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Global Competition and EU Environmental Policy

The World Trade Dimension of "Greening"
the EC's Common Agricultural Policy

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**The World Trade Dimension of “Greening”
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This paper explores the emerging green dimension of the Common Agricultural Policy (CAP), with special attention to its relationship with the international agricultural trading regime. It sheds light on the unusual event of international trade liberalisation pressures pushing forward a “greening” of European sectoral policy. First, the GATT context operated to impose constraints on the continuation of the CAP, and with it the production of negative environmental side-effects. Second, from the GATT negotiations emerged the positive incentive to shift support for farmers to less trade distorting social and environmental measures.

This paper begins by investigating the environmental dimension of the CAP prior to the MacSharry reforms and the closure of the Uruguay Round. It describes the—quite limited— integration of environmental concerns into the CAP prior to the 1992 reform and traces its roots to merely internal factors, such as a rising environmental awareness, intra-EC trade harmonisation, and the desire to maintain social structures in rural areas, especially in southern Europe. The degree and form of “greening” the CAP at that point was not limited by considerations related to maintaining the international competitiveness of European agriculture. The nevertheless limited character of environmental policy integration into the CAP can be explained, instead, by the firmly institutionalised traditional structure of the CAP, preventing the radical reform necessary to remove the policy's negative environmental externalities, and by the limited funds and political support for expanding structural adjustment measures targeted at environmental objectives.

I will then show how the latest GATT round played an explicitly positive role in the process of environmental policy integration in the CAP during the early 1990s. I argue that the GATT negotiations formed the necessary context for an incomplete and yet dramatic shift in the CAP's objectives and its choice of policy instruments. As the completion of the Uruguay Round foreclosed the option of maintaining the level of the EC's long-standing agricultural support scheme based on guaranteed prices, EC policy instruments to provide support for the farming sectors were partly shifted towards direct income support and service payments, in other words instruments that were not only less trade-distorting but also preferable from an environmental perspective.

A closer look at the GATT negotiations reveals an interesting picture of two-way causalities and policy feedback: Not only did the GATT facilitate an environmental improvement of the CAP, but at the same time, environmental rhetoric helped bring about the political compromise resulting in the completion of the Uruguay Round and the signing of the Marrakesh Accords in 1994. In part, it was the environmental agenda that pointed to the conceptual distinction

between trade-distorting and non-distorting agricultural support measures and the applicability of GATT rules only to the former. In an effort to rescue the political deal, however, a certain degree of environmental and social “window dressing,” aimed at minimising the portion of domestic support payments that would be subjected to liberalisation requirements, was employed in the negotiation of operational details of the GATT agriculture agreement.

In short, this working paper argues that in the case of agricultural trade, the liberalisation of the European regime and the provision of GATT exemptions on environmental grounds went hand in hand. It proceeds as follows: Part two focuses on the environmental externalities of the CAP and its limited environmental reforms prior to 1992; it highlights these reforms' exclusively internal rationales and the absence of an international dimension - either negatively or positively. The “greening” of the CAP through the MacSharry reform, in contrast, needs to be situated in the international trade negotiations, as explained in part three. The concluding part ventures into hypothetical future scenarios for the CAP and its environmental dimension.

The CAP's Environmental Dimension Prior to “Uruguay” and “MacSharry”

Environmental Effects of the CAP and Early Environmental Measures

The objectives of the CAP, as set up in 1957 (Arts. 38-43 of the Treaty of Rome), did not include environmental protection, nor was the architecture of the CAP compatible with such an objective as the following decades would show. Most of the steadily rising CAP budget was allocated to the market price support system, based on variable import levies, variable export refunds and intervention prices,² which implied a number of economic, social and environmental problems.

In brief, economically the CAP suffered from its producers' insulation from market pressures combined with their unlimited incentive to produce. It resulted in a structural oversupply of several goods -- one may recall the European butter mountains and milk lakes. Between 1987 and 1991 the value of EC agricultural surplus increased by a factor of six to approximately 6 billion ECU.³ The

² Import levies raise the price of the imported good above a so-called threshold price which lies above the Community price level. Variable export refunds compensate EC exporters for the difference that exists between Community and world market prices. Finally, in the event that EC prices fall beneath the intervention price, Community authorities purchase and store EC farm products in order to reduce available supply and hence raise market prices.

³ These data are weighed by 1979 world market prices (CEC 1994a:15).

economic costs are born by the EC budget, hence tax payers, and European consumers.⁴ The policy failed equally to achieve its social objectives as the living standard of the average European farmer remains below the population's average and the distribution of payments has been very uneven. The Commission estimated that in the mid-1980s eighty percent of CAP expenditure reached a mere twenty percent of European farmers, these being typically the larger and more efficiently operating producers in the northern regions (CEC 1991a:1).

Environmental degradation in the agricultural sector is the result of a combination of market failures in the agricultural sector, failing to internalise its environmental cost (such as the exploitation and pollution of water and soil resources), and non-market (or government) failures operating to reinforce these market failures (OECD 1994:110-114, Runge 1993:96-7). It has been widely acknowledged that the market is biased against environmental protection because the polluter pays principle is generally not applied to the European agricultural sector.⁵ On the government failure side, the CAP, with its system of guaranteed prices which effectively couples financial support to production output--and surplus, contributes to environmental damage, aside from being trade-distorting, economically costly and socially suboptimal as just described. The Food and Agriculture Organisation (FAO) has linked the European agricultural production system and practices directly to environmental effects such as the pollution and contamination of soil, water, air, and food due to increased agro-chemical use and livestock effluents, the degradation of natural resources, the disturbance and reduction of biotops and wildlife habitats, and the loss of biological and genetic diversity (cited in Runge 1993:105).

⁴ In 1992, CAP spending amounted to 35.8 billion ECU (Tracy 1993:172). Transfer to the agricultural sector including public spending by national governments was 51.8 billion ECU, while the cost of agricultural support born by consumers has been calculated as 69.3 billion ECU. The share of total agricultural policy transfers in the EC of the GDP equals two percent (CEC 1994a:26).

⁵ The most systematic study in this context has been produced by Baldock and Bennett (1991). They argue that agriculture may claim to be a special case with respect to the polluter pays principle (PPP), due to the predominance of non-point sources of pollution which are difficult to monitor and control, complex cause-effect relationships in some agro-ecosystems, social and political considerations connected to small farmers especially, and limits to a radical change in land use patterns. Nevertheless, they regret that "no country has made a systematic effort to apply the PPP to agriculture" (ibid.:11) and argue that "'second best' solutions - involving regulations and, perhaps, subsidies - will in practice be necessary if agricultural pollution is to be effectively controlled" (ibid.: 230).

Despite clear evidence of environment-related market and government failures, reform attempts directed at the European agricultural policy were limited prior to 1992. Although the agro-environmental agenda began to be set in 1985 with the Commission's green paper on perspectives of the CAP which - in response to an intervention by DGXI - proposed that agricultural policy should "take account of environmental policy, both as regards the control of harmful practices and the promotion of practices friendly to the environment" (CEC 1985a, cited in Baldock and Lowe 1996:12), the actual changes to the CAP consisted of only marginal modifications of the guidance section of the CAP (structural support for farmers extensifying production, setting aside land and maintaining environmentally sensitive areas) and some quantitative restrictions of agricultural production (the introduction of co-responsibility levies on surplus-producing farmers and a budget ceiling).

Quantitative restrictions were argued to limit the incentive to use agro-chemicals as well as the (over-)production of manure in intensive livestock holdings. The *Council Regulation 797/85 on Improving the Efficiency of Agricultural Structures* authorised member states to develop national support schemes in environmentally sensitive areas (ESAs). It further offered EC-funded premiums for farmers who engage in extensification and set-aside measures. Two years later, *Council Regulation 1760/87* was adopted which made ESA support eligible for up to 25 percent EC-co-financing. Following a review of Regulation 1760/87 in 1990, the Commission announced its intention to reinforce the relationship between agriculture and the environment (CEC 1990a) and packaged the three measures (extensification, set-aside, ESAs) into the a proposal (CEC 1990b) that was to become the core of the *Council Regulation 2078/92 on Agricultural Measures Compatible with the Requirements of the Protection of the Environment and the Maintenance of the Countryside* which accompanied the MacSharry reforms of the CAP.

The environmental effects of the 1985 and 1987 agricultural structures legislation remained limited, however. They constituted a minimal counterweight to the environment-unfriendly guarantee section of the CAP. Also, the measures suffered from a northern bias by focusing on side-effects of intensive production and neglecting issues such as soil erosion, desertification or forest fires which concerned primarily southern member states and parts of France. Consequently, the early set-aside scheme was taken up only by Germany, Belgium, France and Italy; the ESA option was implemented only by the UK, Germany, the Netherlands and Denmark. Only after the possibility of EC financial aid was introduced in 1987 did Italy, France, Luxembourg, Ireland and Spain start small experimental ESA schemes (Baldock and Lowe 1996:16-7).

Even more limited were attempts to “control actions harmful to the environment” in the agricultural sector as declared desirable in the 1985 green paper. The regulatory measures related to the protection of water quality adopted by the EC since the 1970s had little impact on agricultural production practices. The implementation measures generally ignored the prevention principle by calling for remedial action rather than controlling the sources of pollution such as the leaching of agro-chemicals and livestock manure into water resources. In other words, not farmers but water authorities were primarily targeted by EC water legislation. Gradual realisation that existing implementation attempts are insufficient to meet quality goals laid down in the EC water legislation has led to recent pressures toward restructuring and improving their effectiveness (CEC 1996b).

The 1991 *Council Directive Concerning the Protection of Waters Against Pollution Caused by Nitrates from Agricultural Sources (91/676/EEC)* has been the first attempt to break with the previous pattern of remedial action by placing the spot-light directly on the farming sector.⁶ The Directive does not go as far as requiring the application of the polluter pays principle, however. Nigel Haigh traces its history to the 1980 *Drinking Water Directive (80/778/EEC)* which set a nitrate limit of 50mg/l. While the Drinking Water Directive focused on remedial action which tends to be costly, the 1991 Nitrate Directive “aims to reduce and prevent the pollution of water caused by the application and storage of inorganic fertilisers and manure on farmland” (Haigh 1992:4.4-12 and 4.14-1, emphasis added). It obliges member states to develop action programmes to ensure the reduction of nitrate pollution in designated “vulnerable zones.” Farmers in these vulnerable zones may be compensated by their national governments for the financial losses they incur.

To review, the CAP as originally conceived not only fails to correct negative environmental externalities produced by market mechanisms in the agricultural sectors, it even exacerbates environmental problems through government failures implied in the CAP’s price support structure. Since 1985, minimal measures to reduce the negative ecological impact of public intervention were implemented and limited regulatory policies aimed at reducing the market failures introduced. The following section will identify the mostly EC-internal reasons for these changes.

⁶ It is summarised in detail by Reeve (1994:103).

Contrary to other cases discussed in this volume, the initial “greening” of the CAP since the mid-1980s was not resisted on the basis of its effects on the international competitiveness of European farmers.⁷ Simple explanations for this phenomenon are (a) the relative absence of a - domestic or international - environmental agenda that related to European farming practices and (b) the sheltered existence from international trading pressures led by European farmers due to CAP protection. Prices received by European farmers for their produce internally and on the export market remained relatively unaffected by international competitive pressures since they were established during the Agriculture Council negotiations which, prior to the completion of the Uruguay Round, took place independent of international agricultural trading agreements.

In tracing early environmental policy integration in EC agricultural policy, it appears that the evolution of the CAP can be explained by reference to primarily internal factors. At the same time, however, internal factors also posed the constraint for more drastic measures. In brief, the increasing salience of environmental issues constituted the motivation for “greening” the CAP; mounting legal and more notably fiscal challenges to the legitimacy of the traditional CAP created the beginnings of a permissive structure for reforms. On the constraining side, the deep institutionalisation of the CAP in the fabric of the EC prevented radical change.

The salience of environmental issues related to agricultural production emerged slower than the realisation and response to negative environmental externalities generated by traditional industrial processes. This was due to the “green” image of agriculture and the general public's valuation of farmers as “guardians of the environment” and providers of “stability and rootedness” (Keeler 1995). The relative blindness with regard to the negative side-effects of the CAP was reinforced by its “sacred nature” within the Community's framework, the powerful agricultural lobby nationally and in Brussels, and the structural insulation of agricultural policy making from external pressures such as financial, foreign trade, social or environmental objectives (Lenschow 1995, 1996).

⁷ With respect to the Nitrate Directive it can be argued that the existence of international environmental agreements or action plans on the protection of the North and Baltic Seas induced the agro-environmental regulatory measure.

Until the adoption of the Single European Act in 1986, the CAP constituted the core, and hence symbol, of the European integration project; systemic radical reforms of the CAP were therefore out of the question as they would have been perceived as unravelling the larger European edifice (Urwin 1991:135, Marsh and Swanney 1980, Tracy 1989). The fact that the strong corporatist tradition in European agriculture had been extended to the EC-level, with strong ties of the European agricultural federation COPA and its member organisations to the policy making process, further solidified the status quo in agricultural support. The same was true for the insulated structure of CAP decision making, characterised by the EC's general functional fragmentation, exacerbated by the separate existence of the Special Committee on Agriculture preparing the Councils. As a consequence, the CAP allowed agricultural ministers and their clientele to escape - already minimal - national cross-policy scrutiny, such as pressures from their colleagues with the finance portfolio to avoid budgetary overruns or from environmental ministers to comply with environmental objectives, without being subjected to at least equivalent scrutiny on the European level. In fact, until the 1988 reforms which introduced a ceiling for CAP budgetary increases, the Agriculture Council acted as irresponsibly as it did quite unchecked.

Several factors began to undermine the CAP's special status in the mid-1980s, however. With food security as the primary objective of the CAP achieved, the costliness and wastefulness of the policy's operations gained in attention among the European population. This awareness was reinforced by the single market project which challenged the CAP as the symbolic centre of the EC and emerged as a competitor for scarce European funds. Budget constraints became the primary impetus for subsequent CAP reforms which consequently focused on the problem of finance-draining surplus production. Analysing the policy discourse since the mid-1980s, it appears that the linkage between budget pressures and the environmental problem of European agriculture has been constructed in two different ways. First, environmental measures which carry the promise of resulting in lower yields due to extensification or reduced input of agro-chemicals are proposed as serving not only environmental interests but also contributing to surplus reduction. Secondly, and partly in contrast, to the extent that it could be argued that high budgetary expenditures for the agriculture sector helped support the provision of desirable services such as environmental stewardship in rural areas, a sizeable common agricultural policy could still be justified to an increasingly critical public and hence maintained. On the basis of these two rationales, the "greening" of the CAP represented an attempt at re-packaging a policy under attack into one acceptable to the growing policy community that demanded a say with respect to the CAP's future.

Both “policy linkages” are contained in a statement by Environment Commissioner Clinton Davis who argued in 1985 that

[in its] role as the protector of the environment, of the landscape, and of natural habitats[, the farming sector] thus renders services to society for which there is a real demand. Direct income support, which may be indispensable for income or market reasons and which has the advantage of not encouraging higher production, can take account of the role of agriculture in the environment (CEC 1985b:2, emphasis added).

These ideas were quite controversial, when first voiced, however. DG VI (agriculture) accepted the notion of rewarding the agricultural sector for rendering environmental services and favoured expanding the structural payments of the CAP in the form of accompanying measures while denying the “direct link” between the market support and environmental effects, and hence the need to reform the guarantee section of the CAP (CEC 1987).⁸ The EP agricultural committee, more radically opposed to the proposed options of environmental integration, criticised the Commission for considering to support “not surplus products but surplus, and rather poor, farmers...to do little in rather pretty country side” (EP 1986:64). Agriculture ministers were equally sceptical about instituting an EC scheme for rewarding environment-friendly farming, at least to the extent that this would involve a transfer of environmental management tasks to Commission authorities. The fact that the guarantee section remained largely untouched until 1992 (with the exception of some production control measures) and structural measures were expanded only minimally, as indicated above, is therefore not surprising.

The “story” behind the adoption and elaboration of the structural policy within the CAP aimed at environmentally sensitive areas in 1985 and 1987 is characteristic of the narrow path of opportunities for environmental reform within the CAP. Initially, the ESA scheme was proposed by the British government for predominantly domestic reasons. As described in more detail by Baldock and Lowe (1996:13-5), environmental interests placed pressure on the government to limit farming in sensitive areas. While a complex procedure was introduced whereby conservation authorities could limit farming in such areas in return for compensation payments, the ministry for agriculture resisted further-reaching

⁸ Ignoring that the majority of EC price support went to the richer, larger, modernized, Northern farmers (cf. CEC 1991a) who were induced by production incentives to increase their use of agro-chemicals and to employ the most intensive and productive farming methods, DG VI argued that the effect of production incentives is indirect, and hence in its aggregate inconclusive, as other (more marginal) farmers contribute to the protection of the environment due to the help they receive to stay in existence (CEC 1987:7).

measures under the pretence that under EC law no national aid could be rendered to farmers for purposes other than farming and that therefore a change in EC legislation was necessary to meet the environmentalists' demands. This option was therefore pursued by the UK government, pushed by environmental groups mounting a European campaign. Despite considerable irritation among other member states and the Commission, the ESA scheme was integrated in Regulation 797/85 even though at that point only as a from now on legitimate option for national aid. In the amended Regulation 1760/87 the ESA payment scheme became eligible for EC co-financing. This brief policy history shows that most agricultural ministers were hesitant to internalise environmental costs or support environmental services domestically. They were equally resisting changes to the status quo of the CAP that would reduce transfer payment to the farming sector or implied more external control on domestic structures and practices. Consequently, changes in the structure of the CAP needed to be incremental and accompanied by generous compensation for the affected farmers. In a situation where resources were increasingly scarce, hence the scope for politically acceptable and fiscally possible compensation payments limited, emerged the political package of combining environmental and economic need, based on the new "acceptance that supporting farmers to conserve the countryside might also help, albeit in a modest way, to curb overproduction" (Baldock and Lowe 1996:15).

Recurring environmental rhetoric in subsequent CAP-related Commission documents (CEC 1987, 1988, 1990a, 1991a) underlines the beginning of a change in perspective toward the environment, however. Even though the change in official rhetoric and the perspective of agricultural policy makers may have occurred only for the pragmatic reasons outlined above, in practical terms, it produced "the need to give some substance to the formal commitments made in various policy documents to integrate environmental considerations into agricultural policy" (Baldock and Lowe 1996:15). Similarly, agricultural policy makers felt increasingly constrained by the publicization of mounting evidence that the CAP was to a large part responsible for implementation failures of EC environmental legislation, such as the EC's water legislation discussed above. For instance, in April 1990 the World Wide Fund for Nature (WWF) presented vast empirical evidence of environmental degradation caused by agricultural production and called on the Agriculture Council to "discontinue all subsidies for farming activities which destroy the environment" (AE, No. 5241: 25 April 1990), to encourage environmentally friendly farming methods, to impose environmental controls, and to introduce the principle of environmental conditionality for financial outlets (discussed in Baldock 1990).⁹

⁹ The WWF analysis and demands were echoed in the European Environmental Bureau's (EEB) semiannual memorandum to the Council Presidency (AE, No. 5309: 3 August 1990).

By 1990, the Commission as a whole proclaimed the necessity to make agriculture more responsive to the needs of the environment and proposed to not only extend structural support for the protection of the environment but also to introduce certain forms of environmental conditionality and regulation (CEC 1990a). In a political climate in which environmental issues were considered increasingly salient, the presence of previous legal and declaratory commitments to protect the countryside offered a more and more weighty resource for opponents of the CAP. Reacting to this pressure, even the farming sector began to respond favourably to the environmental agenda by generally favouring agri-environmental support; some representatives of the more marginal elements of the sector (peripheral farmers, extensive or even organic producers) even proposed more radical reforms of the CAP (Lenschow 1996:364-6).

Indicating that this slow change in attitudes remained far from representing a paradigm shift, until 1992 agro-environmental measures remained largely limited to structural incentives and regulatory measures proved an even bigger challenge in terms of surmounting the opposition from the agro-sector. The already mentioned Nitrate Directive stands apart in that the politicisation of the implementation gap in European water legislation resulted in positive action, although even that turned out to be limited. Aside from legal pressures and the costliness of remedial action, the desire to harmonize emerging member state policy aimed at limiting the application of agro-chemicals and livestock manure¹⁰ as well as the realization of cross-boundary water pollution motivated EC nitrate legislation. Delays between the initial Commission proposal in 1988, which had been invited by the informal Environment Council in June of that year (Haigh 1992:4.14-3), and the adoption of the Directive were due to member states' attempts to guard their national policies and some disagreement regarding the scope of the problem. In order to satisfy agricultural policy makers and lobbyists, the final EC Directive allows for compensation measures which were justified on the basis that the source of nitrate pollution may not be precisely traceable, neither geographically nor over time, but again illustrates the limits to radical reforms in the EC agricultural policy.

To sum up, by the early 1990s some linkage between the environment and agriculture was accepted by nearly all interested actors, however vast differences

¹⁰ In other words, not concerns with international competitiveness but the issue of intra-EC competition contributed to the adoption of the Nitrate Directive. Similarly, measures to regulate pesticide production and use were in part inspired by the desire to harmonise European market conditions (Lenschow 1996). Further, the permissible scope of national aid for structurally disadvantaged regions or individual farms has been an issue between EC agricultural ministers fighting to protect the interests of "their" farmers.

persisted in the interpretation of the nature of this linkage and hence acceptable policy options. Confronted with two types of market failure -- the failure to internalise environmental cost of production, on the one hand, and the failure to price environmental services rendered by the agricultural sector on the other hand -- some consensus was emerging to deal with the latter through some form of a remuneration scheme. With regard to internalising environmental costs of agricultural production (i.e., implementing the polluter-pays-principle) the debate was highly polarised and remained biased toward the non-enforcement of that principle in regulatory action and the maintenance of public intervention that exacerbated rather than ameliorated the market failures. The 1992 MacSharry reforms were distinct from previous reform rounds in their more systematic attempt to deal with the government failure implied in the CAP, even though the need to "pay off" farmers for any concessions on their part continued to shape the drafting of the 1992 MacSharry reforms. Significant from the perspective of this volume is the fact that to this date most radical environmental and trade liberalizing reforms of the CAP took place in the context of the Uruguay Round. Before turning to this connection, let me briefly summarize the outcome of the MacSharry package.

The MacSharry Reforms -- An Environmental Milestone?

The MacSharry reforms that were adopted in 1992 resulted in a package that from an environmental point of view reduced the magnitude of the government failure and expanded measures to pay farmers for the provision of public services which would remain unremunerated under pure market conditions. The reform package introduced the most drastic price cuts (primarily in the cereal sector) to that date in exchange for direct compensation payments to those farmers who agreed to "set aside" 15% of their arable land. Price support for beef was equally reduced and farmers compensated through headage payments for up to a certain number of cattle per acre. In other words, the price guarantee system - coupled to production - continued at a lower level of support and was now supplemented by a new system of direct income support, offering compensation for decreasing prices - mostly de-coupled from production. In addition, accompanying measures were introduced, in part to reward farmers for providing a public service in the form of preserving the rural environment (i.e., to address the second market failure), but also to financially induce farmers to reduce the environmental costs they are inflicting through their production activities (i.e., to pay polluters for polluting less) and, of course, to address the surplus problem. To quote the Commission:

an agri-environmental action programme was adopted to give recognition to the dual role of farmers as producers and as stewards of the countryside, and to encourage farming practices which are less intensive and more in tune with environmental constraints... which should also make a positive contribution to rebalancing markets (CEC 1991b:2).

The accompanying measures amounted to more than five percent of the guarantee sections of the 1995 and 1996 CAP budgets, with no equivalent transfers existing prior to the 1992 reform. On the basis of the EU budget the precise effect of the cuts in the price support mechanism on the volume of financial transfers cannot be determined due to significant intervening factors like fluctuations in world agricultural prices. Considering the continuing growth of the CAP budget, however, it seems safe to conclude that these cuts were in large part offset by the - environmentally more friendly - income support payments, including the accompanying measures.¹¹

The following table summarises the achievements of the MacSharry reform for the environment from the perspective of market and government failures, policy alternatives and actual choices.

¹¹ While the offsetting process does not apply to all affected farmers equally, the initially intended redistributive effect in the shift in policy mechanisms was largely diverted in the final design of the CAP reform which theoretically permitted compensation for mandatory set aside for all farmers.

Table 7.1 Environmental Dimension of the CAP Before and After the 1992 Reforms

Market Failures	Public Policy - 1992	Reform Options	1992 Choices
Failure to internalise environmental cost of production.	Exacerbate market failure through protectionist system coupled to production output (government failure)	- status quo	
		- reduce government failure (a) mixing old system and direct income support (b) switching to direct income support (c) ending protection	X
		- reduce market failure (a) regulatory measures (b) economic instruments (c) voluntary agreements	X X
Failure to price and remunerate environmental services	Very limited structural assistance to producers in environmentally sensitive areas	- status quo	
		- widen structural assistance (a) EC level (b) (sub-)national level	X X
		- market reform	X

This table reveals that the MacSharry reforms took steps to correct both market and government failures, without, however, eliminating either. In view of previous attempts to reform the CAP and the enormous obstacles encountered in the form of firmly institutionalised policy structures protected by powerful defenders of the traditional CAP, the following part inquires into under what conditions such “milestone” reform could be adopted.

The World Trade Context

The MacSharry reforms may not represent an optimal policy improvement for the environment, but they represent an agreement that lies above the lowest common denominator of interests voiced by agricultural ministers and their clientele at the beginning of the reform negotiations.¹² Powerful agricultural interest groups and

¹² It is, of course, not surprising that the reforms were less dramatic than the initial Commission proposal.

their “agents” in government and administration, who had successfully defended the CAP in its original form in the past, conceded comparatively substantial price cuts and a partial switch to income support. Ministers of agriculture agreed, despite previously voiced scepticism, to an expansion of EC administered agri-environmental assistance. I argue that the “environmental” reforms were facilitated by the political framework provided by the ongoing GATT negotiations at the time. In short, the 1992 CAP reforms seemed pressing for a variety of serious internal reasons ranging from economic inefficiencies, socio-economic decline of rural areas, the CAP’s ever-rising burden on the EC budget, to its negative environmental impact. However, these internal pressures had existed since the 1970s. Although reform pressure was continuously mounting with the rise in membership, new demands to be met with European budgetary means (most notably the structural funds) and the EC’s legal commitment to integrate environmental concerns into other policy areas, reform attempts in the 1980s had left the problematic structure of the CAP nevertheless entirely intact and environmental modifications were of limited impact as described above.

In the end decisive for the reform was that, by the late 1980s, agricultural trade had been irremovably established in the agenda of the ongoing Uruguay Round and the EC was put under increasing pressure to dismantle the trade-distorting elements of the CAP.¹³ Before focusing on the Uruguay-environment link, a few words are in place about the general issue of agricultural protectionism in previous GATT rounds and the nature of the Agriculture Agreement adopted at the conclusion of the Uruguay Round.

Agricultural Trade Liberalisation in GATT/WTO

The CAP support system was established on the basis of previous national policies, with all six members (with the possible exception of the Netherlands) being used to pursuing agricultural policies based on market price support. It reflected the view that world markets were unreliable and tended to be dominated by the US, undermining the European goals of self-sufficiency in food stuff and the protection of a rural sector that was based on mostly family farms. The establishment of the CAP benefited from an initially tolerant reaction by the US due to its “generally benevolent attitude to the emerging Community on wider

¹³ In 1990/1 agriculture contributed only about 8.5% to the total of EC exports and accounted for 11.5% of Community imports. However, this implied that the Community had become the second largest agricultural exporter after the US (mostly in cereal, dairy products, beef, wine and sugar) (CEC 1994a:23).

political and economic grounds” (CEC 1994a:63). Trade disputes with the US began in the 1960s, but the EC succeeded in resisting agricultural trade liberalisation measures in previous GATT rounds, claiming that “the CAP was still in its formative stage and could therefore not be the subject of international negotiations” (Buckwell 1991:235).

The CAP prompted negotiations within the GATT¹⁴ for the first time in the Dillon Round (1960-1), resulting in a binding of duties on oilseeds, oilseed products and cereal substitutes at low or even zero levels and the external tariff on sheepmeat at 20 per cent. These early agreements were viewed as serious constraints in later years when farmers continued to rely on cheap, imported cereal substitutes for livestock feed instead of using the more expensive, domestically produced surplus-cereal. From an environmental point of view, the reliance on imported cereal substitutes contributed to a concentration of livestock -- and manure -- production near ports. The US and the Community seriously clashed on agricultural matters during the Kennedy Round (1964-7) where the EC proposed a system of concerted market organisation and market sharing amongst major agricultural exporters and a common denominator for all agricultural support. The EC’s negotiating partners rejected the proposal on the grounds of the limited reduction in agricultural protection and the intervention into domestic agricultural policies they implied. Consequently, the negotiation results remained modest and posed no challenge to the CAP. The Tokyo Round (1973-9) produced significant results for world trade in general but tariff reductions in the agricultural sector were limited to tropical products in addition to international agreements concerning the beef and the dairy sector.

Agricultural trade liberalisation eventually became a core element on the agenda of negotiators during the Uruguay Round (1986-94) with the objective “to improve the discipline and predictability of world agricultural trade by correcting and preventing restrictions and distortions, especially those linked to structural surpluses” (CEC 1995:14). Gradual but significant reductions in agricultural support and protection measures were intended in the areas of internal support policies, export subsidies and market access. By joining the 1986 Punta del Este Declaration launching the Uruguay Round and committing the negotiators to “increase discipline on the use of all direct and indirect subsidies and other measures affecting directly or indirectly agricultural trade” (Ingersent et al 1994a:60, quoting the declaration), the EC explicitly and for the first time exposed the CAP’s principles and mechanisms to international negotiation.

¹⁴ This synopsis of pre-Uruguay GATT rounds is based on CEC (1995:9-11), Ingersent et al (1994a: 56-8), and Tracy (1989:347-51).

Several observers conclude that the EC's more open negotiating stands during the Uruguay Round can be traced to

a conscious attempt by the Commission to impose on the domestic political process some constraints from outside the narrow agricultural arena, [with the consequence that the] agriculture ministers felt unable to oppose the general will to have a successful Uruguay Round, and were prepared to go along with the possibility of some external constraints on their action rather than risk being blamed for heightened trade tensions (Moyer and Josling 1990:190).¹⁵

In other words, the Uruguay negotiations placed agricultural policy makers in the EC in a broader political framework which challenged their insulated operations. By effectively linking the future of the CAP to an agreement, involving not only international actors but also representatives of other policy sectors, its insular existence responsible for its prior evolution along a narrow path (ending in a *cul de sac*) was opened and alternative policy paths emerged on the horizon.

In the final agreement,¹⁶ export subsidies are to be reduced by 21% by volume and 36% *ad valorem* and restrictions to market access (the Community's variable import levies and export subsidies) will be turned into fixed customs duties and reduced by 36% over six years (with a minimum of 15% per product). The variable aspect in the previous Community system is maintained, however, through a safeguard clause under which additional duties may be applied if the import volume exceeds a specific threshold level or import prices fall below a certain level. More significant for the environmental dimension of the deal, and hence the focus of this paper, domestic support for agriculture was agreed to drop by 20% compared with the 1986-8 reference period, with those forms of support that are designated to fall in the so-called "green box" (aid that has no effect on trade or production, such as decoupled income support or payments under environmental programmes) being exempted from the reduction commitments. Both the direct income support scheme that was devised to compensate farmers for cuts in price guarantees and the accompanying measures were declared to meet the "green box" criteria, despite some doubts regarding the true degree of decoupling and non-trade distortion of the compensatory measures in particular (more below).

With some last minute adjustments, the GATT Agreement on Agriculture was signed by EC members in the conviction that the post-1992 CAP was

¹⁵ See also Baldock and Lowe (1996:11), Ingersent et al (1994a:61), Josling (1994:514-5).

¹⁶ This summary of the agricultural provisions agreed to in the Uruguay Round's "final act" is based on CEC (1995:22-30) and Ingersent et al (1994b).

compatible with the agreement. Commissioner René Steichen concluded in late 1994 that

the Community will be able to meet its new commitments under GATT without having to impose further constraints on farmers... [and that] with the outcome of the GATT negotiations, the Community has been able to attain two fundamental goals:

- it has contributed toward constructing an international trading regime which is more market-oriented, without giving up Community preference;
- it has ensured that its international commitments are compatible with the CAP reform, retaining sufficient flexibility to be able to manage by itself the schemes which are at the base of the reformed CAP, such as direct aid and rural development (Steichen 1994:4).

The CAP-GATT Debate and the Environment Link

The Commission summarised the basic action parameters of the Community during the GATT negotiations as follows:

as the foremost world agricultural trader, the Commission, by changing its rules, is stating its willingness to join the movement towards freer trade advocated at international level while preserving the basic principles and instruments of the CAP (CEC 1992:4).

In insisting basically on the maintenance of the status-quo of the CAP, the EC's original bargaining position seemed as unmoveable as in previous years. However, even though only a few member states whole-heartedly favoured agricultural trade liberalisation (UK, the Netherlands, Denmark), most members including the European Commission were becoming worried about disruptions in international trade in general. Hence, their willingness to contemplate the necessary CAP reforms increased. Most notably, in Germany, with its considerable interest in a liberal trading regime for industrial products, preparedness "to reform the CAP was closely linked with the need to secure a successful completion of the GATT round. It seemed clear that without a compromise on CAP there would be no positive end of the GATT negotiations" (Hendriks 1994:66).

Commissioner MacSharry exploited the emergence of a more explicit conflict of interests between trade and agricultural policy objectives within the member states in his discussions with the Agriculture Council. However, he remained constrained by the continuing power of the agriculture representatives domestically and in Brussels and the fact that the kind of reforms individual members were willing to contemplate varied widely in scope and direction. In short, even though MacSharry was able to apply pressure on the Council by

arguing that the Community's hands were tied by the larger GATT context (Lenschow 1996:374), the possible margin of departure from the traditional structure of the CAP remained limited. The CAP continued to be the "classic story...of how, once decisions have been made and structures established, inertia sets in to make any reform extremely difficult" (Urwin 1991:185). Consequently, the reform strategy focused on cutting the directly trade-distorting features of the CAP within a politically acceptable margin and to compensate farmers for their losses through measures acceptable under GATT rules.

The distinction between trade-distorting and non-distorting measures corresponds to the legal and political reality of the GATT, governing only international trade relationships and having no authority over domestic policies other than those with trade distorting effects. Long-time CAP analyst Harvey stresses that

the achievable objective of multilateral negotiations is, therefore, to minimise trade distortions, not necessarily to eliminate protection or domestic income support...It is now recognised that domestic support of agriculture must be allowed to continue within this constraint, given national desire so to do (Harvey 1994:237).

Already the 1987 EC position paper had referred to the possibility of compensating producers for reduced price support with decoupled payments, that is, "direct methods of supporting farmers' incomes which are not linked to output" (Ingersent et al 1994a:61-2). On this principle there existed no disagreement with the main GATT negotiating partners. The US, in its revised position paper on agriculture of 15 October 1990, elaborated on the distinction between more or less trade distorting domestic support measures. It proposed that most trade-distorting domestic support measures, such as market price supports, deficiency payments and production-linked input subsidies, be cut substantially, while non-trade distorting agricultural programmes, such as environmental protection, resource retirement and diversion, income safety net programs and bona fide food aid, be exempt from any reduction commitment (Ingersent et al 1994a:69).

The challenge to distinguish clearly trade distorting domestic support measures from others was therefore not one of principle but one of operational detail. Multilateral trade negotiators needed to identify criteria for distinguishing between agricultural protection and trade distortion. In the absence of such - mutually agreeable - criteria, the GATT negotiations showed that the presence of primarily domestic social and environmental objectives of a policy helped diminish its GATT conflict potential even in the case of trade-distorting effects.

Least controversial in this respect were the accompanying environmental measures adopted under the MacSharry reform because they represent payments for the provision of a public good with indeed minimal effects on agricultural trade. Free trade purists may argue that some environmental programmes support the production of marketable goods that otherwise would not have been produced, hence distort trade, but the public good character of the measures is likely to outweigh the distorting effects.

It is less clear whether the new direct income support payments (compensating for price support cuts) introduced in the MacSharry reform ought to qualify as non- or minimally trade-distorting measures, and hence GATT exemption, that is, “green box” treatment. First, EC compensation payments have actually been made conditional upon continued sowing on the farmers’ permitted crop area (historic area minus set-aside). Therefore, the payments are not fully decoupled from production, even though they do limit compensation to historic levels of production. Secondly, similar to the distorting effect described above, “to the extent that [compensation payments] enable resources to remain in agriculture rather than be encouraged to leave, as they would be under genuine and uncompensated free trade...the agricultural sector will be larger than without the compensation payments and hence remain distorted compared with free trade” (Harvey 1994:246-7). Mandatory set-aside imposed by the MacSharry reforms on compensation recipients would not be necessary under a fully decoupled regime. They were in fact “included in the CAP reform programme in large part because the price level was not reduced far enough” (Josling 1994:518).

The fact that both the EC-reform compensation schemes as well as US direct income payments were accorded “green box” status represents a political compromise that contributed to the rescuing of the Uruguay Round. In pursuing this compromise, EC negotiators believed that “the environmental aspect of the reform will facilitate its acceptance outside the EC” (UK Minister of Agriculture Gummer, quoted in AE, No. 5670: 30 April 1992). Taking advantage of the emerging environmental agenda in international trading fora, Agriculture Ministers were confident that the new compensatory aids would not be subject to any disciplines arising from a GATT settlement. And indeed, the GATT ‘Agreement on Agriculture’ adopted the argumentation of the EC in “its commitment to the liberalisation of trade through reducing domestic support for agricultural production, particularly of production-linked agricultural subsidies” and the creation of exemption “boxes” for measures “that have, at most, a minimal impact on trade,” and a potentially positive one on output reduction and the environment (GATT 1994).

Sceptics may argue that the lack of clearly defined criteria qualifying domestic support measures for GATT exemption will turn the “green box” into “a repository of all policies that countries wish to shelter from international attack” (Josling 1994:520). Equally, the reform’s surplus-reducing and environmental “selling points” such as the mandatory set-aside are not only second-best from a surplus point of view but also ambiguous with respect to their environmental benefits because the scheme opens the possibility of “slippage” in that farmers may set-aside their least productive area and shift agro-inputs to the land promising higher yields. But nevertheless, the reformed CAP can be characterised as “qualitatively better than before” from a liberal trading and an environmental perspective (Josling 1994: 519).

It appears that the exogenous pressure of the GATT negotiations accelerated the previously gradual reframing of the CAP from an “industrial” to a “rural development” policy (with its social and environmental components) for which the agenda was set by the Commission in the mid-1980s. While considerable misgivings continue to exist within the European farming population (represented in Brussels by COPA) with respect to the shift to direct income aid, even farming associations began to accept the role of the farmer in the protection of the rural environment and criticised the accompanying measures solely for their limited nature that failed to adequately reward the sector for its provision of public goods. COPA has equally refined its position with respect to multilateral trade agreements, switching from a merely defensive position to calling on the GATT/WTO to recognise more fully the social and environmental dimension of agriculture. Only recently COPA argued that “[i]n world trade with agricultural products, it is important to define competition conditions in order to avoid destabilising environmentally friendly production systems, and to facilitate sustainable development in all regions throughout the world” (COPA/COGECA 1995a:3). The following concluding part will point to potential problems implied in this seemingly increasingly cosy relationship between agricultural interests, environmentalists and free traders.

Discussion and Scenarios

The discussion so far has demonstrated that the agri-environmental agenda served as a bridge between defenders of the CAP and proponents of trade liberalisation. Both camps were able to reach face-saving agreements, in part due to the casting of continuing extensive payments to the farming sector as direct or indirect contributions to environmental protection. In this final part, I will argue that the compromise reached is insufficient and even unstable from the perspective of

environmental and trade liberalisation objectives.¹⁷ Already mentioned in the previous section were doubts with respect to the non-trade distorting characteristics of the environmental and income compensation measures introduced in the MacSharry reforms. Secondly, as already hinted in table 1, trade liberalisation is not sufficient to deal with the negative environmental externalities of agricultural production. Thirdly, the adoption of environmental rhetoric by the farming sector has great potential to be abused in future attempts to block rather than extend trade liberalisation, as is already becoming evident in EC relations with its neighbours in Central and Eastern Europe (CEEC).

Economic and Environmental Insufficiencies of the CAP-GATT Deal

While the 1992 CAP reform has been presented as a dramatic departure from past practice, doubts persist whether it will actually result in the anticipated economic, fiscal, social and environmental effects. Pressure on the EC budget certainly has not dropped, causing concern with respect to the anticipated enlargement toward CEEC and the possible need for further reforms. Most critical observers of the CAP¹⁸ foresee the necessity of a(nother) radical CAP reform to accommodate the CEEC. In contrast, most national delegations of the Agriculture Council advocate continuity of the CAP and place the responsibility of adjustment on the prospective new members, arguing for a long transition period. Similarly, the Commission is not contemplating radical changes.¹⁹ Past experience suggests that for the CEEC expansion to trigger deeper cuts in the trade-distorting and costly price support mechanism, additional exogenous pressures need to be exerted. But, already limiting the space for external attack, Commissioner Fischler recently called upon

the US government to understand that the European Agreements cannot be dealt with in GATT/WTO as a simple case of free trade area, as some US authorities

¹⁷ The domestic socio-economic implications of the CAP reforms are not the focus of this discussion, though certainly crucial for future policy planning.

¹⁸ These include the Swedish and possibly the British governments among the member state delegations.

¹⁹ Commissioner Fischler recently presented the Commission's position in favour of pursuing future CAP reform on the basis of the MacSharry package, focusing on its operational simplification, the application of the subsidiarity principle, and the definition of a clearer distinction between market policy and income support. In that context, income support shall be more closely tied to social and environmental objectives. (AE, No. 6615: 29 November 1995 and No. 6617: 1 December 1995).

seem to believe, for these agreements are simply a stage towards an enlarged EU and a wide area of stability in Europe (AE, No. 6674: 24 February 1996:11).

In other words, current rhetoric suggests little inclination among CAP policy makers to go further along the path of trade liberalisation.²⁰

Turning to the environmental improvements accomplished with the MacSharry reforms, scepticism prevails as well. While Agriculture Commissioners Steichen and Fischler reported a notable drop in the use of chemical fertilisers and pesticides as a result of the partial decoupling of assistance from production (Steichen 1994:3, Fischler quoted in AE No. 6658, 2. February 1996:8), an expert report commissioned by the Directorate General for Economic and Financial Affairs concludes that

[t]he current CAP market reforms are unlikely to change dramatically the level of externalities, both positive and negative, produced by EC agriculture, although there should be a better balance towards more extensive crop and livestock production (CEC 1994a:29).

These contrasting views can be traced to the analysts' different focus on market and government failures. The price cut and "decoupling" policy may indeed work towards reducing the government failure which exacerbates the failure of the market to integrate environmental cost, but it fails to tackle the existing market failures, for instance through additional regulatory measures or economic instruments (such as input taxes).²¹

Liberalisation of agricultural policies would involve a change in incentive structures that...is likely to reduce both the damage inflicted on the global environment and the chemical residues in the food produced in the world's farmers. Both the environment and welfare could be enhanced even further if the removal of distortions to the relative price of food products were to be accompanied by the introduction of optimal environmental policy instruments and/or the removal of distortions to farm input prices (Anderson 1993:167).

²⁰ To the extent that the Commission succeeds in clarifying the distinction of market and income support and the environmental dimension in these categories of support, it might diminish its chances for "window dressing" in future trade negotiations, however.

²¹ Regulatory measures in particular suffer from the problem of identifying the polluter in agricultural production. Water pollution, the main problem arising in from European agriculture, occurs with considerable time lag from the actual application of polluting substances and the precise tracing of the source is quite impossible. A comprehensive policy to deal with water pollution and exploitation is only now in preparation (CEC 1996c).

However, the effective reduction of the environmental non-market, government failures of the CAP itself is in doubt due to the indirect mechanism linking changes of market support to environmental results combined with the absence of monitoring and control provisions or a form of environmental conditionality. This oversight is due to the policy's attempt to achieve various goals (surplus reduction and environmental protection) with one instrument (price cuts). Many policy analysts argue that domestic agricultural and trade targets in agriculture should be matched with domestic agricultural and trade instruments, and environmental targets with environmental instruments (Baldock et al 1992, Floyd 1995, Runge 1994). Their advice overlooks however, that "policy analysis is one thing; politics another" and especially in agricultural matters (Grant 1995:17).

The absence of monitoring and control elements or environmental conditionality equally undermines the effectiveness of direct environmental projects. In addition, they suffer from the vague and nearly all encompassing legal parameters allowing projects of quite dubious environmental merits to be funded, as well as their limited funding. Council Regulation (EEC) 2087/92 calls upon member states to develop and financially support (sub-)national agro-environmental programmes, but the national responses vary dramatically.²² Environmental organisations have pointed out a lack of integration of the accompanying measures with other CAP and structural policies (Birdlife 1994). For instance, farmers may be discouraged from long-term environmental set aside as long as they are also mandated to set aside land in order to qualify for compensation payments; payments for environmental projects may not suffice as an incentive to forego continuing market support.

Despite much environmental rhetoric, even agriculture ministers were aware of the limited environmental benefits to be expected from the reform. UK Agriculture Minister Gummer announced that the fuller integration of environmental protection in the CAP constituted one of his priorities during the British presidency in the second half of 1992 (AE, No. 5772, 15 July 1992) and he invited the Commission to put forward proposals to this effect (AE, No. 5826, 1 October 1992). Nothing much has happened since then as the subsidiarity and deregulation debates have blocked an expansion or redirection of EC activities without yet leading to effective measures on the national level (CEC 1996a).

²² 90 percent of all Austrian farms and 50 percent of all German farms participate in the scheme, whereas (for different reasons) less than 10 percent of Belgian, Danish, Italian or Dutch farms do (data cited in Brouwer and van Berkum 1996:10).

A Re-nationalisation Scenario?

Given the constraints to continuing radical changes of the CAP and environmental policy integration, the question arises whether the - at least partial - re-nationalisation of agricultural policy may offer a solution to the environmental *problematique*. Such a move would correspond to the EC's increasing attempt to implement the subsidiarity principle and avoid over-regulation from the European level. Indeed, the at least partial devolution of environmental and general income assistance programs to the national level may be a sensible way of dealing with highly divergent regional climatic and geological conditions as well as socio-economic and political preferences (Ockenden and Franklin 1995). Wilkinson stresses that Council Regulation No. 2078/92 has increased the scope for member states to support the income of their farmers and views this as a path to pursue in the future (Wilkinson 1994: 26-29).

There may be limits, however, to a re-nationalisation strategy - politically and with respect to its environmental benefits. Given the experience that (partial) "re-nationalising" has been and continues to be a taboo in European agricultural circles,²³ the introduction of this concept with respect to the implementation of the guarantee and guidance sections of the CAP borders on revolutionary. Commissioner Fischler's recent remarks on the subject have triggered a defensive reaction in the Council with respect to the "common" guarantees of the CAP. For instance, agricultural ministers warned that the prospect of eastern enlargement must not "serve as a pretext for dismantling or re-nationalising the CAP" (AE, No. 6617: 1. December 1995). Partial re-nationalisation of the guidance section, on the other hand, may be politically possible, considering the member states' past reluctance to allow EC structural intervention and the relative costliness of EC management of mostly sub-national programmes (Whitby 1996). However, existing options for national agri-environmental measures suggest a danger of imposing too few environmental safeguards.²⁴

In the absence of EC controls and, even limited, co-ordination, re-nationalisation may also re-introduce EC-internal trade distortions, allowing a situation where the richer countries will support their farmers for simply maintaining their presumably environment friendly production methods while poorer countries may not be able to afford similar assistance to their rural sector. From an international trade perspective, re-nationalisation does not alter the EC's

²³ In reality, the "common market" character of the CAP has begun to disappear since the introduction of the Monetary Compensation Amounts in the early 1970s.

²⁴ Ockenden and Franklin quote claims that Germany has used the discretion provided within the ESA Regulation to provide subsidies to farmers (1995:45). See also Birdlife (1994).

obligations. In other words, income support measures do not escape GATT scrutiny by being devolved from the European to the national or sub-national level. Such measures may make EC-internal co-ordination during the next WTO round more cumbersome, however. In sum, while the re-nationalisation of agri-environmental measures may contribute to relieving the EC budget and even the protection of the environment, adequate framework conditions will need to be established on the EC level to ensure positive environmental effects, prevent trade distortion within the Community, and allow for effective EC representation during future trade negotiations.

A Green Protectionist Scenario?

The EC has been at the forefront of actors arguing the compatibility of environmental protection, economic development and competitiveness in a free trade regime (CEC 1993, 1994b, 1996c, Advisory Group on Competitiveness 1995). With respect to agriculture it is stating its "keen interest in ensuring that WTO members respect their commitments...and in particular those regarding the reduction of subsidised exports and market access" (CEC 1996d:8). Nevertheless, there are indications that a proper balance between maintaining a favourable framework for environmental protection and agricultural trade liberalisation may not be easy to find.

"Green protectionism" may indeed become a consequence of the new image adopted by the agricultural sector. The prospect of bilateral trading agreements with agricultural competitors (e.g., South Africa) has already caused opponents to these agreements within the EC to point to the higher environmental costs born by European farmers and hence the competitive disadvantage suffered. Agriculture Ministers have expressed

alarm to see the Union taking giant steps on the attractive but overly risky path of free trade at regional level... [Admitting that] liberalising of trade, which will doubtless continue, can offer benefits for the agricultural community[they emphasised that...] given the social, environmental and animal protection constraints which are stricter in the Union than in a good many third countries, free trade can offer an unfair advantage to its partners (AE, No. 6727: 13/4 May 1996: 11).

Also the prospective enlargement of the Community towards CEEC has caused alarm in the agricultural community. As integration of CEEC is likely to introduce new pressures for reform on the CAP, COPA is preparing its "defence" by pointing to the enormous "divergence between the economic, social and environmental conditions in the EU and the candidate countries," arguing that the "preparations for enlargement must therefore be thorough and must not be

rushed" (COPA/COGECA 1995b). The prospect of "green protectionism" should not be overstated, however, as presently the transformation in the transfer mechanisms to the farming sector from price guarantees to "green" income support is still limited.

To conclude, as the status quo and these slowly crystallising future scenarios indicate, the political debate and reality concerning the compatibility of environmental objectives and trade liberalisation, the possibility of green protectionism, as well as the future for environmental policy integration into European agricultural policy has not yet been decided. The current IGC may become a milestone in that evolution, for instance, if it results in a rewording of Article 39 of the Treaty and introduces the protection of the environment as one of the CAP's policy objectives.²⁵ Given the remarkable stability of the CAP in the past, the next turning point may have to wait until the next WTO multilateral trade negotiations, which may then take place in the framework of new WTO-environmental parameters. Certainly in the past two decades, the context of external pressure has stimulated CAP reform more effectively than even extreme internal crises, ranging from enlargement to a budgetary crunch.

²⁵ For a recent proposal see WWF (1996).

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