

The Politics of CAP Reform: Trade Negotiations, Institutional Settings and Blame Avoidance*

CARSTEN DAUGBJERG

University of Aarhus

ALAN SWINBANK

University of Reading

Abstract

In this article we argue that the conclusion of the GATT Uruguay Round Agreement on Agriculture and the subsequent role of the WTO has changed the international context of CAP policy-making. However, comparing the three latest CAP reforms, we demonstrate that pressures on the CAP arising from international trade negotiations cannot alone account for the way in which the EU responds in terms of CAP reform. The institutional setting within which the reform package was determined also played a crucial role. Contrary to conventional wisdom, the CoAM seems to be a more conducive setting than the European Council for undertaking substantial reform of the CAP. We suggest that the choice of institutional setting is influenced by the desire of farm ministers and of heads of state or government to avoid blame for unpopular decisions. When CAP reform is an integral part of a broader package, farm ministers pass the final decision to the European Council and when CAP reform is defined as a separate issue the European Council avoids involvement.

Introduction

Since its inception in the 1960s, the European Union's common agricultural policy (CAP) has undergone a number of incremental changes, often referred

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to as 'reforms'. These have attempted to address an imbalance between supply and demand. Fuelled by new technologies, coupled with over-generous CAP support prices, yields in both crop and livestock production rose dramatically, outpacing the growth in demand. This led to surpluses that were either added to intervention stocks, or dumped on world markets with the aid of export subsidies. Both strategies burdened the CAP budget; and budgetary pressure was the prime driving force of the reforms of the 1980s.

Critics claimed that the CAP had 'depressed and destabilized world market prices more than the protective policies of other countries' and protested that 'other countries find it difficult to accept that the [EU's] share of world trade should be that developed by using export subsidies' (Bureau of Agricultural Economics, 1985, pp. 6 and 9). Responding to both internal and external pressures, with the launch of the Uruguay Round of GATT negotiations in 1986 the EU acceded to a request from its trade partners to embark on substantive discussions on farm trade policy reform (Swinbank and Tanner, 1996, p. 66). Despite this commitment, the EU fought attempts to establish trade rules which would question the principles of the CAP. As late as July 1990 Agriculture Commissioner Ray MacSharry made this clear when he said: 'We are fully engaged in the Uruguay Round process. But let me make it clear, we are doing so on the basis of our commitment to the CAP and to its basic principles and mechanisms of market unity, Community preference and financial solidarity' (*Agra Europe*, 1990a, no. 1398, p. P/2). Notwithstanding this public declaration, MacSharry and an inner group of Commission officials were already preparing a new reform plan (Kay, 1998, p. 103).

It had been planned that the Uruguay Round would be concluded at the GATT Ministerial Conference in Brussels in December 1990; but that ended in failure, in part because of the inability of the EU to engage its partners (particularly the Latin Americans) in serious last-minute negotiations on agriculture, after four years of stonewalling (Paemen and Bensch, 1995, p. 186). As a result the Council of Agricultural Ministers (CoAM) came to realize that a substantial reform of the CAP was necessary to resuscitate the trade round: this led to the MacSharry reform of 1992 (Fouilleux, 2004, p. 242) and ultimately the formal conclusion of the Uruguay Round at Marrakesh in 1994. Since then agricultural trade has been part of the WTO agenda. This has resulted in a change of context for EU agricultural policy-making, with the EU having to respond to pressures on the CAP arising from its WTO membership. However, the policy response has been different. Whilst the CAP reforms of 1992, when Ray MacSharry was the responsible Commissioner and of 2003, when Franz Fischler held the post, were substantial, those of Agenda 2000 in March 1999 were limited.

This raises the question of why EU policy-makers respond differently to international pressure on the CAP. An often discussed hypothesis on CAP reform suggests that crises drive CAP reforms; the more severe the crisis, the more substantial the reform content. The MacSharry reform was adopted in the context of crisis. The GATT talks had broken down and there were serious budgetary concerns. Analysts agree that these two factors played a crucial role; however, they disagree on which was the more important (Swinbank and Daugbjerg, 2006). Focusing on the MacSharry reform, one might conclude that it takes a serious and acute crisis to bring about CAP reform and that the most comprehensive reforms require a dual crisis. This hypothesis is reinforced by an analysis of Agenda 2000. Although Fischler claimed at the time that the Agenda 2000 agreement was radical, policy analysts disagree; it only addressed some immediate problems in relation to the Uruguay Round Agreement on Agriculture (URAA).¹ It was intended to strengthen the EU's negotiating position in the then expected Millennium Round of international trade negotiations and pave the way for EU enlargement, but these issues were 'too remote [. . .] to exert palpable pressure for CAP reform' (Schwaag Serger, 2001, p. 128).

However, the hypothesis that serious and acute crisis is needed to bring about a significant reform is challenged by an analysis of the Fischler reform. The political context was very different from that of the early 1990s; but nonetheless fairly similar to that of the late 1990s when Agenda 2000 was enacted.² Although the CAP would face future problems in relation to the WTO negotiations in the Doha Round and as a consequence of Eastern enlargement, there were no acute crises similar to those facing the CAP in the early 1990s. The deadline for an international agreement on the 'modalities' of the new WTO agreement on agriculture had been set at 31 March 2003, in order that detailed schedules of commitments (new tariff rates, support limits, etc.) could be tabled for the Fifth WTO Ministerial Conference to be held in Cancún in September of the same year. Although these important deadlines were missed, this was unlikely to develop into a severe crisis. The Uruguay Round, which began in 1986, had after all dragged on to 1994, with several deadlines missed. The crucial decision on EU enlargement had taken place in Copenhagen in December 2002. The budgetary framework for CAP spending until 2013 would require adjustments to the policy, but this was not an urgent

¹ On the URAA see Swinbank and Tanner (1996).

² Fueilleux (2004, p. 253), analysing the 1992 and 2003 reforms, but *not* Agenda 2000, suggests that a learning process among the Commission services through the 1990s had enabled it to increase 'the diffusion and institutionalization of its ideas in the policy process; [. . .] so as to redress the imbalanced distribution of resources among the EU political system actors'.

problem and various Member States had argued this could (and should) be postponed until 2006.

So, considering the three recent CAP reforms, we are left with a crucial puzzle on what determines the shape of CAP reforms. Since both the CoAM and the European Council (which consists of the heads of state or government) have been involved in CAP reform, we ask whether the institutional setting of CAP reform decisions makes a difference for the shape of reform? And if so, what determines the institutional setting of CAP reform decisions? While the decisions on both the MacSharry and the Fischler reforms were made by farm ministers within the CoAM, the Agenda 2000 reform was made by the European Council. By comparing the three latest reforms, we may be able to pinpoint the most important factors facilitating substantial CAP reform.

We proceed as follows. Section I sets out the hypotheses of our analysis. Section II compares these three CAP reforms and assesses the degree and nature of policy change. Section III shows how the international context of the CAP has changed since the late 1980s. Section IV compares the institutional settings in which the three reforms were enacted. Section V considers what factors influence the choice of institutional setting for the final reform decision. Finally, we draw the main conclusions of the study.

I. Analytical Model

Changes in the external context of policy are often pinpointed as the driving forces of policy reform. The external variables focused upon in many policy studies are: change in government, economic shocks or crises, budgetary crises, technological change, new knowledge, changes in the broader institutional context, new ideas and images of policy, and so on. However, from an empirical perspective, ascribing policy change to exogenous factors is highly problematic because in reality one can observe that in some situations changes in external contexts lead to policy change, but in others they do not. Thus, the theoretical challenge is to establish the conditions under which change in context does lead to policy change and those which do not.

In relation to the CAP, it has been argued that the inclusion of agricultural trade on the agenda of the GATT and WTO has changed the context within which the CAP evolves. As Tangermann (2004, p. 40) puts it: 'The Uruguay Round has not only resulted in new legal rules and quantitative reduction commitments in the areas of market access, domestic support and export competition. It has also affected the nature of the policy debate in agriculture. The WTO has become a relevant factor in agricultural policy-making'. In

other words, the international context of the CAP has changed. A key to reveal the varying policy impacts of contextual change is to analyse the domestic institutional context within which external pressures are handled. For instance, in a European Union context external pressures for change can be dealt with within institutions specific to the sector (e.g. the CoAM) or in broader institutional settings (e.g. the European Council). This distinction is important. The Council of Ministers has been the sole decision-making body in EU agricultural policy-making, but the European Council, which is composed of the heads of state or government, has on some occasions acted as the *de facto* decision-making body in CAP reform.³ We suggest that the specific institutional setting has consequences for the shape of CAP reform.

The literature on CAP reform more or less explicitly assumes that the compartmentalization of EU agricultural policy-making under the auspices of the CoAM inhibits substantial reform (Moyer and Josling, 1990, p. 203). It is argued that when farm ministers are granted the authority to make the reform decision, farm interests are privileged. As Swinbank (1997, pp. 63–64) says: ‘it is easy to see why many observers believe the Council of Agriculture Ministers frequently acts as a Council *for* Agriculture, rather than just another meeting of the Council which happens to be attended by ministers of agriculture. In its club-like atmosphere, with its frequent late night sittings [. . .], many suspect that the outcome of the agriculture Council’s deliberations will tend to err in favour of the farm lobby’ (see also Moyer and Josling, 1990, p. 45; Grant, 1997, pp. 172–73). The implication of this hypothesis would be that, if decisions on CAP are made by the European Council, farm interests could be subordinated to the broader interests of the EU and substantial reform is more likely. Indeed Avery (1984, p. 645), noting ‘the criticism that is sometimes made that the Agriculture Council in its decisions takes insufficient account of other considerations such as the budget or external trade’, observes that ‘from time to time it is suggested that the finance ministers, or the foreign ministers, should have a greater say; or even that [. . .] the European Council should take the basic decisions on reform of the CAP’.⁴

However, one can also argue that passing the issue of reform on to the European Council can diminish the pressure for CAP reform. Before European summits each Member State must define its win-set, which is ‘the set of all possible [. . .] agreements that would “win” – that is, gain the necessary majority among constituencies’ (Putnam, 1988, p. 437). Member States in

³ The European Council cannot itself adopt regulations. It can and does make decisions that are then implemented by the Council of Ministers (Werts, 1992, pp. 120–37).

⁴ In its review of the 1988 CAP reform (discussed briefly below), the Commission (1989, pp. 14–15) commented ungraciously on the role of the CoAM, saying that often ‘the issues raised were so delicate that they had to go to the higher court, as it were, represented by the European Council’.

which few agreements can gain national support have small win-sets, while Member States where several possible agreements can gain support have large win-sets. Inability to make concessions as a result of small win-sets is often a power resource in international negotiations (Putnam, 1988, p. 440). Since the European Council usually assembles package deals (Bulmer and Wessels, 1987, pp. 55 and 137–38), CAP reform becomes just one element of a European summit agreement. This enables Member States with small CAP win-sets to decrease pressure for CAP reform by making concessions on non-CAP issues on the summit agenda. As a result, substantial CAP reform is less likely. Thus, Member States reluctant to undertake CAP reform are able to use the European Council as a forum for damage limitation.

Within the CoAM the scope for issue linkage is limited to the agricultural policy domain. As a consequence, pressure on Member States with small CAP win-sets to give concessions on CAP reform would be much higher than it is in the European Council. However, our hypothesis on the importance of the institutional setting for CAP reform leaves us with a puzzle that needs consideration: what determines the institutional setting of the final reform decision?

Agricultural policy reform can be considered as a type of policy retrenchment (Coleman *et al.*, 1997a). Such reforms inflict concentrated costs on beneficiaries of the policy, while the benefits of the reforms are diffuse and uncertain (Pierson, 1996, p. 145). The perceived costs are concentrated on the farming community while the benefits of reform (lower food prices or reduced public spending) are widely and thinly dispersed among consumers and taxpayers. Usually, 'persons who have suffered losses are more likely to notice the loss, to feel aggrieved and to act on this grievance, than gainers are to act on the basis on their improved state' (Weaver, 1986, p. 373). Therefore, policy retrenchment is likely to be 'an exercise in blame avoidance rather than credit claiming' (Pierson, 1996, p. 145). In relation to retrenchment of agricultural policies, farmers are more likely to mobilize politically against than consumers are to mobilize in support. Since the protest of farmers is likely to be intense, agricultural policy reformers would try to avoid being blamed for inflicting losses on farmers. One blame avoidance strategy would be to shift the blame for unpopular decisions to another institutional setting.

We suggest that an important, but not the only, factor explaining why final decisions on CAP reform are taken in either the CoAM or the European Council is politicians' desire to avoid blame for decisions which are unpopular among farmers. Assuming that both farm ministers and heads of state or government will attempt to shift the blame for unpopular decisions to another institutional setting, we need to consider what determines where the final decision on CAP reform is taken. In other words, in what situations can farm

ministers and heads of state or government, respectively, avoid taking the final decision?

An important issue is whether a proposal on CAP reform is an integral part of a broader package, which is seen as a single undertaking, or whether it can be decided separately. While broader package deals are usually the responsibility of the European Council, separate policy issues are the responsibility of the technical councils. When CAP reform is an integral part of a broader package, in which all parts must be integrated into a single agreement, the *de facto* responsibility for making the final decision lies with the European Council. In this situation, farm ministers do not feel obliged to make painful final decisions and consequently they tend to pass on the responsibility and the blame to the European Council. However, to maintain control over their dossiers and limit the risk that the European Council will adopt a decision that is unacceptable to them, they progress the negotiations and produce papers that point in the direction of a compromise, whilst falling short of a final deal. The European Council tends to follow these pointers because its members lack the detailed expertise on agricultural policy.⁵

When CAP reform is seen as a separate issue, the European Council – in particular its president – is keen not to become involved because to do so may severely complicate the process of reaching agreement on the other issues on the summit agenda. Member States with small win-sets in CAP reform may see an advantage in scheduling the issue on the European Council agenda, but the Council President can forcefully reject this pressure by referring to European Council practice which is that CAP reform is only discussed when part of a package.

II. Comparing the MacSharry, Agenda 2000 and Fischler Reforms

The MacSharry reform changed the *architecture* of the CAP. There was a shift from a reliance on price support to direct payments. The main change came in the cereals sector where intervention prices were reduced by a third, but farmers were compensated for the implied revenue loss with the introduction of a subsidy paid on land on which an eligible arable crop was grown (the arable area payments scheme). Claimants above a specified threshold had to set aside 15 per cent of their arable land, but still qualified for an arable area payment on that land. Beef support prices were reduced and in compensation headage payments on bovines were enhanced. Although policy instruments were changed, the *state assisted paradigm* still underpinned the policy

⁵ There are, however, examples of members of the European Council who have detailed knowledge of agricultural policy, for instance French President Chirac, which gave him enhanced influence in the Agenda 2000 debate.

(Daugbjerg, 1999, pp. 420–23). The *state assisted paradigm* rests on two fundamental principles: ‘first, the agricultural sector contributes to national policy goals and therefore merits special attention; and, second, the price mechanism is a suboptimal means of achieving an efficient and productive agricultural sector’ (Coleman *et al.*, 1997b, p. 275).

The proposals for the Agenda 2000 CAP reform were cast in the MacSharry mould, with a further cut in intervention prices and partial compensation through an increase in direct payments. Direct payments could now be made conditional on cross-compliance – they could be reduced if a farmer failed to comply with some environmental standard – and Member States could ‘modulate’ (i.e. reduce) direct payments in order to re-channel EU budget funds for other activities in the Member State. A further innovation was the revamping of structural policy, placing the emphasis on rural development and the environment, creating the so-called second pillar of the CAP (the traditional mechanisms of price and income support comprised the first pillar). The creation of the second pillar could, at first glance, be seen as a substantial change, but actual change was modest since the pillar would largely consist of already existing schemes and very limited additional funds would be available. The Agenda 2000 CAP reform is generally understood as ‘a deepening’ of the MacSharry reform. There was an adjustment of existing policy instruments, not a shift in policy instruments and the state assisted policy paradigm was maintained.

The core of the Fischler reform in 2003 involved a change of policy instruments. Direct aid payments were decoupled and transformed into a new Single Payment Scheme (SPS)⁶ (Cunha, 2004) which was made conditional on the individual farmer’s compliance with a number of environmental, animal health and welfare and food safety regulations (cross-compliance). However, the payments are not fully decoupled because, firstly, land must be kept in good agricultural condition and recipients must be farmers and, secondly, Member States are allowed to retain – as a payment coupled to crops grown – 25 per cent of the old arable area aid (and for livestock many permutations are possible). The reform is further complicated by the Member States’ option to apply a regional model. Under this scheme, all of the SPS monies that would be paid in a particular region are pooled in a common pot and then paid out at a flat-rate per hectare on all eligible land in the region. During the reform debate it was clearly stated that there was no intention of ending agricultural support. For instance, in July 2002 the Commission (2002, pp. 18–19) had said that ‘One of the objectives of the process of CAP reform since 1992 has been to focus on *shifting support* for agriculture from

⁶ When the idea was first mooted, the Commission talked of a *Farm Income Payment*.

the product to the producer' and that its proposal would 'accomplish the final step in the *shift of support*' (authors' own emphasis).

While, basically, Agenda 2000 was an adjustment of existing policy instruments, the MacSharry and Fischler reforms involved a shift in policy instruments. The MacSharry reform transformed price support into direct payments coupled to crops grown and livestock kept, whilst the Fischler reform decoupled these payments from production but retained the link with farmland and attached requirements on cross-compliance.

III. GATT/WTO and the CAP

Prior to the URAA, the GATT played only a minor role in shaping the CAP. The EU had entered into very few tariff bindings on agricultural products and so was able to use its variable import levy mechanism with impunity. Although GATT Article XVI(3) stipulated that export subsidies on agricultural goods should 'not be applied in a manner which results in [*the exporter*] having more than an equitable share of world export trade in that product', it had proved impossible to police this rule; and so the EU was able to expand its share of world markets by spending more on export subsidies. Until the early 1990s on the whole GATT niceties had little impact on the CAP.

The MacSharry reform of 1992 was prompted by the need to reach agreement in the Uruguay Round and in turn facilitated the conclusion of the URAA. At the time no further substantive changes were required of the CAP. But the URAA brought the CAP under stricter trade rules: if the EU broke the rules the WTO could authorize retaliatory trade measures and conceivably a new subsidy war could break out endangering the whole WTO system. Furthermore, provisions in the URAA meant that a new round of multilateral trade negotiations, to continue the process of achieving substantial progressive reductions in farm support, was due to be inaugurated before the end of 1999.

From being a minor concern in EU agricultural policy-making in the 1960s, 1970s and 1980s, WTO constraints and the prospect of further international trade negotiations have become a key issue. These were apparent in the agricultural chapter of the Commission's Agenda 2000 proposal in which it was assumed that the forthcoming WTO negotiations would result in further trade liberalization and that 'the Union has to prepare its agriculture sector for these negotiations' (Commission, 1998, p. 2). Furthermore, it was stated that 'the Union has to lay down the agricultural policy that it intends carrying out in the years ahead in a way that satisfies its own interests and takes a realistic view of developments in the international context. This needs to be done

before the opening of the WTO negotiations so that the Union can negotiate on a solid basis and knows where it wants to go' (Commission, 1998, p. 3).

After the ill-fated attempt to open a Millennium Round in Seattle in 1999, a new round of multilateral trade negotiations was launched in November 2001 (the so-called Doha Development Agenda), of which the agriculture dossier formed an important part.⁷ In large measure the agriculture negotiations quickly focussed on the three pillars that had been incorporated into the URAA: market access, domestic support and export competition. Many of the EU's trading partners wished to see a rapid elimination of export subsidies and a significant reduction in import barriers, particularly for products with tariff peaks. Domestic support was also under scrutiny. The URAA had classified domestic farm support under three headings. Amber box support was deemed to impact on production, distorting trade and consequently it had been capped and subject to reduction commitments. The so-called green box contained a series of clearly-defined policy measures that were deemed to have no, or at most minimal, impact on trade; and consequently no constraints had been placed on the amount WTO Members could spend on green box policies. The blue box (Article 6(5) of the URAA) occupied an intermediate category of direct payments 'under production-limiting programmes' and was a direct consequence of the bilateral deal concocted by the EU and the US at Blair House in November 1992 (Swinbank and Tanner, 1996, p. 118). The EU declared its arable area and livestock headage payments to be blue box support and emerged as the major user of this provision. Many of the EU's trading partners wanted to see what they saw as an anomaly removed from the URAA and in the Doha Round they were seeking to ensure that expenditure on blue box support would be included in the amber box where it would be subject to reduction commitments.

The Commission held the view that, with the further decoupling of direct payments, the Fischler reforms would shift direct payments from the blue to the green box, thereby appeasing in part its international critics. Thus in July 2002 it had said of its planned reform: 'it will provide a major advantage within the WTO, since the Green Box compatibility of the scheme will help secure these payments in an international context' (Commission, 2002, p. 19).

Concurrent with the EU's internal debate on Fischler's proposed reform, the EU was under pressure to table its 'offer' in the WTO (including details of the tariff and subsidy reductions it was willing to countenance and the changes to the blue and green box rules it wanted to make). The WTO negotiators were unable to agree draft modalities for a new agriculture

⁷ The Article 20 negotiations mandated by the URAA, that had been underway in Geneva since 2000, were subsumed by the Doha Round.

agreement by 31 March 2003, the deadline that had been set. The un-adopted text tabled by the Chair of the agriculture negotiations, Stuart Harbinson, had suggested that blue box payments would either be capped at existing levels and then reduced by 50 per cent over five years, or incorporated into the amber box – probably with no offsetting increase in amber box limits (WTO, 2003, para. 44). Both formulations put increased pressure on the EU to adopt the Commission's proposals. It seemed unlikely that WTO Members would accept much less than appeared to be on offer in the Harbinson draft. Thus, in the run-up to the WTO Ministerial Meeting, scheduled for Cancún, in September 2003, it may be that this led to concern in some EU capitals that the inability of the EU to reform the CAP could disrupt the trade round and have negative implications for the image of the EU. The Council's conclusion of the debate, in June 2003, was certainly interpreted as a successful omen for the trade talks as a considerable part of blue box support was (apparently) shifted to the green box. But this change had done little to lessen the CAP's reliance on export subsidies, little to allow for a significant reduction in import protection and it had only shifted some – but not all – blue box payments into the green category.⁸ As it happened, it was not possible to reach an agreement on agriculture in Cancún, or on other dossiers either and the talks continued (on Cancún see Bhagwati, 2004).

We conclude that WTO concerns had become an integral part of the context within which the CAP evolved as a result of the URAA and have argued that this helps to explain Fischler's success in bringing about a substantial reform in 2003. However, it does not explain why he failed in 1999.

IV. The EU Institutional Setting of the Reform Decision

When comparing the institutional settings within which these three reforms were undertaken, important differences can be observed. While the MacSharry and Fischler reforms were contained within the auspices of the CoAM, the Agenda 2000 reform was part of broader deal adopted by the European Council. Below, we examine the MacSharry, Agenda 2000 and Fischler reform processes to establish the degree to which they were contained within the CoAM and, when the European Council was involved, to what extent CAP reform was subordinated to the objective of achieving a broader agreement.

⁸ The WTO's Appellate Body ruling, in Brazil's challenge to the US cotton programme, that 'production flexibility contract payments and direct payments are not green box measures' (WTO, 2005, paragraph 763(b)(i)) suggests, however, that the EU's Single Payment Scheme is not a green box measures either. For discussion see Swinbank and Tranter (2005).

The MacSharry Reform

To reach agreement in the Uruguay Round, it was necessary for the EU to give concessions on agricultural trade. That would involve a lowering of export subsidies and import barriers which in turn would entail a decrease in institutional support prices. In early October 1990, after tough discussions within the College of Commissioners, MacSharry put forward a GATT proposal to farm ministers that offered a 30 per cent cut in the EU's Aggregate Measurement of Support (AMS) over ten years (Swinbank and Tanner, 1996, p. 76). The CoAM's first meeting on 8 October, to discuss this package, ended in deadlock. Later that week trade ministers, who were qualified to make decisions on the Commission's negotiation mandate, met in Council but they clearly ceded responsibility to farm ministers (*Agra Europe*, 1990b, p. E/4). The two subsequent meetings of the CoAM also failed to produce agreement. Foreign ministers became involved, but they too were unable to endorse the Commission's GATT offer. Subsequently, farm and trade ministers met in a 16-hour jumbo Council but failed to reach agreement. There was speculation on whether the issue would be passed to the European Council, but the Italian Prime Minister and European Council President refused to allow a discussion. Two weeks later, on 6 November 1990, trade and farm ministers met again and this time they were able to agree on a negotiation mandate (*Agra Europe*, 1990d, p. E/1). In return, the Commission had to assure Member States that the incomes of farmers would be protected by 'production-neutral and non trade-distorting types of support' once a GATT agreement was implemented (*Agra Europe*, 1990c, p. E/4).

Following the breakdown of the GATT talks in December 1990, the Commission launched its plans for CAP reform. After tabling a discussion paper in February 1991 in an attempt to prepare farm ministers on the direction of reform, the Commission presented its formal proposal in July 1991. It resembled the ideas of the GATT offer of November 1990. The cereals support price would be reduced and direct payments would be introduced to compensate farmers for price cuts, as outlined above (Commission, 1991).

The majority of Member States could, more or less, support the principles of the Commission's reform plan (Daugbjerg, 1998, pp. 126–27). While most of them had objections to the price cuts, they supported the idea of giving full and permanent compensatory payments to farmers. Belgium, Denmark, the Netherlands and the United Kingdom (known as 'the gang of four') opposed the reform plans. They argued that intervention prices should be cut without compensation. As late as March 1992 they were still demanding a discussion on principles. Realizing that this was unrealistic they gave in, in return for some concessions, and a reform was agreed in May 1992.

Throughout, the debate remained within the CoAM, although as we have seen trade ministers had been involved in the discussions of the GATT offer the previous autumn. During this period the European Council did not discuss CAP reform. This is, however, not to say that heads of government were not involved. Most decisive for the process was perhaps Chancellor Kohl's intervention. Under heavy pressure from German industrial interests, Kohl realized that Germany had to choose between supporting France's resistance to CAP reform and reaching agreement in the GATT round. Since German farm interests could be accommodated by direct compensation payments, Kohl chose to isolate France and this paved the way for CAP reform (Hendriks, 1994, pp. 66–70).

Agenda 2000

A characteristic of the Agenda 2000 CAP reform, which distinguishes it from the MacSharry (1992) and Fischler (2003) reforms, was the dominant role of the European Council. From the outset, CAP reform formed only one part of Agenda 2000, which was the Santer Commission's response to the European Council's 1995 request for 'a composite paper on enlargement' (Commission, 1997). As well as the Commission's opinion on the preparedness of each of the applicants for EU membership, Agenda 2000 proposed reform of other EU policies (notably the structural and regional funds) and a new financial framework for the period 2000 to 2006 (with budgetary implications for the CAP and the net budgetary contributions of Member States).

The Agenda 2000 discussion document was launched in July 1997 (Commission, 1997) and its agricultural aspects were discussed briefly at the July CoAM, at which only four Member States (UK, Sweden, Denmark and Ireland) backed its general thrust (*Agra Europe*, 1997a, p. E/1). The September and October CoAMs made little progress, but at the November 1997 CoAM 14 Member States (with Spain dissenting) adopted a fairly anodyne text to send to the Luxembourg meeting of the European Council in December. In this text the CoAM endorsed the European Model of Agriculture, but noted that it would 'await the conclusions of the Luxembourg European Council and the Commission's formal proposals before pressing ahead with the CAP reform exercise now set in motion' (Council, 1997).

The Luxembourg summit confirmed that negotiations on enlargement could proceed; and the Commission President Jacques Santer told the summit that formal proposals for CAP reform – and for reform of the structural funds – would not be released until late March (*Agra Europe*, 1997b, p. EP/10). Thus there was little for the CoAM to discuss in the early months of the British Presidency. However, at the first opportunity (on 31 March 1998) the

CoAM gave a rough reception to the Commission's formal proposals for CAP reform (*Agra Europe*, 1998a, p. EP/1). The May meeting of the CoAM agreed a 'woolly' statement to forward to the European Council in Cardiff, but by now *Agra Europe* (1998b, p. EP/5) was beginning to report a concern that the CoAM might be sidelined in the decision-making process because of lack of progress. The Cardiff summit (June 1998) was dominated by a row over the budget, with the German Chancellor asking for a re-examination of Member States' contributions to the budget. However, the meeting did decide that the Agenda 2000 package as a whole would be agreed no later than March 1999 (*Agra Europe*, 1998c, pp. EP/4–5).

The Austrian Presidency in the second half of 1998 tried to put more urgency into the CoAM's discussion, but without apparent success, other than an agreement in November 1998 that, from January, a High-Level Group of national representatives would work on the proposals (*Agra Europe*, 1998d, p. EP/1). *Agra Europe's* report also suggests that the CoAM was in danger of losing control of the farm reform dossier, because of the larger debate on the budget. In Vienna it was reconfirmed that no part of the Agenda 2000 package could be agreed until all parts had been agreed (European Council, 1998, para. 56).

Germany, with its newly elected red-green coalition under Chancellor Gerhard Schröder, took over the Presidency in January; and press reports of the January CoAM indicate that Farm Ministers were now engaged in a serious negotiation.⁹ The High-Level Group began a hectic round of discussions, in preparation for the February CoAM. This met on 22–26 February 1998, then suspended its sitting until 5 March, sitting again on 9–11 March. Meanwhile *Agra Europe* (1999a, p. A/1) talked of the CoAM 'racing to keep finance ministers at bay' and (1999b, p. EP/1) of a 'power struggle between farm and foreign ministers' (see also Schwaag Serger, 2001, p. 115). On 11 March 1999 the CoAM concluded its deliberations, having reached 'political agreement' on the final Presidency compromise. However, the press release repeated the now familiar refrain that 'the reform of the CAP is part of the Agenda 2000 package and that no part of this can be considered definitively agreed until final agreement is reached on Agenda 2000 as a whole' (Council, 1999). This final compromise went beyond the financial ceiling that had been set for the CAP by an informal meeting of the European Council at Petersberg on 26 February 1999 and – crucially – did not have the support of France.

⁹ Schwaag Serger (2001, p. 111) comments that 'very little, if any, progress was made [...] until early 1999'; and that 'for nearly one and a half years, countries mainly limited themselves to reiterating their initial positions without any significant movement or development taking place'. The 'most widely accepted explanation for the long standstill' was the 'paralysing effect' of the German elections of September 1998.

Ackrill (2000, p. 123) is unclear how most countries ‘came to think agreement had been reached’. The CoAM had failed to agree a reform compatible with its budgetary mandate and the task was passed back to the European Council where a country with a small win-set, France, was able to secure a considerable dilution of the reform.

The Berlin summit had a lot to discuss in addition to Agenda 2000. The Santer Commission had resigned in disgrace and a new Commission President had to be identified (Fischler was to be reappointed Agriculture Commissioner in the Prodi Commission) and there was a NATO crisis over Kosovo. The UK was determined to retain its budget rebate, which could only be secured by consensus. Thus issue-linkage was important. Furthermore the Council President (Schröder) was inexperienced. Accounts suggest that the French President Jacques Chirac (an ex-minister of agriculture) dominated the CAP debate and so it was that CAP reform became part of an overall Agenda 2000 package agreed unanimously by the European Council. The price cuts that had apparently proved acceptable to a qualified majority of farm ministers – with the exception of the French and the Portuguese – only a few weeks before were further reduced in scope and for milk delayed until 2005. However, what was agreed was a series of mid-term reviews of various aspects of the CAP package, partway through the Agenda 2000 planning horizon (2000–06).

The Fischler Reform

When the Commission formally launched a new debate on CAP reform in July 2002, in its long awaited *mid-term review* (MTR) of the Agenda 2000 reforms agreed in March 1999, not only was the Commissioner (Fischler) unchanged since 1999, but Chirac had been re-elected President of France.¹⁰ The two had already clashed over the scope of the mid-term reviews, for example in November 2000: would they or would they not amount to a ‘reform’ of the CAP (*Agra Europe*, 2000, p. EP/7)? By the end of January 2001 Fischler was querying ‘the material and moral reasons’ why 45 per cent of the CAP budget was devoted to arable area aids and only 10 per cent to rural development (*Agra Europe*, 2001a, p. EP/7). In response, Chirac made clear France’s opposition to any change to farm policy until 2006, when the Agenda 2000 review period had run its course (*Agra Europe*, 2001b, p. EP/4).

The Commission’s ideas for the MTR were first discussed by the CoAM in July 2002, at which *Agra Europe* (2002a, p. EP/1) reports a hostile response. After the summer recess, France and Spain took the opportunity of

¹⁰ Indeed the Commission had delayed publication until the French presidential and parliamentary elections had been concluded (Cunha, 2004, p. 155).

the informal farm council in Nyborg, Denmark, to seek an alliance of like-minded ministers to sign a letter defending the CAP (*Agra Europe*, 2002b, p. EP/1). This was subsequently published in the *Financial Times* (and also in other European newspapers) on 23 September 2002, under the heading 'CAP is something we can be proud of'. The September CoAM focussed on the Commission's plans to reduce intervention support for cereals (*Agra Europe*, 2002c, p. EP/1) and that of October on rural development and milk quotas (*Agra Europe*, 2002d, p. EP/3).

France and Germany worked together and, as in previous CAP reforms, the positions of these two became crucial to whether or not Fischler's proposal would survive. Schröder and Chirac, meeting before the European Council meeting in Brussels in October 2002, agreed a financing plan for the CAP through to 2013, which was then endorsed by the European Council.¹¹ This was seen as a clear sign that the Franco-German alliance was still the pivotal axis around which EU agreements are spun; but opinions differed as to its implications for the CAP. The *Financial Times* (2002, p. 8) reported diplomats' suggestions that Schröder had been outmanoeuvred by Chirac. But Fischler was not ready to abandon the MTR and Germany – far from suffering a defeat – had secured an agreement to cap CAP expenditure (at least on heading 1A) until 2013.

The December 2002 meeting of the European Council in Copenhagen concluded the enlargement negotiations with ten new Member States, including the phased introduction of direct payments in the ten, but otherwise did not intervene in the MTR debate. At the first of the two European Councils held under the Greek Presidency, in Brussels in March 2003, the Italian prime minister pressed for an increase in the allocation of milk quota to Italy, but was told by the Greek Presidency that this was a matter for the CoAM, not the summit (*Agra Europe*, 2003a, p. EP/7) – perhaps a foretaste for Greek resolve at the June summit.

Formal proposals were tabled in January 2003 and the debate returned to the CoAM. It concluded its deliberations on 26 June 2003, after another marathon that had begun on 11 June. First it met for two days, was suspended to allow the Greek Presidency to prepare a further compromise paper (*Agra Europe*, 2003b, p. EP/1) and reconvened on 18 June. The next day, with the Thessaloniki summit due to take place the following weekend and the MTR debate in the CoAM still in the balance, the meeting was again suspended; and French officials suggested this could be a replay of Agenda 2000.

¹¹ The agreement was that for an EU of 25, over the period 2007–13, CAP expenditure under heading 1A could not exceed in *real* terms the amount agreed in Berlin for the year 2006. Heading 1A covers market price support and direct payments (the first pillar of the CAP) but excludes rural development (the second pillar) (European Council, 2002, para. 12).

However, Greek prime minister and president of the European Council Costas Simitis 'angrily rebuffed' a 'Franco-German approach' to put CAP reform on the summit's agenda (*Agra Europe*, 2003c, p. EP/1). Chirac is reported to have said: 'The current proposal from the Commissioner is not acceptable. [. . .] It is not accepted by France. This means everyone else has to move, including the Commissioner' (*Financial Times*, 2003, p. 8). If an accurate rendition, this is a startling remark: it suggests that France (or at least Mr. Chirac) believed that France should not be outvoted on matters of supreme importance. The European Council would have been the better institutional setting for Chirac, since unanimity is the decision-making rule and there were better opportunities for issue linkage. A French attempt to veto a qualified majority vote in the CoAM would, politically, be much more controversial than lack of unanimity in the European Council.

Faced with the refusal of Simitis to discuss the issue at the European Council, farm ministers were forced to reach agreement and after an all-night session ministers concluded their deliberations on 26 June. France joined the majority, with Portugal the only dissenting voice. President Chirac accepted an honourable retreat, thereby avoiding the ignominy of being outvoted in the CoAM.

V. Choosing the Institutional Setting of CAP Reform

In the two cases of substantial reform, the MacSharry and the Fischler reforms, the reform processes were contained within the CoAM, while the moderate Agenda 2000 reform was decided by the European Council. Our analytical model suggests that, driven by a desire to avoid blame for decisions which are unpopular within the farming community, EU politicians attempt to shift the final reform decisions to another institutional setting. Whether they succeed or not depends on the reform situation. If CAP reform is part of the broader European Council package, farm ministers leave the final decision to the European Council and if it is defined as a separate CoAM issue, the European Council avoids involvement and thus farm ministers are forced to make the unpopular decision.

Comparing the three reform processes analysed above, our hypothesis is supported. The MacSharry and the Fischler reforms were decided by the CoAM. In both instances, reform was seen as a separate issue left to the CoAM. During both reform debates, there were attempts to involve the European Council, but presidents of the European Council denied this, saying CAP reform was a matter for the CoAM. The Agenda 2000 CAP reform was part of a broader package meant to prepare the EU for enlargement, driven by

the European Council. As we have demonstrated, the majority of farm ministers did not feel committed to reform and did not act until late in the reform process when their influence on the reform's content was threatened. Then, the majority of farm ministers endorsed a package deal, which pointed the European Council in the direction of the compromise.

Since only one of the reforms in our comparison was decided by the European Council, a brief review of the CAP reforms of the 1980s might further strengthen the hypothesis that whether CAP reform is part of a broader package or defined as a separate issue plays a crucial role in the opportunity for passing the blame for unpopular decisions to other institutional settings. Budget stabilizers were decided by the European Council in 1988. This reform was part of a broader package deal which included an increase in revenues available to the EU, created a new budgetary resource, granted a considerable increase of funds for regional and structural programmes and limited the growth of the agricultural budget (Moyer and Josling, 1990, p. 79). As a broad package, it would have to be approved by the European Council. In the autumn of 1987, the CoAM discussed the Commission's proposal, but failed to reach agreement before the Copenhagen summit of December 1987. That in turn failed to produce agreement on the package, in particular because the agricultural issue remained unresolved. The issue then returned to the CoAM, in which the German presidency came close to a deal, but it was then left to the European Council to make the final decision at the Brussels summit in February 1988 (Moyer and Josling, 1990, pp. 87–96).

Our model does not, however, explain why the CoAM made the final decision to introduce milk quotas in 1984 despite the fact that the European Council had debated CAP reform at a series of summits from November 1981 onwards (Avery, 1984, p. 647). This reform was part of a broader European Council negotiation on the budget, involving a dispute over the British contribution. According to our hypothesis, we would have expected farm ministers to have passed the final decision to the European Council, but in the end the European Council succeeded in passing the decision back to the CoAM. At first glance, this invalidates our hypothesis; however a possible explanation of the institutional location of the milk quota reform can be attributed to the president of the CoAM, French farm minister Michel Rocard, who had political aspirations which went beyond the farm minister's portfolio and thus a constituency much broader than the farming community. Further, being a long-standing rival of President Mitterrand, he had strong incentives to broker an agreement in the CoAM to demonstrate political leadership. Once the European Council in Brussels on 19–20 March, chaired by Mitterrand, had failed to reach agreement on dairy policy, Mitterrand was no longer in a position to undercut Rocard's efforts (Moyer and Josling, 1990, p. 76).

Conclusion

The broader political context of EU agricultural policy-making changed as a result of the URAA which made agricultural trade subject to stricter rules and set the scene for a new round of trade negotiations in the WTO. However, the change of the international context of the CAP cannot in itself explain the nature of CAP reform. The EU institutional setting within which reform is negotiated and settled also plays a crucial role. Contrary to conventional wisdom, the CoAM seems to be a more conducive setting than the European Council in which to broker substantial reform. The two most substantial reforms of the CAP, the MacSharry and Fischler reforms, were decided by farm ministers, while the modest Agenda 2000 reform was adopted by the European Council. An important reason why the European Council is unable to adopt substantial reforms of the CAP is that the reform issue is likely to become subordinated to the quest for a broad political agreement on a number of issues on the European Council agenda. We suggest that an important motivation of the choice of institutional setting for the final reform decision is the desire of farm ministers and of heads of state or government to avoid blame for unpopular decisions. Thus when CAP reform is an integral part of a broader package, farm ministers pass the final decision on to the European Council and when CAP reform is defined as a separate issue the European Council avoids involvement.

Our findings question the view of the literature on CAP reform which more or less explicitly assumes that the compartmentalization of agricultural policy-making in the EU inhibits substantial reform. In political science, it is often assumed that shifting the reform process from an institutional location friendly to special interests to one in which other interests dominate would facilitate policy change. There are many studies supporting this hypothesis (e.g. Baumgartner and Jones, 1993; Daugbjerg and Studsgaard, 2005). Since it does not appear to apply to CAP reform, we may need to rethink whether theories on policy change originally designed to explain reforms in national contexts can uncritically be applied in EU studies. The unique institutional architecture of the EU might limit the applicability of such theories.

Correspondence:

Carsten Daugbjerg
Department of Political Science
University of Aarhus
Universitetsparken
DK-8000 Aarhus C, Denmark
e-mail: cd@ps.au.dk

Alan Swinbank
 School of Agriculture, Policy and Development
 University of Reading
 Whiteknights Road
 Reading RG6 6AR, UK
 e-mail: A.Swinbank@reading.ac.uk

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