EC DECISIONMAKING, THE MACSHARRY REFORMS OF THE CAP, MAASTRICHT, AND THE GATT URUGUAY ROUND

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This paper is to be delivered at the Third Biennial International Conference of the European Community Studies Association, Omni-Shorham Hotel, Washington, D.C., May 27, 1993

EC DECISIONMAKING. THE MACSHARRY REFORMS OF THE CAP, MAASTRICHT, AND THE GATT URUGUAY ROUND*

The Common Agricultural Policy (CAP) of the European Community was mandated by the Treaty of Rome and instituted in the 1960s to manage the integrated European market for farm goods. By 1968, the introduction of the policy was complete, with harmonized prices set substantially above world prices, and the removal of most national support measures. This policy was financed by a central fund, the European Agricultural Guidance and Guarantee Fund (EAGGF). Revenues for this fund came from the EC budget.[1]

The initial expenses of the CAP were easily bearable as EC food production was not large, with the Community depending largely on food imports. However, the production incentives provided by high support prices, along with rapid technological progress in agriculture, stimulated EC food production well beyond self-sufficiency, creating large surpluses and distorting international commodity markets. The costs of the CAP grew rapidly along with production, as **Figure 1** shows, creating a heavy financial burden on the EC. They have driven the EC budget relentlessly upward and have accounted for 60 to 70 percent of total EC budget expenditures. The problem of CAP expenditures became more severe in the 1980s. Spending doubled between 1980 and 1986, largely because of increasing costs for market intervention, storage and

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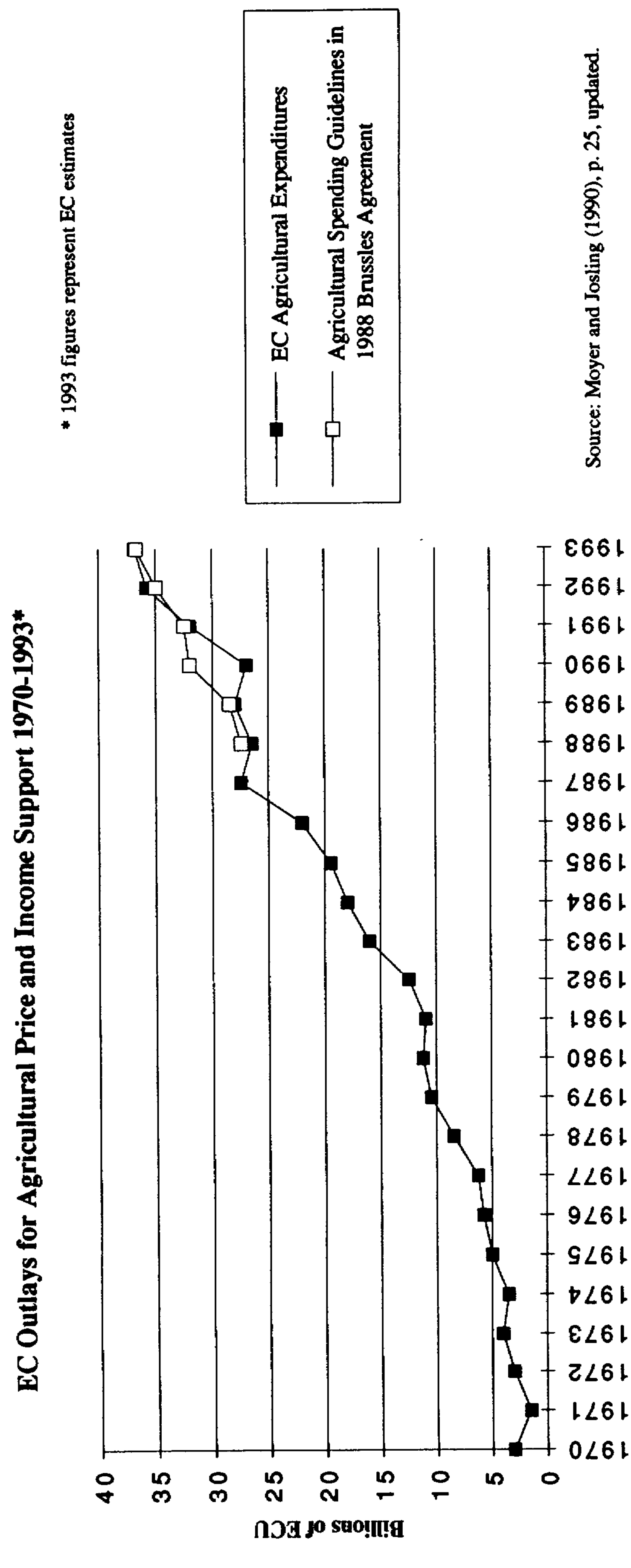
* The author is indebted to Jill Cetina, a Grinnell College student, for assistance in preparing this paper.

FIGURE ! : EC OUTLAYS FOR AGRICULTURAL PRICE AND INCOME SUPPORT 1970 -1993



surplus disposal.[2]

(Figure 1 here - Growth in EAGGF Guarantee Expenditures)

EC EFFORTS TO REFORM THE CAP

Efforts to reform the CAP began as early as 1968 with the publication of the Mansholt Memorandum and continued throughout the 1970s and 1980s. **Table 1** lists the major EC reform discussion documents promulgated over the years. However, no real reform was achieved until 1984, when EC decisionmakers imposed milk production quotas after a budget crisis. These quotas applied only to dairy products and did nothing to address the incentives for overproduction in other areas. After a long and grueling debate, catalyzed by another budget crisis, the EC finally produced a second step to CAP reform, the February, 1988, Brussels Stabilizers agreement. This agreement imposed penalties for production beyond Maximum Guaranteed Quantities, through such devices as price cuts and coresponsibility levies.[3]

Table 1 here - Major EC Reform Discussion Documents (1968-1987)

AGRICULTURAL POLICY REFORM THROUGH THE GATT URUGUAY ROUND

EC efforts to rein in spending on agricultural subsidies were joined by those in the international community, when in September 1986, the members of the General Agreement on Tariffs and Trade (GATT) initiated the Uruguay Round of Multi-lateral trade

Table 1 MAJOR EC REFORM DISCUSSION DOCUMENTS (1968-87)

1.	1968	'Memorandum on the Reform of Agriculture in the EEC' (known as the 'Mansholt Memoranda (COM (68) 1000)
2.	1973	'Improvement of the Common Agricultural Policy' (COM (73) 1850)
3.	1975	'Stocktaking of the Common Agricultural Policy' (COM (75) 100)
4.	1978	'Future Development of the Common Agricultural Policy' (COM (78) 700)
5.	1980	'Reflections on the Common Agricultural Policy' (COM (80) 800)
6.	1982	'Guidelines for European Agriculture' (COM (81) 608)
7.	1983	'Common Agricultural Policy - Proposals of the Commission' (known as 'COM 500') (COM (183) 500)
8.	1985	'Perspectives for the Common Agricultural Policy' (COM (85) 333)
9.	1985	'A Future for Community Agriculture' (COM (85) 750)
10.	1987	'Making a Success of the Single European Act (COM (87) 1000)
11.	1987	'Review of Action taken to Control the Agricultural Markets and the Outlook for the Common Agricultural Policy' (COM (87) 410)

Source: Moyer and Josling (1990), p.53.

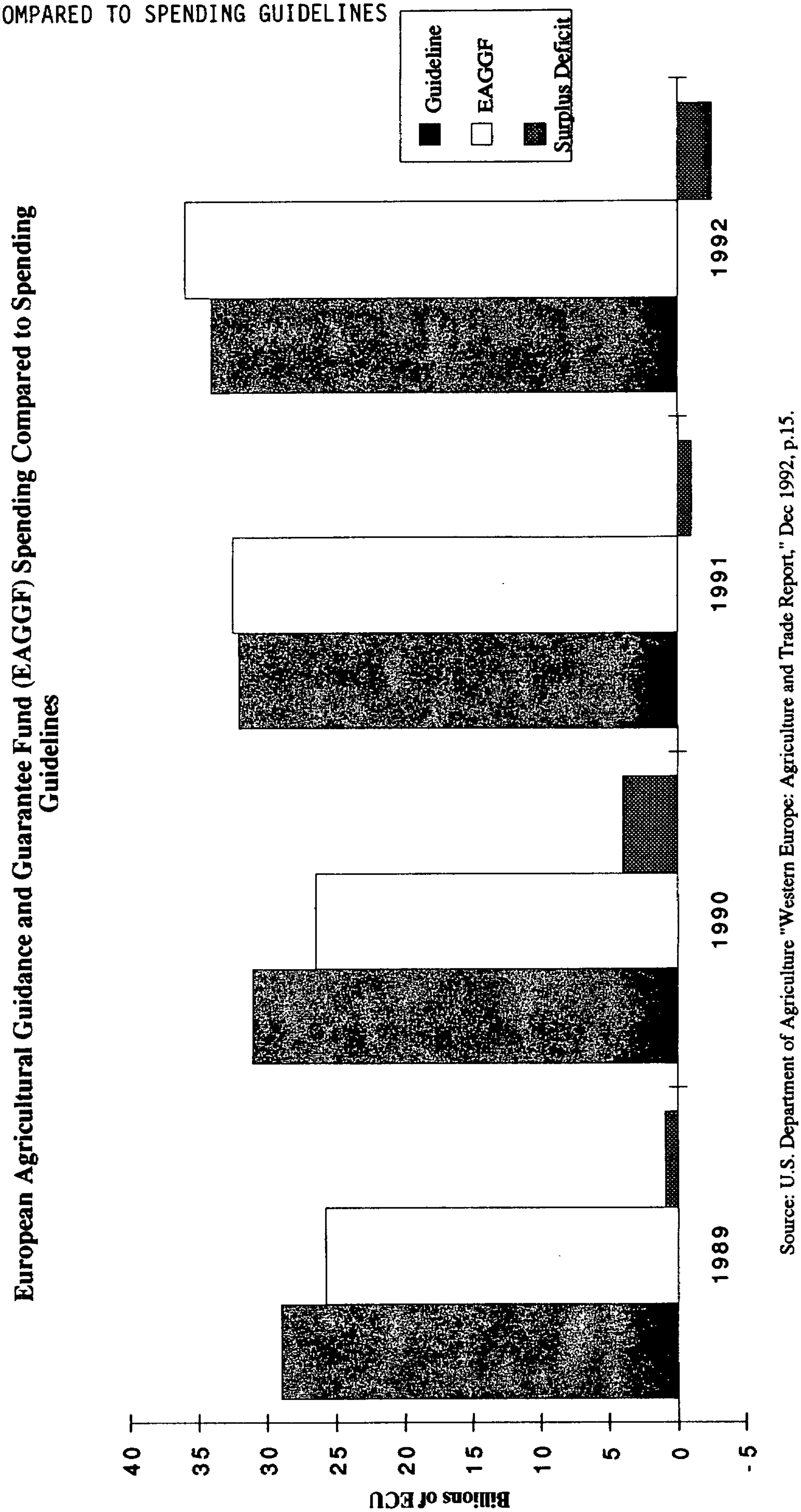
negotiations.[4] Previous GATT negotiating rounds had left agricultural policy relatively untouched, but now a rapidly increasing export subsidy war between the U.S. and EC made international action imperative. The subsidy war was not the only problem. It was compounded by pervasive protectionist policies which severely curtailed agricultural trade. The U.S. and a number of other countries, who banded together as the Cairns Group were unwilling to allow further negotiations on trade liberalization unless agriculture was included.[5]

The general goal of the Uruguay Round for agricultural trade was that member nations would negotiate a greater market orientation. To be sure, this goal meant the reduction of export subsidies and import barriers. But, it also implied reducing domestic price supports, because without such reductions, meaningful action could not be taken to limit export subsidies or import barriers. The U.S. and EC took diametrically opposed positions in the GATT negotiations, with the U.S. calling for the elimination of all subsidies and barriers and the EC insisting on minimal changes, which would have preserved the market preference of the CAP.[6] Any hopes entertained by the advocates of CAP reform, that the GATT negotiations would provide an alternative to internal EC action to limit agricultural spending, were dashed by the near breakdown of the GATT talks in Brussels, in December, 1990.

THE ORIGINS OF THE MACSHARRY PLAN

At the beginning of 1991, the prospects for reforming the CAP

FIGURE 2: EUROPEAN AGRICULTURE GUIDANCE AND GUARANTEE FUND SPENDING
COMPARED TO SPENDING GUIDELINES



seemed very grim indeed. There seemed little probability that the European Commission would table new domestic agricultural reform proposals, given its exhaustion with the GATT debate. Yet, these conclusions failed to contemplate the possibility of an EC budget crisis, at least in the short term - the one eventuality which had previously moved the EC to CAP reform, with dairy quotas in 1984 and stabilizers in 1988.[7]

As 1991 dawned, so did the prospect of an EC budget crisis, with evidence that agricultural spending would exceed not only the budget, but the expenditures guidelines as well, perhaps before the end of 1991. AGRA EUROPE reported on January 11, that the collapse of the world cereal market meant a quadrupling of export refunds, probably 5-6 Billion ECU to 1991 CAP expenditures (January 11, 1991:P/1). Dairy export expenditures were also increasing rapidly along with beef intervention expenditures, though the full impact of this would appear only in 1992-93 EC expenditures. As the month progressed, the budget situation seemed to worsen. By early February, it seemed probable that EC agricultural spending for price and income support would exceed the 1991 guideline of 32 Billion ECU by over 800 million ECU, an increase in agricultural spending of over 25 percent from 1990, with the prospects even more ominous in 1992 (see **Figure 2**) (AGRA EUROPE, Feb.8, 1991:P/1.

(Figure 2 here - EAGGF Spending Compared to Guidelines)

Table 2 -- THE MACSHARRY PLAN FOR CAP REFORM AS PROPOSED

1) Price Supports cut to near world market levels (35% for wheat) over three years.

2) For cereals, oilseeds and protein crops, aid would be given in compensation for the price cuts as follows:

  a) First 30 hectares (75 acres) full compensation (difference between average income and income with price cuts)

  b) Next 50 hectares (125 acres) 75% compensation

  c) Beyond 80 hectares (200 acres) 65% compensation

3) Farmers must set-aside land sufficient to achieve a 15% reduction in output in order to qualify for compensatory payments, except for small farms.

THE COMMISSION RESPONSE

The forthcoming budget crisis was foreseen in the Commission before the end of 1990 and the Agricultural Directorate General, DG-VI, had prepared a paper, dated December 5, containing both an analysis of the problem and recommendations for a solution.[8] This paper defined the problem as the EC paying too high prices to the 20 to 25 percent of farmers who produce more than 80 percent of the output, while failing to support the incomes of the majority of small farmers for whose benefit the CAP was originally established. It spelled out in detail how the growth in agricultural spending could be controlled (summarized in **Table 2**). Prices should be cut to world levels, with compensation to small and less prosperous landholders by direct subsidies. For cereals, oilseeds and protein crops, an agreed level of aid would be paid in full on the first 30 hectares. It would be reduced by 25 percent for the next 50 hectares and by 35 percent on every hectare above 80 hectares.

Table 2 here - The MacSharry Plan for CAP Reform

The DG-VI reform proposal, soon promoted by the Agriculture Commissioner as the MacSharry Plan, was different from previous reform proposals in that farmers would be compensated for income losses caused by lower prices, but, more important, the compensation would be weighted in favor of the small and medium sized farm. It cleared the Commission easily in January, 1991, not surprising, given the budget crisis and the need to find more funds to support economic integration and political unification. However, the plan ran into serious opposition in the Council of Ministers, where it was bogged down in debate until May, 1992, when it was approved, well after the signing the Maastricht Agreement. The MacSharry Plan was modified significantly before approval, providing full compensation to all farmers, without regard to size of holdings, rather than just to small farmers as originally contemplated. Moreover, the mandated three year price cut was reduced from 35 percent to 29 percent.

THE INTERPLAY BETWEEN MACSHARRY, MAASTRICHT AND THE GATT

There are a number of layers to the argument of this paper. First, approval of the MacSharry Plan took sixteen months because of a complicated three-level bargaining game, with one level of bargaining (level 3) within national governments, another level (level 2) inside the EC, and a third level (level 3) at the GATT negotiations.[9] Approval came only after the plan had been modified to make it minimally acceptable to all twelve member governments, because of the practice of unanimity in the Council of Ministers, with the possibility always existing that a member would invoke the Luxembourg Compromise, in effect vetoing the agreement.[10]

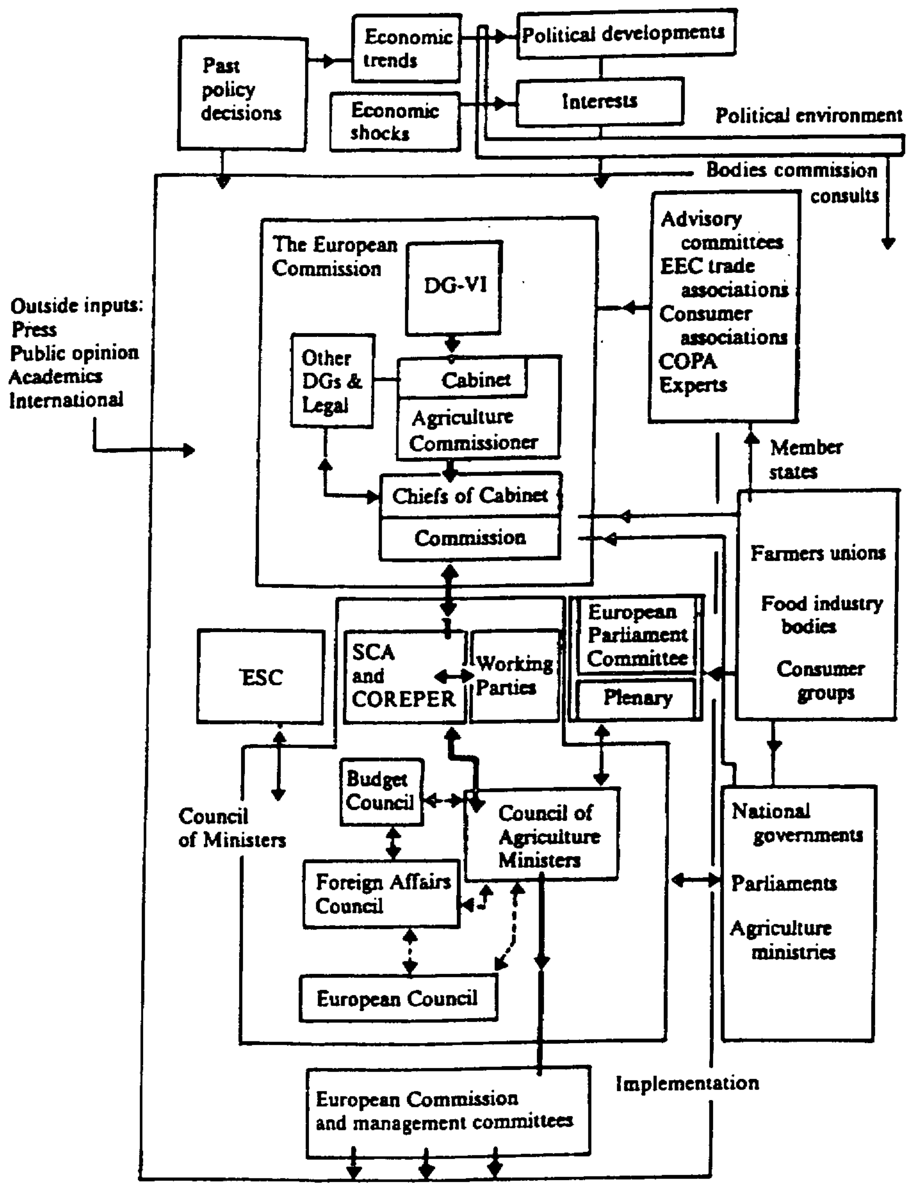
Second, the Maastricht agreement, played an important role in catalyzing the consensus in support of the MacSharry Plan, because unrestrained growth in agricultural spending would have strained the EC budget to the point that it would not have been possible to provide the necessary financial transfers to the poorer member countries so that they could enter a currency union. Third, while the Maastricht agreement undoubtedly provided the impetus for approval of the MacSharry Plan, the approved modified MacSharry Plan also worked to undercut the Maastricht agreement by weakening support in the September 1993 French referendum.

Fourth, the need to conclude an agricultural trade agreement for a successful Uruguay Round generated pressures to approve the MacSharry reforms. Fifth, the approved modified MacSharry plan helped make possible the long elusive deal in agricultural trade between the U.S. and EC in the Uruguay Round, in that it cut domestic price supports sufficiently so as to bring them within range of the December, 1991 recommendations of GATT Director General, Arthur Dunkel -- recommendations which were generally acceptable to the U.S. Sixth, even though the approved modified MacSharry plan initially facilitated the GATT negotiations, it later damaged the Uruguay Round in that the public reaction to the MacSharry reforms proved so negative, particularly in France, that it is by no means clear that the EC can approve a final GATT agreement.

THE EC THREE-LEVEL BARGAINING GAME

European Community decisions about agricultural policy are made through a rather complicated two level or three-level bargaining process.[11] Until the advent of the Uruguay Round, the process was largely two-level, as international negotiations only occurred irregularly and did not exercise much of a constraint on

FIGURE 3 - THE EC AGRICULTURAL POLICY PROCESS



Abbreviations:
COPA Confederation of European Farmers' Unions
COREPER Committee of Permanent Representatives
DG-VI Directorate-General for Agriculture
ESC Economic and Social Committee
SCA Special Committee on Agriculture

Key
— Obligatory procedures
-- Optional steps

Source: Moyer and Josling (1990) , p. 32.

the CAP. In the two-level process, decisionmaking begins in the European Commission (level 2), the executive body of the EC. Proposals are developed in the Directorate General responsible for agricultural policy (DG-VI). DG-VI is the largest Directorate General in the Commission, whose primary responsibility is administering the CAP, with all its complex regulations. This body thus has a strong organizational interest in the continuing existence of the CAP.

Figure 3 here - The EC Agricultural Policy Process

Once the hurdle of DG-VI is cleared, a reform proposal must then earn the approval of the Agriculture Commissioner and his cabinet. The Agriculture Commissioner is selected by the President of the Commission from the 16 Commissioners appointed by the member governments.[12] Commissioners serve four year terms and are politicians rather than civil servants. They must agree to give their loyalty to the EC rather than their home governments. The Agriculture Commissioner has less of a vested interest in the CAP than DG-VI, which provides the staff support. He must also consider whether his proposal can achieve approval in the full Commission and in the Council of Ministers. When a proposal has the approval of the Agriculture Commissioner, it goes to the full 17 member Commission where it is debated and receives approval with a simple majority vote.

After approval in the Commission, a proposal goes to the

Council of Ministers, which besides being part of the Level 2 bargaining process, is the link to the level 3 process in national governments. The Council is a sectoral body made up of cabinet ministers from member countries (there are for example, Councils of External Affairs, Budget and Agriculture). The Agriculture Council is for all intents and purposes the legislative body for farm issues, since agricultural policy falls under Article 43 of the Treaty of Rome, which does not provide a role for the European Parliament, except to be consulted.[13] Presiding over the Council of Ministers is a Presidency, which rotates among member nations every six months. The Council cannot formulate its own proposals, but rather is enjoined to discuss those formulated in the Commission. When, for example, the Agriculture Council is in session, it debates proposals presented by the Agriculture Commissioner, who attends the session along with his staff, but does not vote. He must approve any suggested change to the Commission proposal.

After discussion, the Council of Ministers votes according to the rule of qualified majority.[14] For the Agriculture Council, there is a long institutional tradition of continuing debate until consensus is reached. This goes back to the Luxembourg Compromise of 1965, which effectively gives any nation the right to block Council action if vital national interests are involved (Tracy (1989): 263-5). Thus, to achieve support, an agricultural policy reform proposal must have general support, or at least, must not seriously offend any of the major governments.

Further insight into what happens in the Agriculture Council can be gleaned from discussing the level 3 process in national governments. Agricultural policy issues are in theory debatable in national cabinets, but in fact, are almost always left to national ministries of agriculture. This is partly because of the complexity of the CAP, which is not well understood outside of farm ministries. It is also because funding for the CAP comes from the EC budget, not from national Treasuries. Moreover, only two of the 12 EC members (UK and Germany) are consistently large contributors to the EC budget.[15] In the UK, the cabinet has tended to overrule agricultural interests and strongly advocate CAP reform. In Germany, the situation is different. Even though the German Treasury pays heavily to support the CAP, German farmers are so well organized and politically important, that any prospective governing coalition must court them, with the agriculture ministry generally left alone in formulating stances on the CAP. For the other nine countries, any CAP spending is a net addition to national income. Cabinets in these countries have no incentive to take issue with their agriculture ministries on CAP reform.

To put all this in terms of the discussion of Robert Putnam, in his article, "Diplomacy and Domestic Politics:The Logic of Two-Level Games," the Commission is severely constrained in making proposals to reform the CAP, not only because of the interests of DG-VI in existing policy, but also, because any proposal for significant reform would normally lie outside the win-sets of a majority of the Ministers on the Agriculture Council. There might be a synergistic effect forcing conformity within national bargaining processes (level 3) if most of the farm ministers could accept a given change. But, this possibility has been reduced by a strong mutually protective alliance between France and Germany, which have very different agricultural interests. In general, France supports Germany on high price supports, which the relatively inefficient farm sector needs, while Germany supports France in opposing reductions in export subsidies. Export subsidies are important for maintaining French agricultural exports, which, in turn, play a critical role in maintaining the balance of payments. France and Germany working together at the national level (level 3) dominate the bargaining process in the EC (level 2). Anything outside their intersecting win-sets cannot be enacted.

The Uruguay Round has created a third level (Level 1) in the EC agricultural policy reform process. EC negotiators under the general direction of the External Affairs Commissioner, but with the actual agricultural trade negotiations coming under the cognizance of the Agriculture Commissioner and DG-VI, have a general interest in seeing EC internal policy on the CAP developing in consonance with EC negotiating interests in the GATT. These interests generally imply an EC internal policy which allows the negotiators bargaining leeway to conclude an agreement. The trade negotiators exercise direct influence on the Commission (level 2), but there is an indirect link to national governments (level 3) in that representatives of all EC members attend the trade negotiations as members of the GATT.

The influence of the EC trade negotiators on the Agriculture Council is intrinsically weaker than that of domestic farm interests. The farm ministers are in no sense accountable to the trade negotiators. They will generally be judged on the basis of how well they protect the agricultural interests of their home countries, not on how well EC collective interests are represented in the GATT.

THE MACSHARRY REFORMS AND THE EC BARGAINING PROCESS

That DG-VI, with a vested interest in maintaining the CAP, should be the originator of the MacSharry Reforms is worth some comment. How could this body go from defending the integrity of the CAP to transforming it? The explanation may lie in the DG-VI conception of organizational interest in the face of a threat. An agricultural spending crisis, if it gets serious enough, could threaten the very existence of the CAP and DG-VI. Transforming the CAP could save it, while administering differential income aids would provide DG-VI plenty of work.

It is also interesting that Agricultural Commissioner MacSharry took the initiative in attempting to sell the reforms contemplated by DG-VI. This would seem hard to explain since MacSharry had initially led the opposition to EC agricultural concessions in the GATT negotiations. However, his positions were not as contradictory as they might seem. One can understand them in the context of political responsibility -- who gets credit and who takes the blame. CAP reform through the GATT would have been credited to External Affairs Commissioner Andriessen by those who favored change, and blamed on MacSharry by those opposed. Thus, MacSharry would have had little advantage in supporting EC concessions in the Uruguay Round, even if he believed in the necessity to reform the CAP. Taking the lead in reforming the CAP through the EC policy process, however, provided an advantage for MacSharry in that he could control the agenda for reform. He could thus make the changes more palatable to the farm lobbies and justifiably gain some credit for making the best of a bad situation. He could also gain some credit among the CAP reformers for having succeeded where Andriessen failed.

It is not surprising that the MacSharry plan cleared the Commission easily in January 1991, given the budgetary crisis and the need to provide more funds to support the creation of economic and political union under the Maastricht agreement. MacSharry received almost unanimous backing from the other Commissioners after the DG-VI paper was discussed in a special January 20 Sunday seminar of CAP reform.[16] The only point of contention was whether small farmers should get special benefits, which presaged the debate in the Council of Ministers. The British, Dutch and Danish Commissioners argued that small farmers should not receive special treatment, indicating that they were not completely removed from the interests of the efficient farming sectors in their home countries.

The structure of the MacSharry plan gave it an intrinsic advantage over previous reform proposals in the Council of Agricultural Ministers. Not only would farmers be compensated for income losses caused by lower prices, but, more important, this compensation was weighted in favor of the small and medium sized farm. It was sure to incur the opposition of the farm lobby, both for its emphasis on income payments, (which are visible and easily cut) and for favoring the small farm. However, it had a certain appeal to both German and French governments, which historically have led the opposition to CAP reform. Both countries have large numbers of politically important small marginal farmers. The MacSharry plan would keep these farmers on the land, let the large farmers fend for themselves in a freer market (which most of them could do) and at the same time remove much of the price incentive to overproduction. There would be little or no budget savings in the short run, because of high income payments, but one might reasonably hope that the escalation in farm subsidy expenditures would slow over time. There was the additional benefit in that more of the subsidy payments would go to farmers, with less going for intervention purchases, storage and export subsidies.

As one might have expected, the Agriculture Council, never enthusiastic about CAP reform, greeted the MacSharry plan with considerable skepticism, when it was first presented on February 4, 1991. Interestingly, the strongest opposition came from the United Kingdom, the Netherlands and Denmark, the countries usually most supportive of CAP reform and favoring a flexible position in the GATT. These countries have relatively large, efficient farms and had little to gain from the MacSharry Plan, which was designed to help the smallest and least efficient. Ireland didn't like the plan, because it too has a large number of farmers who would not qualify for full compensation. The German and French responses were muted, probably because of divided interests. Germany had mostly small farmers in the West who would benefit, but had many large farms in the East which would not benefit. France's small farmers needed compensation, but the MacSharry plan implied reduced farm exports, an unpleasant prospect for the French government, which relies heavily on farm export earnings for its Balance of Payments. The Southern countries were prepared to sit on the fence, because the plan made little difference for the main commodities they produce.

The MacSharry Plan, by favoring small farmers, had shifted the bargaining calculus at both the EC and national levels in a significant way. It sacrificed the support of Britain, the Netherlands and Denmark, in hopes of gaining the support of Germany and France. In terms of the EC's internal politics, this made good sense. German and French opposition in the Council of Agricultural Ministers, combined with the reliable support of Ireland constitutes a blocking minority in Council voting which can frustrate any reform attempt. The opposition of the UK, Netherlands and Denmark is not a blocking minority and could be overcome by the French-German alliance, along with support from the Southern countries.

THE IMPACT OF THE MAASTRICHT AGREEMENT

Commissioner MacSharry had made significant progress in building consensus for his proposals by the time the Maastricht agreement was signed, in that the French government seemed to accept that efficient French farmers could withstand the mandated 35 percent price cut, and would in fact prosper, when less efficient farmers in other countries could not compete. The German government also moved in support. The unanticipated heavy financial responsibilities involved in integrating East Germany made the government increasingly more anxious to shed some of the financial burden of supporting the CAP.[17] The governments of the UK, the Netherlands and Denmark still opposed MacSharry, and the accepted principle of unanimity prevented any attempt to impose the MacSharry reforms by Qualified Majority vote.

The Maastricht agreement created strong pressures to bring the MacSharry plan debate to conclusion. Large spending increases would be needed to finance unification, but given general resistance to increased taxation, adequate revenues would be available only if EAGGF agricultural spending was curtailed.[18] These pressures forced the issue and the MacSharry reforms were approved by the Agriculture Council on May 21, 1992 (AGRA EUROPE May 22, 1992, pp. P/1 - P/15). However, the price cut mandated over a three year period was reduced from 35 percent to 29 percent to make the reforms more generally acceptable to farmers, and full compensation for farms of all sizes was added to gain the support of the UK, the Netherlands and Denmark. The short term cost was thus significantly increased, but this could be justified in that long-term expenditures for agriculture would be significantly reduced, because much of the financial incentive for overproduction had been removed by the price cut.

The reaction by farmers to the MacSharry Reforms was prompt and hostile. The situation was particularly serious in France where thousands of French farmers turned out in an unsuccessful attempt to blockade entry and exit from Paris (Financial Times, June 24, 1992, p.26). The discontent continued over the summer and was a factor in the closeness of the September vote on the Maastricht referendum. Farmers, alienated by the MacSharry reforms voted overwhelmingly to reject the new treaty, which made the weakened Mitterrand government, facing a parliamentary election in March 1993, look for a way to placate the agriculture community. Though the French government continued to support Maastricht, the movement toward European unity had slowed.

MACSHARRY AND THE URUGUAY ROUND

The crisis in the Uruguay Round caused by the breakdown of the December, 1990, meeting in Brussels, which had been scheduled to conclude the trade negotiations, clearly generated pressures from the negotiators (level 1) for a more flexible EC negotiating position. Though budget pressures were the stated reason for bringing the MacSharry Plan forward immediately afterwards, the timing would suggest that the Commission, unwilling to let the GATT talks collapse, was looking for a way to allow the EC negotiators more flexibility. The MacSharry Plan provided enough evidence of an EC willingness to make further concessions so that the Uruguay Round was resumed in the spring of 1991.[19]

Some progress was made during 1991 in both the GATT agricultural trade talks and in the CAP reform talks.[20] However, by the end of the year, the trade talks were stymied again. To break the deadlock, Arthur Dunkel, the GATT Director General proposed a compromise, which he hoped would be acceptable to all.

The MacSharry plan seemed consonant with the Dunkel proposals. 35 percent mandated domestic price cut in three years seemed more than adequate to heed Dunkel's call for a 20 percent drop in domestic agricultural subsidies. The price cut, by bringing EC prices closer to world market prices, seemed to indicate that EC import barriers could meet Dunkel's target of a 36 percent reduction, even though there were still disputes over the tariffication of EC import barriers. It was even speculated that the EC could meet the 36 percent reduction in export subsidies, though serious doubt remained whether it could meet the required 24 percent cut in volume of subsidized exports.

There is evidence that EC politicians regarded the Dunkel proposals as a basis for agreement. During a joint meeting of EC Trade and Agriculture Ministers in Brussels on January 10-11, 1992, Agriculture Minister MacSharry commented that he saw no reason why the deadline for completion of the Uruguay Round by Easter could not be met (AGRA EUROPE Jan., 17, 1991, P/1).

With the prospects for a Uruguay Round now appearing brighter, a debate ensued in the Agriculture Council about whether CAP reform should precede or follow any agreement in the GATT (AGRA EUROPE, Jan., 31, 1992, P/1). The argument centered around how the Community should complete its part in the final stage of the Round. Should the EC agree to the principles of domestic reform, so that these would set limits for concessions in the GATT or should it negotiate the best deal possible in the international sphere and apply the limits thus imposed on domestic reforms? The majority of the agriculture ministers clearly favored the former course, believing that a minimalist approach to domestic reform could then be translated into the EC's GATT position. Thus, the level 1 international trade negotiations catalyzed the level 2 Agriculture Council process toward reaching agreement on CAP reform, if only to limit the concessions, the EC would have to make in GATT.

Even as a GATT agreement on agricultural trade now seemed in sight, the revived trade talks lost momentum. This stemmed largely from French obstructionism. The French government, which originally had believed that modern French agriculture could gain from lower agricultural prices and freer trade, had changed its position when Louis Mermaz was brought in as Agricultural Minister at the end of 1991, and now resisted any new liberalizing concessions. The result of the September 20 French referendum on Maastricht made the French attitudes on trade liberalization worse rather than better. The clear message of the anti-Maastricht vote in rural areas convinced President Mitterrand and his advisors that "to keep the wheezy locomotive of European Unity - the particular

Franco-German brand of it - on the rails, they would have to carry rural interest with them" (AGRA EUROPE Sept., 25, 1992, pp. P/1-P/2). This would not be achieved by agreeing to any international arrangement which limits the French right to subsidize exports. The MacSharry reforms were seen in France as a very large step too far. Any further concessions in the GATT negotiations were to be resisted at all costs.

There was little movement in the GATT negotiations until after the U.S. November elections, when the Bush administration threatened to impose sanctions on $300 million of agricultural imports from the EC, as a result of EC unresponsiveness to the ruling of a GATT panel that EC oilseed subsidies contravened the Community's GATT obligations. This created something of a panic in the EC and the French were unable to use their influence to prevent Agriculture Commissioner MacSharry from concluding an agricultural trade agreement with the U.S., without endangering the December, 1992 Edinburgh summit, which was scheduled to approve the financial package necessary to implement the Maastricht agreement. The Blair House agreement, concluded on November 20, 1993, by MacSharry and U.S. Secretary of Agriculture Madigan, centered around a commitment to reduce export volumes by 21 percent between 1993 and 1999 and to reduce the base area sown to oilseeds in the 1989-91 period by 15 percent in 1993 and by at least 10 percent in succeeding years (AGRA EUROPE, Nov. 27, 1993, pp. E/1 - E/4).

The angry reaction of French farmers made even their previous protests against the MacSharry plan seem tame. Widespread demonstrations, with a strongly anti-American flavor, occurred in France against the Blair House accords, one of which included the burning of a McDonald's restaurant. The largest of these occurred in the French border city of Strasbourg, where tens of thousands of farmers from throughout Europe filled the streets (New York Times, Dec., 2, 1992). Roads leading to the European Parliament and the local American consulate were blocked and some 200 French farmers clashed with police as they tried to reach the Parliament building.

The beleaguered French government threatened to invoke the Luxembourg Compromise to veto the Blair House agreement, robbing the GATT negotiations of the momentum they needed to have any chance of concluding an overall agreement before the change in U.S. administrations. The agricultural trade issue became an election issue against the socialist government. The net result may be that the new conservative governing coalition may have to veto the Blair House agreement, when it comes to a vote, thus effectively scuttling any attempt to revive the Uruguay Round.

SOME FINAL OBSERVATIONS

The interplay between the MacSharry Plan debate, the Maastricht ratification process and the Uruguay Round negotiations shows the continued vulnerability of the EC decisionmaking process to vocal minorities in individual countries. Even with the Single Market now largely in place, European integration has not proceeded far enough so that the French government, politically hostage to the interests of farmers, has lost its capacity to block action favored by a majority of other EC members. The EC still cannot transcend the sovereign power of the nation-state, at least not on agriculture and trade issues.

The net effect of this interplay is not yet completely clear. Maastricht did facilitate the MacSharry reforms, which in turn damaged the support for Maastricht in France. Even if the Maastricht momentum was slowed, it has not been stopped, as evidenced by the May, 19, 1992 approval of the Second Maastricht referendum by the Danish electorate. If the MacSharry reforms succeed in limiting the long-term growth of EC spending on agricultural spending, they will have promoted the cause of European unification. However, it is by no means certain that the MacSharry reforms will limit the growth of agricultural spending. AGRA EUROPE reported on April 8, 1993, that expected savings on export subsidies and intervention payments for cereals will not counterbalance heavy expenditures on area and set-aside compensation payments, which will probably lead to a substantial increase in EC spending (P/1).

The Uruguay Round obviously facilitated the MacSharry reforms of the CAP, which, in turn, made possible the Blair House agreement removing the agricultural trade obstacle to a successful Uruguay Round. As we have seen, the Blair House Agreement provoked the opposition of the French government, which threatened the Uruguay Round. But, now that the French parliamentary elections are over, the new conservative French government may be shifting its position. This shift is characterized by Foreign Minister Alain

Juppe as moving "from the diplomacy of blockage to a diplomacy of movement" in the GATT talks (AGRA EUROPE, April 8, 1993, p. E/1). If the French government can acquiesce in the Blair House agreement, the MacSharry reforms will have played a positive role in promoting a final Uruguay Round agreement.

1. Funding came initially through national contributions, but later was provided by revenue from duties and levies on imports into the EC and later by a national tax based on 'value added' in member states, and most recently, as a percentage of gross national product.

2. Not all the spending increase came from increased production. In the 1970s, spending grew in part as the result of the transfer of spending obligations to the EC from national budgets. Later in the decade, it increased as a consequence of the enlargement in 1973 to include the UK, Denmark and Ireland. Further spending increases resulted from the expansion of the EC to include Greece (1981), Spain (1986) and Portugal (1986).

3. The decisionmaking leading up to the 1988 Brussels Stabilizers agreement is described in more detail in Moyer and Josling (1990), pp. 78-103.

4. For a more detailed discussion of the early Uruguay Round agricultural trade issues, see Moyer and Josling (1990), chap. 8.

5. The members of the Cairns Group include Argentina, Australia, Brazil, Canada, Chile, Columbia, Hungary, Indonesia, Malaysia, New Zealand, the Philippines, Thailand, and Uruguay.

6. For a more detailed discussion of the agricultural trade negotiations in the GATT Uruguay Round, see H. Wayne Moyer, "The GATT Uruguay Round and CAP Reform: The Interplay between International and Domestic Politics."

7. For discussion of the 1984 milk quotas decision, see Michel Petit, et,al., (1987). For discussion of the 1988 Stabilizers decision, see Moyer and Josling (1990).

8. This paper was never officially released, but was widely leaked by elements in the Commission supportive of reforming the CAP. For a discussion of the contents, see AGRA EUROPE, Dec., 21, 1989. P/1-P/8.

9. The discussion in this paper on two-level bargaining games is based on Putnam (1988). For a more detailed treatment see H. Wayne Moyer, "The GATT Uruguay Round and CAP Reform: The Interplay Between International and Domestic Politics," Presented to the 1992 ISA meetings in Atlanta, Georgia.

10. See later discussion

11. The discussion in this paper on two-level bargaining games is based on the insights of Putnam (1988). For a more detailed discussion of the EC agricultural policy decisionmaking process, see Moyer and Josling (1990), Chap. 2&3.

12. The largest four members of the EC (UK, France, Germany and Italy) each appoint two commissioners, while the other members each appoint one.

13. Article 43 was not affected by the Single European Act of 1986, which did increase the role of the European Parliament in other areas.

14. The EC member states have the following votes - France, Germany, Italy and UK each have 10 votes; Spain has 8 votes; Belgium, Greece, the Netherlands and Portugal have 5 votes; Denmark and ireland have 3 votes; Luxembourg has 2 votes. A Qualified Majority requires 54 votes and a Blocking Minority requires 23 votes. The rule of Qualified Majority prevents the four large states from acting without support from at least some of the smaller states.

15. For the 1992 EC Budget, net contributors are as follows: Germany - 9.0 ECU bn; UK - 3 ECU bn; France - 1.5 ECU Bn; Netherlands -.1 ECU Bn. See Financial Times, February 12, 1992.

16. See AGRA EUROPE, January 18,1991, p/1 and January 25, 1991, p. E/3.

17. Germany's desire for a successful Uruguay Round was also a factor. The shift in the German position on agricultural subsidies became apparent, when in early October, 1991, Jurgen Molleman, Germany's economics minister, told EC trade ministers that Chancellor Kohl had told his cabinet that it would be "a catastrophe" if the Uruguay Round did not succeed. Molleman himself commented, "There has to be a change on the EC's position in agriculture, including export subsidies," he said. Financial Times, Oct., 14, 1991.

18. The budget proposed by Commission President Delors to implement the Maastricht agreements was extremely controversial because it proposed an increase in overall EC spending from ECU 66.6 Bn ($87 Bn) to ECU 87.5 Bn in 1992 prices. To make the problem more difficult EAGGF agricultural spending increases would have to be held to 3% a year, to provide adequate funds for transfer to Spain, Portugal, Greece and Ireland to help these countries prepare for monetary union. If the agriculture spending increase exceeded this amount, the Commission would have to ask for a larger increase in spending, probably outside the range of political possibility. See AGRA EUROPE, February 14, 1992, P/1, and Financial Times, February 13 and March 3, 1992.

19. Another important factor in the resumption of negotiations was the renewal of the U.S. President's 'fast-track' negotiating authority for an additional two years.

20. For a discussion of the interplay between GATT and CAP reform talks in 1991, see my paper "The GATT Uruguay Round and CAP Reform: The Interplay Between International and Domestic Politics, delivered at the International Studies Association Conference in Atlanta, GA, 31 March - 4 April 1992.

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