Between Protectionism and Free Trade: EU Agricultural Policy Toward Central and Eastern Europe, 1990-1994

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1. INTRODUCTION

This paper examines European Union (EU)[1] agricultural policy toward Central and Eastern Europe (CEE) from 1990 to 1994 and asks whether its agricultural assistance through the Phare program was based more on principles of free trade or protectionism. The answer might seem predictable given that EU agricultural policy since the 1958 Treaty of Rome has been managed by the Common Agricultural Policy (CAP) which is explicitly based on protectionist principles: it uses production subsidies, export refunds, and import levies to stabilize prices and support farm incomes. Three decades of agricultural productivity growth have eroded the need for such protection, but the CAP's political roots are deeply embedded in the EU policy-making structure because this supranational policy symbolizes the EU's ability to provide common solutions to Member State problems. Therefore, the CAP has dubious economic merit, but its political significance is critical: "...its continued existence, including a supranational character, is vital to the credibility of the EC as a political entity."[2] This political entrenchment has prevented significant reform of the CAP, much to the detriment of consumers and small farmers. In the 1980s, though, EU policy-makers started to question the role of the CAP after food surpluses and budgetary increases reached crisis proportions. They approved the most extensive CAP reform in the 1992 MacSharry plan, but this measure proved timid after inter-governmental bargaining in the Council of Ministers weakened its effect.[3] Overall, then, the EU has only cautiously moved toward a more free trade agricultural policy that minimizes government interventionism and maximizes market forces.

However, there has arisen a competing source of EU agricultural policy within the Phare program. Phare was created in December 1989 to deliver technical assistance to the CEE during the post-communist transition. It has funded government reforms across a wide range of sectors—such as energy, banking, education, and agriculture—in order to soften the pain of social change and build market economies based on free enterprise and private initiative.[4] This paper focuses on Phare assistance to the agricultural sector, which is perhaps the most significant because the EU has signed Europe Agreements with eleven CEE countries which promise enlargement. Yet, the biggest obstacle to CEE membership in the EU will be agriculture because the budgetary effects of extending CAP subsidies to the CEE could prove explosive. The CEE has a large agricultural sector with millions of farmers who qualify for CAP production subsidies and export refunds, and these farmers produce in abundance those commodities that receive the highest levels of CAP support—cereals, meat, and dairy products. Moreover, the EU has achieved self-sufficiency in these food groups, so the EU would have to subsidize exports of these surplus commodities into new markets. Therefore, EU enlargement will likely involve a trade-off: either the EU reduces its CAP subsidies in order to make eastward expansion affordable, a prospect that is opposed by powerful EU agricultural lobbying groups, or it admits the CEE without CAP reform and readjusts its finances to meet the vastly increased costs.

Phare has played a key role in this enlargement issue by revitalizing CEE agriculture and thereby influencing the terms of this eventual trade-off.

Hypotheses

The objective of this paper is to test two hypotheses. The first one asserts that Phare agricultural assistance to the CEE from 1990 to 1994 was based on principles of free trade. If proved true, this empirical finding would contradict the seemingly logical expectation that Phare would imitate the CAP, the dominant EU agricultural policy, and adopt protectionist principles. In that case, Phare would likely advise the CEE governments to restrict production at levels that assure self-sufficiency but do not generate export competition with the EU and maintain prices at levels which are reasonable to consumers but do not undercut EU producers. Such an agricultural system would place less budgetary strain on the CAP during the process of EU enlargement. Yet, this hypothesis asserts that Phare adopted a free trade policy and encouraged efficient, export-oriented growth in CEE agriculture which will increase CEE output, drive down world food prices, and raise the cost of CAP price supports. Phare has thus widened the gulf between the EU and CEE agricultural systems.

The second hypothesis asserts that Phare's choice of free trade agricultural policy is best explained by policy network theory. In 1989, the CEE transition required the EU to formulate a response that would assist these countries toward democracy and a free market economy. This decision involved creating a new policy network centered around the Phare program in the Commission's Directorate-General for External Economic Relations (DG-I), a different outcome from previous situations in which the EU had responded to external reform pressures like the GATT Uruguay Round by utilizing existing agricultural policy networks in the Directorate-General for Agriculture (DG-VI). Moreover, the Phare policy network became distinct from the CAP policy network by not establishing ties with EU agricultural lobbying groups which defend the CAP's protectionist orientation. The gap between these two policy networks thus explains how Phare formulated an agricultural policy based on principles of free trade rather than protectionism—a finding which confirms policy network theory as a useful tool for explaining the methods and contradictions of EU policy-making.

Policy Network Theory

Policy network theory falls between corporatism and pluralism as an analytical tool. It focuses on interactions between clusters of policy-making actors who depend upon and exchange a common set of resources in order to achieve compromise policy outcomes.[5] The members possess mutual needs, expectations, and experiences and share a "community view" on their issue-area.[6] The strength of policy network theory, then, is its ability to model policy-making in detail which allows "a more fine grain analysis than the rather broad stroke 'national policy styles' approach and other models which take the state as the basic unit of analysis."[7] Although developed in case-studies of national government behavior, policy network theory has recently been elevated to the EU-level where similar policy processes occur: "As in all modern polities, EC 'politics' is dominated by questions of representation and participation, the distribution and allocation of resources, and political and administrative efficiency."[8] The EU, in fact, is rife with policy networks for three reasons: first, there are innumerable linkages between an array of meso-level actors who represent a wide range of interests—public and private, national and transnational; second, political oversight of the meso-level by Member States is weak and fragmented, so bargaining is less constrained; and third, meso-level decisions shape policy outcomes more strongly than in national governments because lobbying becomes more difficult after proposals leave the Commission.[9]

However, neofunctionalism has long dominated studies of EU agricultural policy. This theory focuses on state interactions at the systemic-level and shows that integration occurs when elite actors cooperate in one technical sector and expands by a process of spill-over into other sectors of mutual interest. It argues that the CAP appeared in the 1958 Treaty of Rome because the original six Member States shared a common aim to raise rural living standards, and although they wrangled over issues like pricing during the negotiations, they eventually produced a CAP that endowed the Commission with broader administrative responsibilities:

“Such a pattern of converging interests has uniformly given rise to further demands for action, thereby enhancing the role of the central institutions and contributing to the process of integration.”[10]

Yet, neofunctionalist theory cannot answer the following question: after spill-over has occurred and the CAP has been formalized by bureaucratic procedures, what forces can cause a shift in policy? This question moves beyond integration and into the realm of daily politics where neofunctionalism loses its relevance because it explains the larger processes of integration and institution-building but does not have enough analytical depth to analyze routine processes of EU policy-making. Policy network theory closes this gap by modeling the behavior of non-elite, technocratic actors in periods of routine decision-making. Whereas neofunctionalism provides an appropriate theory for studying the CAP because that process was systemic-level and history-making, policy network theory provides a better tool for explaining Phare because this process is meso-level and policy-implementing (see Table 1).

Table 1: Levels of Analysis in EU Policy-Making

Policy Levels	Dominant Actors	Bargaining	Relevant Theory
systemic-level	European Council	political	neofunctionalism
history-making	ECJ	legalistic	inter-governmentalism
macro-level	Council of Ministers	political	new institutionalism
policy-setting	COREPER	administrative	
meso-level	Commission	technocratic	policy networks
policy-implementing	Committees	consensual	

Source: Peterson, John. “Policy Networks and Governance in the European Union: The Case of Research and Development Policy” in Patrick Dunleavy and Jeffrey Stanyer, eds. Contemporary Political Studies Volume 1 (Belfast: Political Studies Association, 1994) p. 153. Presented with modifications.

Specifically, this paper tests the Rhodes model which arranges policy networks along a continuum from policy communities to issue networks (see Table 2). Policy networks are located on this continuum according to three categories of variables—membership, interaction, and resources. Establishing a policy network’s position is critical because network structure has an impact on policy outcome:

“...the existence of a policy network both has an influence on, although it clearly does not determine, policy outcomes and reflects the relative status, or even power, of the particular interests in a broad policy area.”[11]

This paper, then, assesses the structure of the Phare policy network and contrasts it to the CAP policy network using the Rhodes model variables.

Table 2: Rhodes Model of Policy Networks

----------------------Poles----------------------

Network Characteristics	Membership Permeability
Policy Community	Small and closed
Issue Network	Large and open
Continuity	Interaction Frequency
Stable	High and intense
Unstable	Low and irregular
Relationships	Resources Distribution

Share values	More equitable
Regular conflict	Less equitable
Outcomes	
Positive-sum	
Zero-sum	

Source: Marsh, D., and R. A. W. Rhodes, "Policy Communities and Issue Networks: Beyond Typology" in Marsh and Rhodes, Policy Networks in British Government (Oxford: Clarendon Press, 1992) p. 251. Presented with modifications.

This paper proceeds in three sections. Section Two tests the hypothesis that Phare agricultural assistance from 1990 to 1994 was shaped more by principles of free trade than protectionism. It analyzes completed projects—emergency assistance, land reform, enterprise development, and rural credit expansion—then looks at Phare's planned future orientations—policy convergence, productivity enhancement, and export promotion. Section Three tests the hypothesis that the gap between the CAP and Phare policy networks explains this shift in Phare policy outcome. It assesses the structures of the two networks and relates their policies to two issues—the conflict between EU agricultural aid and trade objectives, and EU enlargement. Section Four reflects on the relevance of this case-study to future EU-CEE agricultural relations and the refinement of policy network theory.

2. PHARE AGRICULTURAL POLICY

The agricultural sector constitutes a key component of the CEE transition because it is vital to macro-economic stability and growth. In 1990, agriculture accounted for a large share of CEE income and employment relative to the West because this sector's post-war structural adjustment had been stunted by communist policy. Yet, it showed potential for large gains in productivity, so through effective agricultural reforms, the CEE could quickly realize increases in output and possibly achieve a surplus food trade. In addition, improvements in agriculture would positively influence public opinion because ample food supplies favorably reflect a government's ability to deliver essential consumer goods. The CEE governments could thus extend their window of opportunity for reform by satisfying consumer demand:

Food production and its delivery to the customer, namely the public, is the most basic and fundamental aspect of any nation's economy...It is by the success or failure of the agricultural and food reforms that, inevitably, the chances of success in the other sectors will be judged. Public patience and the corresponding room for maneuver which the authorities enjoy in their reform plans overall are thus critically linked to agriculture and food.[12]

Consequently, agricultural assistance became a cornerstone of the Phare program which was launched by the EU in December 1989. Its mission was to advance quickly and rationally the CEE transition to democracy and a free market economy:

The Phare program is a European Union initiative which supports the development of a larger democratic family of nations within a prosperous and stable Europe. Its aim is to help the countries of Central and Eastern Europe rejoin the mainstream of European development and build closer political and economic ties with the European Union.[13]

Phare stressed the importance of agriculture and devoted a significant share of its total assistance to this sector. From 1990 to 1993, it delivered ECU 3.33 billion in total grants to become the region's largest grant donor, and agricultural assistance comprised 12 percent of this total for ECU 416 million (see Table 3).

Table 3: Phare Assistance by Sector, 1990-1993
(% of total assistance)

Restructuring / Private Sector	17.0	Public Health			4.0	
Training / Education / R&D	12.7	Social / Labor			3.5	
Agriculture	12.0	Regional Development			3.0	
Environment / Nuclear Safety	9.6	Financial Sector		2.0		
Humanitarian / Food Aid	8.5	Civic Society / Democracy			0.6	
Infrastructure		8.0	Other			13.5
Administrative Reform		5.6				

Source: Phare Information Office. "Assistance Programme" (Brussels) p. 3.

The distribution of these agricultural grants evolved as the CEE transition spread from Central Europe to the Baltics and Balkans. The number of countries receiving assistance climbed from three in 1990—Poland, Hungary, and Bulgaria—to ten in 1993 (see Table 4). Assistance levels varied according to each country's size and need. For example, Phare assistance to Poland dropped from ECU 100 million in 1990 to ECU 30 million in 1993, while assistance to Bulgaria fell from ECU 16 million to zero over the same period. Phare only had access to limited EU resources, so it sought to maximize its effect by continually adjusting its assistance according to local conditions.

Table 4: Phare Agricultural Assistance by Country, 1990-1993
(ECU millions)

	1990	1991	1992	1993	Total	
Poland		100.0	17.0	23.0	30.0	170.0
Romania	0.0	39.0	32.0	5.0	76.0	
Hungary	20.0	13.0	5.0	30.5	68.5	
Bulgaria	16.0	25.0	10.0	0.0	51.0	
Albania		0.0	0.0	15.0	10.0	25.0
Latvia		0.0	1.3	0.7	5.0	7.0
Lithuania	0.0	1.5	0.6	5.0	7.1	
Estonia		0.0	3.2	0.4	1.2	4.8
Slovakia	0.0	0.0	1.0	3.0	4.0	
Czech Republic		0.0	0.0	2.0	0.0	2.0
Slovenia	0.0	0.0	0.0	0.2	0.2	
FYROM	0.0	0.0	0.0	0.3	0.3	
Total		136.0	100.0	89.7	90.2	415.9

Source: Phare Information Office. "Progress and Strategy Paper: Agriculture" (Brussels, June 1994) p. 19.

Emergency Assistance

In 1990, Phare devoted its largest share of agricultural assistance to emergency input supplies because the highest priority of CEE recipients was to maintain healthy levels of food consumption after their state-owned supply and distribution networks collapsed and production declined precipitously. Therefore, Phare delivered ECU 84.6 million worth of animal feed, fertilizers, crop protection chemicals, seed, replacement and spare machinery parts, and other basic agricultural inputs which amounted to 62 percent of its budget.

Table 5: Phare Agricultural Assistance by Type, 1990-1993
(ECU millions)

	1990 Total	(%) Share	1993 Total	(%) Share	1990-93 (%) Total		Share	
Farm Input Supplies	84.6	62.2	0.0	0.0	131.1		31.5	
Initial Reform Strategies	1.8	1.3	5.3	5.9	21.6		5.2	
PMU and Aid Coordination	1.1	0.9	8.9	9.9	23.0		5.5	
Land Register, Policies, Laws	2.0	1.5	15.8	17.5	40.5		9.7	
Banks		3.7	2.7	14.3	15.9	29.5		7.1

Rural Credit/Guarantee Funds	37.0	27.2	10.0	11.1	66.0	15.9
Business/Extension Services	4.3	3.2	12.4	13.7	57.7	13.9
Privatization/Restructuring	0.0	0.0	6.7	7.4	25.6	6.1
Food Stds/Regional Programs	1.5	1.1	16.8	18.6	21.2	5.1

Source: Phare, "Progress and Strategy Paper" p. 20.

As conditions stabilized and the CEE started to recover its output, Phare's input supply funding ended because it was intended as a stop-gap measure to enable the CEE to survive the most volatile period of transition without suffering malnutrition.[14] Yet, this emergency assistance also served a second objective which was to foster private enterprise:

The fundamental objective was to assist the partner country in its efforts to sustain essential minimum levels of production and consumption during the initial period of disruption of the economy and the distribution system as a result of the reform process. An added objective, however, was to promote as early as possible the advent of private farming and private enterprise in agriculture.[15]

This objective included introducing to the CEE concepts such as pricing, service, contracts, customer relationships, and the basic notions of supply and demand.[16] Therefore, Phare observed four operational guidelines during the delivery of its emergency assistance to guarantee that private actors would participate in the process and raise the level of competition. First, it preferred only non-governmental organizations (NGOs) to import and distribute the emergency input supplies. Second, it sold the supplies at world market prices where it found sufficient demand and prohibited the use of price subsidies. Third, it sold the supplies by public action or open tender and restricted each buyer's total quantity of purchase to allow emerging entrepreneurs ample opportunity to bid. Finally, it assigned National Aid Coordinators to organize and execute the sales rather than ministries of agriculture or traditional government procurement and import agencies. If these guidelines were observed, then Phare delivered the input supplies and provided technical assistance to locate and organize the auctions and tenders, install accounting and reporting systems, transport the supplies, and train local counterparts. Afterward, Phare allowed CEE officials to manage the sales and distribution. As a final step, the revenue generated by these sales was channeled into local currency counterpart funds which were collected and managed by national authorities. They used these funds to finance infrastructure projects, purchase additional inputs, and alleviate the social hardships of transition. These four guidelines are significant because they reflect Phare's aim to minimize the role of government and maximize the role of private actors during the delivery of supplies. In providing emergency assistance, Phare chose to bypass government channels and catalyze the emergence of a competitive supply market. Yet, pressures did exist for Phare to conduct its projects by other means: for example, if Phare had sold livestock feed at subsidized prices rather than world market prices, then it would have eased the cost burden for capital-deficient farmers and suppliers and accelerated the pace of its auctions. However, Phare chose a less charitable route in order to spur competitive market behavior and avoid leaving emerging entrepreneurs dependent on government handouts. Thus, it perceived the means and ends of its assistance as equally vital.

Meanwhile, Phare also worked with the CEE to develop overall agricultural reform strategies so that their governments could look beyond their short-term needs and envision the long-term structure of their agricultural sector. Phare funded market experts to conduct exploratory studies of the CEE agricultural sector, assess its comparative advantage, and highlight its growth potential. Phare also participated in joint task forces and missions with the World Bank and other IFIs to prepare regional studies. Finally, Phare provided experts and advisory services to train CEE experts in the ministries of agriculture and research institutes in order to strengthen the CEE's local capacity for exploiting its agricultural assets; for example, CEE analysts could now prepare competitive commodity policies and assess the options for institutional and structural reform.[17] Overall, Phare's objective was to empower CEE officials to implement independently of Phare their own agricultural reforms.

Yet, Phare was cautious about expanding the role of CEE governments too much because they had attempted agricultural reforms in the past and failed due to inadequately prepared policies. Hungary introduced the first reform model in 1968 as the New Economic Mechanism (NEM) which reoriented agricultural policy around market instruments like prices, credits, and taxes and discarded state controls like quotas and subsidies.[18] The aim was to make production more flexible and efficient than previously possible under rigid, centralized planning, so the NEM reduced bureaucratic meddling and expanded the role of market forces. For example, suppliers now competed for farm business instead of merely fulfilling state orders. Bulgaria then launched its own NEM in 1979 with a far more conservative design.[19] Its NEM emphasized farm structure in the belief that economies of scale would improve productivity. Thus, it integrated cooperatives and state farms into agro-industrial complexes (AICs) and permitted these massive enterprises greater autonomy. For example, it reduced the number of state planning indicators and allowed AICs to decide their acreage, livestock inventories, and employment levels.

Yet, the Hungarian and Bulgarian NEMs failed for two reasons.[20] First, they both pursued an incomplete approach to reform by tinkering with certain aspects of the agricultural problem and not addressing all the inter-related issues. For example, public investment levels declined during these periods of reform, so moribund capital stocks could not be replaced. This oversight caused serious infrastructure difficulties: in Bulgaria, only 25 percent of the arable land was irrigated, and this inadequate portion was poorly maintained. Also, the costs of transportation, equipment, and inputs rose due to problems in food storage and machine repair. The introduction of market forces thus made little impact when there were no accompanying changes in the agricultural infrastructure. Second, the Hungarian and Bulgarian governments intervened too much in the operation of the agricultural market and disrupted natural adjustment processes. For example, they refused to allow gaps in rural incomes to widen because they were ideologically committed to income equality. Yet, this process should have occurred as farms adjusted to the new market conditions differently depending on their relative efficiencies. Altogether, the Hungarian and Bulgarian NEMs had ambitious designs, but they failed because they did not address inter-related market and structural issues and did not allow market forces to operate without government intervention.

The Phare approach to agricultural policy accounted for these mistakes by advising the CEE to play two roles. In the short-term, they should prevent severe economic shock by continuing to intervene in the agricultural sector and preventing farms and enterprises from collapsing under the competitive pressures of a free market. Yet, in the long-term, the CEE governments should increasingly withdraw from the sector and merely manage the agricultural transition to international competitiveness:

The basic objective was thus to help establish as quickly as possible a national policy capability to manage the transition to a market-economic agricultural sector which would become internationally competitive in the long run, while taking into account the need to preserve, over the short run, minimum economic activity and employment levels to sustain the overall reform process.[21]

Phare thus characterized this long-term government role as both comprehensive and non-interventionist. Unlike the old Hungarian and Bulgarian NEMs, the Phare approach recognized that agricultural production is a complex process, so successful reform must address not just farm structure and production, but also rural credit, agri-processing, and food marketing. Phare did not fall into the trap of targeting a single defect:

There is a tendency for observers...to attribute the shortcomings in agriculture to the structure of the farms. But this is clearly not correct, nor is it very informative. The farms operate within a system of related institutions (input supplies, marketing and procurement agencies, credit institutions) and policies (output and input prices, wage controls, and procurement regulations)...All the features of the agricultural scene count much more than any one characteristic, even that of private ownership of farms.[22]

Phare advised the CEE governments to play a managerial role during the transition in order to build the proper framework in which private actors and market forces could guide production. Phare expected them to demonstrate persistence and self-discipline, particularly when confronted by domestic demands for protection. These pressures had appeared since the start of the transition as consumers, farmers, and enterprises experienced the shocks of price liberalization and other macro-economic stabilization measures. Yet, if the CEE governments decided to intervene, then they would slow the transition:

The economic shocks associated with the transition have led many officials to favor highly interventionist policies over the long, slow process of building institutions... Whether Central European governments adopt EU-like agricultural policies or whether they attempt to resurrect the grain monopolies of the 1930s, the inevitable result will be a significant drain on the state budget and high consumer prices. The ultimate impact of such policies will be to slow down the transition.[23]

These pressures were expected to continue as long as the transition caused serious disruptions in the agricultural sector. The response of the CEE governments would thus prove critical: "The question of whether and how governments should respond to agriculture's financial difficulties will remain the dominant policy issue of the transition."[24] Phare's approach was to encourage the CEE governments to manage the agricultural reform rather than dominate it. This preference for free trade over protectionism becomes even more clear in examining the second stage of agricultural assistance where Phare focused on three projects—land reform, enterprise development, and rural credit expansion.

Land Reform

Land reform is a core issue in the agricultural reform because it addresses one of the fundamental differences between communism and capitalism—private land ownership. The CEE governments can redistribute their collectivized land in one of three ways: first, they can restitute the land to families which had owned the land prior to collectivization; second, they can redistribute the land equally among members of the collectives and state farms; and third, they can auction the land. Each approach promised an advantage. Restitutions would provide an opportunity for the CEE governments to compensate families that had been victimized by the atrocities of Stalinist collectivization.[25] Distributions would offer a reward to farm employees who had worked the land for decades. Finally, auctions would create a land market in which the forces of supply and demand could determine efficient farm sizes. In sum, the choice was between justice, equity, and efficiency.

Phare focused on the technical aspects of land reform because it was concerned with consolidating farms into efficient sizes. It worried that restitution and redistribution might undermine potential efficiency gains: "[Either] policy might lead to excessive fragmentation of agricultural assets and land which would be counterproductive for the sector and would lead to further considerable drops in agricultural production."[26] Phare thus concentrated on erecting a competitive land market that would allow farmers to consolidate their individual plots into efficient, small- and medium-sized farms, similar to the EU where 93 percent of the 7 million farms possess less than 50 hectares.[27] To this end, Phare increased its land reform funding from ECU 2 million in 1990 to ECU 16 million in 1993, reaching a four-year total of ECU 41 million. In the process, it delivered several types of technical assistance:

The objective is to provide much needed equipment, training, and technical assistance in order to speed up the process of land registration and issuance of titles, which would provide legal security for farming activities, to help establish uniform cadastral services, to set up nationwide land information systems and promote the development of land markets, and, often, to provide a basis for taxation.[28]

Land registration has proven a complicated and painstaking task for several reasons.[29] First, the CEE communist governments based their land records on use, not ownership, so property rights lack clarity. Second, they did not update their records regularly, and many cartography and registry systems deteriorated. Finally, they did not automate their records. Therefore, the CEE governments need to reconstruct their land information systems quickly because they are critical to a wide range of economic activities—tax and fees assessment, physical planning, civil engineering projects, and real estate mortgages and marketing—and information inefficiencies will slow the process of land reform. Therefore, Phare made land reform a high priority with 17.5 percent of its budget in 1993. For example, Phare provided an ECU 5 million grant to Slovakia in order "to support the establishment of a property market and the general restructuring and privatization of state-owned enterprises by removing constraints to the efficient and effective registration and verification of land ownership."[30] Phare delivered technical assistance to digitize maps, computerize the survey and geodetic control network, and train staff in the Authority of Geodesy, Cartography, and Cadastre to apply these new technologies. It also provided funds to accelerate the processing of land ownership claims and registration of land sales. In other projects, Phare used aerial photographs and satellite images to identify potential land use, improved data transmissions to public administration offices, and advised CEE governments on drafting laws for property rights, land valuation, leasing, and inheritance. In sum, Phare provided the tools to build successful land information systems and auction markets which would facilitate the sale of land through private channels. By minimizing the scope of government land ownership and maximizing the flow of market information, Phare sought to erect well-functioning land markets that could serve as the foundation for efficient CEE agriculture.

Enterprise Development

Phare approached enterprise development as perhaps the most critical transition issue because it will transform the relationship between CEE agriculture and government. During the communist period, centralized planning and government monopolization of production badly distorted agriculture. Therefore, Phare seeks to shrink the role of the CEE governments and foster the growth of private enterprise as a means to unleash the key market force that was lacking from communist agriculture—competition:

Phare's fundamental objective is to introduce effective competition as quickly as possible in the farm sector and in the upstream and downstream industries. State farms, cooperatives, and state-owned or state-directed enterprises involved in commercial agricultural activity should therefore be restructured and privatized so that, firstly, commercial activities are separated from non-commercial ones...and secondly, large farms or dominant trading enterprises are reformed or broken down into separate, smaller units...[31]

Phare's approach to enterprise development thus included two components. First, the rapid privatization and structural adjustment of state-owned farms and enterprises is essential because the CEE has to overcome the inertia of state ownership that was entrenched by four decades of communist policy; a slow approach might stall once domestic forces begin to resist this radical change. Phare assisted this process by devising a privatization strategy that would sell state-owned farms and enterprises to private individuals and businesses while allowing the CEE to sustain necessary levels of food production, distribution, and storage capacity and reduce the social costs of closing inefficient enterprises. Phare also funded audits, valuations, management reviews, and business plans on a sector-by-sector basis to prepare and enhance an enterprise's profitability before attracting an investor or buyer. However, Phare also advised CEE governments not to pursue revenue maximization as an objective because a focus on profits would slow the pace of privatization. It also advised them not to restrict the participation of foreign investors and over-protect managers and employees of the auctioned enterprises. Overall, Phare's objective was to privatize farms and enterprises in a manner that was both fast-paced and minimally disruptive.
The dismantling of production and trade monopolies constituted the second component of Phare's approach to enterprise development. Phare advocated that CEE governments approve anti-monopoly legislation to prevent privatized enterprises in the supply, agri-processing, and distribution sectors from continuing to enjoy their old monopoly status. It also recommended the removal of legal barriers, such as discriminatory tax laws, which blocked the formation of new enterprises. This process was expected to proceed with difficulty:

"To achieve the condition of rational competition will be one of the most demanding tasks of reform, as in the past nearly total monopolization existed in the agriculture and food sector."[32]

Yet, Phare argued that if these monopolies were not dismantled, then the CEE economy would not achieve a sustainable market equilibrium. Phare allocated to Romania, for example, an ECU 4 million grant in 1992 to build private sector distribution networks.[33] Although the Romanian government had abolished official price controls, it still had de facto monopoly power, especially in distribution. Therefore, Phare provided information on processes such as cold storage, freezing, foodstuff handling, and shop-fitting to private wholesalers and retailers to boost their competitiveness. It also established a Market Information System to augment the Ministry of Trade's weekly journal of commodity prices

and built a computer network to transmit data daily to each district and media source. With greater access to information, farmers could then make more informed business decisions.
In this regard, Phare advocated the participation of CEE governments. It felt they could effectively disseminate essential market information, the lack of which had proved a major flaw in communist centralized planning because managers could not properly allocate resources and schedule production:

“The institutional organization of centrally planned agriculture, both at the level of the firm and in inter-firm transactions, fails grandly and fundamentally because information is costly.”[34]

Phare believed that private sector competition would stimulate the flow of information based on supply and demand, but it also recognized that CEE governments could enable this information to reach a wider audience. In effect, Phare accepted the argument that to adopt a market system without any consideration for the government is too simplistic.[35] Therefore, enterprise development did not involve the withering away of the state, but instead required its reformulation in a positive, non-interventionist role as facilitator of information flows. Yet, Phare also warned that recent interventions by the CEE governments—in which they prevented markets from establishing accurate sales prices and subsidized enterprises in a way that clouded their market value—had slowed the pace of privatization:

[Privatization] has been accompanied by continued interventionist policies and heavy subsidies for state enterprises, often conflicting with the need for monetary austerity or with what the national state budget could afford. Whilst this might have been justified...in order to assure essential food supplies in the early stages of transition or to cushion the social effects of adjustment, it will be necessary in the medium term to achieve effective competition, so that the private farmer and agro-industrial enterprises receive correct price signals from the markets.[36]

The CEE governments were reluctant to relinquish control over the market because agricultural policy concerns food security—a social welfare issue regarded as the responsibility of government, not the private sector. Phare sympathized with their interventionist tendencies, but it objected to this role because it calculated that excessive interventionism merely distorted the market and prevented the flow of key market information.

Rural Credit Expansion

Finally, rural credit is essential to the transition because CEE farmers and agricultural enterprises require financing to grow and restructure, such as using credit to purchase machinery and mortgages to expand their landholdings. Yet, a rural credit culture did not exist during the communist period. Farmers financed their investments through state-controlled central bank loans that were subsidized by negative real interest rates. Credit allocations did not correlate with merit, and these subsidized loans constituted a soft budget constraint on agricultural enterprises which merely discouraged them from pursuing financially prudent behavior.[37] Yet, even in a fully-functioning free market, credit does not flow freely to the countryside because farmers have a difficult time maintaining their credit worthiness: first, they are geographically isolated from main capital markets, so lending acquires an additional transaction cost; second, they require large credit advances and must delay in repaying their debt while they wait to harvest and sell their produce; and third, they hold much of their wealth in farmland, an undiversified investment which may become insolvent when agricultural prices and land values decline. Given these obstacles even in a well-developed free market, the CEE faced a formidable challenge: “The challenge policy-makers face is to find a way to reap the advantages of privatization while minimizing the distortions and wealth inequality that arise from capital market imperfections.”[38]

Phare advocated rural credit schemes as a means to spur capital infusions into the countryside. Since the start of the transition, only limited amounts of capital had reached the small, agricultural entrepreneurs because commercial banks regarded them as high-risk loan applicants who lacked collateral and maintained unreliable accounting and performance records. Moreover, high interest rates had impeded their borrowing. Therefore, Phare designed rural credit guarantees to meet the capital needs of private farms and agri-businesses:

The objective is to promote private sector development in agriculture during the initial period of transition by facilitating the mobilization of capital assistance for small- and medium-sized enterprises in farming and related sectors of processing, marketing, and distribution, to enhance complementarity with the loans of International Financial Institutions by providing guarantees to available credit lines, and to stimulate an emerging agricultural credit culture in general.[39]

In Hungary, for example, Phare implemented a rural credit program to establish an efficient banking network, increase capital mobilization, and enlarge rural lending capacity. This project consisted of two parts.[40] First, Phare delivered an ECU 2 million grant to prepare a plan of action with the National Federation of Savings Cooperatives, advise cooperatives on disbursing IFI funds, develop human resources, and computerize loan operations. Second, it channeled ECU 3 million through the Capital Development Facility to attract other institutions to use the rural cooperatives as credit channels. It also helped the savings cooperatives to meet the minimum capital requirements, increase their equity bases, establish a Common Deposit Insurance Scheme, and restructure the savings cooperative network. In Poland, Phare assisted regional and local banks to meet their licensing criteria and assisted the government to meet its obligations to the World Bank under the conditions of its Agricultural Development Project loan.[41] Finally, in other projects, Phare contributed to the drafting of legal frameworks for credit institutions—their statutes, modes of operation, accounting systems, and management structures—while training agricultural loan officers in the practices of credit appraisal, portfolio management, accounting, and fund management.
Again, Phare advocated a positive, non-interventionist role for CEE governments in which they would create a suitable environment for credit expansion. For example, they could make the agricultural sector more attractive to commercial banks by passing consistent tax legislation and refusing to subsidize unprofitable enterprises. Also, they could avoid restricting the lending activities of commercial banks with loan quotas and interest rate limits. Finally, they could insist on timely debt repayment and enforce penalties for non-repayment in order to discipline the rural credit market. In sum, the CEE governments could stimulate private sector growth by improving capital mobility without disrupting market signals.

Future Orientations

In June 1994, Phare published an agricultural strategy paper in which it articulated its frustration with the widening gap between Phare policy objectives and CEE reforms. In the early stage of the transition, Phare had cooperated closely with the CEE in delivering emergency input supplies. However, as Phare assistance evolved to the second stage of structural reform, the views of Phare and the CEE governments started to diverge over the issue of government interventionism. For each project—land reform, enterprise development, and rural credit expansion—Phare had defined the limits to which the CEE governments should intervene. Yet, Phare now complained that they had exceeded these boundaries and intervened too much in matters that were best left to the private sector:

There is...a growing discrepancy between what should be the longer-term aims of agricultural reform in the central and eastern European countries—the development of efficient and internationally-competitive agricultural production based on private-sector initiative and free market prices—and the short-term agricultural measures introduced lately, which are increasingly becoming interventionist in nature.[42]

Phare’s long-term aim for CEE agriculture thus conflicts not only with recent measures introduced by the CEE governments, but also with the objectives of the CAP. First, Phare describes CEE agriculture in terms of efficiency and competitiveness, not income stability and self-sufficiency. Second, it bases agricultural production on private sector initiative and free market prices, not government planning and subsidized prices. As such, Phare’s conception of agricultural policy demonstrates a marked shift from the protectionist orientation of the CAP. The most glaring difference is Phare’s belief that CEE governments should not provide price subsidies because farmers should compete for their profits like actors in any other sector. Phare believes this process will increase productivity, decrease costs, make efficient farmers more profitable, and benefit consumers with lower food prices. In effect, agricultural policy will contribute not only to the income of farmers, but also to the welfare of society—an objective not shared by the CAP.

Yet, Phare recognized a short-term need for CEE government intervention to absorb the early shocks of transition. To advocate complete government withdrawal from the agricultural sector would seem unwise because such an abrupt change would cause excessive market imbalance and suffering. Therefore, Phare advised the CEE governments to intervene and prevent public opinion from turning against reform:

It should...be recognized that the infrastructure and incentive systems created under the old Communist regime cannot be rectified overnight without high social, political, and economic costs. During the early stages of the restructuring process, therefore, there is a need for more government involvement in the economy than would normally be the case in some European Union Member States. Indeed, the central and eastern European countries have to strike a balance and maintain sufficient reform momentum by preventing that the social cost increases to a point where popular support for the reforms would be lost.[43]

Phare objected to the recent behavior of the CEE governments because they were obstructing progress toward a free market economy and jeopardizing Phare's long-term aim. Therefore, Phare decided to orient its future assistance around projects that would minimize government intervention:

Phare will therefore support policy reforms and programs of assistance in the countries concerned to ensure that this dichotomy which has developed in policy is clarified, and that operations in the agricultural sectors of the central and eastern European countries are consistent with modern market-economy principles. This will eventually call for less government involvement in the sector, similar to the situation which prevails in the European Union Member States.[44]

Yet, this repeated comparison of the CEE governments to EU Member States seems paradoxical. On the one hand, Phare argues that as the agricultural sector shifts to a free market, CEE government interventionism will decline to EU levels. On the other hand, it asserts that recent CEE government interventionism is explained by the CEE's effort to harmonize their agricultural policies with the CAP in preparation for EU membership.[45] These two assertions produce a paradox: how can Phare claim that the CEE governments excessively intervene in the agricultural sector because they are harmonizing with the CAP, but also argue that CEE interventionism will decline to EU levels as the CEE economy transforms into a competitive free market? This logic implies that the CAP is both the cause and the solution to CEE interventionism. Evidently, there is a flaw in Phare's logic. The solution to this paradox, though, becomes clear in examining Phare's plans for its future orientations in agricultural assistance where it outlines three goals—policy convergence, productivity enhancement, and export growth.

First, Phare planned to assist the convergence between CEE and EU policy because agriculture has both economic and political sensitivities and so will likely engender a major debate in CEE negotiations for EU membership. Phare thus advised the CEE governments to approximate the CAP's legal and regulatory framework and to raise their standards for quality, packaging, and hygiene to CAP levels. Yet, Phare also noted that more consideration should be given to reformulating the CAP:

Policy coordination in agriculture will clearly be an important future step and will have to take as its starting-point the policy existing on each side. Reflection is only just beginning within the European Union as to the development of the Common Agricultural Policy and the extent to which it will be reformulated to take account of the agriculture sectors of the associated central and eastern European countries.[46]

By suggesting that the CAP will be altered in preparation for EU enlargement, Phare clarifies that policy convergence will involve a two-way process in which the CAP and CEE adapt to each other's conditions.

In other words, Phare believes that the CAP and the CEE should both start to dismantle their interventionist policies in order to facilitate EU enlargement. Convergence, then, will not merely mean CEE imitation of the CAP.

For its second future orientation, Phare planned to enhance agricultural productivity. So far, CEE farmers had not yet realized the full potential of their crop and livestock outputs because of structural deficiencies, distorted incentives, input shortages, high costs, and inefficient operations—carry-over effects from the communist period. As a result of these adverse conditions, CEE growth rates turned negative. From 1989 to 1992, for example, outputs of coarse grain, dairy products, and wheat fell by 17 percent, 21 percent, and 29 percent, respectively (see Table 6).

Table 6: Agricultural Output, 1986-1992
(millions tons)
Average % Change

	1986-1989	1990	1991	1992	1989-1992
Wheat	32.1	34.3	31.4	22.8	29.0
Dairy	30.9	30.7	27.5	24.5	20.7
Coarse Grain	48.2	43.2	51.5	39.8	17.4
Meat	6.6	6.7	6.5	6.0	9.1

Source: Phare, "Progress and Strategy Paper" p. 12. This data includes Hungary, Poland, Slovakia, the Czech Republic, Bulgaria, and Romania.

Phare thus decided to concentrate on removing the structural obstacles to growth in productivity. To this end, it proposed to expand its existing projects for extension and advisory services, as well as rural credit and investment schemes. It would also pursue three new goals. First, it would restructure research institutes and deliver their analytical findings to farmers to raise their level of expertise. Second, it would improve farm management in areas such as quality control and accounting. Third, it would fund public infrastructure projects and promote micro-enterprise development in upstream and downstream industries for depressed regions which are suffering problems in soil fertility, farm income, and unemployment. Overall, Phare would continue to insist on a minimalist role for the CEE governments so that they intervene only when they can quantify the benefits:

If, in view of future relations with the European Union, [CEE] governments were advised to develop support measures, this should be encouraged only if based on accurate assessment of farm or enterprise income and expenditure data and rational consideration of the economic, social, environmental, fiscal, and other costs and benefits of using resources in this way.[47]

Again, Phare's approach to agricultural policy differs from the CAP. Phare states that support measures must be assessed not just in terms of farm and enterprise income, but also in terms of social, environmental, and budgetary effect. Such standards are not applied in the CAP where price supports are explicitly linked to rural incomes in the annual price review without due consideration for other consequences. This oversight is reflected, for example, in the fact that rural income disparities have widened. Phare's approach thus refuses to allow an unrestrained rise in government interventionism even though this policy might promise to ease temporarily the pains of transition.

Finally, Phare proposed to orient its future agricultural assistance around export promotion. Phare calculated that trade is critical to the transition because it will expand the foreign market for CEE agricultural products and raise the level of domestic competition. As a result, trade will have a highly positive effect:

External trade is extremely important for the effects which it can have on the efficiency, growth, and development of gross production in the agriculture sector. In this respect, the Europe Agreements have been a significant step forward for the sector as a whole because of the potential for market access, the abolition of trade restrictions, and, as a result, the growth of exports and production which they imply in the medium term.[48]

Phare would thus assist CEE farmers to realize their export potential by providing a variety of technical assistance. First, it would finance sectoral studies to assess the comparative advantage and export potential of CEE products, particularly in the EU market. Earlier reviews had evaluated five markets—cereals, meat, dairy, horticulture, and sugar—but Phare would now broaden its scope to include the entire food chain—primary production, secondary production, distribution, export, and import. The CEE could then compete more effectively with the EU outside of basic commodities. Second, it would erect border controls, improve communication facilities, supply diagnostic and laboratory equipment for product testing, and ensure compliance with EU sanitary regulations. Third, it would encourage EU firms to start joint-ventures and invest directly in the CEE processing industry by conducting feasibility studies, providing pre-investment and training funds, and assisting enterprise-to-enterprise cooperation schemes that enable CEE agri-businesses to expand their distribution and marketing networks. Finally, it would train CEE employees in marketing techniques to promote agricultural exports. In sum, Phare's objective would be to increase CEE exports, particularly in the market for high value-added, processed products so that it could accumulate critical foreign capital. Again, Phare's approach to agricultural policy conflicts with the CAP because it sought to promote export competition with the EU. In 1990, CEE agricultural exports declined dramatically as trade in the Council for Mutual Economic Assistance (CMEA) plummeted and the Soviet Union increasingly demanded payment for its energy and raw materials exports in hard currency rather than agricultural barter. Nevertheless, Phare expected a return to higher production levels and a decline in CEE food consumption, at which point the CEE could export more agricultural commodities. By delivering technical assistance to facilitate this turn-around, Phare would enable the CEE to challenge the CAP's protectionist agricultural trade barriers, which remained high under the Europe Agreements (see Section Three). Phare could have advised a less confrontational strategy, such as urging the CEE to pursue a goal of national self-sufficiency, but such a strategy would not have maximized the CEE trade potential and would not have deepened the structures of the emerging free market economy.

In sum, these three future orientations explain Phare's paradoxical comparison of CEE government interventionism to the EU Member States by revealing the extent to which Phare bases its agricultural policy on free trade principles. In each orientation, Phare identifies a point of disagreement with the CAP: first, it states that policy convergence between the CEE and EU should be complemented by CAP reform; second, it argues that the CEE governments should intervene in agriculture only if they can demonstrate the benefits to farm and enterprise income, as well as the society, environment, and budget; and third, it challenges CAP protectionism by promoting CEE export growth. Each orientation thus reflects a dynamic vision of protectionism: CEE governments intervene too extensively in agriculture because they are harmonizing with the current CAP structure, but Phare argues that these interventions will decline to EU levels as the free market develops because CAP protectionism will also decline. In effect, Phare anticipates that its future orientations—policy convergence, productivity enhancement, and export promotion—will encourage both the EU and the CEE to shift toward free trade.

3. PHARE POLICY NETWORK

Phare assistance to the CEE acquired special importance after the EU made enlargement a high priority of the transition. At its Copenhagen Summit in June 1993, the European Council offered CEE signatories of the Europe Agreements—Poland, Hungary, Slovakia, and the Czech Republic, and soon after, Bulgaria and Romania—the prospect of EU membership upon fulfilling certain political and economic pre-conditions. The Europe Agreements thus clarified EU-CEE relations and made EU membership the central objective of CEE foreign policies. They also heightened the profile of the Phare program by naming it and the European Investment Bank (EIB) as the two EU financial institutions that would prepare the CEE for accession.[49] Consequently, Phare developed a critical niche role as an institutional liaison between the EU and CEE. This responsibility required Phare to begin harmonizing CEE laws, norms, and practices with EU standards in areas like competition policy, intellectual property, and worker protection. Above all, it required Phare to address the formidable issue of preparing CEE agriculture for integration into the EU's most politically sensitive and economically interventionist policy—the CAP.

The previous section showed that Phare agricultural assistance to the CEE from 1990 to 1994 was formulated on free trade principles, as it strived to reduce government intervention, increase intrasectoral competition, and encourage firms to export agricultural products to the EU. As a result, the Phare model for CEE agriculture diverged from the CAP model of protectionist agriculture. This section investigates the means by which Phare developed such a contradictory policy: first, it analyzes key features of the Phare policy network and compares them to the CAP policy network; second, it offers a broader look at EU-CEE agricultural relations and outlines the contradictions between EU agricultural aid and trade objectives which resulted from the gap between the Phare and CAP policy networks; and third, it assesses the link between agricultural policy and EU enlargement and discusses the impact that Phare and the CAP may have on this vital issue.

Structure of the Network

The concept of Phare originated in July 1989 as the West tried to respond rapidly to the unanticipated collapse of communism in Eastern Europe. The Group of Seven (G-7) agreed to send assistance to Poland and Hungary, the first two CEE countries to embark on the post-communist transition, and assigned the European Commission two tasks: first, it would coordinate all bilateral aid programs implemented by the Organization for Economic Cooperation and Development (OECD), a group also called the G-24, and it would participate in regular consultations between the OECD and major International Financial Institutions (IFIs)—the EIB, World Bank, International Monetary Fund (IMF), and European Bank for Reconstruction and Development (EBRD).[50] Second, the G-7 instructed the Commission to manage an independent assistance program, called Phare, with funds from the EU budget.[51] Therefore, Phare seemed a unique EU program from the outset because it was initiated by the G-7 outside the EU institutional framework. In practice, Phare would answer to the Commission's supervisory authority and so represent EU interests, but, in principle, it was also mandated to complement the assistance of the IFIs and other bilateral donors.
The Phare program is managed by the Phare Operational Service (PHOS) within the Commission's DG-I. Its staff is divided into four operating units which utilize Commission resources both in Brussels and the EU delegations that are located in most CEE capitals. The main dialogue of the Phare policy-making process occurs between PHOS and the CEE recipients. These two bodies work in partnership to design assistance projects on the condition that each CEE recipient maintains a commitment to democracy and a free market economy. The Phare program is thus demand-driven: the CEE recipients submit their requests for assistance, then assume full responsibility for program implementation. This approach contrasts with the methods of the IFIs: the IMF, for example, imposes strict conditions on its stand-by credits in order to monitor the recipient's macro-economic stability. Yet, the Phare program pursues a different objective and so employs different a means: it strives toward micro-economic change, so it takes more account of local conditions. Rather than evaluating each CEE recipient against a fixed set of indices, Phare appreciates that each country operates under different pressures, reaches the stages of transition at different times, and holds a different opinion about the proper sequencing of reform. Thus, Phare adjusts to the particular interests and needs of each CEE recipient and engages in a highly interactive partnership:

...Phare constitutes, in essence, a government-to-government program, the objectives, scope, means, and methods of which are identified and defined in a continuous dialogue between the European Commission and the respective partner governments...Generally speaking, only those projects and ventures which have been retained in partner governments' reform policies and have been presented by them to the European Commission for funding are considered for support.[52]

This interaction continues throughout the annual programming cycle which begins when the Council of Ministers and EP approve the Phare budget in the annual EU budget. The Member States then agree on guidelines for Phare assistance, and the Commission allocates funds to the CEE recipients and regional programs while taking into account three factors—first, special instructions contained in the EU budget commentaries; second, Phare guidelines agreed by the Member States; and third, country orientations agreed with the Phare Management Committee, a body of Member State representatives. Also, these allocations are based on objective criteria, such as national population and GDP, and subjective criteria, such as level of commitment to the reform process. Once these allocations are finished, the PHOS prepares strategy documents for each CEE recipient and submits them to the Phare Management Committee. The CEE recipients are notified of their funding, then they determine their priority reform areas in consultation with the Commission and outside experts, as necessary. Together, these groups draft Indicative Programs to specify the objectives and framework for each project and indicate the main sectors to be financed. Increasingly, these Indicative Programs are projected over several years so that Phare develops a longer-term perspective, but the spending commitments remain annual. Phare then collaborates with CEE ministries, institutions, and organizations to identify, analyze, and appraise these projects on a technical level, and their assessments contribute to a document called the Financing Proposal, which describes the content and conditions for each project. Again, the Phare Management Committee, which meets about six times a year, scrutinizes the Financing Proposal and offers its opinion to the Commission before a final vote. If approved, the Commission and CEE recipients then sign a Financing Memorandum to complete the programming cycle after a period of twelve to fourteen months. The outcome of this year-long interaction is well-targeted programming in which Phare assistance is made directly relevant to each CEE recipient's reform policies and priorities.[53]

During the next stage of the Phare policy-making process, CEE recipients become more deeply involved as they assume responsibility for implementation. In each country, Phare appoints a National Coordinator to allocate funds between government ministries and to supervise projects throughout the planning, programming, and implementation stages. This coordinator, who is usually a minister or state secretary, also informs the PHOS about changes in the recipient's priorities. The actual start-up and management of projects is then handled by Project Management Units (PMUs) which are sector-specific organizations staffed by local civil servants from the relevant government ministries and implementing agencies; they also receive support from Phare-funded experts, as necessary. The PMUs represent the driving force behind Phare on the ground because they prepare, implement, and monitor Phare projects, launch tenders for supplies and services, and award contracts in accordance with EU financial regulations. These responsibilities bring the PMUs into contact with a wide range of enterprises: a single agricultural project, for example, may require professional skills for legal drafting, aerial surveying, rural credit management, and technical training. Generally, the awarded enterprises must fulfill four criteria: first, they must maintain a long-term presence in the CEE recipient by establishing local offices and employing local staff; second, they must provide expertise from all EU Member States, if possible; third, they must implement projects and train local officials; and fourth, they must be non-commercial. These criteria thus narrow the pool of applicants and restrict the number of enterprises lobbying for Phare grants.

In 1992, Phare completed its first three years of operations and was due to expire, but in November, the Council of Ministers reviewed its performance favorably. The widening of its scope and the realization that the CEE transition would require more time compelled the Council to extend Phare funding until 1997.[54] Meanwhile, it also recommended three new guidelines—multi-annual programming, investment support, and decentralization:

In order to integrate Phare assistance more effectively into the process of medium-term restructuring, a multi-annual approach to programming should be adopted with more explicit policy objectives and conditionality and increased concentration of aid on key sectors; increased support for investment should be envisaged alongside technical assistance; [and] to be able to respond rapidly to the needs of the [CEE], efforts should be made to further streamline implementation procedures, including more decentralization, while ensuring that aid quality was maintained.[55]

As Phare streamlined and decentralized its operations, the PMUs assumed greater importance and the CEE recipients acquired additional responsibilities. Phare thus started to develop in the CEE recipients the requisite systems and capabilities for managing projects. In the agricultural sector, for example, this reorientation caused a reshuffling of CEE bureaucracies so that large-scale agricultural projects could be managed entirely by the Ministry of Agriculture or a designated implementing authority. These changes in Phare thus spilled-over into changes in the CEE governments:

...This decentralized system has had important consequences for the organizational behavior in the agriculture ministries, agencies, or organization in charge of a particular sectoral program and helped to build up a local management capacity—both administratively and substantively—within the organization concerned.[56]

Phare further shifted responsibility for project management to the CEE by switching from annual to multi-annual programming. This enabled the CEE recipients to manage their assistance with a longer-term perspective because the guarantee of future grants would allow them to embark on comprehensive reforms without the risk of lost funding. Phare also shifted from the first stage of assistance, in which it provided short-term aid like input supplies, to the second stage of assistance, in which it would stimulate investment for medium- and long-term restructuring projects. The overall effect of these three alterations in Phare operations - decentralization, multi-annual programming, and investment support - was to improve the management capabilities of the CEE recipients and to enable them to maximize their foreign assistance by linking these funds into a longer-term reform framework.

A secondary dialogue in the Phare policy-making process incorporates the major IFIs and bilateral donors, such as the US Agency for International Development. Phare coordinates its activities with the bilateral donors in two ways. First, it participates in the G-24 consultative framework, which involves regular meetings between senior officials in working groups intended to generate common policy objectives and actions in specific sectors.[57] Second, Phare's own sectoral projects erect coordination units in the CEE recipients to coordinate G-24 bilateral assistance. Phare also collaborates with the IFIs in two ways. First, it regularly exchanges project information with the IFIs, participates in joint activities—task forces, missions, reports, and studies—and occasionally co-implements projects. For example, if the IMF provides financial advice to a CEE central bank concerning its policies and regulatory framework, and the World Bank provides loans for major, structural adjustments, then Phare funds employee training schemes and computer hardware purchases to complement the IMF and World Bank objectives. Second, Phare acts as a multiplier by unlocking investment funds from the IFIs. Phare does not support the general financing needs of CEE recipients, so it aims to stimulate other IFI investments by reducing the prohibitively high risks associated with various projects. For example, Phare contributes to the growth of small- and medium-sized enterprises (SMEs) by financing feasibility studies, technology transfers, and credit guarantees. These risk-reducing activities then catalyze capital inflows from the IFIs to produce a "potent mixture" which greatly magnifies the total amount of assistance.[58] The agricultural sector provides evidence of this effect:

In the beginning of the reform, Phare financed expert assistance to help the countries formulate initial reform strategies, undertake economic sector studies, and assist with project implementation and coordination in agriculture. In this, as in many other areas, Phare assistance was coordinated and co-implemented as far as possible with the reviews and assistance of the World Bank, the EBRD, and other major multilateral or bilateral donors towards the sector...In this sense, complementarity was achieved, in that the technical assistance provided by Phare on a grant basis has often been instrumental in mobilizing loan financing by the International Financial Institutions for restructuring of agricultural sectors in the countries concerned.[59]

The European Council recognized the value of this multiplier role and so decided at the Copenhagen Summit to allocate up to 15 percent of Phare's funds exclusively for co-financing major infrastructure projects with the IFIs. Overall, then, this coordination between Phare, the IFIs, and other bilateral donors creates a synergy that benefits the CEE recipients in two ways: first, it enables them to define their sectoral strategies with clearer and more consistent targets, which is vital when the public is suffering through high inflation and massive unemployment in hopes of a brighter future; and second, it creates a division of labor between the various donor bodies that reduces the potential for duplicated efforts. Although the EP and European Court of Auditors have criticized the Phare projects for their overlap and inconsistency, coordination remains a high priority.

In sum, the Phare policy network involves the interactions of three core actors—the PHOS, the CEE recipients, and the IFIs and other bilateral donors. Therefore, the Phare policy network fulfills the Rhodes model definition of a policy community. First, its membership is closed and stable. The majority of policy-making activity occurs during the programming cycle between the PHOS and CEE recipients with secondary input from the IFIs and other bilateral donors. The Council of Ministers and EP draft the overall budget, but they do not influence the key policy-making steps, such as fund allocation and strategy development. Moreover, the Phare policy community is distinct from the CAP policy community because the PHOS is located in DG-I, not DG-VI, and it does not maintain official links with the national and EU agricultural interest groups, like COPA. As a result, the representatives of large, commercial farmers do not participate in the core policy-making processes of the Phare policy community.

Second, interactions in the Phare policy community are frequent and consensual. The programming cycle lasts twelve to fourteen months, and the implementation cycle lasts one to several years, so the PHOS and CEE recipients maintain close contact year-round. Moreover, consultations with the IFIs and other bilateral donors occur regularly, if less frequently, because the Commission is obliged to participate in the G-24 consultation mechanism. These interactions are consensual because Phare adheres to a demand-driven approach: whereas IMF relations with the CEE seem hierarchical due to the imposition of strict, macro-economic criteria, Phare relations with the CEE are more collegial due to their extensive collaboration. Phare applies a set of common principles to its overall strategy, but it allows for variations in implementation. It understands that without consensus and willingness, the assistance projects would likely fail.

Finally, the Phare policy community involves equitable and positive-sum resource distributions. Because the Council and EP determine the Phare budget, political debates about the Phare program—for example, whether Phare funding should be increased at the expense of other EU programs—are resolved outside the Phare policy community. Therefore, the only budgetary questions that are addressed inside the policy community concern country allocations which are equitable in the sense that the objective allocation criteria—population and GDP—strongly influence the funding levels. This procedure minimizes the occasion for lobbying and prevents inequitable distributions. Phare grants are also positive-sum because they provide mutual benefits: the EU benefits by strengthening the CEE demand for EU exports and preparing these countries for EU membership, while the CEE benefits by rebuilding its economy using the most advanced EU technology and know-how. Also, the Phare budget generally does not trigger disputes outside the policy community because Phare grants are relatively small. In its first five years of operation, the Phare budget averaged less than ECU 1 billion annually, which pales against the CAP annual budget average of nearly ECU 30 billion. Therefore, the Phare budget is not a high-profile target for EU lobbying groups, particularly in the agricultural sector since agricultural assistance comprised only 11.5 percent of Phare funding from 1990 to 1993.

Two other factors contribute to the closed structure of the Phare policy community. First, the Phare program has operated under severe time constraints since its founding because CEE communism collapsed without advanced warning:

These events took the European Community and its Member States totally by surprise, although this development had been one of their most important official foreign policy goals for decades. However, none of them was really prepared, none had a blueprint for dealing with the new situation.[60]

Phare thus scrambled to formulate a coherent, financially-stabilizing response to this crisis and acted under extreme time pressure to meet the EU's 1990 budget deadlines. Thus, Phare chose "a highly pragmatic course" in which it targeted the CEE's most urgent needs—agriculture supply and credit programs, environmental protection, and human resources and training.[61] After this initial policy formulation, Phare continued to face stringent time constraints because it assisted a growing number of CEE recipients whose needs were unique. These conditions required Phare to maintain a tight decision-making process which could follow local events closely and adapt the Phare budget accordingly. As a result, Phare achieved a respectable rate of resource allocation during its first four years. All its key funds were committed within the annual budget timetable, nearly half were contracted, and about three quarters were disbursed—a normal delivery rate for an assistance program concentrating on medium-term, technical assistance.[62] This relationship between time constraints and tight policy-making structure is consistent with a policy network analysis of the EU Esprit program where Peterson found that rapid technological changes permitted the Commission to operate more independently from the Member States:

The Commission enjoys a level of autonomy in managing Esprit and other Framework initiatives which is unmatched in most other EC policy areas. This is largely because the united strategy of the Big 12 firms in the mid-1980s convinced Member States that the EC's technological decline required expedient, technocratic decision-making structures.[63]

In that case, the exigencies of global technology competition required the EU to make policy choices quickly in order to prevent the EU falling further behind the Japanese and American competitors. This analogy applies to the Phare program because if it had opened its programming cycle to a wider range of actors, such as EU agricultural interest groups, then Phare would likely have distributed its resources to the CEE recipients less effectively. In agriculture, for example, inputs must reach the farmers by a certain date before losing their impact on the year's harvest. So, when CEE food production collapsed after 1989, Phare had little choice but to act quickly and autonomously.

A second factor which added to the closed structure of the Phare policy community was the technical nature of its assistance, particularly in the agricultural sector. This feature is also evident in the CAP policy community where few policy-makers understand the highly technical operation of price supports and variable levies. In Phare, this complexity was compounded by the lack of EU expertise on CEE agriculture prior to the collapse of communism. After 1990, Phare officials not only had to acquaint themselves with less familiar economic conditions, but they also had to contend with "a difficult and unstable environment with frequent changes in governments and basic policies as well as in the institutions and counterparts responsible for implementing the programs."[64] As a result, the knowledge base on which Phare prepares its agricultural strategy has been limited to a small group of well-informed policy-makers who have maintained close contacts with their CEE counterparts.

Overall, Phare has operated like an insulated think tank inside the Commission, devoting more attention to free trade ideology than protectionist politics. The transition created a brief moment in which Phare could operate autonomously from EU institutions and lobbying groups and so construct an agricultural policy based mostly on the calculation of long-term benefits to the CEE economy. This type of policy-making could not have occurred in an environment of routine bargaining between bureaucrats and interest groups. This sense of policy-making independence is reflected in the Foreword to Phare's agricultural strategy papers written by Alan Mayhew, the Director of Phare:

[These papers] contain the thinking of those responsible for operating Phare on actions for the future and how Phare should contribute to the next phase of the transition. The papers do not reflect any official position of the European Commission. They have been written by the Phare Operational Units and are intended as a stimulus to discussion for all those involved in the debate on economic transformation in central and eastern Europe.[65]

Phare has certainly succeeded in stimulating discussion about the CEE transition by its high level of activity inside the CEE and extensive interaction with the major IFIs and bilateral donors. Yet, the negative consequence of Phare's independent approach to policy-making has been its lack of coordination with the CAP—an oversight which allowed deep conflicts to emerge between EU aid and trade objectives.

Trade Versus Aid

EU agricultural policy toward the CEE has been hampered by contradictions in its aid and trade objectives. On the one hand, Phare has strived to realize the export potential of CEE agriculture, and on the other hand, CAP trade barriers have obstructed the rising tide of CEE food exports. Aid and trade policies have thus clashed—with Phare extending a carrot, and the CAP wielding a stick—because of the gap between the Phare and CAP policy networks. Each network has operated as a tight, closed policy community and prevented competing ideas from filtering into their policy-making processes, so Phare and the CAP have failed to merge. Therefore, EU agricultural policy is comprised of two, distinct policies in which Phare represents the interests of CEE farmers, and the CAP represents the interests of EU farmers. This division merits close examination because it highlights the relationship between network structure and policy outcome. Specifically, it illustrates the capacity of two policy networks, Phare and the CAP, which are located in the same institution, the European Commission, to promote and defend policies that diametrically oppose one another.

Trade is an essential component of the transition because the CEE has enormous export potential across a wide range of products, especially with its proximity to the EU market. An export-growth strategy would yield three, long-term benefits. First, it would enable the CEE to accumulate foreign capital to finance its domestic reforms and raise depressed living standards. Second, it would link the CEE economy to the global market and compel CEE enterprises to realize their comparative advantage in response to accurate, market price signals. Third, it would stimulate competition in the growing CEE private sector so that formerly state-owned enterprises could no longer monopolize production and marketing. Moreover, an export-growth strategy seems sensible given that CEE export profiles were warped by membership in the CMEA, a trading bloc which arranged exchanges of heavily subsidized Soviet energy for CEE agricultural exports. These terms of trade allowed CEE firms to thrive without paying world market prices for energy inputs, so inefficiencies became locked into their production methods; these could now be eliminated by trading under highly competitive conditions. In addition, the Soviet-dominated CMEA restricted CEE trade with the EU because Moscow feared economic dependency on the West. Therefore, actual CEE-EU trade fell short of potential levels predicted by a gravity model.[66] Romania, for example, fulfilled only 30 percent of its potential trade with the EU in 1985, while six CEE countries averaged only 18.9 percent of their potential exports and 17.3 percent of their potential imports (see Table 7).

Table 7: Potential and Actual CEE-EU Trade, 1985
($ billions)

	Exports		(%)	Imports		(%)	
	Actual	Potntl	Realzd	Actual	Potntl	Realized	
Bulgaria	0.4	2.5	16.0	1.3	2.7	48.1	
Czechoslovakia		1.5	15.2	9.9	1.6	15.7	10.2
East Germany		4.7	23.6	19.9	4.3	23.9	18.0
Hungary	1.3	6.5	20.0	1.8	6.9	26.1	
Poland		2.5	12.7	19.7	2.1	13.9	15.1
Romania	2.6	5.3	49.1	0.8	5.8	13.8	
Total		13.0	65.8	19.8	11.9	68.9	17.3

Source: Hamilton, Carl B., and L. Alan Winters. "Opening Up International Trade with Eastern Europe" Economic Policy (April 1992) p. 85.

Because of these gaps between actual and potential trade, economists expected an explosion in CEE-EU trade after 1990. Hamilton and Winters, for example, estimate that opening up trade with the CEE and the republics of the former Soviet Union (FSU) would "introduce new supplies of goods and export market opportunities on a scale and speed unprecedented in modern history."[67] This massive increase would occur because the CEE and FSU account for 15 percent of world income, possess scientific education facilities that match Western standards, and will increase their competitiveness through the introduction of free market incentives and the transfer of Western technology. Altogether, Hamilton and Winters forecast that the CEE and FSU could raise their share of world merchandise trade from 7 to 18 percent over two to three decades, such that gains from trade would greatly outweigh gains from aid:

Clearly, [CEE and FSU] trade with market economies currently falls dramatically short of its potential...Failure to realize the potential increase in trade could have serious implications... [because] sound international trade relations are likely to offer a far greater stimulus to the [CEE and FSU] than could any conceivable aid flow.[68]

Yet, the CEE could not export to the EU market unless there occurred a corresponding decrease in EU trade barriers. CEE-EU trade relations did not bear a long history, having develope along cautious, politically-sensitive lines.[69] In June 1988, the Soviet Union allowed the CMEA and EU to sign General Trade and Economic Cooperation Agreements which marked the first step toward trade liberalization. Then, after the transition started, the EU introduced more radical, unilateral measures which quickly increased EU-CEE trade flows: it abolished quantitative restrictions previously applied to state-trading countries and suspended some quantitative restrictions previously applied to third country imports; it also extended its Generalized System of Preferences. Yet, the pace of reform quickened and the issue of EU enlargement also became a serious consideration. Therefore, in December 1991, the EU signed "second generation" Interim Agreements with Poland, Hungary, and Czechoslovakia; Romania and Bulgaria signed about a year later. These agreements, later called

Europe Agreements, replaced the obsolete General Trade and Economic Cooperation Agreements and proclaimed a bold initiative—the gradual establishment of a free trade area over ten years.[70] The agreements abolished all quantitative restrictions on industrial imports, except textiles and coal, eliminated tariffs on more than half the EU's imports, and scheduled the remaining tariffs on industrial imports to disappear over five years. In order to minimize the shock to the CEE, the agreements awarded preferential treatment by which the CEE would lower their trade barriers asymmetrically over ten years. These agreements also included a standstill clause to prohibit the introduction of new trade restrictions, and they provided for the national treatment of private firms and workers, liberalization of cross-border services, easing of payments and financial transfers, and approximation of competition rules. The agreements even stretched beyond trade to initiate regular political consultation and cultural cooperation. Given this broad scope of application, the EU emphasized that the Europe Agreements marked "the beginning of an entirely new era in bilateral relations" between the EU and CEE.[71] However, the agreements also included anti-dumping and safeguard clauses which either side could invoke to protect a vulnerable industry against unfair trading practices. Critics charged that these measures reflected the EU's inflated fear of CEE competition and might cause creeping protectionism: as the CEE expanded its exports, the EU might decide to protect sensitive markets, which then would encourage the CEE to retaliate with equally protectionist measures. In that case, the EU would provide a poor role model to aspiring free market economies and embolden CEE conservative groups who prefer to delay the reform: "[The EU's] interventionist stance on international trade may legitimize resistance to change and market forces in the eyes of the emergent Eastern economies."[72] Therefore, many observers felt that it was incumbent upon the EU, as the CEE's largest potential trading partner, to fulfill its special duty to promote free trade, but the immediate results of the Europe Agreements proved disappointing. In 1991, EU imports from Poland, Hungary, Czechoslovakia, Romania, and Bulgaria increased 24 percent to ECU 16.1 billion, while EU exports increased 46 percent to ECU 17.5 billion. This EU trade surplus was the opposite intention of the Europe Agreements. This situation was particularly grave considering that the CEE needed to sustain a trade equilibrium to avoid aggravating its debt predicament. The Commission, though, found little cause for alarm since it explained that a five-fold increase in exports of transportation equipment to Poland had temporarily created this CEE trade deficit.[73] Yet, the EU trade surplus reached ECU 2.5 billion in 1992, and it forced the European Council in Copenhagen to liberalize further the Europe Agreements.

This CEE trade deficit problem became particularly acute in the agricultural sector and generated acrimonious debate because the CEE possessed a comparative advantage in food production relative to the EU. CEE agricultural products could already penetrate the Western markets with their reasonable quality standards and low prices, and anticipated improvements in production and sanitation would only increase their competitiveness. However, EU agricultural protectionism is a highly political and sensitive issue, so the Europe Agreements contained a special protocol for agriculture which scheduled reciprocal trade liberalization and maintained normal CAP trade barriers. The EU then aggravated this situation by invoking the safeguard clauses. In April 1993, for example, it banned imports of CEE livestock and dairy goods for a month after an outbreak of foot-and-mouth disease in the former Yugoslavia. Although the EU eventually lightened its terms, this ban still soured EU-CEE trade relations.[74] In addition, processed foods from the EU flooded the CEE market and displaced burgeoning local production: "In Sofia, there is more French cheese, Danish pork, Dutch tomato concentrate, and Greek pasta than there is of equivalent Bulgarian products."[75] The most serious problem, though, was the agricultural trade deficit. From 1989 to 1992, the CEE agricultural trade surplus dropped from ECU 874 million to ECU 301 million, then turned negative in the first ten months of 1993 (see Table 8). Phare extrapolated these figures through 1993 and found that EU exports had grown by 300 percent since 1989, while CEE exports grew by just 9 percent. Although the CAP's trade barriers did not account entirely for this deficit because CEE output also declined and many EU quotas went unfilled, this trend clearly did not complement the Phare program's export promotion strategy and reflected poor CAP-Phare coordination.

Table 8: CEE-EU Trade, 1989-1992
(ECU billions)

		% Change				
	1989	1990	1991	1992	1989-1992	
Total Exports		12.1	12.9	16.1	18.9	56.4

Total Imports		11.5	12.0	17.5	21.4	86.1
Total Trade Balance	0.6	0.9	1.4	2.5	5.67	
Agricultural Exports	2.1	-	-	2.3	9.5	
Agricultural Imports	1.2	-	-	2.0	66.7	
Agric. Trade Balance	0.9	-	-	0.3	66.7	

Source: Phare, "Progress and Strategy Paper" p. 13. This data includes Hungary, Poland, Slovakia, the Czech Republic, Bulgaria, and Romania.

Economic analyses of potential CEE-EU agricultural trade confirm the economic irrationality of EU trade policy. Hamilton and Winters argue that if the EU completely liberalized its agricultural market, then highly competitive CEE exports would force EU farmers to face lower food prices and declining output (see Table 9). Yet, even if the EU did not liberalize its market, then increased CEE food output would deflate world prices and force the CAP to increase its price subsidies and export refunds. Either way, an increase in CEE agricultural output would place considerable strain on the EU agricultural sector and drive "another nail in the CAP's coffin."[76]

Table 9: Effects of CEE-EU Agricultural Free Trade[77]
(%)

	Farm Prices	Farm Output	Consumption	Net Exports
CEE				
Wheat	41	47	2	450
Dairy	16	26	0	370
Beef	85	78	23	1,030
Pork	32	54	13	570
EU				
Wheat	26	21	11	100
Dairy	10	5	6	100
Beef	19	18	14	530
Pork	17	17	17	450

Source: Hamilton and Winters, p. 93.

Yet, Rollo and Smith argue that the EU could afford to liberalize its agricultural market and compensate EU farmers for any resulting loss of income. Their approach is to calculate the welfare effects of trade on the whole society. Rollo and Smith thus forecast that if the EU established agricultural free trade with the CEE, then EU consumers and taxpayers would gain, and EU farmers would lose (see Table 10). On the whole, though, the EU would gain ECU 2 billion, so it could compensate EU farmers who lost income. Meanwhile, the CEE would gain ECU 1.9 billion—roughly double the average funding it receives annually from Phare.

Table 10: Effects of Integrating CEE and EU Agriculture[78]
(ECU millions annually)

	Cereals	Sugar	White Meat	Red Meat	Milk	Oilseeds	Oils	Total
EU farmers lose	773	338	599	1,282	305	64	379	3,741
EU consumers gain	557	259	612	1,250	291	186	817	3,972
EU taxpayers gain	427	184	102	1,019 -	224	0	279	1,788
Gain to EU	211	105	115	987	238	122	717	2,019
Gain to CEE	476	34	58	1,040	217	0	61	1,887
Total Gain	687	139	173	2,027	21	122	778	3,906

Source: Rollo, Jim, and Alasdair Smith. “The Political Economy of Eastern European Trade with the European Community: Why So Sensitive?” Economic Policy (April 1993) p. 154.

Rollo and Smith thus argue that EU agricultural protectionism results more from interest group pressure than a rational calculation of net welfare gains. They acknowledge that certain Member States would suffer a net consumption loss—Greece, Ireland, Portugal, and Spain—where agriculture accounts for a large share of employment and value-added production, but they also note that the shocks caused by agricultural trade liberalization with the CEE would prove no harsher than previous market adjustments. For example, they forecast that prices would fall 1 to 8 percent, which is less than the 14 percent decline in EU farmgate prices which occurred from 1985 to 1991. They also forecast a decline in labor demand as production decreases, but EU agricultural employment declined by 3.8 percent annually from 1970 to 1980, and by 3.3 percent annually from 1980 to 1990. Their conclusion, then, is that the economic shocks caused by agricultural trade with the CEE fall within the range of normal adjustment, so the maintenance of trade barriers is economically irrational:

No rational economic explanation for the EU’s sensitivity with respect to trade with Eastern Europe emerges. There will, of course, be adjustment problems, but the Community has successfully absorbed the adjustment problems of Western European economic integration, and the scale of the adjustments required by liberalized trade with Eastern Europe seem quite manageable, even making no allowance for the growing Eastern European market for Western European products.[79]

In sum, these economic analyses demonstrate that liberalizing CEE-EU agricultural provides a net welfare gain. Therefore, Rollo and Smith argue that the use of trade barriers is partially attributable to regulatory capture by the EU agricultural lobbying groups.[80] This conclusion contributes to the point that policy network structure has an impact on policy outcome. Because the CAP policy network includes COPA and the ministries of agriculture as its core actors, it tends to defend narrow, farm-focused interests, and because the Phare policy network includes agricultural economists and major IFIs as its core actors, it tends to promote broad, macro-economic interests. The problem, then, is that the CAP and Phare approaches, which clearly conflict, must ultimately converge around the issue of EU enlargement because agriculture represents a central concern in this process.

EU Enlargement

Agriculture is integrally connected to the issue of EU enlargement because this sector is vitally significant for both the EU and CEE. Economically, agricultural output accounts for a substantial share of CEE income, and subsidies consume two-thirds of the EU budget; politically, the rural vote has a strong voice in CEE elections, and farmers boast the most influential lobbying group in the EU. The significance of agriculture thus complicates the path to enlargement, particularly since the contradictions between EU aid and trade policies have caused the CEE to doubt the promise of the Europe Agreements. In June 1994, for example, Poland decided to pursue closer economic ties with Russia because strict EU quotas and tariffs on Polish goods had created a growing trade deficit.[81] Only a month earlier, Foreign Affairs Minister Andrzej Olechowski had voiced Poland’s growing resentment over the EU’s reluctance to liberalize its trade:

The greatest threat to the policy of integration is protectionism. This problem is still particularly important in agriculture. In the Association Treaty, there is a lack of strategic vision of integration in this sector, a lack of will to create a common market in this area...Until protectionist resistance is overcome and a scenario for including Polish agriculture in the Community is created, the prospects of membership will be uncertain.[82]

However, this statement does not identify the EU’s principal financial concern over enlargement—the CAP budget. Enlargement will likely involve a trade-off: either the EU extends CAP subsidies to the CEE, which will cause the CAP budget to rise enormously, or the EU reduces CAP subsidies, which will cause EU farm incomes to decline:

Good, cheap food will be one of the easterners' chief exports to the rest of the Union. The Union must therefore accept drastic cuts in its present members' farm production, or bust its budget by paying out even more in subsidies. Until it faces up to this, its talk of eastward expansion is so much hot air.[83]

Several economic models have been used to forecast the effects of integrating CEE agriculture into the CAP.[84] On the one hand, Brenton and Gros advise radically transforming the CAP because they predict that accession of the Visegrad—Poland, Hungary, Slovakia, and the Czech Republic—will increase the CAP budget by 60 to 100 percent, although this figure is based on pre-MacSharry reform data and assumes that CEE agricultural production will attain Western levels.[85] The problem, they note, is that the CEE produces in greatest quantity those commodities which receive the highest CAP subsidies—milk, beef, veal, cereals, sugar, sunflower and rapeseed. The EU and CEE production patterns are thus competitive, not complementary, because the regions share geological and climatological similarities. Also, the EU produces these commodities in excess, so the CAP would have to subsidize the export of the CEE's additional output. In fact, export restitutions are the principal cause of the CAP budget's expected growth, accounting for over 70 percent of its projected rise.[86] Therefore, Brenton and Gros recommend eliminating the CAP's open-ended, price support mechanism and shifting to international pricing:

The results presented in this paper show that it is radical reform of the CAP that is essential. Any attempt to prolong the existing system will lead to enormous burdens on the budget and will be doomed to eventual failure. The challenge facing the EC is to reduce and in the end remove export restitutions.[87]

On the other hand, a paper by Nallet and van Stolk reaches the opposite conclusion in that CEE agriculture should adjust to the CAP, not vice versa. Their study avoids the question of budgetary costs and and stresses the urgency of agricultural policy harmonization: "...there must be an institutional system [in the CEE] capable of inspiring, administering, and monitoring a new and more extensive CAP."[88] Specifically, Nallet and van Stolk suggest that the EU educate CEE officials and farmers about the technical mechanisms of the CAP in order to close the knowledge gap and prevent unnecessary conflicts. More generally, they recommend that the CEE adopt a CAP-like price support mechanism because the current system is incapable of stabilizing farmgate prices. This failure is indicated by the fact that food prices have sometimes fallen below hard-core production costs which causes the farmers to lose income. Therefore, CEE agricultural production declined 30 percent from 1988 to 1992, and Nallet and van Stolk believe that a continuation of this trend could endanger CEE stability and damage EU-CEE relations:

We are convinced that the only effective way of improving the situation rapidly is to set up a system of price stabilization for agricultural commodities. Although such a system cannot be put in place immediately and in full, the legal and institutional infrastructure for it must be set up. Without delay, the EU must set itself the objective of helping each of the CEE—according to its level of development—to lay the foundations of an agricultural policy compatible with the reformed CAP.[89]

Together, these papers indicate the serious economic challenges associated with the process of EU enlargement. Just as importantly, though, they mirror the conflict that divides the CAP and Phare approaches to agricultural policy. The CAP, like Nallet and van Stolk, assumes that the objective of agricultural policy is to defend the welfare of farmers, so it measures success in terms of farm income stability. In contrast, Phare, like Brenton and Gros, assumes that its objective is to boost efficiency and competitiveness, so it measures success in terms of net societal gains. The problem is that the CAP and Phare policy networks have isolated these conflicting approaches and so contributed to major contradictions in EU agricultural policy toward the CEE. While Phare urged the CEE to dismantle their state subsidies and concentrate on structural policy, the CAP maintained its protectionist trade barriers and delivered the message that price policy is dominant. The potential outcome, then, is incompatible EU and CEE agricultural systems—an ironic result given the heavy emphasis placed on convergence.

4. CONCLUSION

This paper has examined EU agricultural policy toward the CEE from 1990 to 1994 and confirmed two hypotheses relating to the Phare program. First, it has shown that Phare agricultural assistance was based on principles of free trade, not protectionism, so its conception of agricultural policy differs fundamentally from the CAP. Phare's objective has been to increase the CEE's international competitiveness through structural adjustments to its agricultural sector. Phare projects focused on emergency assistance, land reform, enterprise development, and rural credit, while its future orientations will include policy convergence, productivity enhancement, and export growth. In accordance with free trade principles, Phare insists that CEE governments play a minimally interventionist role during the transition and allow market forces to guide the direction of agricultural progress. This approach differs sharply from the CAP, which aims to support farm incomes through price supports, import levies, and export refunds. Since 1958, the CAP has utilized price policy almost to the exclusion of structural policy, and the Commission has become increasingly interventionist as guaranteed price levels have risen for a wider range of commodities. Therefore, the CAP and Phare agricultural policies clearly project inverse trajectories in the relationship between government and agriculture. As a result, the CAP and Phare policies have contributed to a potentially significant conflict between the EU and CEE as they proceed toward the moment of EU enlargement.

Yet, the extent to which Phare has influenced CEE agricultural policy is ambiguous. It is beyond the scope of this paper to investigate each CEE country's path of agricultural reform, but clearly the debate over the role of government continues to this day. On the one hand, some observers support the protectionist model and cite the successes of EU agriculture, particularly in terms of increased income stability, productivity, and food self-sufficiency.[90] They advise the CEE to use price supports as their principal interventionist measure. Some CEE countries have chosen this route. Czechoslovakia, for example, established in 1991 a Price Guarantee Fund with which the government intended to make unlimited purchases to support minimum prices for wheat, rye, milk, and livestock products.[91] On the other hand, some observers endorse the free trade model and highlight its contributions to rising efficiency and falling prices. They criticize the high budgetary costs associated with an open-ended, across-the-board price support mechanism, estimating that if the CEE adopted a CAP-like structure, then national budgets would rise $2.5 to $4.5 billion.[92] Instead, they recommend adopting structural policies which aim to eliminate cyclical price fluctuations, assist farmers operating under unfavorable natural conditions, and expand agricultural research and advisory services.[93] Poland and Hungary moved in this direction in 1990 when they eliminated producer and consumer subsidies and exposed their food prices to the global market.

The implication is that Phare must compete with many other voices in advising the CEE transition, and there is no guarantee that CEE governments will heed the advice that it provides. With economic conditions still volatile, the debate over the relationship between government and agriculture will likely continue: "The future of agricultural subsidies is one of the most debated questions in Eastern European agricultural circles."[94] Yet, it is clear that Phare has exerted an important influence on CEE agriculture. From 1990 to 1994, Phare was the largest regional grant donor, and it intends to remain active through 1997. Overall, it has completed numerous projects of widespread sectoral impact and has undoubtedly altered the shape of CEE agriculture. Most importantly, Phare will continue to champion the managerial, rather than interventionist, role for CEE governments in order to achieve its long-term objective of international competitiveness.

This paper has also shown that policy network theory provides an effective tool for analyzing EU agricultural policy toward the CEE. At the start of the transition, one would have expected the EU to advocate a protectionist scheme for CEE agriculture given the CAP's long-term dominance in the EU. In 1990, the CAP policy network represented almost exclusively the interests of farm lobbies. It had inherited this
corporatist structure from the original six Member States which founded the CAP in 1958 as national interest groups relocated their lobbying efforts to the EU-level. Once inside the CAP policy network, these groups forged close ties with the other core actors—the ministries of agriculture and DG-VI. This closed, tight policy network thus enabled the CAP to resist reform pressures from the international trade arena and EU budgetary crises. The Financial Times colorfully describes the CAP's remarkable resilience:

It is one of the [EU's] quainter superstitions that the Common Agricultural Policy has quasi-magical staying power. Squeezed by budgetary stringency, bombarded in transatlantic trade wars, riven with internal contradictions of all kinds, the policy cruises on regardless. Its power defenders—in the European Commission's agricultural directorate and in Europe's farm lobbies—speak as if its existence, and its virtues, were synonymous with those of the Union itself.[95]

This CAP obstinance confirms an important observation of policy network theory that EU policy-making tends toward inertia rather than reform. Marsh and Rhodes reached four conclusions on this point: first, policy networks tend to promote continuity and act as a force for policy inertia; second, policy networks with a dominant economic or professional interest are the most resistant to policy innovation; third, the degree of policy innovation is contingent upon the salience of the issue; and fourth, policy networks tend to innovate incrementally.[96] Yet, Marsh and Rhodes also identified the link between policy network structure and policy innovation as a key research priority:

It might be argued that most of the literature on policy networks has paid insufficient attention to the question of change; certainly such a failing is not surprising given the emphasis on policy networks as a barrier to change.[97]

This case-study provides one example of policy innovation as EU agricultural policy toward the CEE split between protectionism and free trade. Neofunctionalism could not explain this policy divergence because the Phare program did not spill-over from an earlier EU policy; on the contrary, it represented an ad hoc response to the unexpected collapse of CEE communism. Therefore, the explanation for this division in EU agricultural policy is the gap which developed between the CAP and Phare policy networks. Phare operates independently of the CAP for two reasons: first, its agricultural policy is subsumed under the broad umbrella of foreign aid, so the PHOS resides in DG-I rather than DG-VI; and second, Phare agricultural policy does not directly effect the welfare of EU farmers, so the PHOS does not maintain links with agricultural interest groups. Moreover, the other core actors in the Phare policy network are located outside the EU—the CEE recipients and major IFIs. Therefore, the Phare policy network, which resembles a Rhodes model policy community, is less constrained by political constituencies than the CAP policy network, so free trade ideology has contributed to a radical shift in its policy outcome. This finding highlights another observation of policy network theory:

"The legitimacy of networks is not political, but resides in the claims to superior expertise and/or to increased effectiveness of service provision."[98]

In this case, agricultural economists in Phare, the CEE, and the IFIs could claim this expertise, and although they may have initially lacked a clear, long-term vision for CEE agriculture, what mattered most were the free trade principles upon which they shaped five years of grant assistance.
Yet, the future of the Phare policy network appears uncertain as the prospects for EU enlargement improve. The admission of the CEE into the EU will converge the CAP and Phare agricultural policies because the agricultural sector is economically and politically vital to both sides. Therefore, the CAP policy network may overwhelm the Phare policy network because the former controls vastly more EU budgetary resources and represents the interests of EU farmers—still an influential lobby. As enlargement approaches, then, the two networks may cooperate in preparing CEE agriculture for incorporation into the CAP. Yet, regardless of the outcome, Phare will have already altered the terms of CEE admission through its agriculture assistance. Having based its strategy on free trade principles, Phare may ultimately undermine the CAP's protectionist orientation by reviving CEE agriculture without the aid of government intervention. Phare could thus serve as a catalyst to future CAP reform by taking advantage of the CEE post-communist transition to exhibit the benefits of free trade agricultural policy. If that occurs, then policy network theory will again offer insight into the idiosyncrasies of EU policy innovation.

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