliser regime did not impose price cuts automatically in 1991/92 (as it had done in the previous three years). This meant that the MacSharry reforms did not become entwined with the annual price package as was the case for 1992/93. The CoAM was not forced to confront the pressing need to reform the CAP. The budget warnings provided by MacSharry were not sufficient. This explains why the reform process was settled in May 1992 and not May 1991.

The battle over the 1991/92 price package and the EAGGF budget occupied the Council's agenda for the first half of 1991. The reform team within the Commission was occupied with this and the restart of the UR negotiations. The formal progress of the MacSharry reforms reached a hiatus. It was always intended by the reform team that reform proposals would be brought as a follow up to COM (91) 100, but during this period the Council's agenda was too crowded to start considering CAP reform in detail.

6.5 Event Five: Agreement of COM (91) 258

The College agreed COM (91) 258 on 9 July 1991. These proposals were effectively the same as COM (91) 100; the reference figures of the latter document were inserted as definite figures in COM (91) 258. The two documents have the same name, 'The Development and Future of the Common Agricultural Policy' and are almost identical in their language and numbers. The reason why the reform team did not change COM (91) 100, even though it had been rejected by the CoAM on 4 February, is that COM (91) 100 was deliberately only ever a *communication* to the Council. A small majority against, each member voting for very different reasons, was judged by the reform team as a reasonable starting point to restart the Council part of the reform process.

6.6 Event Six: The Oilseeds Agreement

September 23/4 was the first time COM (91) 258 had been considered in the Council of Ministers. However, as after CoAM in February, the agenda was dominated by another issue. The causal factor was the need to agree an oilseeds support regime by 31 October to meet GATT obligations; specifically those of a GATT panel ruling. Hence, two factors were involved in delaying the serious consideration of CAP reform by the CoAM in 1991, the 1991/92 price package and the oilseeds dispute.

All members of the CoAM were keen to emphasise that an oilseeds agreement (eventually agreed at the October Council) was in no way a precedent for the proposed reform of the cereals sector. The two issues had been studiously separated on the agenda, hence they could not be discussed at the same time. The international element to the oilseeds dispute prevented this explicit link, and the reform team were unable to use this as a lever to try and agree CAP reform.

This reflected similar politics to that involved in the UR and described under event one.

The oilseeds agreement was cited in a number of the fieldwork interviews conducted for this thesis as 'showing the way' to the reform of the cereals sector. The CoAM agreed an oilseeds regime in October 1991 in which there were DIPs based on local area cereals yields in order to avoid unbalancing the relationship between rapeseed and sunflower seed production.

The showing the way phenomenon was a causal link because it affected the operation of the CoAM. The institutions paradigm holds that the structure and rules of the CoAM are important variables in the analysis of CAP decision-making. Members of the CoAM represent 12 national agricultural interests. They compete to protect that national agricultural interest in any decision about the CAP. In a period when the level of CAP expenditure has produced political pressure from outside the CoAM, agriculture ministers tend to take defensive attitudes to the protection of their state's agricultural interest.

This defensive attitude means a dislike of change; agricultural ministers fear agreeing to a change in the CAP which gives the appearance of reducing their nation's pay-off from the CAP. 'Appearance' is deliberately used to capture the notion that this is a short-term and political calculation by the agriculture ministers; how CAP decisions are immediately received. The existence of a precedent is important in this political calculation. It allows the claim that nothing new has been agreed. Hence, the oilseeds compensation scheme sets a precedent for the compensation scheme proposed for the cereals sector by the MacSharry team. The oilseeds agreement shows the way to the agreement of a similar scheme in the cereals sector in May 1992.

The oilseeds regime enacted by the CoAM in October 1991 was rejected by a GATT Panel in April 1992. The details are provided in chapter 4. This has no effect on the precedent set up above, the central point to the operation of this factor in the reform process was that the CoAM agreed to a compensation scheme based on local area cereals yield.

The rejection by the GATT Panel affected the MacSharry reforms in a more direct way. Proposals for another oilseeds regime were included in the MacSharry reform proposals being considered by the CoAM. The reform proposals considered by the CoAM in May 1992 contained the same type of support regime for the oilseeds and cereals sector. This had never been the case since the EU's oilseeds regime was set up in 1966. The reforms enacted on 22 May maintained the same system of support for both sectors. Thus, GATT obligations and the oilseeds dispute was a factor which affected the substance of the MacSharry reforms.

The agreement of the same type of support system for cereals and oilseeds had an effect on the conclusion of the UR. This will be discussed in chapter 7 on the effects of the MacSharry reforms.

6.7 Event Seven: Progress of COM (91) 258 Through the Dutch Presidency

The CoAM of 18/19 November 1991 was the first meeting at which there was serious discussion of COM (91) 258. The positions of the member state governments were an elaboration of their February positions; these positions are described below.

Throughout the history of the CAP, and in particular the reforms of 1984 and 1988, the French position had been crucial in the outcome reached by the CoAM. The French farm minister's influence has always tended to be greater than ten weighted votes. The reasons for this influence beyond the strict institutional rule are usually cited as the history of the EU, and the French agriculture interest as the largest beneficiary of CAP support. A more specific factor is that France, since the accession of the UK and Ireland, and the economic trend of the EU moving from net importer to net exporter of agricultural commodities, has often been the swing vote in CoAM decisions. This swing position reflects historic contradictions in French government attitudes to the CAP. These contradictions were apparent in the CoAM during the consideration of the MacSharry reform proposals.

Mermaz (French farm minister during the MacSharry reforms) declared a fierce opposition to the proposal of COM (91) 258. He demanded more moderate price cuts, much stronger Community preference, and the reform to be phased in over five years. The French attitude to modulation reflected the ambivalence noted above toward the true purpose of the CAP. There was the interest of efficient French farming which is the EU's largest exporter of agricultural products and the world's second largest grain exporter. Hence there was the desire to remove the proposal that compensation for land set-aside is not dependent on the size or productivity of a holding. However, the MacSharry cabinet report that the French delegation had an *instinctive sympathy* with the rhetoric of MacSharry, that a CAP exists for the purpose of keeping farmers on the land and improving farm incomes. The economic reality of the CAP for France is often disguised by the language of its politics and the public justification of the CAP.

The German position was founded on its traditional preoccupation with the income levels of its small farmers, rather than international competitiveness. This had usually taken the form of resisting price cuts; Keichle was not unhappy with MacSharry but wished more comprehensive compensation for price cuts. As usual, the German farm minister was the most vehement supporter of supply management; Keichle wanted a full 5% cut in milk quotas (with adequate compensation). As described under event one, the voluntary set-aside scheme of the stabiliser regime was seen by the Germans as a structural measure to avoid price cuts. Whilst it is probably true, as Nedergaard (1994) claims, that Germany 'was from the beginning in favour of the overall content of the 1992 reform' its tactical position at CoAMs was more complex than this. In particular, it was a move in the German position that was important in the final settlement of the reform process in the CoAM.

The Belgian position was represented by the veteran farm minister de Keersmaker who generally followed the German line whilst insisting on adequate income compensation for cuts in the support price. Luxembourg generally followed the German line through this phase of the reform process.

The UK position (Secretary of State Gummer) was set against any modulation in any regime, but felt most strongly over beef and sheep headage (interview JG). The basic demands of the British were large price cuts and any compensation for those cuts to be limited and at a flat rate. The Danish position was similar, emphasising budget costs as paramount and railing against any discrimination in favour of small farms. Another natural ally in this perspective of the MacSharry reforms, the Dutch, were *hamstrung* by occupying the Council Presidency in the second half of 1991.

Walsh (Ireland) stated he would resist any subsidy cut in the beef sector; the fall in grain prices would not benefit the Irish because theirs was a grass-fed livestock industry. Ireland shared with the southern bloc an empathy with regards to the spin MacSharry put on the COM (91) 258 of looking after small farmer and having the redistributive aim (as expressed by the cant 80/20).

The main agricultural sectors of Spain, Portugal, Greece and Italy were not covered by the MacSharry reforms. They liked the redistributive aims (all have lots of small producers), but were unhappy at yield-based compensation, some of the lowest in the Community were in those four countries. The issue of milk quotas were a matter of contention for the southern bloc throughout the reform process; their historic implementation, their current and future levels. This was Italy's main interest in the MacSharry reforms.

The Dutch Presidency (second half of 1990) were judged by MacSharry and his team as slow in progressing the reform process (interview PH;DR). The initial blocs defined above remained fixed during the Dutch Presidency. This is a typical observation of agricultural policy; if it appears an agreement is not possible within a Presidency, then less than maximum political effort will be put by the incumbent member state into that project. The rotating presidency of the Council of Ministers is an institutional factor which affects agricultural policy.

During the Dutch Presidency CAP reform did, however, occupy part of the agenda of the CoAM, and the reform process maintained momentum. Further, COM (91) 258 was explicitly accepted by the CoAM as the base from which serious negotiations and compromise building could take place.

The December Council agreed that CAP reform was necessary and should be enacted along the following lines; price cuts, compensation, the curtailment of production and respect of the environment. Although these were sufficiently general to be non-controversial, this was the first time the CoAM had moved beyond a nod toward the general principle of CAP reform. The reform team had been confident for some time from informal discussions that this was the case, but saw this public signal as significant (interview PH); CAP reform would occupy a large share of the agenda of the CoAM in the first six months of 1992.

6.8 Event Eight: The Portuguese Presidency

The Portuguese assumed the Presidency of the Council in the first six months of 1992 (its first time in this position). CoAM President, Cunha, was an industrious and enthusiastic proponent of CAP reform. He produced five compromise papers before agreement was finally reached on 22 May 1992. The Portuguese Presidency was unusual, because although the Council agreed a reform package, little discussion actually took place there, i.e. in the plenary session (interview JG;RM). Cunha spent most of his time negotiating with MacSharry and individual member states' representatives. He arranged *ad hoc*, high-level meetings of representatives of the national farm ministries between Councils and it was not unusual for Cunha to visit ministers in their respective seats of government.

This political leadership took advantage of the circumstances resulting from the financial reality of the operation of the stabiliser regime. However, this thesis holds that these circumstances were the necessary and sufficient cause of the CoAM agreeing the reforms on 22 May. The political leadership of Cunha and MacSharry were factors involved in explaining that event. The other causal links are detailed subsequently.

6.9 Event Nine: The March 1992 CoAM

It is from the CoAM meeting on 2/3 March 1992 that the history of the denouement of the MacSharry reform proposals can be traced. Cunha offered a compromise paper (agreed with MacSharry) to the CoAM; the paper failed to provoke negotiations. The UK, Denmark, Netherlands, Belgium and Italy argued that the paper was too detailed and the principles of CAP reform had not yet been established and agreed. Bukman (Holland) railed against a 'salami approach' to CAP reform, in which details were agreed sector-by-sector instead of the CoAM agreeing a whole package.

The key move was in the German position. Keichle bothered less about the details before principles debate than the fact that the Cunha paper proposed the final target price for cereals at 105 ECU/t. The German position was that 130 ECU/t was the limit to any price cuts. This was the first time the German representative had formally rejected the reform proposals. This encouraged the UK, Denmark, Holland and Belgium formally to reject the Cunha paper.

6.10 Event Ten: The 1992/93 Price Package

This lack of progress and direction in the debate over CAP reform prompted MacSharry to threaten draconian price proposals for 1992/93. MacSharry could claim that as a CAP reform was not emerging then he would bring the 1992/93 price proposals under the stabiliser regime. He berated the Council for not taking stock of the reality; MacSharry and his reform team put the following figures into the public domain. Cereal stocks were predicted to reach 25 mt by the end of 1992 compared with 10 mt at the end of 1990; Milk at 650,000 tonnes and still costing over 5bn ECU; also beef stocks looked to be rising sharply. The next Council meeting was due on 30 March.

It is worth considering an outline of the Cunha paper presented at the 2/3 March Council. Though rejected, this paper describes the development of thinking beyond COM (91) 258. This compromise paper formed the basis of two more presented before final agreement was reached. Its salient points are noted below.

The target price at the end of transition for the cereals sector was proposed at 105 ECU/t compared with 100 ECU/t in COM (91) 258. The vexed question of beef intervention was tackled; to avoid males of dairy breeds flooding the market a special 'lightweight' intervention regime was proposed. There would be a fixed and falling ceiling for intervention in this category until 1997. The question of headage limits was left as in COM (91) 258.

Finally, there was the introduction of the notion of a base area. This had been something the MacSharry reform team had been working on as a compromise, in response to some member states' fears that there was no effective limit to compensatory payments. The wording of COM (91) 258 implied open-ended compensation; compensatory payments were to be on a per hectare basis with no limit on the number of hectares for which compensatory payments could be claimed.

The base area proposed for the cereals and oilseeds regime sought to define an area for which producers are entitled to subsidy. Member states could opt for this base area to be done in terms of individual reference areas or a regional area. With the former each producer has established an individual base area on the average cultivation from 1989 to 1991. The regional base area is defined by the Commission for each region in the EU on the basis of cultivation over the same three years.

If the sum of the individual areas for which subsidy is claimed (basic compensation and set-aside) is greater than the regional base area (whatever the option taken for its calculation), then during the same marketing year, the eligible area per producer will be reduced by the proportion of the overshoot, and the next marketing year will have a special set-aside requirement imposed, uncompensated.

The Commission agreed the 1992/93 price package proposals as a 'rollover' from 1991/92 prices on 18 March. This decision will be shown to have acted as a catalyst in the Council's deliberation over CAP reform. This was a clear act of political leadership by MacSharry and his team, and can be asserted as a factor in the outcome of the reform process.

The analysis presented by MacSharry to that meeting of the College is covered under the operation of the stabiliser regime in chapter 4. The proposals were not draconian in the sense that MacSharry had threatened at the previous Council but the 'rollover' did allow MacSharry to make the following claim to the CoAM; holding prices at 1991/92 levels within the operation of the stabiliser regime implied an 11% cut in cereals prices.

The price package was presented to the CoAM meeting of the 30/31 March; it was considered 'quite weak' by AgraEurope compared to the threat used by MacSharry at the 2/3 March Council.

The reaction to the price proposals at this meeting was crucial in opening up the prospect of reform by the end of the Portuguese Presidency (June 1992). The key reaction was that Mermaz and Keichle both said that they wanted to agree CAP reform before they agreed a price package for 1992/93. The principle that the *status quo* could not continue, agreed ever since February 1991, had now become political reality.

The cost, to a qualified majority of the CoAM, of agreeing reform was now less than the cost of not doing so. The 1992/93 price package could be ameliorated, incorporated or traded off against CAP reform. The prospect of agreeing a price package which implied an uncompensated 11% cut in cereals prices was the cause of the agreement of the MacSharry reforms. The causal link was the incidence of the political costs of uncompensated price cuts on member state farm ministers.

Nine out of the 12 farm ministers pledged to negotiate a CAP reform package as soon as possible (Belgium, Holland and Denmark requested more discussion before the final horse-trading could begin). There was no new compromise paper from Cunha, who stated that he was not confident enough from bilateral talks to present details, but had a 'feeling' that the Council was moving towards the final negotiations (AgraEurope 3 April 1992). The next meeting was due on 28 April. At this meeting Cunha presented his fourth compromise paper since January.

6.11 Event Eleven: The Agreement of Council Regulation (EEC) No.1765/92 30.6.92, the 'MacSharry Reforms'

MacSharry rejected the plan Cunha presented to the 28 April CoAM, so there was no serious discussion of it. The causal factor involved was that a unanimous decision is required by the Council to agree something not proposed by the Commission, whereas a Commission proposal only required a qualified majority to be passed. MacSharry rejected the higher target price proposed for cereals (112 ECU/t compared with COM (91) 258 at 100 ECU/t). This was something which MacSharry was still passionate about in October 1994 (interview RM); he regarded 105 ECU/t as the limit of EU international competitiveness.

Details of this Cunha compromise paper are patchy. It was similar to the one rejected at the 3 March Council meeting in that the target price was set at 105 ECU/t. One important difference, however, was the proposal that compensation would be paid on all land set-aside, not just the first 7.5ha as per COM (91) 258. This was part of Gummer's fight against elements of modulation in the MacSharry reform proposals (interview JG).

The higher eventual target price switched the forecast budget effects; basic compensation payments would fall from 8bn ECU to 6.5bn ECU (smaller gap current and future prices), but the set-aside bill would go up from 2.4bn to 3.8bn.

The higher target price also affected the export restitution budget costs. COM (91) 258 implied their virtual elimination by 1996/97 whereas the Cunha compromise and its higher target price implied their maintenance at half of the average current level (an estimated 700m ECU on the budget beyond the end of the transition period).

Denmark and the UK wanted larger price cuts, and wanted compensation to be temporary. Gummer liked this paper because, as mentioned above, it removed area limits on the compensation of set-aside (interview JG). The long running bane of the UK, namely headage limits in the beef and sheep sectors, remained. Germany, Belgium and Luxembourg thought the price cuts in the compromise were still too severe. The German delegation cited the calculation that a 27% cut in cereals prices meant a 33% fall in their farmers' revenues. Italy, Spain and Greece had a separate agenda in terms of increasing their dairy quotas in return for agreements to respect their implementation. Mermaz thought the paper 'an advance', but took the Commission line that the price cut for the cereals regime was not severe enough.

This set up the two outstanding issues before the marathon May Council (18-22 May) as the level of cereal price cuts and milk quotas. These would be the core parts of any CAP reform agreement as they affected all member states. The distinction between the core and the periphery of any package agreed by the

CoAM was introduced by Petit *et al.* (1987). The nature of CAP decision-making is the competition of 12 national agricultural interests. Policies are not agreed in isolation because of the need to tradeoff these 12 national agricultural interests; concessions on one part of the CAP begets compromises to different interests on other parts. Policies are agreed together in bundles or 'packages'.

These packages consist of a core which includes policies which affect all or most member states. A core has to be agreed before CAP reform is feasible. After the core is agreed, the special demands of member state are discussed and to some extent satisfied. These demands are characterised by affecting a single or very small number of member states.

The College met on 1 May and heard evidence from MacSharry that the price of 112 ECU/t proposed by the Presidency would imply a cereals surplus of an extra 8mt compared to a price of 105 ECU/t. The College 'disapproved' AgenceEurope 1.5.92 No.5721 of the fact that the CAP reform debate seemed to have descended into bargaining over the level of price reductions.

A further Cunha paper was submitted to the May meeting which provided the basis for agreement. The 1992/93 price package was part of the agenda as well. MacSharry hinted that the Commission could make certain elements of the price package 'more flexible', i.e. less tight in return for agreement on CAP reform e.g. a reduction to 3.5% (instead of 5% proposed) in the CRL, and a reduction in supplementary taxes were both mentioned. This is how MacSharry and his reform team used the need to agree 1992/93 prices to lever the CAP reform.

The debate centred on cereals price reduction (and compensation) and milk quotas. MacSharry and his team persuaded the College to reject the 24% reduction in cereal support suggested by the Presidency; they argued that this level of price cuts would require 22% set-aside to keep surpluses stable. MacSharry wanted the College to propose reductions in the overall milk quota of the EU by 3%, but the requests of Italy, Spain and Greece for their national quota to be raised were such that overall Community production would have been increased by 3%. These requests had been rejected by other members of the CoAM as 'unjustified'.

The week 18-22 May was characterised by trilateral meetings of MacSharry, Cunha and individual ministers. This is standard CoAM practice (which marks it out from other Councils in the way that it operates); the plenary sessions lasted about four hours of the week.

MacSharry considered 29% to be the minimum reduction in cereals prices compared with 24% in the most recent Cunha paper and the 35% of the Commission proposal. By the morning of 20 May, the Presidency's fifth document on CAP reform (in the five months since Portugal took over) was emerging. Cereals prices were to be reduced by 29%, to a target price of 110

ECU/t and an intervention price of 100 ECU/t. In the dairy sector, national milk quotas would be 'adjusted' in Italy, Spain and Greece on the condition that previous quotas have been applied in a manner satisfactory to the Council.

The 'northern' bloc in the CoAM (Belgium, UK, Luxembourg, Holland, and Denmark) balked at any concessions on milk quotas. They complained of special treatment for countries which had not respected the system (Spain, Greece and Portugal were exonerated on account of their recent accession to the Commission). Italy was singled out as the main transgressor; it had not implemented the 1984 milk quota system and they wanted their quota increased. Italian Minister of Agriculture, Goria, had been granted the weapon of Luxembourg compromise (from Andreotti) to veto the entire package.

This situation was resolved with the Italian quota issue separated off and dealt with over subsequent months. The dairy sector itself represents probably the greatest dilution of the original MacSharry proposals.

The College agreed to the 20 May document on the recommendation of MacSharry that it enjoyed sufficient support in the CoAM to bring everyone else in 'in its wake'. This document was the core of the outcome of the MacSharry reform process. (the level of cereals prices and related compensation), Thursday 21 May was occupied by the agreement of the periphery. Various issues and special member states' demands were linked to produce final agreement on Friday, 22 May. The UK gained some concessions in the sheepmeat sector. German demands were ameliorated by the agreement of a 1992/93 price package (at the same time as MacSharry) less strict than the roll over of 1991/92 prices under the stabiliser regime. The Irish gained concessions with respect to the slaughter of male cattle. French secured some details about fodder grasses and ensilage corn.

The main compromises made in the week 18-22 May are described here. The reduction in support prices was set at 29% over three years. Each individual producer will be fully compensated through direct payments. To be eligible for these compensatory payments there is an initial set-aside requirement of 15% - for which further compensation is available through set-aside payments. Neither of these payments is modulated except in the sense that small producers below a defined limit can be exempted from the set-aside requirements.

In the beef sector support prices would be cut by 15% over three years. There are some new limits on beef intervention, but the 'safety net system' continues. Other measures were agreed as a concession to the Irish because their beef is grass-fed and would not benefit from a fall in animal feed prices, e.g. the introduction of a winter beef premium aka 'de-seasonalisation'. The headage limits for premium payments remained for beef, but was removed for suckler cow.

The sheepmeat represented the substance of the concession to the UK. Half of the premium would be paid beyond the headage limit and 1989 would be added to 1990 and 1991 as possible reference years.

The proposals of MacSharry for the dairy sector were very diluted in the final agreement. The intervention price for butter was reduced by 5% (compared with the 15% proposed) and for SMP there was no change in price. The original DG VI document argued for a 5% cut in the global milk quota; in fact there was no agreement to cut the quota.

The 1992/93 price agreement was the central focus of the German farm minister's negotiating demands. In the cereals sector, the basic CRL was reduced to zero (from 5% in 1991/92). The intervention price was cut by 3% according to the stabiliser mechanism, but the supplementary CRL of 3% was dropped. This meant that there was an effective price rise of 2% compared to MacSharry's oft quoted threat of a cut of 11%.

6.12 Conclusion

This chapter describes a chain of events which together form the policy process which led to the enactment of the MacSharry reforms. Each section in the chain and the causal links between the sections of the chain are looked at. The policy process is element two of the CAP decision-making system set up in chapter 1. Chapter 4 described the possible causes of the MacSharry reform process; this formed element one of the CAP decision-making system in chapter one. Element three, the output of the CAP decision-making system, is covered in the next chapter on the effects of the MacSharry reforms.

The policy process associated with the MacSharry reforms has been described through the institutions framework. This choice of framework has been justified in chapter 5. Chapter 8 checks whether the policy process detailed in this chapter can be better interpreted using one of the alternative CAP reforms outlined in chapter 5. Chapter 5 described 'better' in this context as providing a more coherent, clear and concise interpretation of the policy process associated with a CAP reform.

The argument of this chapter can be summarised using the three questions posed for the MacSharry reform policy process in chapter 1 of this thesis; why were the MacSharry reforms enacted, when they were and in the way that they were?

These questions help to provide an understanding of the key elements in this complex process.

As emphasised throughout this thesis, CAP reforms should be understood as the outcome of a process. The factors involved in the initiating of a reform process are not necessarily the same factors which conclude a reform process The MacSharry reform process started as the result of the domestic pressure for CAP reform (the operation of the stabiliser mechanism) and international pressure in the UR interacting with an institutional structure in which the Agricultural Commissioner had responsibility for the reactions to both these pressures. Commissioner MacSharry's distinctive political personality has been emphasised in this chapter and the issue of the role of individuals in the public choice paradigm is considered in section 9.4.1. However, this chapter holds that the interaction was structured and strongly affected by the institutional context in which it took place.

The institutional structure of CAP decision-making translated the pressures noted in chapter 4 into two driving forces for CAP reform. The first was through an Agricultural Commissioner and President with an ambition for reform and receptive to ideas being produced by the special studies unit of DG VI. Secondly, after the collapse of the UR at Brussels, the demand for a more flexible negotiating stance.

The MacSharry reform process was concluded when the stabiliser mechanism implied nominal price cuts for 1992/3 that were too swinging for the collective political stomach of the CoAM. There was a lower political cost attached to enacting a reform than preserving the status quo. The form of the MacSharry reforms was determined by the concurrence of the CoAM's agenda of minimising the political costs of any reform by compensating price cuts and the Commission's ambitions for a CAP reform which controlled production and provided a credible negotiating stance with the US.

CHAPTER 7: THE EFFECTS OF THE MACSHARRY REFORMS

7.1 Introduction

It is important to initially establish what this chapter is not saying. This chapter is not using a description of the effects of the MacSharry reforms as an explanation of why those reforms happened, when they happened and in the way that they happened; this chapter is not part of a functional explanation of the MacSharry reforms.

This chapter describes the effects of the MacSharry reforms in a way that attempts to avoid *ex post* explanation and justification of those reforms. This serves two functions in the thesis. First, it gives a completeness to the account of the MacSharry reforms. Secondly, and more importantly, it helps emphasise the claim of the institutions paradigm that CAP reforms under the present institutional arrangement of decision-making will never affect the underlying stability of the CAP. Chapter 1 defined a radical reform as one which affects the distribution at national level of the costs and benefits of the CAP. In these terms the MacSharry reforms are shown in this chapter to be something less than radical. *Radical* is used in the sense that was discussed in section 1.5. The set of possible CAP reforms which can be agreed is constrained by the requirement that the national balance of pay-offs from the CAP should not be disturbed. A radical CAP reform would be one that disturbed this balance.

This claim exists alongside the observation that a switch to quotas (1984), tying price changes to output (1988) and introducing DIPs (1992), are significant changes in how the support of the CAP was delivered. The MacSharry reforms are in other senses radical; substantial cuts in nominal support prices, a shift in the burden of support from consumers to taxpayers, the introduction of direct income compensatory payments linked to participation in a set-aside scheme. The definition of radical introduced in chapter 1 was linked to the idea of CAP decisions, including CAP reforms, as the product of a decision-making system. The configuration of this decision-making system constrains the potential products of that system. The CoAM is a competition of 12 national agricultural interests and CAP reform is the result of this competition. The judgement of whether a particular reform is radical or not should be made in terms of those 12. The final section of this chapter looks at the literature on proxies to measure national agricultural interests.

The effects of the MacSharry reforms can be described in two dimensions. The first is the measured economic and financial effects in the operation of the CAP since 1992. This includes, for example, the budget effect, i.e. the effect on production and the level and distribution of farm incomes. The second dimension follows from an understanding of the MacSharry reforms as the result of process produced by a set of circumstances. These circumstances were described in chapter 5; the CAP being subject to international negotiations in the UR, the oilseeds dispute and the operation of the stabiliser regime producing politically unacceptable price cuts.

These affected the MacSharry reforms. The consequences of the MacSharry reforms for these circumstances is the second dimension considered in this chapter.

7.2 The Economic and Financial Effects of the MacSharry Reforms

The strict economic and financial consequences of the MacSharry reforms of 1992 can be judged over the short or medium term. This section surveys the evidence for both and describes the predictions produced by economic models of the CAP for the ten years after the MacSharry reforms. These are *ex ante* analyses of how the reforms are expected to affect the direction of the CAP. These *ex ante* analyses cover a time period from one to ten years after the implementation of the MacSharry reforms. If the MacSharry reforms mark a significant change in the operations and effects of the CAP, this will be picked up by such work by agricultural economists. The short-term economic and financial effects can be described by observed economic history - the published figures of how the CAP has operated since 1992. This is *ex post* analysis. This thesis is written in 1997 as the transition period of the MacSharry reforms is ending and the CAP is operating under the final levels of support prices and compensatory payments. The amount of evidence to judge the effects of the MacSharry reforms is therefore limited, but some tentative conclusions can be made.

7.2.1 A Medium-Term *Ex Ante* Perspective on the Economic and Financial Effects of the MacSharry Reforms.

An expert panel of independent agricultural economists used a series of models to analyse the consequences of the MacSharry reforms for the ten years after 1992 (European Economy No.4 1994 'EU agricultural policy for the 21st century'). These models cover international agricultural markets as well as EU domestic markets. A number of different scenarios are considered; of interest to this chapter is the comparison of the MacSharry reforms with the option of having not reformed the CAP in 1992. The latter option assumes that the stabiliser regime had continued to operate starting with 1991/92 institutional prices in 1992/93. A number of different aspects of the effects of these two options were considered; the results for the EU budget, EU production levels, and EU farm incomes over the time period 1992 to 2001 are presented here. These aspects are highlighted in this chapter because they are directly mentioned in the foreword to COM (91) 100.

The results of the economic models of the panel of independent experts presented in this section are juxtaposed with figures of what has actually happened in the three transition years of the MacSharry reforms presented in section 2.2. Scenario 1 is the no reform option and scenario 2 represents the MacSharry reforms of 1992.

Table 1: Scenario One (million tonnes)

Production	1992	2001	% annual change 1992 to 2001
Grains	163.9	194.5	1.9
Oilseeds	n/a	n/a	n/a
Oilcakes	14.9	18.9	2.7
Oils	3.9	n/a	n/a
Other grain substitutes	21.5	n/a	n/a
Beef	8.1	8.2	0.1
Pork and Poultry	25.6	31.9	2.2
Milk	96.7	96.7	0
Sugar	15.9	15.9	0

Table 2: Scenario Two

Production	1992	2001	%1992/2001
Grains	163.9	158.4	-0.4
Oilseeds	n/a	n/a	n/a
Oilcakes	14.9	16.1	0.9
Oils	n/a	n/a	n/a
Other grain substitutes	21.5	n/a	n/a
Beef	8.1	7.9	-0.3
Pork and Poultry	25.6	34.0	3.2
Milk	96.7	94.7	-0.2
Sugar	15.9	15.9	0

Scenario 2 necessarily contained predictions of what will happen after the end of the transition period of the MacSharry reforms in 1996. The main assumption is that EU domestic prices will fall between 1996 and 2001 at roughly the same rate as they had done during the 1980s, but that world market prices will develop at a 'more favourable rate' (i.e. increase, or decrease).

The most interesting result is that for the grains sector. The MacSharry reforms are predicted to reduce the level of production in that sector, compared to a 1.9% growth in production if the CAP carried on unreformed over the period.

7.2.2 Budget Effects

For scenario 1, the model of the international agricultural markets used in the European Economy report provides the result that world market prices will fall marginally through the 1990s, while EU domestic prices will fall more substantially. This result means that the budget costs of export subsidies will fall, even though production increases (see section 7.2.1), in scenario 1. Overall budgetary transfers are predicted to fall by ECU 1.5bn from 1992 to 2001. However, storage costs are expected to increase, reflecting a higher level of publicly-held intervention stocks. This leaves predicted total budget costs increasing by about 0.3% per annum from 1992 to 2001.

In scenario 2, the introduction of DIPs will increase the level of budgetary transfer payments. Exports and the level of export subsidies decrease but this is outweighed by the increase in direct payments to the level where total budget transfers are estimated to increase by ECU 4.2bn. This gives an increase in the total EAGGF Guarantee expenditure budget of 2.3% per annum for the years 1992 to 2001.

Ackrill *et al.* (1993), using a different model focusing specifically on the EU cereals sector, produce a similar kind of result; the total budget costs of MacSharry compared to a continuation of the stabiliser regime are greater. However, these expenditures are more stable and predictable over the medium term than previous EAGGF spending, that is, set-aside payments and compensatory payments will increasingly dominate EAGGF expenditures, and these are less sensitive to fluctuations in the world price than export refund payments which have in the past upset the reliability of EU budget forecasts.

7.2.3 Farm Incomes

The results of the models follow the predictions of economic theory (set out in chapter 2) that a switch from a system of market price support to DIPs is a more efficient way of supporting farm incomes. Scenario 2 generates an improvement of ECU 5.7bn in aggregate real farm incomes compared with scenario 1.

Nardone and Lopez (1994) estimate the economic welfare effects of the MacSharry reforms in the EU wheat sector in the first year of the transition period of the reforms. Table 3 describes their results. The main points are that EU wheat farmers suffered a relatively small welfare loss in the first year of the MacSharry reforms (in contrast to the result presented in section 2.1.3). Consumers gained and EU budget expenditures rose because of direct income and set-aside compensation payments. This last effect was partially offset by the reduced level of export restitutions because of the lower gap between the EU internal market price and the world price.

Nardone and Lopez (1994:388) conclude that 'EU wheat producers are not expected to gain from the new CAP regime and that the regime will exacerbate the EU budget'. On their calculations the level of set-aside compensation is insufficient to cover the lost income on the production that could have taken place on land set-aside.

Table 3: Computed Welfare Estimates of MacSharry Reforms 1992/93 to 1993/94

	1992	1993	Change
Farm price	155	130	-25
Area planted	16.81	15.46	-1.35
Production	90.13	80.84	-9.29
Consumption	64.97	68.13	+3.16
Exports	25.16	12.71	-12.45
Welfare Effects:			
Producer surplus gain	5860.10	5841.18	-18.92
Consumer surplus loss	5283.17	3620.82	+1662.36
Budget expenditures from:	1886.85	2888.63	-1001.78
Export restitutions	1886.85	635.35	+1251.50
Direct subsidies	0	2253.28	-2253.28
Deadweight loss	1309.93	686.27	-641.66
(%of Producer gain)	(22.35)	(11.44)	(-10.91)

N.B. Farm Price figure is in ECU/t; Area planted in million hectares; Production, consumption and exports in 1,000 tonnes; and policy transfers are all in million ECU.

Source: Nardone and Lopez (1994).

7.2.4 A Significant Change in Direction?

The medium-term *ex ante* scenario for the post-MacSharry CAP is less production, higher EAGGF budget costs and higher farm incomes (the Nardone and Lopez result is for the first year only) than would have otherwise been the case. The quantitative extent of these changes are provided in the preceding sections describing the results of European Economy No.4 1994. This work combined with the results of Nardone and Lopez (1994), supports the following tentative conclusion that, *ex ante*, the MacSharry reforms do not represent a significant change in the direction and consequences of the CAP. Despite the capping of compensatory payments, the capacity of the agricultural budget to grow in the medium term still remains.

7.3 Ex Post Analysis: The Short-Term Economic and Financial Consequences of the MacSharry Reforms

This section presents evidence of the effects of the MacSharry reforms in the following fields: the EU cereals market concentrating on production levels and the amount of publicly held stocks; the budget, both its pattern and overall level; and briefly, farm incomes.

7.3.1 The Cereals Market

Table 4: EU-12 Cereals Supply Balance

	1989	1990	1991	1992	1993	1994	1995
Area (mha)	37.4	36.1	36.2	35.3	32.1	32.0	32.0
Yield (t/ha)	4.62	4.72	5.02	4.78	5.09	5.01	5.11
Production	173	170	182	169	164	160	164
Consumption	151	142	145	139	151	153	155
of which feed use	89	82	83	77	88	90	93
Exports	57	55	58	60	57	52	49
Imports	32	32	33	31	34	35	37
Ending stocks	25	31	42	43	32	23	19

Source: USDA

All figures in millions of tonnes unless stated.

The transition period of the MacSharry reforms started in the marketing year 1993/94, so the effect of the MacSharry reforms is first shown in the figures for 1994 in table 4. The two notable features are the containment of production despite the continued trend of the growth in yields, and the decline in the ending stocks figure in the years 1994 and 1995.

Production was the same in 1993 as 1995, despite a growth in yields, because the area cultivated declined. This decline may be attributed to the set-aside requirements of the MacSharry reforms (noting that small farms are exempt). The increase in yields resulted partly from the overall progress of technology but also from the phenomenon of *slippage*. Within an individual farm, farmland is not of uniform quality. The requirement to set-aside 15% of land in order to participate in the compensatory payments scheme will be fulfilled by the least productive 15% of a farmer's land. Alternatively for rotational set-aside, land out of production for a year may often become more productive when re-cultivated. Either way, total farm production will fall by less than 15% and the farm's average yield (on land cultivated) will rise.

As mentioned in chapter 2 surpluses are disposed of in two ways; through publicly-held intervention stocks (or ending stocks), or directly subsidising their export. The decision of how the Commission manages production levels depends on the gap between the EU price and the world price. The EU price has been reduced through MacSharry, but in addition to set-aside, a further significant factor in the decline of publicly-held intervention stocks has been the increase in the world price. This reduction in the gap between the EU domestic price and the world price has affected the storage costs and export subsidy items of the EAGGF budget.

7.3.2 Budget Effects

The circumstances of the EU budget and the CAP's effect on those circumstances have been widely cited as the factors behind previous reforms of the CAP (see chapter 3). The budget effects of MacSharry would intuitively appear to be adverse; for a given level of protection, the switch from price support (consumer's burden) to DIPs (taxpayer's burden) would seem to impose a greater share of the cost of the CAP on the EU budget. COM (91) 100 mentions the growth in surpluses as a problem and contrasts the growth in EAGGF spending and farmers' incomes. However, the failure to contain of the rate of growth of EAGGF spending was not criticised *per se*. MacSharry (interview RM) identified surpluses as the issue and warned that the MacSharry reforms should not be interpreted as a reduction in agricultural support spending. Indeed, COM (91) 258 estimated that, overall, the annual budget would be ECU 2.3bn higher if the reforms proposed in that document were enacted. It was also admitted that this estimate was sensitive to parameters chosen and longer-term market trends. This was the background to the MacSharry reforms; it was not enacted in a budget crisis in the way that the reforms of 1984 and 1988 were.

Table 5: Summary Figures for Total EAGGF Expenditure (billion ECU).

	1990	1993	1994	1995	1996*
Total	26.53	34.43	32.21	36.89	40.82
Cereals	7.87	10.68	12.70	14.57	17.19
Dairy	4.97	5.26	4.24	4.26	4.21
Beef and veal	2.83	3.99	3.46	4.88	5.46

Table 6: Budget of the CAP Cereals Sector 1993-1996 (billion ECU).

	1993	1994	1995	1996*
Total	10.68	12.70	14.57	17.19
Export refunds	2.79	1.73	1.26	0.91
Cost of storage	2.72	0.28	0.12	0.28
CPs	3.29	9.01	10.86	13.47
Set-aside	0	1.28	2.39	2.08
Other	n/a	n/a	n/a	n/a

* The figures for 1996 are forecasts

Source: European Commission (Agricultural Situation in the Community, Official Journals)

The most notable feature of Table 5 is the growth in the size of the cereals sector budget; between 1993 and 1994 it grew by 16.9%, 14.7% in 1995 and is expected to increase by 18.0% in 1996. The fact that the total EAGGF budget for 1994 was within its Guideline is not due to a constraint on the growth of the cereals sector.

Table 6 gives a breakdown of the cereals sector budget from 1993 to 1996. The salient features are the reduction of the storage costs to almost zero, the reduction of the level of export subsidies, and the growth in SAPs and CPs. The first two of these effects, on storage costs and export subsidies, occurred during the transition period of the MacSharry reforms; however, these figures have been much more substantially affected by a favourable trend in world prices. Chapter 2 describes how favourable trends in world prices can lead to the Commission reducing the level of publicly-held intervention stocks.

The growth in the level of CPs and SAPs can be much more directly attributed to the MacSharry reforms. These two payments accounted for 30% of the cereals sector budget in 1993 and are due to be 90% in 1996.

7.3.3 Farm Incomes

The need to improve farm incomes was specifically mentioned in the foreword of COM (91) 100 as an objective of the reform proposals. The following evidence on the level of farm incomes is from Agricultural Situation in the Community 1995.

The 1993/94 accounting year is where the first observations of the effect of the MacSharry reforms on farm incomes. Across all farm types and members states average farm incomes fell by 6% in real terms relative to 1992/93. However, income increases were observed for sectors most directly affected by the MacSharry reforms, e.g. the average income of arable farms rose by 10%, drystock farms by 4%, and the average income of dairy farms increased by 6%, whereas the average income of pigs and/or poultry farms dropped substantially to 15% of their 1992/93 income level.

Such complete evidence has not been published for 1994/95. Agricultural Situation in the Community 1995 suggests that preliminary evidence for 1995 shows that incomes in the cereals sector have continued to improve, and also that incomes in pigmeat farming have begun to recover. However, there are negative income trends for most other livestock types, especially poultry, sheep, and cattle farming.

The 80/20 statistic which played such a psychological role in the reform process, was never statistically supported by the Commission and no evidence has been provided as to how the MacSharry reforms have affected it. However, the kind of disparity that underlies the 80/20 figure has not disappeared. In 1993/4 the top 20% of EU farms had an average income as high as ECU 42,000 and the bottom 20% as low as ECU 4,000.

It should be noted that high farm incomes in a particular agricultural sector are generally a function of favourable market conditions and technical progress. Market conditions can be affected by a whole range of economic factors as well as CAP reforms. It is therefore often difficult to accurately attribute the trends in farm incomes to changes in the support regime, especially over such a short time period as three years. However, it is still interesting to note that there is not even weak evidence that farm incomes have been damaged by the reforms.

7.4 The Effects of MacSharry as Support for the Institutions Framework of CAP Decision-Making.

7.4.1 The Budget and Trade Effect as a Measure of Each Member State's Net Pay-off from the CAP

The operation of the CAP has redistributive effects between member states. There are two principal effects; on budget and on trade. The EAGGF budget effect can be calculated by looking at the geographical pattern of CAP expenditure and the burden of the EAGGF distributed between member states. In a similar way, the operation of the CAP creates a preferential trade effect within the EU. Members can export commodities to partner countries at prices above world trading levels, thereby gaining revenues, whilst the importing member state has to pay more for the commodities than if they traded at world price levels. This redistributive effect, like the budget effect of the CAP, can be calculated at member state level. These two effects together are known as the Budget and Trade Effect (BTE). The BTE has been used by economists over a long period to examine the distributional effect of the CAP between member states (Morris, 1980; Buckwell *et al.* 1982; Ardy, 1988; Brown, 1988; Ackrill *et al.* 1995).

The measure of BTE is expressed in Table 7 as a percentage of that country's GDP. This is to give an insight into the relative size of the costs and benefits of the CAP to each member state.

7.4.2 Stability in the Distribution of the BTE Between Member States, 1981 to 1992

The results of various studies of the distributional effects of the CAP over time are presented in Table 7. The salient feature is the stability in each country's net pay-off from the CAP. This fits in with the discussion of stability in the CAP in chapter 3.

Some of the shifts in BTE positions can sometimes be accounted for by the fact that different studies have employed slightly different methodologies for calculation. However, the significant changes in net positions since 1980 can be summarised as follows. Spain and Portugal in the period since accession, have gone from a negative net pay-off from the CAP to positive beneficiaries (although in the case of Portugal it took the MacSharry reforms to achieve this position - see below). Italy went from being a net beneficiary in the early 1980s to being a net loser. The net pay-off of the Netherlands from the CAP under the stabiliser regime declined significantly. Although the aggregate figures presented in Table 7 do not show it, this decline was almost entirely due to a deteriorating budget effect. Between 1989 and 1991, the positive budget effect for the Netherlands from the CAP declined by 88%.

7.4.3 The Effect of the MacSharry Reforms on the National Distribution of the BTE of the CAP

Table 8 presents the results from the study of Ackrill *et al.* (1995) examining the distributional effects of the MacSharry reforms between member states. The pre MacSharry figures are those calculated for 1992. The results for the effects of the MacSharry reforms are obtained by assuming that the MacSharry reforms came in immediately in 1992, i.e. there was no transition period, starting from 1993 and running to 1996 so that the price levels agreed for 1995/96 were used.

The central feature is the stability in most countries' net position after the MacSharry reforms. The conclusions of the authors is that the overall distribution at a member state level of the costs and benefits of the CAP has not changed markedly as a result of the MacSharry reforms, '...we see the MacSharry reforms not having a significant impact on the overall position of most countries' (Ackrill *et al.* 1995:14).

Within this broad conclusion, a number of changes can be noted. The decline in the net position of the Netherlands has been slowed, providing perhaps some limited evidence that members of the CoAM do pay attention to such measures of a national pay-off from the CAP when they are deciding their negotiating stance. As mentioned above the net position of the Portuguese has gone positive for the first time since accession. Finally, and perhaps ironically, the Irish seem the most notable losers from the MacSharry reforms. It should be noted that there are aspects in the methodology of calculating the BTE which may account for some of these changes.

7.4.4 Evidence of Stability in the CAP

Tables 7 and 8 show the distributional effects of the CAP over the period of the three most notable reforms of the policy; the introduction of milk quotas in 1984, the stabiliser regime in 1988, and the MacSharry reforms of 1992, since 1980 the net BTE positions of most member states exhibit a high degree of stability, both in their direction and size despite these three major reforms.

The effects of the MacSharry reforms in this respect have been described in this chapter to provide alternative support for one of the main themes running through this thesis; that CAP reforms, including MacSharry, have always fallen short of what might be considered radical. The BTE measure helps provide alternative support for the view of the CAP decision-making system which sees reform as turbulence within essentially long-run stability. The institutions paradigm of the CAP, outlined in chapter three, was designed to explain this long-run stability in each country's net pay-off from the CAP.

Table 7 BTE as a Percentage of GDP 1981 to 1993

Yr	Study	BLEU	DK	D	GR	SP	FR	IRE	IT	NL	PT	UK
81	B	-0.1	1.1	-0.3	2.1	-	0.3	4.2	0	0.7	-	-0.5
82	B	-0.1	1.4	-0.3	2.0	-	0.3	4.6	-0.1	0.7	-	-0.6
83	B	-0.1	1.4	-0.3	1.7	-	0.1	5.2	0.1	1.0	-	-0.5
84	B	-0.1	1.3	-0.3	2.0	-	0.2	4.9	0	0.9	-	-0.5
85	B	-0.1	1.2	-0.4	2.2	-	0.4	5.0	-0.1	0.6	-	-0.4
86	L											
87	N	-0.3	1.4	-0.2	2.0	-0.3	0.4	6.4	-0.4	1.1	-0.6	-0.5
88	N	-0.3	1.3	-0.4	2.4	-0.1	0.3	5.9	-0.3	1.2	-0.2	-0.4
89	N	-0.1	1.2	-0.3	2.5	-0.1	0.2	5.1	-0.3	1.4	-0.1	-0.4
90	N	-0.1	1.3	-0.3	2.5	-0.1	0.3	5.8	-0.3	1.0	0	-0.4
91	N	-0.1	1.3	-0.3	2.5	0.1	0.3	6.0	-0.3	0.6	-0.3	-0.2
92	N	-0.1	1.2	-0.4	2.5	0.2	0.3	5.7	-0.3	0.5	-0.1	-0.3
93	M	0	0.8	-0.3	2.8	0.3	0.3	4.4	-0.3	0.3	-0.5	-0.2

(B=Brown 1988; L=Larsen 1993; N=Ackrill et al 1995; M=MAFF 1995)

Table 8: Data from Ackrill *et al.* (1995)

BTE	BLEU	DK	D	GR	E	FR
PreMacSharry (1)	-270	1341	-6495	1880	1157	3506
MacSharry (2)	-256	1476	-6416	2006	1400	3130
Change	14	135	79	125	243	-376
Total BTE as % GDP (1)	0.1	1.2	0.4	2.5	0.2	0.3
Total BTE as % GDP (2)	0.1	1.4	0.4	2.7	0.3	0.3
	IRE	I	NL	P	UK	
PreMacSharry	2229	-2384	1646	-103	-2808	
MacSharry	1978	-2327	1376	98	-2650	
Change	-251	58	-270	201	103	
Total BTE as % GDP (1)	5.7	0.3	0.6	0.1	0.3	
Total BTE as % GDP (2)	5.0	0.3	0.5	0.3	0.3	

Note that the GDP figures are rounded to one decimal place

7.5 Uruguay Round

Chapter 5 described the chronology of the UR of GATT negotiations from the Punta del Este agreement of September 1986 to the enactment of the MacSharry reforms. Chapter 6 gives details of the concurrence of the timetable for the UR and the timetable of the MacSharry reforms between 1990 and 1992. It explored the demands of the international arena as a possible causal factor in domestic agricultural policy changes. Section 7.5 completes the story by considering the effect of the enactment of the MacSharry reforms on the final agreement. Similarly, section 7.6 finishes the account of the oilseeds dispute in this thesis.

7.5.1 The Conclusion of the UR 1992 to 1993

In some respects the MacSharry reforms of May 1992 went beyond the requirements of the DFA, described in chapter 6. Briefly, the Commission offered the argument around May/June 1992 that the reforms would eliminate the need for most export subsidies by 1996-97. The DFA offered the reduction of export subsidies over six years as the basis for negotiation. Hence the expectation at the time of the enactment of the CAP reforms that context of negotiations would be changed. To an extent, that proved to be true, but the differences between the US and EU in the UR proved durable during the next five months.

The EU was 'understood' (FT 12/6/92) only to be offering a 20% reduction in the volume of export subsidies. The US was insisting on the DFA 24%. The US demanded that the 15% set-aside for 1992/93 would be 'set in concrete' for future years. The classification of DIPs was an issue. The EU contended that DIPs linked to output restraint (in this case set-aside requirements) should be indefinitely exempt from GATT reductions - this 'philosophy' should be agreed to continue into future Rounds. Finally, the EU wanted a 'peace clause' binding the US to use the GATT dispute resolution system ahead of the unilateral 'super 301' sanction.

The UR drifted through late summer 1992 on this footing. However the talks broke down on 21 October with the US introducing the threat of sanctions in the accompanying oilseeds dispute. EU products to the value of $300bn were targeted for punitive tariffs if the oilseeds dispute was not settled by 5 December. This separate dispute (about the violation of existing GATT rules, i.e. nothing to do with the UR) became pivotal in the final negotiations on agriculture. This linking of the two issues was a clear US tactic.

An oilseeds production limitation was subsequently added to the list of outstanding disputes between the EU and US in the UR. The publicity during October 1992 was of the two sides being separated by 500,000 tonnes of soyabean. The US was insisting on cutting EU output to 9mt. The EU claimed that limits below 9.5mt would involve tampering with the agreement on CAP reform of May 1992. The 500,000 tonnes were not important; what was important was that the US, by pushing the oilseeds dispute had handed the French negotiators a symbol or banner under which to organise their opposition to any major agricultural trade agreement. That banner was the 'compatibility' argument. This compatibility demand was the source of Delors' failure to be seen to be unequivocally backing the Andriessen/MacSharry line in the UR negotiations. This issue was cited as a reason for the brief MacSharry resignation after the Chicago meeting with Madigan on 1/2 November.

7.5.2 Blair House Accord (BHA) 20 November 1992

The BHA averted the US threat of a trade war beginning on 5 December. The following areas were agreed. On export subsidies beginning in 1994 the EU would reduce the volume of its subsidised exports by 21% (compared with DFA 24%) over six years. The value of its subsidised exports would be cut by 36% on the same timescale. Internal subsidies would be cut by 20%. The US accepted the EU position that DIPs linked to set-aside should not be treated as trade-distorting. The oilseeds dispute was resolved by the EU agreeing to reduce the amount of land used to cultivate oilseeds from 13.5mha to 11mha, starting with an initial reduction of 15% of that area and continuing with at least a 10% reduction in the ensuing years. In addition, EU farmers would be able to produce up to 1mt of oilseeds a year for industrial uses, such as biofuel production. The US, in return for EU conforming to these requirements, agreed to a peace clause in which both sides agreed not to demand further GATT investigations into the domestic support regimes so long as both sides respected the commitments made in the UR. This provided the substance for the claim by MacSharry that the BHA as part of a UR agreed would put the CAP on a legal footing within GATT for the first time.

The rebalancing issue was resolved by a US pledge to hold further consultations if the volume of imports of cereal substitutes were to increase dramatically. The EU secured a permanent 10% Community preference margin on the tariff equivalent calculations involved in the tariffication process. The final point was that the agreement included a guaranteed 5% minimum import access in all agricultural markets.

7.5.3 The Political Fallout in the EU: November 1992 to December 1993.

The BHA a bilateral agreement and was not binding on rest of the parties in the UR. However, subject to some concessions to the EU in May and December 1993, it essentially defused agriculture within the UR. The issue shifted from the international arena, US versus the EU, to internal to the EU - whether the EU member states would accept and honour this agreement made by its agricultural trade negotiators.

Soisson (the French Farm Minister) said in interview with the FT 21/11/92 that '...if we don't take a firm attitude on the GATT, the government could well fall'. The line taken was that the BHA was not *compatible* with the reforms of the CAP agreed in May 1992. An analysis of the substance and logic of this compatibility issue is given in section 7.5.8. This period was characterised, as the Soisson quote hints at, by internal opposition in the EU (focused on the Council of Ministers) led by French governments involved in the National Assembly elections of April 1993. The BHA, and how to oppose it, became an election issue. As Soisson said in the interview cited above, 'Agriculture still determines parliamentary majorities in France'. His estimate was that it determined 150 seats.

The Commission reached a 'grudging consensus' that the BHA was 'compatible' with the MacSharry reforms. This consensus was built on a ten page document prepared by the Commission (SEC (92) 2267 (25/11/92)).

Two successive French governments were unsuccessful in unravelling the BHA (if that was ever their intention). However, concessions were won. Objections to the oilseeds part of the December 1992 agreement were assuaged by the CoAM increasing the level of compensation for the set-aside requirements and production limitations of Blair House on 27 May 1993. From 1994, unit set-aside payments were to be 27% higher than envisaged in the reforms of May 1992. France won concessions on 7 December 1993 on the wider agricultural trade issues of Blair House. Some of these were significant. For example, the starting-volume figure but not end-volume figure of subsidised exports was revised upwards. This gave the EU greater scope for exporting over the six-year implementation period, making it easier to dispose of existing intervention stocks.

7.5.4 Interpretation of the Effect of the MacSharry Reforms on the UR 1990 to 1993

Section 7.5.5 will look at a brief model of how international negotiations are conducted and ultimately concluded. This will be used in section 7.5.6 to compare the De Zeeuw paper of July 1990 with DFA in 1991. DFA as described in chapter 5 was the key agenda in the conclusion of the agriculture part of the UR. Section 7.5.7 will analyse the sequencing debate and section 7.5.8 the issue of compatibility. Both are involved in the effect of the MacSharry reform process on the progress of the agriculture part of the UR. Section 7.5.9 will describe an assessment of the final UR Agriculture Agreement. Section 7.5.10 is a conclusion to the discussion of the effect of the MacSharry reform process on the agriculture section of the UR.

7.5.5 The Process of Compromise Defining

Disputes in the agriculture part of the UR can be characterised as having been either qualitative or quantitative. A qualitative dispute is one in which the disputants fail to agree on a common ground for resolving the dispute because of the potential damage to certain political interests of a qualitative dispute. The negotiating parties do not agree on the areas which need agreeing on. There is no substance to the negotiations; what is being offered is qualitatively different from what is being demanded. A quantitative dispute is one where there is common ground to the extent that each party is satisfied with the areas which require agreement. What is being offered by one side is connected with what is being demanded by the other; they are in the same units.

A continuum of possible compromises between disputants is only possible with a quantitative dispute. Qualitative dispute resolution requires discrete jumps to create a quantitative dispute before agreement can be finally reached. In a quantitative dispute the negotiations are centripetal, the disputants concede ground to the centre and toward the other parties. However, qualitative disputes are often centrifugal, because negotiating parties cannot agree on a common unit for negotiation. Each party has a tendency to put forward more extreme proposals to satisfy domestic constituencies in the knowledge that the proposals would never become the basis for serious international negotiations.

If it is imagined that the EU and the US are in a quantitative dispute, their positions can be put at opposite ends of a continuum of feasible compromises. A compromise paper by GATT officials may be thought of as a third position lying on that continuum.

Of the three positions, the one prepared by the GATT Secretariat is the most flexible - they are not beholden to domestic vested interest pressures. To be successful as a broker in a situation of two separated and entrenched positions, the GATT Secretariat position must be defined last because of this flexibility viz. the ability to choose a point of compromise. This point on the continuum is chosen according to an assessment of the ability or willingness of each party to move to this position. It is here asserted that the very fact of promulgating a compromise point changes the bargaining party's point of maximum concession or willingness to move. This is clear because the last percentage conceded is not just a step nearer agreement as the previous percentage concessions were, but actually is the achievement of an agreement. More benefit is thus attached to the last steps, therefore the cost of those steps to the disputants can also be greater (if we assume some kind of rational agent making a decision to concede or not at the margin). Higher cost choices are those further from the original starting point of each negotiating party. The skill of compromise is judging that extra percentage each side will concede when agreement is near.

7.5.6 De Zeeuw and DFA compared

It is instructive to use this framework to compare the compromise paper of De Zeeuw and the DFA. De Zeeuw was commended by G7 leaders to their negotiators in agriculture at the Houston Summit of July 1990. It was to serve 'as a means of intensifying negotiations'. It lacked any detail about how much should be cut and how quickly, rather it tried to establish *what* should be cut. In this sense it attempted to move the agriculture part of the UR from a qualitative dispute to a quantitative dispute. The kind of debate at Brussels in 1990 suggests that De Zeeuw was a failed attempt in these terms. The failure to establish a quantitative footing can be put down to number of factors related to the intransigence of the EU and US; see chapter 6 for full details.

On the other hand, the DFA can be considered a successful piece of compromise setting because it informed Blair House, which in turn was the basis of the December 1993 final agreement for agriculture in the UR. The DFA succeeded in defining the agriculture part of the UR as a quantitative dispute. The effect of the MacSharry reforms on the ability to define a quantitative dispute in the UR in 1992, as compared to the qualitative dispute which carried on through 1991, is considered in section 4.2.6.

The reasons why 1991 was qualitative and 1992 quantitative is discussed in section 8.5.4 to 8.5.6 about the effects of the MacSharry reform.

7.5.7 The Sequencing Debate

The sequencing debate arose from the parallel timetables of CAP reform and the UR negotiations for the 18 months after the promulgation of the initial MacSharry plan in January 1991. Both had undefined endpoints, hence the question arose of which should be completed first.

The issue was resolved by the EU enacting the reforms of June 1992 mentioned above. As established in chapter 6, the Commission's tactics were clear; they wanted CAP reform first. The view taken by the MacSharry reform team was that if it was seen by the European agricultural constituency that CAP reform was a response, international negotiations then the domestic reform process would have withered. The politics of the CAP do not allow reforms which are seen as responses to US pressure. MacSharry and his team freely admit that the reforms enacted in May 1992 had an effect on the progress of the agriculture part of the UR. The official line maintained through the reform process by the Commission seemed to stretch credulity. MacSharry was quoted in the FT 22/5/92 (the day after the CoAM agreed the reforms) 'We can say, with our chests out and our heads held high, and with pride, that you [the US] match what we have done, and then we can progress'.

The view taken opposite to the Commission was expressed by Lilley in an interview with the FT 3/8/91 in which he argued that a successful conclusion to the UR must precede CAP reform. If the UR waited for CAP reform it would suffer from the EU's 'limited capacity for flexibility'. He should have added that this was precisely the problem around November and December 1990. It is a matter of speculation and conjecture whether, had the Commission adopted this view of the proper sequence of domestic CAP reform and the UR, (i) there would have been agreement on either, and (ii) any agreement would have been quicker or substantially different from what actually occurred.

7.5.8 The Compatibility Debate

This argument arose after the BHA of December 1992 and was the direct corollary of the sequencing arguments presented above. The debate turned on whether the commitments made at Blair House were 'compatible' with the CAP reforms of June 1992.

Prior to Blair House the French newspaper Liberation printed a document leaked from an 'alleged' Commission source which shows that MacSharry had gone beyond CAP reform in GATT negotiations. Sources close to MacSharry quoted in the FT 16/11/92 declared this report a 'fabrication'.

The Commission did produce a communication on the subject of compatibility (SEC (92) 2267 (25/11/92)). It came to the conclusion, as the FT 27/11/92 states the only valid conclusion, that 'the most likely outcome' is that the exportable surplus will remain within Blair House limits. However, that conclusion was dependent on assumptions about consumption patterns, world prices and farm policy, e.g. Rayner *et al.* (1993) produce a conclusion that the EU may have to adjust policy to meet the reduction in the volume of subsidised exports in the cereals sector commitment.

The compatibility demand was used by France in their opposition to Blair House through 1993. This was a convenient political blocking tactic rather than a genuine issue. The MacSharry reforms of 1992 are a three-year programme to 1995. Blair House is about agricultural policy over 1993 to 1999. The compatibility argument is asking whether the CAP, as it operated in 1995, was compatible with how it has to operate in 1999. Thus the EU has four years to make sure it is compatible. The question is a misnomer - only if farm policy is frozen for the four years after 1995 is there any issue at all. MacSharry exceeded his negotiating brief by talking about a timetable different from the reforms of May 1992, if his negotiating brief is taken to be those reforms and no further.

7.5.9 Assessment of the UR Agriculture Agreement: Its Effect on the CAP

This section provides a brief description of the changes made to the DFA after the MacSharry reforms of 1992 in order for agreement to be reached in the agriculture part of the UR at Blair House in November 1992. These adjustments were in the level and content of domestic support reduction, the agreed reduction in the volume of subsidised exports and the negotiation of a peace clause. A consideration of the last-minute compromises involved in the BHA gives a lead into an assessment of the overall effect on the CAP of the UR Agriculture Agreement.

Blair House was different from the DFA in explicitly exempting the EU's direct income compensation payments, introduced in the MacSharry reforms, from any reduction commitment. In GATT terms these payments, along with the US's deficiency payments were green boxed. This made compliance with the commitments in domestic support reduction agreed at Blair House 'virtually painless' (Ingersent *et al.* 1995) for the EU and US. Even before the MacSharry reforms, the EU had cut support price levels for some commodities relative to the 1986 to 1988 base period. The MacSharry reforms carried the price-cutting further, and as noted above, the compensation payments for those price cuts were exempt from the AMS calculation.

At Blair House the EU and the US agreed a 21% reduction in the volume of subsidised exports compared to the 24% in the DFA. This reduction came as a result of EU pressure based on uncertainty over the effects of the MacSharry reforms on the volume of production and level of potential exports. However, Rayner *et al.* (1993) suggest that for the cereals sector, the 21% reduction may still prove a constraint on the EU later in the implementation period and may demand some policy adjustments. The peace clause, as described in chapter 5, was also an addition to the DFA after the MacSharry reforms of May 1992. This was part of the EU's strategy of setting the oilseeds regime of the CAP on a similar GATT footing to the cereals regime. Both regimes had been reformed in a similar way in May 1992.

7.5.10 Conclusion: The Effect of the MacSharry Reforms on the UR

Ingersent *et al.* (1995) warn against the interpretation of the MacSharry reforms as a prerequisite for the UR Agriculture Agreement. The DFA was published (in November 1991) before the final enactment of the MacSharry reforms (May 1992), although the authors hold that the DFA was 'strongly influenced' by the prospect of the type of CAP reform proposed in COM (91) 258. The adjustments to DFA after the MacSharry reforms were largely the result of EU pressure in order to make Blair House compatible with the reformed CAP. These factors lead to the following interpretation of the relationship between CAP reform and GATT progress,

'...rather than arguing that CAP reform paved the way to a GATT agreement, it seems more accurate to visualise the two sets of domestic and international negotiations pursuing parallel courses in the same direction before finally converging' (Ingersent *et al.* 1995:718)

If we use the simple model outlined in section 7.5.5 the MacSharry reforms can be interpreted as moving the agriculture part of the UR from a qualitative dispute to a quantitative one. The CAP reform proposals (COM (91) 258) moved the CAP in a way that reduced the number of qualitative disputes with the US. The international agricultural trade negotiations were secured on a quantitative footing.

This chapter has established a MacSharry-DFA link. However, this thesis makes only limited claims about the nature of that relationship. Specifically, it is not claimed that, (i) the effect of the MacSharry reforms on the acceptability of DFA to the EU and the subsequent end of the UR explains why the MacSharry reforms were enacted, or (ii) the effect of the MacSharry reforms in the UR was an unintended consequence of reforms enacted for purely domestic reasons. Instead, it is noted that the MacSharry reform team admitted that elements of a CAP reform would inevitably influence the international arena of negotiations and, this chapter has aimed to describe that effect.

As noted earlier, the final BHA has had a limited effect on the post-MacSharry CAP. This fits into one of the central elements of this thesis; that CAP reforms enacted under the present institutional arrangements will always tend to be limited. Therefore, any international agreements that the EU enters into with regard to the CAP will always tend to be limited.

It was argued strongly in chapter 6 that the causal link that involved the CoAM in deciding to enact CAP reform was not the demands of the UR. However, MacSharry's reform team believed that some kind of domestic CAP reform would be necessary before UR could be completed. The need for a stronger position in the UR was a motivation of the Commission for CAP reform. The important effect of a CAP reform in the international arena is not so much its details, but the fact that a reform had been made - the evidence presented above shows that there were last-minute adjustments for compatibility of the DFA with MacSharry, and such adjustments would have been possible for other types of CAP reform as well.

7.6 The Oilseeds Dispute

This section completes the history of the oilseeds dispute which was started in chapter 5. The section describes the effect of the MacSharry reforms on the resolution of the dispute. Section 5.3.4 presented the US strategy in international negotiations with the EU on the UR and the oilseeds dispute in the summer of 1992 after the MacSharry reforms. This strategy was to accept the MacSharry reforms as a basis for a UR agreement, but pursue demands for a limit on EU oilseeds production. The outstanding issue between the US and the EU in bilateral negotiations on the agriculture part of the UR in October and November 1992 was the volume of subsidised cereals exports. Bush had pushed the deal in October against the backdrop of the US presidential campaign. The US pressure for a deal brought the two sides close but ultimately they failed to reach an agreement before the election. On 3 November (election day in the US) in Chicago, US Agriculture Secretary Madigan and MacSharry were close to agreeing a deal which included the commitment to reduce the volume of subsidised farm exports by 21%. After the volume of subsidised exports, there were two outstanding issues. The US demand for a 10mt ceiling on EU oilseeds production against the EU's proposal of some formula based on the area of crops planted. Second, there was the issue of a peace clause. The EU was demanding that both sides renounce the future right to challenge the other's cereals regimes before the GATT Panel.

During the negotiations (a comprehensive account of the details is in Grant, 1995) Delors telephoned MacSharry and informed him that an agreement of 21% reduction in the volume of subsidised farm exports would go against his negotiating mandate and the CAP reforms agreed in May 1992, and stated that he would oppose it in the Commission. MacSharry thought that 21% had been agreed before he left for Chicago. The US team sensed pressure that MacSharry was under and thought that EU would not be able to agree on 21%, so they withdrew their offer and rejected EU demands for a peace clause.

MacSharry reflects in an interview with Grant (1995) that without Delors' pressure, 21% would have been agreed and no pressure would have been applied by the US on peace clause issue. In such circumstances MacSharry believes a deal would have been completed and he could have 'told Delors to stuff it' (Grant 1995:175). In fact, MacSharry announced his resignation of GATT negotiating duties, complaining of Delors pressure. He went to the press with his assertion that Delors was looking after French interests (FT 5-6/11/92). Delors was reported to be resentful of what he thought was a campaign against him by Andriessen and MacSharry (separately) in the press.

The US responded immediately to the breakdown of bilateral negotiations by threatening tariffs of $300m on EU products, effective from 5 December, if some kind of acceptable agreement was not reached on the oilseeds dispute (the only part of the negotiations on which they could legally make such a threat). This threat hung over the EU as they attempted to sort out both a position with regard to resolving the oilseeds dispute and the wider agriculture issue in the UR.

Although this thesis has concentrated to an extent on the Delors/MacSharry relationship, MacSharry and Andriessen, who had overall responsibility for GATT negotiations throughout MacSharry's time disagreed strongly. There was tension between the Andriessen position that issues in agriculture could be conceded in the interests of a wider agreement, and MacSharry's tough line that agriculture was most important (his portfolio) and each concession had to be resisted. Andriessen abstained on COM (91) 100 in the College because he believed it did not leave enough room to complete the UR.

Initially, Delors stood apart from this tension at the centre of the EU's negotiating stance in the UR. Grant (1995:173)'Delors did not discourage a deal: he was happy to let Andriessen tackle GATT and make a mess of it. Delors never seemed to make GATT a priority'. However, the chaos and damage to the EU's international credibility after Chicago prompted Delors to intervene. This application of political influence brought MacSharry back to the GATT negotiating team, who along with Andriessen and Delors himself completed the negotiations for the agriculture section of the UR. This was done at Blair House, near Washington D.C., on 20 November 1992.

7.6.1 Final Agreement at Blair House

The oilseeds and the wider agriculture negotiations of the UR were settled at Blair House. The three central points were firstly a 21% reduction in the volume of subsidised exports over six years. Second, a peace clause was agreed to be valid for six years. Third, a 5.13mha area limit on oilseeds production in the EU was agreed.

The 5.13mha limit on oilseeds plantings applied to the three major oilseeds from the 1995 harvest. The EU agreed to reduce its plantings by a minimum of 10% from this base area of 5.13mha over the six years. Further, there was agreement that EU set-aside in the oilseed sector be the same level as the overall arable set-aside but never less than 10%. Set-aside for other arable crops of the MacSharry reforms was 'aggregative', that is, of all arable land a certain percentage of land must be set-aside. All different crops which can be grown on arable land must be added together for the purposes of set-aside. The BHA stated that a specific percentage must be applied to the area for growing oilseeds. The EU was also given a limit to the growth of oilseeds for non-food uses.

The oilseeds dispute was resolved by agreement of a quantitative restriction on the growth of the EU oilseeds industry. This bears little relation to the legal basis of the dispute and ignored the two existing GATT rulings against the EU.

7.6.2 Reaction to the BHA

The BHA agreement by the agriculture GATT negotiating team of the Commission found virulent opposition in the Council of Ministers from France. Various veto threats were made and invocations of the Luxembourg compromise. The Beregovoy Government maintained opposition to the deal until it was defeated in the National Assembly elections of April 1993. The new government was becalmed on the oilseeds part of Blair House by increased set-aside compensation (benefiting all EU farmers) and the allowance of growing of certain crops (rapeseed/sunflower) on set-aside land for non-food uses (e.g. methyl ester, a diesel substitute.) agreed by the CoAM on 27 May 1993. There was previously very little margin in this business at farm level, but as AgraEurope argued, the oilseeds dispute was settled by the EU raising the profitability of growing oilseeds for biofuel 'from the very marginal to the comfortable'. French opposition to the wider Blair House rumbled onto December 1993. This is where AgraEurope presumably sees the end of the oilseeds dispute.

7.7 Conclusion

This chapter has considered the economic and financial effects of the MacSharry reforms. In addition, it has also continued the theme that CAP reforms are the outcome of a process by considering the effects of the MacSharry reforms on the circumstances and pressures which gave rise to their enactment.

The ex ante analyses presented predict EU agricultural production falling in the medium term in response to the reduction in support prices, higher farm incomes and higher EAGGF expenditure as DIPs outweigh the reduction in the budget cost of export subsidies. Actual EU cereals production levels in 1995 were the same as in 1993 despite an increase in yields. This was due to a decline in the area cultivated in response to the set aside requirements. The EAGGF budget has remained within its Guideline in 1994, 1995 and 1996. However, this has more to do with favourable trends in world prices than the direct effect of the MacSharry reforms (see section 7.3.).

The MacSharry reforms influenced the final UR Agriculture Agreement. This claim falls short of either (i) this effect was the reason why the MacSharry reforms were enacted or (ii) this effect was an unintended consequence for the Commission of the enactment of the MacSharry reforms. The oilseeds dispute was drawn into the UR negotiations and settled as part of the BHA. The circumstance of politically difficult automatic price cuts has been removed by the dismantling of the stabiliser regime.

The final step in this chapter has been the discussion of the stability over time of each member state's net payoff (budget plus preferential trade effects) from the CAP. Like the previous reforms of the CAP in 1984 and 1988, the MacSharry reforms have not significantly affected the net position of most member states. This point about stability in the CAP is picked up in chapter 9.

CHAPTER 8: INTERPRETATIONS OF THE MACSHARRY REFORMS

8.1 Introduction

Chapter 5 selected the institutions framework to construct the evidence of the MacSharry reform process. This selection was made on the basis that the institutions framework provided a better interpretation of the reforms of the CAP in 1984 and 1988 than either the interest groups or prominent players frameworks. This chapter seeks to check whether the MacSharry reform process is better interpreted using the institutions framework. Each of the frameworks is considered in turn and is judged according to how the evidence of the MacSharry reforms constructed in chapters 5, 6 and 7 can be understood using that framework.

An interpretation of the MacSharry reform process will provide the substance of the answers to the three main questions of this thesis: why did the MacSharry reforms occur, when they did and in the way that they did? The structure of the chapter is a separate section for each of the rival frameworks. From this separate consideration of the frameworks one will be chosen, in terms of providing the more clear, coherent and concise interpretation of the evidence of the MacSharry reform process.

This interpretation will be used in section 8.5 to compare MacSharry with the reforms of the CAP in 1984 and 1988 (the histories of which are detailed in chapter 3). The understanding of the MacSharry reforms would be improved by a consideration of whether the elements of the MacSharry reform process highlighted by the chosen framework as important in that process are different or similar in previous reforms of the CAP.

8.2 Interest Groups Framework

A criticism of this framework presented in chapter 5 was that its application to the question of explaining changes in agricultural policy tended to be too abstract and, in particular, not specific to the EU. The framework rests on the claim that agricultural policy is a function of the balance of interest group power and therefore changes in agricultural policy are the result of changes in that balance of power. In terms of the MacSharry reforms, the applicability of the interest groups framework is based on whether there is evidence of a changing balance of interest group power in the MacSharry reform process. There are two levels of government in the CAP decision-making system, the EU institutions and the national governments. Therefore, the question becomes whether there is evidence at either of these different levels of government reflecting a shift in the balance of interest group power.

As Becker (1983) notes, the power of an interest group enjoys can be affected in two ways; an increase in the amount of political resources at their disposal and secondly, an increase in the payoff to each unit of political resources employed in seeking some government action. The evidence constructed in chapter 6 of the causal links at work in the MacSharry reforms does not seem to show a changing balance of interest group power (by either means) in favour of consumers and against taxpayers (the shift in the burden of agricultural policy brought about in the MacSharry reforms). None of the fieldwork interviews conducted as part of the research for this thesis produced any evidence of a shift in the overall balance of interest group power when compared to the previous reforms of the CAP in 1984 and 1988. This includes interviews at COPA, the NFU and with government officials at EU and national level. The main conclusion of the research conducted for this thesis in this area is that interest groups were not a significant factor in the type of reforms proposed by the Commission or the timing of those reform proposals.

The Commission, in proposing the MacSharry reforms, was responding to pressures for a reform of the CAP. These pressures to initiate CAP reform did not come from interest groups nor were interest groups the 'transmission' mechanism from some objective situation affecting European agriculture to demands for the Commission to introduce proposals to change the CAP.

However, the scale of agricultural policy interest group lobbying is such that the conclusion of this thesis that interest groups were marginal in the initiation of the MacSharry reform process should be tempered. Interest groups do have a role in the CAP decision-making and could be more significant in informing future reforms of the CAP. As Hull (1993) and Egdell and Thomson (1997) note there has been a proliferation in the number of interest groups in Brussels and the extent of lobbying activity surrounding the development of the CAP. Pedler (1994) estimates that there are approximately 10,000 lobbyists in Brussels. The European Commission lists 637 pan-European non profit-making organisations with which it deals, 118 of which (19%) are agriculture or food-related (European Commission 1996). Just over half of these are concerned with food products and processing, and a fifth with trade in agricultural and food products. Egdell and Thomson (1997:2) '...one can estimate that around £100 million must be spent annually on salaries alone of agricultural lobbyists.' The larger farming and commodity groups have frequent contact with the Commission due to their presence on Management and Advisory Committees. Interest groups with this level of contact and lobbying activity are important providers of information. They may enjoy influence as a potential alternative source (to the Commission) of quantified data about the CAP and its effects.

8.3 Prominent Players Framework

The prominent players framework holds that CAP reforms and the process which accompanies their enactment should be analysed in terms of the interaction of prominent players. These prominent players are the institutions of the state and interest groups at both national and EU levels. Their relationships determine the policy process. Chapter 5 argued that the relevant category of state/group relationships for the CAP decision-making system was a policy community. Whether the prominent players framework is applicable to the MacSharry reforms depends on (i) the existence of a policy community at EU level, and/or (ii) the existence of a series of policy communities at national level.

There was only limited evidence in chapter 6 that the MacSharry reform process displayed the characteristics of the operation of a policy community at an EU level. COPA was not consulted on the decision of the Commission to propose a CAP reform or the substance of the reform proposals. In the first instance, COPA had no agreed response to the type of reforms proposed or any proposals of its own. Subsequently through the reform process, COPA failed to agree a common line with regard to the MacSharry reform proposals. In policy communities, as described in chapter 5, members interact across all aspects of policy and there is a high degree of consensus as to the means and ends of policy. This was not obviously the case in the MacSharry reform process.

The second way in which the prominent players framework may be relevant is if national agricultural policy interest groups are significant in affecting the positions of member states with regard to CAP reform, i.e. there exists some kind of national policy community. Chapter 5 sets up a number of criteria to judge the significance of this influence; the cohesion of the farm lobby, the functional relationship with the national minister of agriculture, the importance attributed to agriculture by the national government, political power of the minister of agriculture, whether the farm lobby can control the agenda of policy or enjoys a level of political resources which are necessary for the enactment of a CAP reform.

The relationship between agricultural policy interest groups and the positions of member state governments in the MacSharry reform process in the UK, France and

Germany is considered here. These are the three most important (politically) governments involved in CAP reforms.

The NFU in the UK is an example of a cohesive farm lobby - it represents about 80% of UK farmers. However, its current relationship with MAFF is at an 'arm's length' (interview JS;MH), it competes for the agenda of MAFF with an increasing number of other groups (Cox, *et al.*, 1986; Winters, 1987). Further, MAFF itself is not a politically powerful department within the UK government and many times the agriculture minister has to adopt the Treasury line in CAP negotiations (interviews DF); that is focus almost exclusively on the budget consequences (at EU or UK level) of CAP decisions. Further, the evidence of the Treasury's domination of the UK government's position with regard to the CAP can be seen in the willingness to be outvoted in the CoAM instead of accepting a particular outcome as inevitable and within that constraint seeking the best compromise deal for the UK agricultural interest (interview DF;JS). The NFU only has a limited effect on the position of the UK government in CAP negotiations and it is difficult to claim that a policy community exists on this issue.

The influence of the French farm lobby on the position of the French government during the reform process was limited by its lack of cohesion, there is no single dominant farm organisation as in the UK case. Despite the Minister of Agriculture being a much more politically important post in the French government when compared to the UK, there is no evidence that the reaction of French agricultural policy interest groups significantly changed the French government's perception of the national agricultural interest. As described in chapter 6, the French government's position reflected a split in the French agricultural sector between an internationally competitive part and smaller uneconomic farms which rely for their survival on some kind of state support. Different agricultural policy interest groups represent different sections of French agriculture. These groups had different reactions to the MacSharry reforms. However, none of them were able to significantly influence the agenda of the Commission or the options facing the Minister of Agriculture, Mermaz.

The French government's initial reaction to the MacSharry reform proposals was consistent with the ambiguity toward the CAP displayed by successive French ministers of agriculture. The reform proposals of the Commission were neither formally rejected or accepted. Mermaz consistently expressed concern that the size of the cuts in support process would significantly reduce the level of export subsidies that the largest and most efficient French farms received. At the same time, he responded positively to a lot of the rhetoric MacSharry himself used in the CoAM to describe the reform proposals, in particular, the emphasis on preserving the maximum number of farmers in Europe. This conflict in the French position was only resolved at the end of the reform process after the German government had shifted to the position of positively arguing for the need to agree a CAP reform before the 1992/93 price package. This was the only time during the reform process that the French government was unambiguously positive about the need to agree CAP reform along the lines proposed in COM (91) 258. This combined Franco-

German position (see below and chapter 6) was a necessary factor for agreement in the CoAM on the MacSharry reforms.

The movement in French position to accepting the reforms is one thing that requires to be explained to understand the MacSharry reforms. If French agricultural policy interest groups are to be prominent players in the MacSharry reform process then they must have to some extent affected the shift in French position from being non-committal to supporting the reform proposals contained in COM (91) 258 in the CoAM. The evidence presented in chapter 6 does not support French agricultural policy interest groups as prominent players, the shift in position by Mermaz was heavily influenced by the movement in the German position described below and the operation of the stabiliser regime producing politically unpalatable price cuts for 1992/93. These factors exist outside the dynamics of any French agricultural policy community.

A similar pattern emerges in the relationship between German agricultural policy interest groups and the German federal government. All the interview results showed that the relationship between the German farm unions and the German government exhibited the first three factors listed by Petit *et al.* (1987); a cohesive farm lobby with a strong functional relationship with the Ministry of Agriculture and a politically powerful Minister of Agriculture. If a policy community can be said to exist anywhere in the CAP decision-making system it is here. However, it should be noted that there has been some work suggesting that the lobbying power of the DBV has waned slightly since the mid-1980s (e.g. Cramon-Taubadel 1993).

The decision by Keichle to move position on the MacSharry reforms (in March and May 1992, described in chapter 6) was conditioned by the options he faced and the environment which forced a choice to be made. The agenda facing Keichle in May 1992 had two options; uncompensated price cuts under the 1988 stabiliser regime, or compensated price cuts with the MacSharry proposals. Both options broke Germany's historical position with regard to the CAP which can be summarised as resistance to any proposals to reduce nominal support prices. The choice of the MacSharry reforms reflected the course with the lower political costs. German interest groups could not in any sense influence the choice presented to the German agriculture minister at the May 1992 CoAM; they were external to any national policy community.

Further, the attitude to the choice presented was consistent with the historical position of German governments in CAP negotiations, there was no shift in position by the German government in this sense. There was no shift in the national policy community which affected the German position; the movement by the government to supporting the MacSharry reforms (which is central to understanding the reform process) was conditioned by the options and the need to make a choice.

The influence of agricultural policy groups and whether they are part of a policy community is highly variable across time and across countries. Even where they are included in a policy community, these are national based and membership does not equate to being a prominent player in the CAP reform process. Agricultural policy groups are not directly involved in the CAP reform process and do not significantly help in the understanding of that process. The prominent players are the Commission and the member state governments, in the CoAM or the European Council. The discussion above leads towards declaring a bias that the institutions involved in the CAP decision-making system seem much more central to understanding the operation of that system, these are the prominent players.

The step to the institutions framework is as follows. The prominent players of the CAP policy network, the institutions, do not form a policy community. The institutions of the CAP decision-making system exist in a state of tension with each other; over aims, means, and levels of agricultural support. Their interaction is neither regular nor consistent. Information about the CAP is controlled by DG VI which is organised internally by horizontal separation of functions by commodity. This leads to a tendency for cliques and cabals to form to an extent where it may be doubted whether there is a community even within an individual institution.

As with the interest groups framework, the claim that the prominent players framework seems to provides only a limited insight into the MacSharry reforms must considered alongside the possibility that at other times the relationships which establish certain agricultural policy interest groups as prominent may be important. There is inertia in the CAP decision-making system. Therefore, an agricultural policy interest group which became prominent in exceptional circumstances may retain influence and power in the CAP decision-making system for some time afterwards.

8.4 Institutions Framework

This section presents the institutions framework as the most appropriate of the three rival frameworks outlined in chapter 3 for organising and interpreting the evidence of the MacSharry reform process. Each of the institutions involved in the decision to reform the CAP has a different agenda and is involved at different times. This temporal separation and separation of agendas means that the institutions of CAP decision-making can be interpreted as existing in a state of competition with each other on the issue of CAP reform. This also fits in with the notion of CAP reforms being the result of a process.

The institutions framework starts the analysis from the point that CAP reform proposals originate in the Commission and are formally enacted in the CoAM. These are the two fixed points in a CAP reform process. The MacSharry reforms are an example of the constraints, motivations and requirements existing in the CoAM being clearly different from those of the Commission (see chapters 5,6 and 7). This can be interpreted as an example of inter-institutional competition.

In January 1991, the Commission required a new position in the agriculture part of the Uruguay Round of GATT negotiations and also felt that the budgets of certain market support regimes had reached a critical level, i.e. threatening the 1988 Budget Guidelines. The reason the Council of Agriculture Ministers enacted the reforms at the May 1992 CoAM was because of the choice presented; an uncompensated price cut of 11% (Agence Europe 11 April 1992) under the stabiliser regime or the MacSharry reforms with much larger, but compensated cuts in CAP support prices.

The tension between the objectives of the Commission and what the CoAM will agree to is a major theme in the institutions framework. The CoAM was in 1984, 1988 and 1992 an impediment to the Commission's agenda for CAP reform. In none of these cases did the CoAM actually change substantially what the Commission originally proposed. The CoAM only enjoyed the power to obstruct, to the extent where the reform process was reduced to glacial speed. One of the results of my fieldwork interviews is the estimation by MacSharry and members of his reform team that had they known in advance how difficult the reform process 1990 to 1992 was going to be they would not have started (see chapter 6). The existence of this threat of intransigence allows the CoAM to try to restrict the ability of the Commission to make policy-shaping decisions and affects the reform process.

The idea of the CAP reform process as a series of competing institutions does not just apply between institutions but also within institutions. The Commission is affected by competition between different Directorate-Generals for control of the CAP. DG VI (Agriculture) has in recent years faced competition from in particular DG II (Economics) and DG XIX (Budget) for control of the agenda of European agricultural policy. Also, the separation of DG VI by commodity division stifles the progress of reform ideas within this Directorate-General (interview AW). Hence, Commissioner MacSharry used the tactic of working in small, informal and ad hoc teams, described in chapter 6, to develop his reform plans. This circumvented the main policy development routes of DG VI. Further, with the support of Delors, the College of the Commission was only presented with the full reform proposals very late on in the construction of the plans. MacSharry's ability to navigate his reform plans through the different competitions within the Commission for control of the CAP reform agenda can be attributed, in part, to political leadership.

The CoAM is more obviously subject to internal competition; it a series of competing national agendas for the benefits of CAP expenditure. The institutions framework encourages focus on the options faced by individual members of the CoAM. There is some point at which the political costs of agreeing CAP reform are less than those for maintaining the *status quo*. As described in chapter 6, in the MacSharry reforms this point came when the political costs to the French and German governments of the continued operation of the stabiliser regime became greater than the political costs of agreeing the MacSharry reforms.

The political costs in the MacSharry reform process arose from cuts in the nominal support prices. In the CoAM, the key issue was the compensation of those price cuts. The movement in position which removed the impasse which had existed in the CoAM since July 1991 and the COM (91) 258 proposal, came from Germany. Germany's consistent line since the inception of the CAP had been to defend the nominal level of support prices. As described earlier the options at the May 1992 CoAM were compensated or uncompensated cuts in nominal support prices. Both options broke the historical line of German governments, the compensated price cuts had lower political costs for Keichle. Hence, the German government supported the MacSharry reforms and the reforms were enacted.

8.5 MacSharry and Previous Reforms Compared

Section 8.4 uses the institutions framework to give an interpretation of the MacSharry reform process. This section uses this interpretation to make some comments about the extent to which the MacSharry reform process was different from the processes which accompanied the reforms of the CAP in 1984 and 1988.

The political costs in the reforms of 1984 and 1988 arose from different sources than those of the MacSharry reforms. Political costs motivate individual CoAM members to agree reform proposals. In the milk quotas and stabiliser reforms, these political costs were generated in the CoAM through competition between Ecofin and the CoAM for control of the CAP. The operation of the CAP has effects outside the constituencies of the members of the CoAM. This 'spillover' into the policy area (or turf) of another Council creates competition for control of the CAP. This takes the form of an attempt by another Council to influence the CAP decision-making system in order to limit the effect of CAP decisions on their policy areas. In 1984 and 1988, Ecofin was politically strong enough in both cases to force the issue of the CAP budget to the European Council. It was the European Council which subsequently enacted the CAP reforms of 1984 and 1988.

The conflict for control of the CAP can in certain circumstances lead to the European Council being involved in CAP decisions as an arbiter. The issue of CAP reform reaches the European Council in an atmosphere of *crisis* provoked by competition between various Councils, in other words inter-institutional conflict. The European Council is much more disposed to reform the CAP than the CoAM. Moyer and Josling (1990) note, with reference to the CAP reforms of 1984 and 1988, that except for the UK and Dutch representatives, each CoAM member was motivated almost exclusively by the farm interest when considering the reforms. The European Council weighs the agricultural interest against other EU interests. The bias of the CoAM in focusing exclusively on the benefits to the different national agriculture sectors was removed from the decision-making process by the intervention of the European Council.

The European Council was not involved in the MacSharry reforms. Further, there was not the atmosphere of crisis which accompanied the two reforms of the CAP in the 1980s. The political costs which forced the CoAM to agree the reforms in May 1992 were generated by the stabiliser regime implying cuts in nominal support prices. The incidence of these political costs was directly on the members of the CoAM rather than indirectly either through pressure from other Councils or being affected by the intervention of the European Council. However, the MacSharry reforms were consistent with previous reforms in that they were enacted because of short term political costs impacting on the myopic sights of the members of the CoAM.

Chapter 3 explains how the institutional arrangement of the EU budget was changed in 1988 to counter the ability of the CoAM to act without regard to the financial implications of their decisions (this ability came from the fact that the budget agreement and the farm price agreement occur at different times of the year - there was no equivalent of the UK's 'Star Chamber'). The five-year budget Guidelines agreed in 1988 and 1992 were designed to control the rise in the budgetary cost of the CAP. The 1988 reforms were part of a wider budget package inspired by the plans of Delors. The MacSharry reforms can similarly be interpreted as part of a competition between parts of the Commission and the CoAM for control of CAP expenditure. Fearne (1991) and chapters 1 and 2 of this thesis describe how the CoAM through the mechanism of the annual price review had incrementally increased nominal institutional support prices on an annual basis through the history of the CAP, affecting both its cost and overall direction. The partial shift from price support to income support through DIPs means that the importance of the annual price review has been downgraded; the agreement of the MacSharry reforms meant that support price levels and DIPs levels were agreed for three years, reducing the influence of the CoAM.

8.6 Conclusion

Chapter 1 proposed a distinction between turbulence and stability in the CAP. Specifically, CAP reforms should be understood as turbulence against a long-run stability in the operation and effects of the CAP. With reference to the MacSharry reforms the framework chosen is required to, (i) provide an interpretation of the reform process, the 'turbulence' and, (ii) support an explanation of the limited nature of CAP reforms, the 'stability'.

The institutions framework has been chosen as providing the most cogent interpretation of the evidence of the MacSharry reform process gathered for this thesis and presented in chapters 4, 6 and 7. The institutions framework says that CAP reforms start in the Commission, the factors which affected the Commission through 1990 are the reasons why the MacSharry reform process started. These are described in chapter 6. The progress of the reform proposals through various stages depends on the internal balance of the CoAM, the President of the CoAM and the willingness of the Agriculture Commissioner and the College to make concessions on their original proposals. The causal links involved in these relationships are given in chapter 6. The reasons why the reform process ended when it did and in the way that it did can be found by analysing the internal dynamics of the CoAM composed of 12 national ministers of agriculture. It is here where the central interactions in the final agreement of the MacSharry reforms are set up in chapter 6.

This chapter holds that the relationship between the Commission and the CoAM holds the key to understanding turbulence in the CAP; research should concentrate on competitions for control of both institutions, the relationship between the two institutions, and the relationship between the two and other institutions. These dynamics can be used as a framework for collecting evidence about the causal links at work in CAP reforms.

The public choice paradigm starts from the point that public decisions are taken by individuals and adds to this the premiss that the perspective and behaviour of these individuals is conditioned by their place in the CAP decision-making system (see chapter 3). Chapter 6 shows that the individuals involved in the decision to enact the MacSharry reforms were in the Commission. It is the contention of the institutions framework that the views of the individuals involved the MacSharry reform process were conditioned by being members of particular institutions in the reform process.

The three frameworks of chapter 5 are suggested structures of the CAP decision-making system. The public choice paradigm assumes that individuals fit within these structures. The structure/individual agent relationship is discussed further in chapter 9. It is an important point for how these different frameworks can be employed to understand a CAP reform process. For this conclusion it remains to admit that the possibility exists that the direction of causation from structure to individual behaviour assumed in this thesis may be reversed. An individual may enjoy the political skills and influence to alter the structure of the CAP decision-making system. For example, a strong Agricultural Commissioner may be able to impose a prominent players-type structure. An effective COPA leadership might mould the decision-making system towards a interest groups-type framework. This thesis holds that the number of circumstances in which individuals could affect the structure is limited. However, the possibility exists and this constrains the degree of bias towards the institutions framework declared in this thesis.

CHAPTER 9: CONCLUSION

9.1 Introduction

There are two complementary objectives in this thesis. The first objective is to understand the MacSharry reforms. Understanding has been defined (in chapter 1) in terms of answers to three questions; why were the MacSharry reforms enacted, when they were enacted and in the way that they were enacted? The complementary objective is a more general understanding of how the CAP decision-making system operates. The specific evidence of the MacSharry reforms contributes to the arguments about stability and turbulence in the CAP.

Sections 9.2 and 9.3 provide a summary of the claims of this thesis with regard to the first objective. Section 9.3 notes the differences between the MacSharry reforms and the milk quota reforms of 1984 and the introduction of the stabiliser regime in 1988. Section 9.4 considers how the points made in section 9.3 affect the claim that the institutions framework is the most convincing of the three analytical frameworks for CAP reform set up in chapter 5 for a general understanding of CAP reforms. Section 9.4.1 considers how the role of individuals may be understood within the common analytical frameworks of the CAP decision-making system. This is the complementary objective in this thesis. The final section of the chapter links the main conclusions of the thesis with the political economy literature in agricultural policy.

9.2 Understanding the MacSharry Reforms

9.2.1 Why Were the MacSharry Reforms Enacted?

This answer to this question requires a description of the pressures and causes of the MacSharry reforms. As has been emphasised throughout this thesis, CAP reforms are the result of a process. Hence, any description of the causes of the MacSharry reform must be divided into two; those causes which triggered the reform process and those causes which operated at the conclusion of the reform process. Stated another way, there are causes which operate at the beginning and the end of element two of the CAP decision-making system (see chapter 1) and these are not necessarily the same.

The main cause of the start of the MacSharry reform process was the combination of MacSharry as Agriculture Commissioner and Delors as Commission President after 1989. They shared an ambition for CAP reform. The background to this ambition is described in section 6.1. Sections 6.9 to 6.11 describe the major cause of the enactment of the MacSharry reforms in May 1992 (the end of the reform process) as the operation of the stabiliser regime at that time. In particular, the automatic price cuts implied by the regime at the time of the negotiations of the 1992/93 price package if accepted would have imposed substantial political costs on the members of the CoAM.

9.2.2 Why Were the MacSharry reforms Enacted When They Were?

The section above provides the context of the causes of the MacSharry reforms by summarising the account given in this thesis of the timing of the MacSharry reform process. Section 6.1.4 details how the start of the MacSharry reform process was heavily influenced by the deadline of December 1990 for the conclusion of the UR of GATT negotiations. The collapse of the UR at Brussels in early December 1990 amid US accusations of EU intransigence was followed a week later by the start of the campaign by MacSharry and his team to convince the College to agree their CAP reform proposals. Section 6.1 outlines how the international dimension affected the timing of the start of the domestic policy reform process. The timing of the conclusion of the reform process was tied to the need to agree the 1992/93 price package and the implications for that agreement of the operation of the stabiliser regime. As described in chapter 6 the stabiliser regime implied an automatic cut in nominal support prices of 11%. It was the effect of this on the political calculations of members of the CoAM when they came to agree the 1992/93 price package in March/April 1992 which led to the agreement of the MacSharry reforms.

9.2.3 Why Were the MacSharry Reforms Enacted in the Way That They Were?

The CAP reform process 1990 to 1992 was a response to set of circumstances. A full answer to this question requires an account of the substance of the MacSharry reforms, given the causes (section 9.2.1) and the set of circumstances (section 9.2.2) of the reform process, why was this type of reform proposal made by the Commission and ultimately enacted by the CoAM?

COM (91) 100 was heavily influenced by Commissioner MacSharry and his perspective on the CAP. In particular, his views on what purpose the CAP existed for and what its main failings had been. This personal perspective is described in section 6.1. The main differences between COM (91) 100 (agreed by the College 31 January 1991) and the MacSharry reforms (agreed by the CoAM 22/5/92) were first, a removal of most of the elements of modulation in the different compensatory payments introduced and second, a reduction in the level of cuts in nominal support prices. The removal of most of the elements of modulation initially proposed was the result of the stance taken by the UK government in the CoAM and to a lesser degree the influence of the Danish delegation. The reduction in the level of price cuts was heavily influenced by the negotiating position of the German government.

9.3 Differences Between MacSharry and the Reforms of the CAP in the 1980s

At the most obvious level, the MacSharry reforms were different from the reforms of the CAP in 1984 and 1988 in substance. The implementation of substantial cuts in institutional support prices, the introduction of DIPs as compensation and the linking of compensation payments to compulsory set-aside requirements all challenged existing notions of what was a 'politically feasible' CAP reform (see Hagedorn (1985) for the argument that DIPs were politically impossible).

The MacSharry reforms were different in having an international dimension. This affected, at least, the timing of the start of the reform process (section 6.1). The UR including a section reducing agricultural support levels was due to be concluded at

Brussels in December 1990. Chapter 3 describes how the pressures of the international dimension were 'inconsequential' in both the reforms in the 1980s.

The causes of the MacSharry reforms are also different. As noted in section 9.2.1, it was the *toughness* of the stabiliser regime which eventually forced the CoAM to reach an outcome on the reform proposals and conclude the MacSharry reform process. Toughness is defined here in terms of the political perspective of members of the CoAM. The CAP would be operating in a tough manner if it imposed political costs on members of the CoAM such that they would contemplate agreeing CAP reform. In 1984 and 1988 the then current CAP was not tough from the point of view of members of the CoAM, rather the operation of the then CAP system was creating effects which had an incidence on other institutions of the EU. The CAP was exhausting the budgetary resources of the EU. Other institutions responded to this spillover effect of the CAP by applying pressure on the CoAM to reform the CAP. This inter-institutional tension was the cause of the reform of the CAP.

This difference in causes finds a reflection in the institutional interaction in the MacSharry reform process compared to the reforms in 1984 and 1988. In the latter two instances the European Council was centrally involved in the decision to reform the CAP. It was involved in an *arbitrator* role when the spillover effect from the operation of the then CAP was the potential exhaustion of the budgetary resources of the EU. This fostered inter-institutional tension which required the intervention of the European Council. In the MacSharry reforms, the European Council was not involved and there was not the sense of crisis characteristic of the reforms in the

1980s. This reflects the fact that it was not the operation of the CAP creating a budget 'spillover' effect from the CoAM to other institutions which created the pressures for reform. Instead, it was the toughness of the CAP in 1992 which forced the CoAM directly into adopting the MacSharry reforms in May of that year.

The MacSharry reforms were different for MacSharry as a political personality. His relationship with Delors and their ability to drive a CAP reform agenda through both the Commission and the Council (detailed in chapter 6) was different from the reforms of 1984 or 1988. Their CAP reform agenda had a distinctive personal element which was not the case with Dolsager in 1984 or Andriessen in 1988. MacSharry's beliefs about what was required in a CAP reform was not a response to a deteriorating budget situation, rather they have foundation in his experience in agribusiness and the politics of agricultural policy.

However, having noted the differences between the MacSharry reforms and reform process and the reforms in the 1980s, it is worth highlighting the major similarity. This was drawn out in chapter 7 on the effects of the MacSharry reforms; if a radical CAP reform is one that disturbs the balance pay-offs from the CAP at the member state level, then none of the reforms cited here is radical. The MacSharry reforms though different in elements of substance and in the process of their enactment were not radical, they did not upset the fixed political bargain which exists in the CoAM.

9.4 The Institutions Framework

This section considers whether the differences between the MacSharry reforms and the previous reforms of the CAP can be accommodated within the institutions framework. This thesis considered the question in chapter 8. The conclusion was that the evidence of the MacSharry reforms did not affect the claim made in chapter 5 that the institutions framework provided the most cogent and concise interpretation of CAP reforms.

In particular, the institutions framework provides an insight which allows an account of the one factor which has been unchanged through each reform of the CAP. The outcome of CAP reforms, expressed in terms of the national distribution of CAP pay-offs, is relatively stable across time. Section 1.5 set up the distinction between stability and turbulence in the history of the CAP. CAP reforms have been turbulence in the context of long-run stability in the CAP. Using the definition of *radical* from section 1.5, none of the reforms of in the history of the CAP have been radical. The institutions framework provides an insight into this observation. The insight consists of two steps.

First, the CoAM will only reach a decision based on short-term political costs. This is because its membership consists of short-term political appointments whose interest in agricultural policy is generally short lived (though there are a number of notable counter-examples). Any CAP reform would create short-term political costs for incumbent ministers of agriculture. The myopic perspective of ministers of agriculture adversely affects the chance of any CAP reform being agreed by the CoAM, instead it creates a bias in favour of the *status quo*. Further, even when the short-term political calculations of the members of the CoAM allows a reform to be agreed, that reform will come from the limited set of reforms which do not upset the underlying political bargain in the CoAM. This bargain can be expressed in terms of each member state's net pay-off from the CAP. It is the baseline against which incumbent ministers of agriculture judge their performance. Hence, no member will agree to any reform which adversely affects this.

The second step is to note that the CoAM is the lead institution on CAP matters. The public policy area of the EU is split into Councils of Ministers. These have specific functional responsibilities and capabilities to issue EU legislation in one division of the EU public policy area. Inevitably, there is a tendency for fiefdoms to emerge as each Council becomes protective of its *turf* in this public policy area. As noted in this thesis these turfs can often overlap as certain policies create spillovers. The CAP is the largest item of expenditure from the EU budget and is the oldest common policy. Hence, this tendency for a fiefdom emerge for its control is particularly entrenched. Together these two steps form the insight of the institutions framework into why CAP reforms will only ever be turbulence in the context of long-run stability.

The question still remains as to how the institutions framework can cope with the two main differences between the MacSharry reforms and the reforms of the CAP in 1984 and 1988. The first main difference is that the European Council was involved in the decision to reform the CAP in 1992 and there was no real sense of crisis in the manner of 1984 and 1988. The institutions framework encourages consideration of the different pressures for CAP reform involved at different times. In the MacSharry reforms, there was no sense of crisis because the European Council was not involved. The European Council was not involved because there was no overspill which necessitated the role of an arbitrator to mollify tension among the competing fiefdoms. There was no overspill with the budget issue or the international trade negotiation issue. As noted in section 9.3, it was the toughness of the operation of the stabiliser regime which had an impact directly on the members of the CoAM.

9.4.1 The Role of Individuals

The second main difference from section 9.3 was MacSharry and his personal ambitions for CAP reform. It was admitted in chapter 5 that a possible weakness of the institutions framework was a lack of assessment and/or way of assessing the abilities and skills of the individual outside their institutional context, that is, MacSharry was an effective political operator during the reform process 1990 to 1992. It was a factor in the start of the reform process as described under the heading of political leadership in chapter 6.

The claim that individuals make a difference does not, to any substantial degree, reduce the usefulness of imposing a common framework on the various episodes of CAP reform being studied. This thesis has consistently understood the three frameworks of chapter 5 as providing a loose description of the structure of the

CAP decision-making system. As suggested by Przeworski (1985) frameworks can be used to define the context of public policy formation. The frameworks all set parameters for the actions of individual agents. The comparative study of the CAP reforms of 1984, 1988 and 1992 suggest that these parameters should be set reasonably wide. MacSharry used the position of Agricultural Commissioner in different ways and to greater effect than either Andriessen or Dolsager. However, they all shared a certain level of power and influence in the reform process because they were the Agricultural Commissioner. This common level of power and influence was sufficiently high in all three cases to make it worth imposing a common analytical framework which emphasises the institutional structure as a key factor in the outcome of a reform process.

Individual political skills and influence should be understood in terms of their institutional context. In general, the Agricultural Commissioner is an important figure in a CAP reform process, but this can range from the very important (MacSharry) to moderately important (Dolsager). These perhaps define the parameters of the power and influence of the position of the Agricultural Commissioner.

9.5 Concluding Remarks

The research conducted for first objective of this thesis has supported the claim that the institutions framework is more insightful compared to the prominent players and interest groups frameworks in the analysis of CAP reforms. This claim fits in with one of the current issues in the political economy literature dealing with agricultural policies. A debate has emerged on the relative importance of interest groups as against voters in formal models of the formation of agricultural policies in OECD countries. This is detailed in section 3.7.3 which covers the 'clearing house' theory of government and the economic theory of regulation. However, of relevance here is that both sides of the debate note that empirical research into the formation of agricultural polices requires attention to the factors contained within the institutions framework. Brooks (1995:401) complains about the abstraction of many political economy models (citing the 'politician-voter' model of De Gorter and Swinnen (1994) as a prime example) 'their most telling weakness arises from the fact that they are inherently deterministic, discounting the importance of historical precedent, institutional structures, cultural values and political leadership'.

In response to Brooks' general observation about the level of abstraction, De Gorter and Swinnen (1995:413) state that '...we are in complete agreement with Brooks that we also need a model of institutions, constitutions, rules by which rules are made...'

Hence, both sides of the current debate admit that an understanding of policy outcomes requires an appreciation of past decisions and institutions and their interrelationships. This thesis provides such an appreciation with regard to the most significant event in the evolution of the agricultural policies of the EU - the 1992 MacSharry reforms.

APPENDIX: THE CASE STUDY METHODOLOGY.

This appendix describes and justifies the case study methodology which has been employed in this thesis to research the MacSharry reforms of the CAP. Section A1.1 sets out the ambition of generalisation in social science research. Section A1.2 labels this thesis as a piece of qualitative research, outlines the problems that this kind of research has in generalising results and the solutions to these problems. Section A1.3 sets out one of the standard qualitative approaches, the case study method. The final section, A1.4, details how the data for the particular case of the MacSharry reforms in this thesis were collected.

A1.1 Generalisation in Social Science Research

Every fact which occurs can be put into a group of facts. Social science research can advance knowledge both by studying individual facts and by studying groups facts. There is a symbiotic relationship between general knowledge and particular facts. Particular facts form the basis on which generalisations rest. At the same time, more can be learned about particular cases by studying more general conclusions. This thesis agrees with King et al (1994:43) who argue that 'In sum, we believe that, where possible, social science should be both general and specific: it should tell us something about classes of events as well as about specific events at particular places' and that understanding particular facts and gaining general knowledge are not opposing goals, rather they are mutually supportive. Hence section 1.5 of this thesis set up two complementary objectives for this thesis. First, to understand the MacSharry reforms and secondly, to gain more general knowledge about how the CAP reform process works.

The complementary issue is the level of aggregation. Individual facts can be grouped into different general groups. Particular facts combine to explain particular events. A series of events may be classified according to a whole range of common qualities e.g. by time, geography or politics. According to the context some macrovariable might be attributed to a series of events. This thesis has argued (in chapter 5) that the MacSharry reforms should be put into a general group with the CAP reforms of the 1980s. A framework can be established to gain some general knowledge of the CAP reform process. This is discussed further in section A1.2.

Rose (1991) notes that in studying individual phenomena in social science there is always the danger of 'false particularisation'. That is, each fact or event is taken as unique. Research becomes focused on nominal differences between events and any generic qualities across events can get ignored. Similarly, there is the danger of 'false universalism'. The 'naive' simplification of different phenomena that appear similar across a number of countries. The difficulties of generalisation is central to the distinction between qualitative and quantitative research.

A1.2 What is Qualitative Research?

This thesis is a piece of qualitative research. The justification for this approach is in terms of the questions posed in the thesis. A quantitative approach to understanding the MacSharry reforms and the general class of CAP reforms was rejected in this thesis because of the difficulties in providing any testable hypotheses for the three questions; why were the MacSharry reforms enacted, when they were and in the way that they were?

Bryman (1988) argues that the distinction between qualitative and quantitative research tends to get described in terms of the particular type of data involved. Specifically, qualitative research is non-numerical and based on case studies (usually constructed through interviews). This too simplistic. The distinction between the two research approaches is greater than just the type of data involved, it extends to issues of how that data is gathered and analysed.

Quantitative research is based on the experimental or hypothetico-deductive model of scientific inquiry (Hempel 1965). This emphasises the requirement that research should be directed towards establishing universally valid laws. Quantification is important because it allows theories to be observed, tested, and potentially falsified. The results of quantitative research should be first, replicable and second, generalisable.

Alternatively, qualitative research strives for an interpretation and understanding of social phenomena. The methodology comes from a different intellectual tradition to the experimental science basis of quantitative research. Hammersley (1989) surveys the history of qualitative research back to the German historian and philosopher, Wilhelm Dilthey. There are a number of core characteristics of qualitative research listed in Henwood and Pidgeon (1993). The view that the meaning of any human behaviour must be understood within its context. The view of the research process as producing working hypotheses rather than immutable, empirical facts. Frameworks emerge from a critical study of the data, rather than data being gathered to test some *a priori* theory. Finally, there is the use of qualitative methodologies, which in terms of this thesis means the construction of a case study based on fieldwork.

Quantitative research has as its stated aim the establishment of generalisable results. The problem for qualitative research is that to generalise requires the reproduction of some result across a number of different situations covered by the generalisation. The aim of qualitative research is specifically not to produce a generalised result, '...rather it is to produce a coherent and illuminating description of and perspective on a situation that is based on and consistent with detailed study of that situation' Ward Schofield (1993:202). There is no expectation that the other researchers should replicate the result in the sense of independently coming up with a precisely similar conceptualisation.

However, section A1.1 set up generalisation and as a natural and valid intellectual step. There is a literature on how the results of qualitative research can, in some sense, be generalised. Ward Schofield (1993) describes a consensus that has emerged among qualitative researchers on this issue. It has three elements; (i) the requirement to avoid attempting to ape quantitative research in trying to produce laws that are universally applicable, (ii) even given, (i) generalisation is still possible, (iii) this requires *thick* descriptions of the situations of individual case studies and of the situations to which one wishes to generalise. Qualitative research should be structured with the ambition of generalisation in mind (Lucas, 1974; Yin and Heald, 1975). Cronbach (1982) argues that individual case studies can be used to produce a 'working hypothesis' as to what might occur in an another situation.

Guba and Lincoln (1981, 1982) emphasise the need to analyse the degree to which one situation studied matches the other ones one is interested in. Generalisation should be thought of as *fittingness*, a clear, detailed description of a situation is a *sine qua non* of a case study that can be fitted to another case study. Goetz and LeCompte (1984:228) introduce the term *comparability*, 'The degree to which components of a study - including units of analysis, concepts generated, population characteristics, and settings - are sufficiently well described and defined that other researchers can use the results of the study as a basis for comparison.'.

It is this type of understanding of generalisation which has informed the development and use of frameworks in this thesis (chapter 5). In terms of the questions of this thesis, qualitative research with some limited generalisation is more appropriate than a quantitative approach aimed at the establishment of strict universal and generalisable laws. Formal political economy models were examined in the first year of this thesis as a means of producing hypotheses which could be tested in a quantitative fashion. However, it was found that there is a trade-off between the increased formalisation of a model (e.g. more complete and rigorous assumptions) and the relevance of a model in terms of understanding observed, empirical events. Generalisations tend to be spurious. The empirical applications of formal political economy models to agricultural policy in OECD countries suffer from this criticism (see Brooks 1996). This is not unique to agricultural policy political economy models. Green and Schapiro (1994) note the substantial failure of the whole class of these models to find successful empirical examples.

This is not surprising. Formal models by their construction attempt to abstract the key elements of the government decision-making system, in this case the agricultural policy decision-making system. An increase in the level of abstraction, that is the more formal the model is, the more abstract become the hypotheses or conclusions of the model. Generalisation is only possible by 'stylising' the facts of agricultural policy across all OECD countries. These models require the assumption that agricultural policy is the same phenomenon in all OECD countries. However, the objective of this thesis is to explain one specific agricultural policy decision in the EU. This objective sits uneasily with the degree of abstraction required to build a formal model of the CAP decision-making system.

As King (1989) points out models can range between restrictive and unrestrictive versions. The former are clearer, more parsimonious and more abstract. By virtue of that, they are less realistic. Because of the questions this thesis has asked (in chapter one) and the complexity of the CAP reform process it was difficult to construct a formal, restrictive model (see above). Hence, three unrestrictive models were developed in chapter 5. In order to properly distinguish them from restrictive, formal models, they have been called frameworks in this thesis. They are detailed, contextual and more realistic for understanding CAP reforms. However, because they do not yield a directly testable hypothesis they are more difficult to test or assess. This the problem of generalisation in qualitative research. Nevertheless, each can be used to organise and interpret the evidence of the MacSharry reforms. It is possible to say that one framework is superior to another in that it provides the most clear, coherent and concise account of the evidence of the MacSharry reforms.

A1.3 The Case Study Method

The evidence of the MacSharry reforms is constructed using the case study method. The institutions framework was selected in chapter 5 to use to collect, organise and interpret the evidence of the MacSharry reforms. It provides what King et al (1994) call the 'basic operational guide for a research project'. It specifies for the researcher; where to look for evidence, where to search for observable implications of the institutions framework operating, where the power lies in a CAP reform process and which institutions are more or less important.

The case study method is a core characteristic of a qualitative research approach. The scientific status of case studies has attracted criticism from some quantitative researchers. Their status is 'ambiguous' (Lijphart 1971), because as a single in-depth case it is neither the basis for a valid generalisation or the disproof of a generalisation. However, as discussed in the section above the issue of generalisation can be accommodated within the qualitative research tradition.

Marsh and Stoker (1995) and Lijphart (1971) note that there is a typology of case studies. Lijphart (1971) states that there are six 'ideal' case studies, but admits that most case studies are a mixture of more than one of the six. The first two types are the atheoretical and interpretative case studies. These are used when the researchers interest is solely in that individual case and not at all in what this case implies for the general case. These case studies exist in a 'theoretical vacuum' (Lijphart 1971:691). The third type of case study is one that generates hypotheses for the general group to which that case belongs. The fourth and fifth type of case study are the theory-confirming and the theory-infirming ones. Case study type number six is the deviant case study. The fourth, fifth and sixth case study 'ideals' are implicitly comparative; that is they attempt to put that particular case in a general context. This is where the MacSharry reforms of this thesis fits into the typology. A framework has been established on the basis of the CAP reforms in the 1980s and the research questions have been framed in terms of whether the MacSharry reforms (i) can be accommodated within the institutions framework and (ii) whether that accommodation strengthens or weakens confidence in the institutions framework as the correct general framework for understanding CAP reforms.

A1.3.1 Interviewing

A key data gathering procedure for qualitative research is the fieldwork interview. This section gives the rationale for interviews and discusses the issues involved in designing, conducting, and analysing interview-based research. The thesis has used a 'semi-structured' (Burman 1994) approach to interviewing. A structured approach is normally based around a questionnaire, sometimes involving a list of possibilities to tightly structure the responses. An unstructured interview has no prior expectation or agenda. Such interviews have been criticised on the fundamental grounds ignoring the fact that assumptions structure all research. These should be acknowledged and explored.

There are two basic rationale for interviews as a research tool. The first is that it allows a description of the subjective meanings involved in any event. Those individuals who were involved in, or observed, an event can be asked for their interpretation or understanding of the event. Secondly, interviews allow the exploration of issues too complex to investigate through quantitative means. Aggregate variables can lack the sensitivity and incisiveness to fully grasp the concerns of individuals which affect their actions and therefore the outcome of whatever social phenomenon is being studied. This is a particular advantage of semi-structured approach to interviews; the research agenda and the questions, can be tailored to the observations or comments of the interviewee. The researcher is not stuck with a standard set of variables as would be the case in quantitative research.

There are three factors involved in successful interview-based study design (Burman 1994). First, there should be clear rationale for, and understanding of, the research topic. Secondly, it is necessary to identify those individuals who best exemplify the perspectives, or range of perspectives, relevant to the research question. Thirdly, the researcher must be as open as possible about the aims of research when contacting potential interviewees.

In the interview notes, the interviewer must make the judgement about the level of detail required on different areas. In addition to the verbal responses of the interviewee, any impressions or memories should be added when writing up the interview notes. Tedlock (1984) talks about *thematic analysis*; a coherent way of organising interview notes using themes. These should relate to the preoccupations of the interviewed as well as the research questions.

A1.4 The MacSharry case study

Petit et al (1987) suggest a general approach to the development of a case study of the CAP policy process. It consists of four steps.

(a) identify the major participants in the policy process.

(b) describe their roles and behaviour and assess their influence.

(c) examine how a final compromise was reached in the CoAM.

(d) study how a given policy outcome affects the relative positions of various interests in the continuing policy debate.

This is the methodology adopted in this thesis. The institutions framework suggests places or people to research in order to complete each of the four steps. As outlined in chapter four the institutions framework provides ideas on who the major participants of the reform process are, what sort of questions about their strategy and actions should be asked and where the key parts of the reform process will take place.

The evidence for the case study has been gathered using two methods. The first was a critical review of the written material surrounding the MacSharry reforms; Commission documents, newspapers, academic journals and specialist agribusiness commentaries. The second method of research was a series of 17 interviews of participants in or close observers of the reform process. These were conducted in Brussels, London and Tunbridge Wells between October 1994 and March 1995.

The 'Financial Times', 'The Economist' and 'The European' all gave a sound background to the reform process. However, they are aimed at non-agriculture or non-agricultural policy specialists. Their accounts tended to summarise the reform process as neat and tidy (because it is easier to explain it that way). Further the story of the reforms was told according to each of their 'world views' of government, business, the EU and the CAP. In contrast, 'AgraEurope' provided much of the detail of the progress of the MacSharry reforms from their development in the MacSharry cabinet until their final enactment in May 1992. In particular, their correspondent, Brian Gardner always seemed to have an insider's insight and knowledge of the progress of the reform plans in both the Commission and the CoAM. Indeed, a number of the Commission officials I talked to mentioned Mr Gardner's reports as their own best source of information on how the reform process was developing. 'AgenceEurope', although not focusing exclusively on the

CAP, contained daily reports of the activities of the Commission and the CoAM over the entire reform process. These were valuable sources of information. Ross (1994, 1995) and Grant (1994) on their accounts of the Delors' presidencies provided evidence of the Delors/MacSharry relationship which was at time important in the CAP reform process.

Interviews with the following people were conducted. They are listed over the page along with their position at the time of the MacSharry reforms and the date of the interview.

Key	Name	Position	Date of Interview
RM	Raymond MacSharry	Agriculture Commissioner	5 October 1994
CH	Chris Horseman	Brussels Correspondent of AgraEurope	1 November 1994
MH	Martin Haworth	Head of International Affairs, NFU	15 November 1994
TW	Terry Wynn	MEP, Chairman of LUFPIG and member of EP's Budget Committee	23 November 1994
PC	Peter Clinton, MEP	Rapporteur EP's Agriculture Committee	23 November 1994
JK	Jane Kelsey	Researcher LUFPIG	23 November 1994
FR	Francois Raynaud	Researcher COPA	23 November 1994
AW	Alan Wilkinson	DG VI	24 November 1994
JS	John Slater	Current Head of Economics, MAFF	29 November 1994
RI	Ron Irving	Previous Head of Economics, MAFF (during MacSharry reforms)	29 November 1994
DF	David Frost	First Secretary UKREP	14 December 1994
DR	David Roberts	Deputy Director DG VI	25 January 1995
JG	John Gummer	UK Secretary of State for Agriculture	3 February 1995
JP	Justine Patterson	Council Secretariat for CoAM	16 February 1995
PR	Phillip Rycroft	Currently member of the Brittan cabinet with overall responsibility for agriculture	6 March 1995
GL	Guy Legras	Director DG VI	6 March 1995
PH	Patrick Hennessy	Deputy Chef de Cabinet, MacSharry cabinet with overall responsibility for agriculture	6 March 1995

Notes

(1) the interview with Raymond MacSharry was conducted over the telephone.

(2) the interview with John Gummer was conducted by post.

(3) the interview with Guy Legras was impromptu and lasted only 20 minutes.

(4) The Key column gives each interview a code which is used as a reference throughout this thesis.

The interviews conducted above can be described in terms of their structure, content and timing. Each interview lasted between one and one and a half hours. They were face-to-face and were systematic in the sense that there was some common set of questions in each interview. These questions were tightly specified so that the answers would be unambiguous. In advance of the interview I prepared a series of topics and questions that I wished to cover. However, interviews were left flexible enough so that the interviewee could raise topics that he/she thought was important and these were then followed up.

There is a particular type of evidence that an interview can provide that other secondary sources cannot. The public choice paradigm places focus on the individual. The intentional aspect of individual agent's behaviour is important in understanding the CAP reform process. Specifically interviews provide details of the following areas;

(i) the distinct personalities of the important individuals in the reform process.

(ii) those individuals' strategies, objectives and actions.

(iii) those individuals' views of their own position and influence in the reform process.

(iv) their view of other individuals in the reform process and other individuals' view of them.

(v) individual's view of the role of institutions and their inter-relationship in the outcome of the reform process.

The timing of the interviews, 2 years after the enactment of the reforms, was suited to academic research. Memories and recollections seemed relatively clear. The immediate consequences of the political confrontations in the reform process had been dissipated and most participants were open and objective. However, it is a general observation of the interviews that the closer the individual was to the reform process, the less objective was their judgement of the reform process. The evidence of the interviews conducted supported the point from the public choice paradigm (see chapter 5 for its outline) that an individual's perspective of the CAP and its reform is to a large extent conditioned by the institution to which that individual belongs and his/her position within that institution. The institutional context of individuals directly involved in the reform process emerged as a factor in the direction and overall outcome of the reform process. However, in addition, there was evidence of an important role for the individual within their institutional context. That is, personalities, specific experiences and manner were influential factors at certain points in the reform process. The conclusion (chapter 9) draws together he discussion of the role of individuals within the institutions framework.

BIBLIOGRAPHY

Ackrill, R.W. 1992. The EC Budget and Agricultural Policy Reforms, with Special Reference to Cereals. Unpublished Ph.D. thesis, University of Nottingham.

Ackrill, R.W., Hine, R.C., Rayner, A.J., Suardi, M. 1994. *The Distributional Effects of the Common Agricultural Policy between Member States: Budget and Trade Effects*. CREDIT Research Paper, Department of Economics, University of Nottingham.

Ackrill, R.W., Hine, R.C., Rayner, A.J., Suardi, M. 1995. *The Distributional Effects of the Common Agricultural Policy between Member States: Budget and Trade Effects*. CREDIT Research paper, Department of Economics, University of Nottingham.

AgraEurope (various issues).

Agence Europe (various issues)

Allinson, G. 1971. *Essence of decision: explaining the Cuban missile crisis*. Boston: Little, Brown&Co.

Alston, J.M. and Smith, V.H. 1994. If the CAP Fits: Political Economy, Policy Inertia, Export Subsidies and CAP Reform. Annual Conference Agricultural Economics Society, University of Exeter April 1994.

Ardy, B. 1988. The National Incidence of the European Community Budget. *Journal of Common Market Studies* 26: 401-429.

Avery, G. 1984. Europe's Agricultural Policy: Progress and Reform. *International Affairs* 60: 643-656.

Averyt, W.F. 1977. *Agropolitics in the European Community: Interest Groups and the CAP*. Praeger: New York.

Bannister, P., Burman, E., Parker, I., Taylor, M. And Tindall, C. 1994. *Qualitative Methods in Psychology*. Buckingham: Open University Press.

Bhagwati, J.N. 1982. Directly Unproductive Profit-Seeking Activities. *Journal of Political Economy* 90:988-1002.

Becker, G.S. 1976. *The Economic Approach to Human Behaviour.* Cambridge: Cambridge University Press.

Becker, G.S. 1976. Comment (on Peltzman). *Journal of Law and Economics* 19: 245-248.

Becker, G.S. 1983. A theory of competition among pressure groups for political influence. *Quarterly Journal of Economics* 98: 371-400.

Becker, G.S. 1985. Public policies, pressure groups, and deadweight costs. *Journal of Public Economics* 28: 329-347.

Beghin, J.C. 1990. A game theoretic model of endogenous public policies. *American Journal of Agricultural Economics* 72: 138-148.

Bentley, A.F. 1908. *The Process of Government.* Chicago: University of Chicago Press.

Bernstein, R.J. 1976. *The Restructuring of Social and Political Theory.* London: Methuen & Co. Ltd.

Blaug, M. 1992. *The Methodology of Economics*. 2nd edition. Cambridge: Cambridge University Press.

Bonner, J. 1986. *Politics, Economics and Welfare*. Brighton: Wheatsheaf.

Bowler, I.R. 1985. *Agriculture under the Common Agricultural Policy*. Manchester: Manchester University Press.

Bromley, D.W. 1989. *Economic Interests and Institutions*. Oxford: Basil Blackwell.

Brooks, J. 1995. The Economic Polity of Farm Policy: A Comment. *Journal of Agricultural Economics* 46: 398-402.

Brooks, J. 1996. Agricultural Policies in OECD Countries: What Can We Learn From Political Economy Models? *Journal of Agricultural Economics* 47: 366-389.

Brown, C. 1988. *Price Policies of the CAP: Retrospect and Prospect*. Institute of Agricultural Economics, Copenhagen. Report no.41

Bryman, A. 1988. *Quantity and Quality in Social Science Research*. London: Unwin.

Buchanan, J.M. and Tullock, G. 1962. *The Calculus of Consent*. Ann Arbor: University of Michigan Press.

Buckwell, A.E., Harvey, D.R., Thomson, K.J. and Parton, K.A. 1982. *The Costs of the Common Agricultural Policy*. London: Croom Helm.

Bulmer, S. and Wessels, W. 1987. *The European Council*. London: Macmillan.

Burton, M. 1985. The implementation of the EC milk quota. *European Review of Agricultural Economics* 12: 461-471.

Camps, M. 1967. *European Unification in the Sixties From the Veto to the Crisis*. Oxford: Oxford University Press.

Clout, H. 1984. *A Rural Policy for the EEC?* London: Methuen.

Cohen, R. 1959. *The Economics of Agriculture*. Cambridge: Cambridge University Press.

Commission of the European Communities 1983a. *Further Guidelines of the Development of the Common Agricultural Policy*. COM (83) 380. Brussels: CEC.

Commission of the European Communities 1983b. *Common Agricultural Policy - Proposals of the Commission*. COM (83) 500. Brussels:CEC.

Commission of the European Communities 1987a. *On Financing the Community Budget*. COM (87) 101. Brussels:CEC.

Commission of the European Communities 1987b. *Review of Action Taken to Control the Agricultural Markets and Outlook for the Common Agricultural Policy*. COM (87) 410. Brussels:CEC.

Commission of the European Communities 1987c. *Own Resources Decision*. COM (87) 420. Brussels:CEC.

Commission of the European Communities 1987d. *On Budgetary Discipline*. COM (87) 430. Brussels:CEC.

Commission of the European Communities 1987e. *Implementation of Agricultural Stabilisers*. COM (87) 452.

Commission of the European Communities 1991a. *The Development and Future of the Common Agricultural Policy*. COM (91) 100. Brussels:CEC.

Commission of the European Communities 1991b. *The Development and Future of the Common Agricultural Policy. Follow up to the Reflections paper COM(91)100 1 February 1991*. COM (91) 258. Brussels:CEC.

Commission of the European Communities 1994. EC Agricultural Policy for the 21st Century. *European Economy No.4*.

Commission of the European Communities 1996. *Directory of Interest Groups.* Brussels:CEC.

Cronbach, L.J. 1982. *Designing Evaluations of Educational and Social Programs.* San Francisco: Jossey-Bass.

Davey, B., Josling, T.E. and McFarquhar, A.(ed.) 1976. *Agriculture and the State.* London: MacMillan.

Dinan, D. 1994. *Ever Closer Union? An Introduction to the European Community.* London: MacMillan.

Dixit, A. and Nalebuff, B. 1991. *Thinking Strategically.* New York: Norton.

Doering, O. 1991. Looking Back While Going Forward: An Essential for Policy Economists. *Journal of Agricultural Economics Research* 43:3-6.

Downs, A. 1957. *An Economic Theory of Democracy.* New York: Harper and Row.

Dunleavy, P. 1991. *Democracy, Bureaucracy and Public Choice.* London: Harvester Wheatsheaf.

Eckstein, H. 1975. Case Study and Theory in Political Science. In Greenstein, F.I. and Polsby, N.W.(eds.) *Handbook of Political Science, vol 1, Political Science: Scope and Theory.* Reading, Mass.: Addison-Wesley.

Eichengreen, B. and Frieden, J. 1993. The Political Economy of European Monetary Unification: An Analytical Introduction. *Economics and Politics* 5: 85-104.

Elster, J. 1979. *Ulysses and the Sirens: Studies in Rationality and Irrationality.* Cambridge: Cambridge University Press.

Elster, J. 1983. *Explaining Technical Change: A Case Study in the Philosophy of Science.* Cambridge: Cambridge University Press.

Elster, J. (ed.) 1986. *Rational Choice*. Oxford: Blackwell.

Elster, J. 1989. *Nuts and Bolts for the Social Sciences*. Cambridge: Cambridge University Press.

Fearne, A.P. 1988. *Annual Price Review : A Framework for CAP Decision-Making*. University of Newcastle, Department of Agricultural Economics 2/88.

Fearne, A.P. 1989. A 'satisficing' model of CAP decision-making. *Journal of Agricultural Economics* 40: 71-81.

Fennell, R. 1987. *The Common Agricultural Policy of the European Community*. Oxford: BSP Professional Books.

Field, H., Hearn, S. and Kirby, M.G. 1989. *The 1988 EC Budget and Production Stabilisers*. Australian Bureau of Agricultural and Resource Economics Discussion Paper.

Field, H. and Fulton, M. 1994. A bargaining model of the CAP. *American Journal of Agricultural Economics* 76:15-25.

Frey, B.S. 1978. *Modern Political Economy*. Oxford: Martin Robertson.

Froud, J. and Roberts, D. 1993. The Welfare Effects of the New CAP Cereals Regime: A Note. *Journal of Agricultural Economics* 44: 496-501.

George, S. 1991. *Politics and Policy in the European Community*. Oxford: Oxford University Press.

Gibbons, R. 1992. *A Primer in Game Theory*. Hemel Hempstead: Harvester Wheatsheaf.

Goldthorpe, J.H. 1984. *Order and Conflict in Contemporary Capitalism*. Oxford: Oxford University Press.

de Gorter, H. 1994. The Economic Polity of Farm Policy. Annual Conference Agricultural Economics Society, University of Exeter April 1994.

de Gorter, H. and Tsur, Y. 1991. On the Political Economy of Public Goods Inputs in Agriculture. *American Journal of Agricultural Economics* 73: 1244-1254.

de Gorter, H. and Swinnen, J. 1994. The Economic Polity of Farm Policy. *Journal of Agricultural Economics* 45:312-326.

de Gorter, H. and Swinnen, J. 1995. The Economic Polity of Farm Policy: A Reply. *Journal of Agricultural Economics* 46:403-414.

Goetz, J.P. and LeCompte, M.D. 1984. *Ethnography and Qualitative Design in Educational Research*. Orlando, Fla.: Academic Press.

Grant, W. 1993 Pressure Groups and the European Community: an overview. In Mazey, S. and J.J. Richardson (eds), *Lobbying in the European Community*. Oxford: OUP.

Grant, W. 1995. Is Agricultural Policy still Exceptional? *Political Quarterly* 66: 156-169.

Grant, W. 1995. The limits of CAP reform and the option of denationalisation. *Journal of European Public Policy* 1: 1-18.

Green, D.P. and Shapiro, I. 1994. *Pathologies of Rational Choice Theory*. New Haven. Yale University Press.

Guba, E.G. and Lincoln, Y.S. 1982. Epistemological and mMethodological Bases of Naturalistic Inquiry. *Educational Communication and Technology Journal* 30: 233-252.

Hagedorn, K. 1983. Reflections on the Methodology of Agricultural Policy Research. *European Review of Agricultural Economics* 10: 303-323.

Hagedorn, K. 1985. CAP reform and Agricultural Economics: A Dialogue of the Deaf? in J.Pelkmans (ed.), *Can the CAP be reformed?* Maastricht: EIPA.

Hallett, G. 1968. *The Economics of Agricultural Policy*. Oxford: Basil Blackwell.

Hammersley, M. 1989. *The Dilemma of Qualitative Method: Herbert Blumer and the Chicago Tradition*. London: Routeledge.

Hargreaves-Heap, S., Hollis, M., Lyons, B., Sugden, R. and Weale, A. 1992. *The Theory of Choice*. Oxford: Basil Blackwell.

Harvey, D. 1982. National Interests and the CAP. *Food Policy* 3: 76-90.

Hathaway, D. 1963. *Government and Agriculture*. London: Macmillan.

Hempel, C.G. 1965. *Aspects of Scientific Explanation*. New York: Free Press.

Henwood, K.L. and Pidgeon, N.F. 1993. Qualitative Research and Psychological Theorizing in Hammersley, M. (ed.) *Social Research Philosophy, Politics and Practice*. London: Open University Press.

Hine, R.C. 1973. Structural Policies and British Agriculture. *Journal of Agricultural Economics* 24:321-329.

Hirschman, A.O. 1970. *Exit, Voice and Loyalty: Responses to Declines in Firms, Organizations and States*. Cambridge, Mass.:Harvard University Press.

Howarth, R.W. 1985. *Farming for the Farmers? : A Critique of Agricultural Support Policy*. London: IEA.

Hull, R. 1993. Lobbying Brussels: A View from Within, in Mazey, S. and Richardson, J. (eds.) *Lobbying in the European Community*. Oxford: Oxford University Press.

Ingersent, K.A. and Hill, B.E. 1982. *An Economic Analysis of Agriculture*. London: Heinemann.

Ingersent, K.A., Rayner, A.J. and Hine, R.C. 1995. The Uruguay Round Agriculture Agreement. *The World Economy* 18: 707-728.

Johnson, D.G. 1973. *World Agriculture in Disarray*. London: Fontana-Collins.

Johnson, G.L. 1960. The Labour Utilisation Problem in European and American Agriculture. *Journal of Agricultural Economics* 14: 325-349.

Josling, T.E. 1973. The Reform of the Common Agricultural Policy in Evans, D. (ed.) *Britain in the EC*. London: Gollancz, 86-99.

Josling, T.E. 1974. Agricultural Policies in Developed Countries: A Review. *Journal of Agricultural Economics* 25: 220-264.

Keohane, R. and Hoffman, S. (eds.). 1991. *The New European Community*. Cambridge, Mas.: Westview.

King, G. 1989. *Unifying Political Methodology: The Likelyhood of Statistical Inference*. New York: Cambridge University Press.

King, G., Keohane, R.O. and Verba, S. 1994. *Designing Social Inquiry*. Princeton: Princeton University Press.

Kjeldahl, R. and Tracy, M. (eds) 1994. *Renationalisation of the Common Agricultural Policy?* Institute of Agricultural Economics, Copenhagen and Agricultural Policy Studies, Belgium : Combined Book Services.

Koester, U. 1978. Decision-making problems in the Council of Agriculture Ministers. *Intereconomics* 9:211-215.

Koester, U. and Tangermann, S. 1977. Supplementary Farm Price Policy by Direct Income Payments. *European Review of Agricultural Economics* 13:7-31.

Krueger, A.O. 1974. The political economy of rent-seeking society. *American Economic Review* 64: 291-303.

Kuhn, T.S. (1962) *The Structure of Scientific Revolution*, Chicago,Ill.:Chicago University Press.

MAFF. 1995. European Agriculture The Case for Radical Reform. MAFF.

Larsen, A. 1993. *Danish Agricultural Economy*. Autumn 1993, reprinted in Commission of the European Communities 1994. *EC Agricultural Policy for the 21st Century*. European Economy Reports and Studies No.4.

Lijphart, A. 1971. Comparative Politics and Comparative Method. *American Political Science Review* 65:682-698.

Lucas, W. 1974. *The Case Survey Method: Aggregating Case Experience*. Santa Monica, Ca.: Rand.

Magee, S.P., Brock, W.A. and Young, L. 1989. *Black Hole Tariffs and Endogenous Policy Theory: Political Economy in General Equilibrium*. Cambridge: Cambridge University Press.

Marsh, D. and Rhodes, R.A.W. 1992. *Policy Networks in British Government*. Oxford: OUP.

Marsh, D. and Stoker, G. 1995. *Theory and Methods in Political Science*. London: MacMillan.

Marsh, J.S. 1977. Europe's Agriculture: Reform of the CAP. *International Affairs* 53:604-614.

Marsh, J.S. 1985. Can Budgetary Pressures Bring CAP Reform? in Pelkmans, J. (ed.) *Can the CAP be Reformed?* Maastricht: EIPA.

Marsh, J.S. 1987. Alternative Policies for Agriculture in Europe. *European Review of Agricultural Economics* 14: 5-20.

Marsh, J.S. and Ritson, C. 1971. *Agricultural Policy and the Common Market.* London: Chatham House PEP.

Marsh, J.S. and Swanney, P.J. 1980. *Agriculture and the European Community.* London: George Allen & Unwin.

Marsh, J.S. and Tangermann, S. 1996. Preparing Europe's Rural Economy for the 21st Century. Report to the Land Use and Food Policy Inter-Group (LUFPIG) in the European Parliament.

Martin, A. 1958. *Economics and Agriculture.* London: Routledge and Kegan Paul.

Mazey, S. and Richardson, J.J. (eds) 1993. *Lobbying in the European Community.* Oxford: OUP.

McCormick, R.E. and Tollinson, R.D. 1981. *Politicians, Legislation, and the Economy: An Inquiry into the Interest-Group Theory of Government.* Boston: Martinus Nijhoff.

McCrone, G. 1962. *The Economics of Subsidising Agriculture.* London: George Allen & Unwin.

Meester, G. 1987. Budgetary constraints and the international realities of the CAP. *European Review of Agricultural Economics* 14: 37-48.

Meester, G. and Van der Zee, F. 1993. EC decision-making, institutions and the CAP. *European Review of Agricultural Economics* 20: 131-151.

Miliband, R. 1969. *The State in Capitalist Society.* New York: Basic Books.

Milward, A. 1992. *The European rescue of the nation-state.* London: Routledge.

Moyer, H.W. and Josling, T.E. 1990. *Agricultural Policy Reform: Politics and Process in the EC and USA.* Hemel Hempstead: Harvester Wheatsheaf.

Mueller, D.C. 1989. *Public Choice II.* Cambridge: Cambridge University Press.

Nardone, G. and Lopez, R.A. 1994. The Welfare Effects of the New CAP Cereals Regime: A Comment. *Journal of Agricultural Economics* 45:386-388.

National Farmers Union. 1994. GATT Settlement in Agriculture.

Nedergaard, P. 1994. *The Political Economy of CAP Reform*. In Kjeldahl, R. and Tracy, M. (eds) 1994. *Renationalisation of the Common Agricultural Policy?* Institute of Agricultural Economics, Copenhagen and Agricultural Policy Studies, Belgium : Combined Book Services.

Neville-Rolfe, E. 1984. *The Politics of Agriculture in the European Community*. London: European Centre for Policy Studies.

Niskanen, W. 1971. *Bureaucracy and Representative Government*. Chicago: Aldine-Atherton.

Niskanen, W. 1973. *Bureaucracy, Servant or Master?* London: IEA.

Ockenden, J. and Franklin, J. 1995. *European Agriculture: Making the CAP Fit the Future*. London: Chatham House.

Olson, M. 1965. *The Logic of Collective Action*. Cambridge: Harvard University Press.

Olson, M. 1985. Space, Agriculture and Organization. *American Journal of Agricultural Economics* 67: 928-937.

Olson, M. 1986. The Exploitation and Subsidization of Agriculture in Developing and Developed Countries in A. Maunder and U. Renborg (eds.). *Agriculture in a Turbulent World Economy*. Aldershot: Gower, 49-59.

Olson, M. 1990. *Agricultural exploitation and subsidization: There is an explanation*. Aldershot: Gower.

Pearce, J. 1981. *The Common Agricultural Policy*. London: RKP.

Pedler, R.H. 1994. Some Lessons from EU Lobbying Cases, in Pedler, R.H. and Van Schendelen, M.C.P.M. (eds.) *Lobbying in the European Union - Companies, Trade Associations and Issue Groups.* Aldershot: Dartmouth Publishing.

Pelkmans, J. (ed.) 1985. *Can the CAP be reformed?* Maastricht: EIPA.

Peltzman, S. 1976. Toward a more general theory of regulation. *Journal of Law and Economics* 19:211-240.

Peterson, J. 1995. Decision-making in the European Union: towards a framework for analysis. *Journal of European Public Policy* 1:69-95.

Petit, M., De Bendictis, M., Britton, D., De Groot, M., Henrichsmeyer, W. and Lechi, F. 1987. *Agricultural Policy Formation in the European Community: The Birth of Milk Quotas and CAP Reform.* Amsterdam: Elsevier.

Posner, R.A. 1974. Theories of Economic Regulation. *The Bell Journal of Economics and Management Science* 29:335-357.

Posner, R.A. 1975. The Social Costs of Monopoly and Regulation. *Journal of Political Economy* 83:807-827.

Przeworski, A. 1985. *The State and the Economy under Capitalism.* Cambridge: Cambridge University Press.

Putnam, R.D. 1988. Diplomacy and Domestic Politics: the Logic of Two-Level Games. *International Organization* 42: 428-460.

Ramusen, E. 1989. *Games and Information.* Oxford: Basil Blackwell.

Rausser, G.C. 1982. Political economic markets: PERTs and PESTs in Food and Agriculture. *American Journal of Agricultural Economics* 64: 821-833.

Rausser, G.C. 1989. The Political Economy of Agricultural Policy Reform. *European Review of Agricultural Economics* 16:349-366.

Rausser, G.C. and Freebairn, J.W. 1974. Estimation of Policy Preference Functions: An Application to the US Beef Import Quotas. *Review of Economics and Statistics* 56: 437-449.

Rayner, A.J. and Colman, D. 1993. *Current Issues in Agricultural Economics.* London: Macmillan.

Rayner, A.J., Ingersent, K.A., Hine, R.C. 1993. Agriculture in the Uruguay Round: An Assessment. *Economic Journal* 104:1513-1528.

Rayner, A.J., Ingersent, K.A., Hine, R.C. and Ackrill, R.W. 1993. *Does the CAP fit the GATT? A Model of EU Cereals.* CREDIT paper 93/14 University of Nottingham.

Richardson, J.J. (ed.) 1982. *Policy Styles in Western Europe.* London: Allen&Unwin.

Richardson, J.J. and Jordan, A.G. 1979. *Governing Under Pressure: the Policy Process in a Post-parliamentary Democracy.* Oxford: Martin Robertson.

Riker, W. 1982. *Liberalism against Populism.* San Francisco: W.H. Freeman.

Ritson, C. 1977. *Agricultural Economics and Policy.* London: Granada.

Runge, C.F. and Witzke, H. von. 1987. Institutional change in the Common Agricultural Policy of the European Community. *American Journal of Agricultural Economics* 69:213-222.

Rowley, C.K., Tollison, R.D., and Tullock, G. (ed.) 1988. *The Political Economy of Rent-Seeking.* Boston: Kluwer Academic.

Rose, R. 1991. *Comparing Forms of Comparative Analysis*. Studies in Public Policy No.188, CSPP, University of Strathclyde.

Runge, C.F. and Von Witzke, H. 1987. Institutional Changes in the CAP of the EC. *American Journal of Agricultural Economics* 69: 213-223.

Samuels, W.J. 1979. *The Economy as a System of Power*. New Jersey: Transaction Books.

Schmitt, G. 1986. Agricultural Policy Decisions in the EC. *Food Policy* 5: 334-345.

Self, P. and Storing, H. 1962. *The State and the Farmer*. London: Allen&Unwin.

Senior-Nello, S. 1984. An Application of Public Choice Theory to the Question of CAP reform. *European Review of Agricultural Economics* 11: 261 - 283.

Senior-Nello, S. 1989. European Interest Groups and the CAP. *Food Policy* 2: 101-106.

Smith, M.J. 1990. *The Politics of Agricultural Support in Britain*. Aldershot: Dartmouth.

Smith, M.J. 1993. *Pressure, Power and Society*. Hemel Hempstead: Harvester Wheatsheaf.

Sodersten, B. and Reed, G. 1994. *International Economics*. 3rd edition. London: Macmillan.

Stigler, G.J. 1971. The Theory of Economic Regulation. *Bell Journal of Economics and Management Science* 2:3-21.

Stigler, G.J. 1975. *The Citizen and the State*. Chicago: University of Chicago Press.

Swinbank, A. 1989. The CAP and the Politics of European Decision Making. *Journal of Common Market Studies* 2:303-322.

Swinbank, A. 1993. CAP reform, 1992. *Journal of Common Market Studies* 3: 359-371.

Swinbank, A. 1994. EU Agricultural Trade Relations with its Neighbours. CREDIT Conference, University of Nottingham April 1994.

Swinnen, J. and Van der Zee, F.A. 1993. The Political Economy of Agricultural Policies: A survey. *European Review of Agricultural Economics* 20: 261-291.

Tangermann, S. 1992. *CAP Reform? In for a Penny, In for a Pound.* IEA Inquiry Paper.

Tangermann, S. 1996. An Ex-Post Review of the 1992 MacSharry Reform. Paper presented to CREDIT conference, University of Nottingham, 'CAP Reform: What Next?'.

Tedlock, D. 1984. *The Spoken Word and the Work of Interpretation.* Philadelphia: University of Pennsylvania Press.

Tracy, M. 1989. *Government and Agriculture in Western Europe 1880-1988*, 3rd edn. London: Granada.

Tracy, M. 1994. In the Spirit of Stresa. *European Review of Agricultural Economics* 21: 357-374.

Tullock, G. 1965. *The Politics of Bureaucracy.* Washington D.C.: Public Affairs Press.

Tweeten, L. 1971. *Foundations of Farm Policy.* Lincoln, Neb. : University of Nebraska Press.

Von Cramon-Taubadel, S. 1993. The Reform of the CAP from a German Perpsective. *Journal of Agricultural Economics* 44: 394-409.

Von Witzke, H. 1986. Endogenous supranational policy decisions: The common agricultural policy of the European Community. *Public Choice* 48:157-174.

Wallace, H. and Wallace, W. 1996. *Policy-Making in the European Union. Oxford*: OUP.

Ward, H. and Edwards, G. 1990. Chicken and Technology: the Politics of the European Community's Budget for Research and Development. *Review of International Studies* 16: 111-129.

Weigall, D. and Stirk, P. 1992. *The Origins and Development of the European Community*. Leicester: Leicester University Press.

Winters, L.A. 1987. The Political Economy of the Agricultural Policy of the Industrial Countries. *European Review of Agricultural Economics* 14: 285-305.

Winters, L.A. 1990. The So-Called 'Non-Economic' Objectives of Agricultural Support. In *Modelling the Effects of Agricultural Policies*. OECD Economic Studies No.13, OECD.

Yin, R.K. 1984. Case Study Research: Design and Methods. Beverley Hills, Ca.: Sage.

Yin, R.K. and Heald, K.A. 1975. Using the Case Survey Method to Analyze Policy Studies. *Administrative Science Quarterly* 20: 371-381.