



CENTRAL EUROPEAN UNIVERSITY

THE POLITICAL ECONOMY OF THE COMMON AGRICULTURAL POLICY REFORM IN THE TWENTY-FIRST CENTURY: THE LOGIC OF MULTI-LEVEL GAMES

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Abstract

This thesis re-evaluates the Multi-Level Games Theory (MLGT) by applying it to the negotiations that led to the 2003 European Common Agricultural Policy Reform—also known as the Mid-Term Review (MRT). This theory was selected for re-validation because it had been used successfully in the past to study the CAP's reform. The CAP is studied because of the puzzling persistence of its highly inefficient and controversial policies. Therefore, the task of a validated MLGT is to explain the lack of radical changes in the CAP. The analysis conducted with the analytical narratives methodology in this thesis re-confirms MLGT's validity in explaining the MRT and highlights the need to properly account for the qualified majority voting rules that are used in the European Union's decision making. The final chapter of the thesis applies previously accumulated theoretical insights on the future reform scenarios. When conceptualized under the MLGT framework, the 'muddling through' scenario of small incremental reforms that are intended to re-legitimize the CAP, instead of substantially improving the aggregate welfare of the society, is found to be the most likely scenario of the CAP's future.

Acknowledgements

Coming from a working-class urban neighbourhood of Tallinn, the closest I have ever got to farming and agriculture was when, as a child, I used to help out my grandmother, who lives in an apartment in a small village not far from Tallinn, and who used to grow, as a horticulture enthusiast, various plants and vegetables on a plot that is smaller than most peoples' houses. She had never thought that people should(and do) get money from the government for working the soil, before I jokingly asked her whether she had ever applied for the Single Farm Payment. She, however, seems to be an exception among people who farm, either as a hobby or for living. This sheds light on the reason I wrote this thesis on the CAP. I have a deep fascination with political economy and I am particularly interested in policies, institutions and international relations systems that produce clearly pareto-inefficient outcomes which tend to persist despite their socially undesirable consequences. The questions that I repeatedly ask myself as I encounter stories to fit this description are, firstly, 'how do some people come up with something so ludicrous?' and, secondly, when confronted with a *fait accompli*, 'why are people incapable of devising side-payments to move the society closer to a pareto-optimal equilibrium?' Needless to say, the CAP offers boundless opportunities to ask these questions.

There are a few persons to whom I would like to give credit. Firstly, I am thankful to my parents, Heli and Raul, who have supported me throughout my studies in CEU and elsewhere. Without their moral and financial supports, I would not be where I am now. Secondly, I would like to thank my lovely fiancée, Sau Kan Chan, who has made sure that I never feel bored or lonely in Budapest. Many ideas used in this thesis were first discussed with her. Thirdly, I would like to thank my supervisor, Professor László Csaba who has been an inspiring figure for me and whose classes have greatly advanced my knowledge of political economy. He is

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Introduction

The aim of this thesis is to improve the theoretical understanding of the decision making in the European Union (EU), focusing on the reform processes that shape one of the Union's most controversial policies—European Common Agricultural Policy (CAP). A better understanding of the CAP decision making is important, not only because it accounts for just over a third of the EU's budget. Most of the CAP's budget supports farmers' incomes¹. The political economy that has let wealth flows from consumers, taxpayers, and foreign producers to farmers is worthy of being closely investigated because farmers might not, on the first glance, look like a strong vested interest group that is able to extract rents² from the rest of the society. After all, only 5.2% of the EU population is employed in agriculture (Wozowczyk and Massarelli 2010, 4) and the agricultural sector contributes only 1.2% to the overall GDP (The Commission 2013). CAP is controversial because, among other reasons, “the case for the CAP's income support is difficult to make in a market economy where economic agents in other sectors also face the risk of gradual or sudden income decline” (Pelkmans 2006, 218-219).

Furthermore, trade-distortive production persists for many agricultural products (Baldwin and Wyplosz 2009, 374) and causes many trade disputes with the EU's international trade partners. Sophie Meunier and Kalypso Nicolaïdis (2005) have even raised the question whether the EU can “genuinely pretend to defend the developing countries in view of the amount of subsidies poured into its protectionist agricultural policy?” (259). In addition, careful empirical analysis

¹The precise figure of €43.8 billion (33.8% of the EU budget in 2011) excludes other support measures for agriculture, such as tariff protection and payments by member-states. This figure also excludes the Rural Development pillar of CAP, which made up 9.5% of the EU budget in 2011 (The Commission 2012).

² Broadly, economic rent is defined as “a return in excess of a resource owner's opportunity cost” (Tollison 1982, 575). Excess rates of return can be obtained by individuals or groups (in this case the farmers' lobbies) if they are successful in ‘rent-seeking,’ which can be understood as “the act of trying to seize an income flow rather than create an income flow” (Hindriks and Myles 2006, 335).

has shown that the cost to outsiders is large, even though up to 90% of the welfare gains of full liberalization would actually go to the EU itself (Tokarick 2005). This has led Federico to call the CAP “the worst agricultural policy in the 20th century” (2009, 271). Such a bold judgment raises intriguing questions. Why does such an inefficient, market-distorting policy still exist? What policy measures could address this criticism? An improved theoretical understanding of CAP’s reform processes is needed to answer these questions.

Starting off with a case, instead of a theory, might seem problematic at the first glance. However, Robert Bates et al. (1998) explicitly resist the idea that there should not be a priori selected case in research design. They argue that in “effect, our cases selected us, rather than the other way around” (13). The authors do not find this problematic because the goal of the research is to “construct logically persuasive and empirically valid accounts that explain how and why events occurred” (13). Therefore, reverse selection sequence—from case to theory—is not necessarily a flawed approach.

One of the most useful theoretical frameworks that can be employed to understand CAP reforms’ political and economic problems is called Multi-Level Games Theory (MLGT). This theory of international relations and domestic negotiations has successfully explained CAP reforms before. Lee Ann Patterson (1997) and Robert Paarlberg (1997) have used versions of MLGT to analyse the first³ major reform that the CAP has gone through, the MacSharry Reform of 1992. Patterson (1997) also used MLGT in the same paper to analyse one of the first spectacular failures to agree on a substantial reform, the 1988 Milk Quota Reform. Therefore, MLGT has already shown that it can explain both major overhauls of the CAP and minor, incremental reforms which failed to produce substantial improvements of the policy. This paper

³ The four reforms of significance usually discussed are called the MacSharry reform (or 1992 reform), Agenda 2000 (or 1999 reform), Fischler Reform (or Mid-Term Review or 2003 reform), and the CAP Health Check (or 2008 reform) respectively.

tries to re-validate an MLGT approach with past data, instead of directly moving on to what MLGT might predict for the future. A two-stage research has been conducted because MLGT, to the author's best knowledge, has so far only been applied to the analysis of reforms that took place in the previous century. Since then, the CAP's environment has changed. The WTO has expanded and grown in scope. Also, internal institutional reforms such as the use of QMV in the CAP decision-making have changed the environment where CAP's reforms are pursued. It is therefore desirable to find out first whether MLGT still applies at all, and, if not, whether it can be made relevant again with theory up-dates.

Methodology

The author will use analytic narratives⁴—as elaborated by Bates et al. (1998, 10-18)—to compare the to-be-tested theory's predictions with empirical evidence drawn from the vast literature available about the case study. Since the theory to be tested is MLGT, the analytic narrative, which means analysing games within a rational choice framework, is well suited. In practice, this means identifying agents who have played a role in the CAP's reform: individuals, or collectives such as elites, nations, electorates, legislatures, or bureaucratic institutions. Not all categories are likely to be found. The identification process will first involve reading a large amount of relevant high-quality secondary scientific literature about the subject matter. This will be supplemented with official documents and statistical data analysis. By using analytic narratives in this way, the author expects to comprehend “actors’

⁴ According to Bates et al. (1998, 10), analytic narrative (AN) “combines analytic tools that are commonly employed in economics and political science with the narrative form, which is more commonly employed in history.” The narrative component of AN means that the approach used in the thesis will pay close attention to stories, accounts, and context. The analytic component of AN means that the approach used in the thesis will rely on explicit and formal lines of reasoning, which facilitate both exposition and explanation.

preferences, their perceptions, the evaluation of alternatives, the information they possess, the expectations they form, the strategies they adopt, and the constraints that limit their actions” (Bates, et al. 1998, 11-12). The goal is to explain outcomes—how CAP reforms took place and why—by identifying and exploring the mechanisms that generate them.

If the analytic narrative identifies actors, and establishes that their actions conform to what the theory predicts, the theory’s validity will be affirmed. If findings partially contradict the theory’s predictions and empirical puzzles remain, but these puzzles could be solved by improving the theory’s conceptualization or scope conditions, then the theory will be improved and affirmed, albeit with modifications. This result will be a call for further research to determine whether the improvements have an impact on the theory’s application in other cases. Finally, if the analytic narrative establishes that empirical evidence contradict what the theory would predict, and these contradictions cannot be overcome without the removal of the theory’s underlying assumptions or logic, then the case study will reject the theory’s validity. In this sense, the case study attempts to update the probability that Multi-Level Games theory remains valid.

Hypothesis and the structure of the thesis

Plausibility probing suggests the default hypothesis would be that Multi-Level Games theory remains valid even in the twenty-first century, but needs to be slightly updated to take into account changes in the EU’s decision making procedures, namely the introduction of QMV. It is argued that with this modification, MLTG will explain why seemingly rational actors have continually agreed to preserve CAP with its rent granting effects despite its numerous flaws.

The thesis is therefore structured so that the first chapter gives a detailed overview of MLGT. The second chapter introduces CAP, highlights its flaws and sets the stage for the third chapter, which contains the analysis of the negotiations that led to the second most substantial reform in the history of the CAP, the Mid-Term Review of Fischler Reform. The third chapter ends with conclusions about the validity of MLGT. The fourth chapter begins with a brief overview of the follow-up reform known as the ‘CAP Health Check of 2008’, which—due to its less substantial policy change and due to the space limitation of this thesis—cannot be analysed in detail with MLGT. Overview of the Health check, however, serves as a basis for the rest of the chapter, which discusses MLGT’s implications for the future of the CAP. More precisely, the fourth chapter presents analysis of four different policy scenarios, from incremental adjustment to radical change. The conclusion is that its multi-level structure, due to its Pareto inefficient internal decision-making dynamics, is likely to block all but adjustment scenario development. The final passage discusses the implications of the Lisbon Treaty and proposes future research. The concluding chapter reiterates the findings.

Chapter 1: Theoretical framework

Introduction

Carole Webb (1983, 38) argued that “neo-functionalism and 'pure' inter-governmentalism were too static, narrow, and therefore, unconvincing in their institutional focus and their understanding of the political context for Community policy making.” However, there is empirical evidence that “the European Union has remained inter-governmentalist in its basic features” (Csaba 2012, 59) and considering the use of unanimity in the CAP decision-making, particularly so in agricultural policy making, at least until very recently. In fact, Webb would probably agree to this—in her critique, she does not reject inter-governmentalist scholarship. Instead, she argues that analysis of the Community level decision making “must include complicated domestic politics both within and even more so across member states” (Webb 1983, 38) and that Multi Level Games Theory (MLGT) offers excellent intellectual tools to do this.

Multi-level Games Theory has grown out of Raiffa's (1982) negotiation analysis and has been therefore used primarily to analyse *single level* cooperative games. Raiffa's (1982) original theoretical framework consisted of four elements: *parties, interests, issues* and *alternatives of the negotiation*. A similar approach is taken in this thesis. Negotiation analysis presented by Raiffa—resembling the formal game theoretic approaches—mainly centred on how *unitary* political actors with well-specified (materialistic) interests interacted with each other. However, elements of multi-level games were nevertheless evident and contributions by various authors discussed below have developed the theory further. In particular, Schelling (1980 [1960], 23), has made a noteworthy contribution by arguing that internal division could bring bargaining advantages. All this laid a foundation to Putnam's massively influential 1988

essay in *International Organization*. In his essay, Putnam addressed Webb's critique by laying down the theoretical framework that would connect international relations with comparative politics. This was particularly appealing for international relations scholars because it allowed them to overcome the level of analysis problem. That is, to overcome the problem of parallel conceptualization and systematization of international, domestic and individual actors' behaviour. Putnam's two-level games approach also offered an alternative way to explain governance failures in the international arena—something that was missing from earlier works by Raiffa (1982) and Schelling (1980 [1960]).

The essence of Putnam's (1988, 434) theory is that many international negotiations—such as those conducted in the Council of Ministers to decide the EU's policies—can be thought of as a two-level game. Within a member state, various domestic interest groups try to influence the position that their representatives—called chief negotiator—take on the international arena. These representatives are called chief negotiators. The chief negotiator can be one person, such as the prime minister or the president of the country, who has the final word over the negotiation position adopted by his or her subordinates. Alternatively, the chief negotiator can be a larger group of people, such as the inner circle of the governing coalition or the country's chief executive's administration which decides the bargaining position collectively. As for methodological individualism, the chief negotiator ultimately tries to maximize their own utility, which (among other things) can be expressed in material wealth, power and prestige. In the case of elected officials in the EU member states, this personal utility maximization is almost always expressed in the attempt to secure one's own re-election. This means that when the head of government is negotiating at the European Council or giving guidelines to their country's permanent representatives in Brussels, they have two clear goals in mind. Firstly, they will try to maximize their own ability to satisfy domestic pressures. This is necessary to form a coalition in support of the domestic ratification of the international agreement that the

chief negotiator is negotiating. Furthermore, satisfying sufficiently many and/or powerful domestic pressure groups makes re-election most likely and may, in some cases, bring in other 'benefits' too. Secondly, chief negotiators try to minimize the internal negative consequences of external developments, which are not under their control. This is most obvious in global climate change related international negotiations, but increasingly also describes international negotiations related to domestic macro-economic governance. Due to the interconnectedness, "neither of the two games can be ignored by central decision-makers, so long as their countries remain interdependent, yet sovereign" (434). The final important characteristic of level-games is that they do not take place in consecutive turns. That is, negotiations do not take place so that the international negotiating position of country is initially domestically decided and then defended immutably abroad. Instead, negotiations are always ongoing at all levels. Developments (particularly new information about negotiation partners and their internal struggles) at the international level can have an impact on the other countries' domestic actors. These impacts or some exogenous influences can result in the reshuffling of the domestic coalition that the chief negotiator is drawing support from. Hence, events occurring at one level of the negotiation reverberate to other levels. This reverberation means that strategies and outcomes at different levels of the game simultaneously affect each other.

While Putnam advances only two-level games theory (international level and domestic level), a broader MLGT, which may contain more than two levels, has been built using Putnam's framework as the foundation. This MLGT has been widely used to analyse various historical events and bargains. For example, Friman (1993), Schoppa (1993), Milner and Rosendorff (1997), Mayer (1991) and Odell (2000) have used it to analyse international trade. Winn (2009) applied it to the political economy of modern information and communication technology, Lehman and McCoy (1992) to international debt, Haffoudhi (2005) on international environmental agreements. Pahre (1997), Pahre and Papayounou (1997), Hosli (2000) have

utilized it to better understand European Union (EU) policymaking. Finally, Paalberg (1997), Coleman et al. (1999) and, as mentioned before, Patterson (1997) have used this approach to analyse the *1992 MacSharry reform* of the European Common Agricultural.

Core elements of multi-level game theory

As noted above, MLGT has its focus on cooperative games, such as international economic bargaining, where more than one actor has the possibility to gain from successful cooperation and where actors have an incentive to participate in the distributional struggle over the gains. Mayer (2010, 49) writes that similar to the negotiations that take place between unitary actors, the main task of MLGT is to explain why seemingly rational actors⁵ often fail to take full advantage of the possible joint gains. Why do they fail to reach agreement when they could gain a lot from doing so? And perhaps more practically for the CAP, why do they often reach economically Pareto inefficient agreements? While 'one-level' theory that is also briefly discussed explains such failures in terms of inter-party bargaining dynamics, MLGT theory points towards the obstacles presented by internal bargaining as the cause for these failures (49).

Variations in the internal decision making can be divided largely into two (Mayer 2010, 60). Firstly, domestic decision making is structured by country specific political and social institutions. These institutions determine how much power subnational actors have over the

⁵ 'Seemingly rational' is appropriate term here because actors, considered as a whole, cannot be rational at all levels of multi-level game. For example, rational chief negotiator might draw support from rational domestic actors and form a coalition in support of an international agreement that is irrational for the nation as whole. (Mayer, 2010, p. 62)

chief negotiator. The mandate and oversight of the chief negotiator by the domestic sub-actors such as political parties of governing coalition or special interest groups that form the voter- or financial donor base of the chief negotiators differ. Some chief negotiators are kept on a short leash, while others are able to operate with a lot of freedom and in relative obscurity (which prevents opposing interests from mobilizing). Secondly, the EU member states differ in their domestic decision making procedures. Some chief negotiators have to ratify international agreements with parliamentary super majority while others get away with absolute majority. While the CAP reforms have so far not fallen into the following category, it is theoretically possible that in the future a larger reform has to be ratified in one (Ireland) or more member states by plebiscite. Ratification procedures reveal which particular subgroups (committees) or individuals (committee chairs or party leaders) are pivotal for a successful ratification. The higher the consensus required for a successful ratification, the longer the list of actors who have to be included in the pro-ratification domestic coalition. Crucial for the CAP reform, “many veto players make significant policy changes difficult or impossible” (Tsebelis 2002, 7).

Intuitively, the nature and outcome of the international negotiations also depend on the number of issues and the number of parties. When the negotiations involve only one issue, say the level of direct payments paid out in one or another member state within the EU at a given budget constraint, then the central issue is to distribute a fixed amount. The threshold of that fixed amount is known as the best alternative to negotiated agreement (BATNA) or “a reservation value” (sometimes “reserve value”), the limit of which is acceptable for the party (Mayer 2010, 49). If there are only two actors, then agreement can be reached only when both actors’ reservations values are in the zone of possible agreement (ZOPA). All points—which can be thought of as various distributions of the CAP spending between member states—in the ZOPA represent situations where actors’ utilities from a successful agreement are more than the value of both parties’ reservation values (Mayer 2010, 49). A no deal situation might be represented

as a budget gridlock where—*ceteris paribus*—previous Multiannual Financial Framework budget allocations is rolled-over into the future, month-by-month. However, when two or more issues are involved, then it is likely that there are possibilities for creating value by integrating the actors' heterogeneous interests. That is, concessions made to an actor in one issue can induce that actor to make concessions in another issue. When a bargaining (be it one issue or multi-issue) takes place among only two parties then agreement requires by definition consensus.

However, in the case of the CAP, bargaining can rarely, if ever, be characterized as two unitary actors' negotiation. While one of “the most common explanations found for [creation of] the Common Agricultural Policy of the EEC is that it represented a Franco-German deal in which Germany, in return for a common market for its industrial exports, conceded to France a market for its agricultural exports”, this often told cliché, argues Milward (2000, 283), “ought to be laid to rest” (283). As Milward points out, the concept of the output support based CAP was not a French idea, but came much more from the Netherlands—French negotiators had tried, on behalf of the French agricultural lobby, to convince Germany to sign guaranteed long-term import contracts which would have obliged Germans to buy a certain amount French agricultural products every year above the world market price. The more complex scheme that would put farmers on welfare through managed agricultural trade, advocated by the Dutch, was not initially welcomed by the French (311). However, in the end, agricultural exports were only a secondary, subordinate issue. For both, the Netherlands and France, the common market for agricultural goods and support measures for agriculture were in no way a proportionate counterbalance to industrial trade. It was only after the Inner Six had already decided, in principle, to create the common market for industrial goods, that the French decided to make the CAP a precondition for concluding the Treaty of Rome (283). This short example illustrates that when more than two parties are involved, agreement may be possible with less than

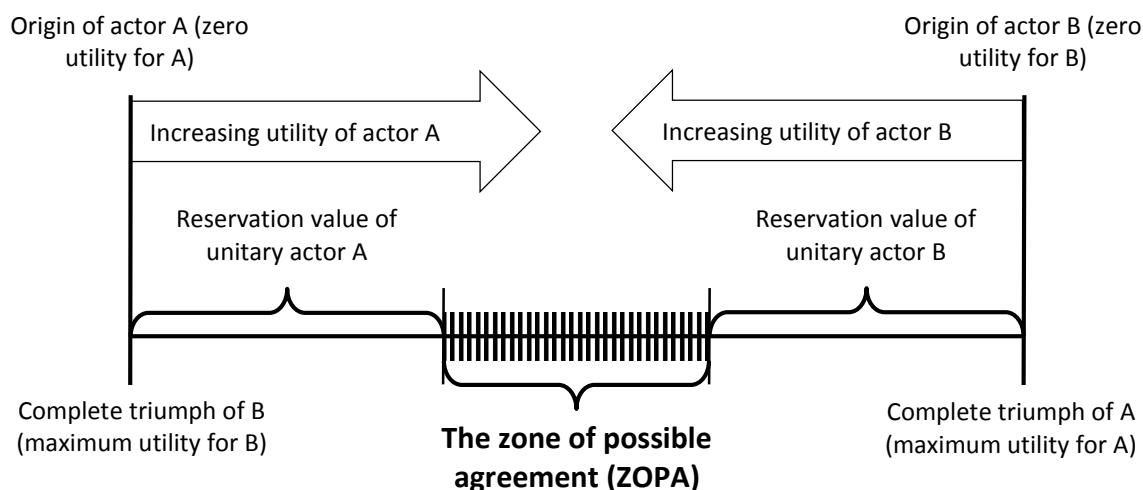
consensus. Furthermore, there may be more than one winning coalition. A single winning coalition with consensual decision-making, however, is a point from where to start conceptualizing MLGT.

One Issue, One level

One issue and one level type of negotiations constitutes a special case in MLGT. Assuming that cooperative behaviour results in the production of surplus value of some kind that can be distributed, then, as discussed above, two parties and one issue negotiations focus on the distribution limited gains. Raiffe (1982) writes that each actor “establishes the threshold value that he or she needs. The seller has a reservation price, s , that represents the very minimum he will settle for, any financial-contract value, x^* that is less than s represents a situation for the seller that is worse than no agreement” (45). While Raiffe seems to think strictly in line of material gains, this limitation can be somewhat relaxed. For example, actors might also negotiate over the distribution of prestigious and/or politically powerful public offices that can be occupied (or even created) as a result of successful cooperation. It is, however, extremely difficult, if not impossible, to determine the precise BATNA of politicians. While economic modelling might be employed to estimate the material costs (of not reaching an agreement) to the nation as a whole and, in many cases, also to the special interest groups with vested interests, the same cannot be said about non-agreements impact on the chief negotiator. This is so because political costs of not reaching agreement are difficult, if not impossible, to quantify. As Patterson (1997) puts it, BATNA has “an economic aspect that may reflect certain beliefs about whether estimated real costs are accurate, but they also involve a personal calculation

about how reaching an agreement or the failure to do so will affect a politician's overall political standing” (144).

Figure 1: ZOPA with two unitary actors and one issue

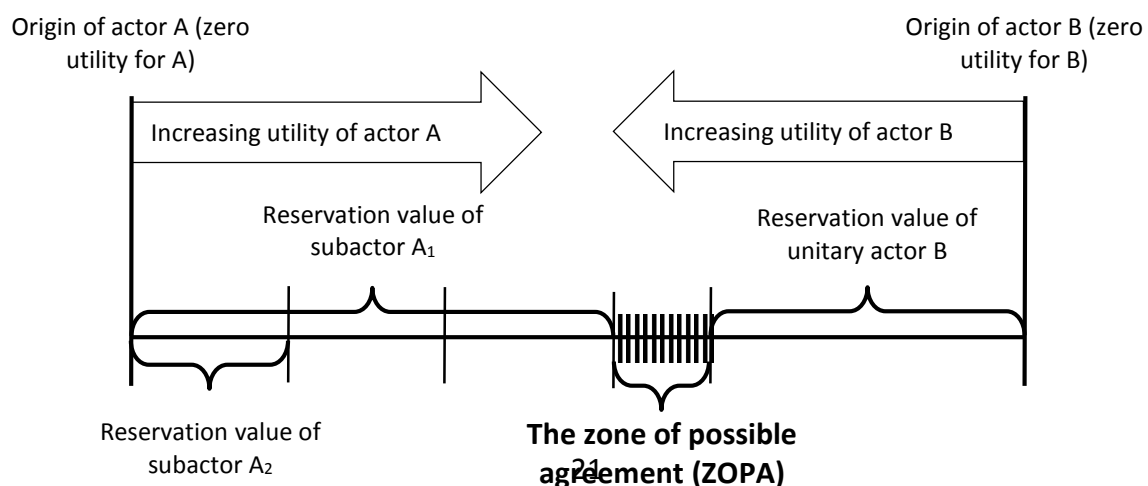


Regardless of the blurriness of exact BATNA levels, it is obvious that if there are no overlapping interests, e.g. there is no ZOPA, then there cannot be any agreement on the international level. However, the impact of the ZOPA's size on the likelihood that agreement will be reached is still ambiguous. In this simple model with only two parties, negotiation strategies matter. Large ZOPA can increase the risk that actors incorrectly estimate the reserve value of their opponent and opt for strategy results in gridlock. On the other hand, if ZOPA is very small and its location is transparent to the parties (which is more likely, if for nothing else, because actors can probe the limits of their opponent with a lower number of trial-and-error technique repetitions). A well-defined agreement preferred by both parties to the alternative could be therefore simply reached because ZOPA was small. Extreme examples are prices of goods and services in perfect markets. When there are many buyers and many sellers, the ZOPA collapses into a single point, known as the market price and all bargaining possibilities are therefore eliminated (Mayer 2010, 51).

One Issue, Two levels

This simple bargaining, however, becomes more complex if another level (domestic level) is added to the game—that is, actors at the international level are no longer unitary. In this case, as Putnam (1988) elaborates, chief negotiators “representing two organizations meet to reach an agreement between them, subject to the constraints that any tentative agreement must be ratified by their respective organizations” (435). Tsebelis (2002) elaborates how various domestic political actors through domestic institutional arrangements can have veto power over external negotiations. National chief negotiators—usually heads of government, or their agents—may end up negotiating an international agreement that is acceptable to the nation as whole, but unacceptable to some special interests with a nation. If these special interests have a representation in parliament and their political party is part of the government coalition then parliamentary representatives of these special interests are likely to use their veto power (in extreme cases by joining the opposition in a vote-of-non-confidence on the executive) to prevent ratification of an unacceptable international agreement. In one issue space, this simply narrows down the ZOPA, as shown below in Figure 2.

Figure 2: ZOPA with two actors (one unitary actor and one internally divided actor) and one issue



Mayer clarifies that the precise impact of the internal division depends on two elements. The first one is the existence of side payments. If side payments are given to a party with the largest reservation value (A_1 in above figure 2) then winners compensate 'losers' and the ZOPA increases. Side payments are particularly important if a subactor with veto power has such reservation value that there is no ZOPA. In other words, special interests in one country might demand more concessions from another country than that country is willing to give. The second element determining the size of ZOPA is information available to actors. Actors are much more likely to reach an agreement when they have precise information about the nature and extent of the internal constraints faced by their negotiation partner (Mayer 2010, 51).

Two Issues, One level

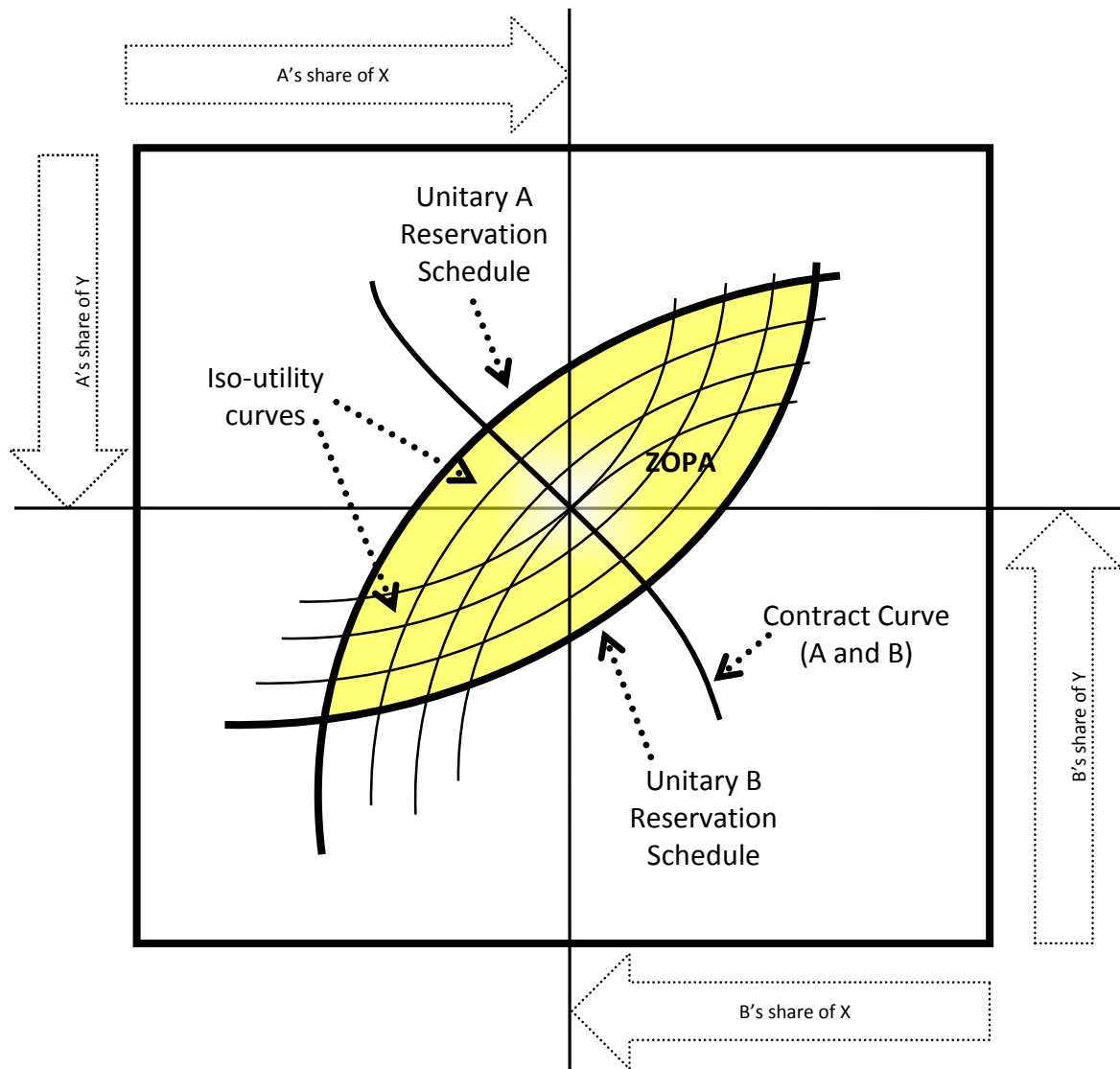
In reality, negotiations are rarely conducted with only one topic. Whether parties want it or not, side-topics cannot be passed. For example, the EU's agricultural subsidies and allocation of the EU budget between member states is invariably linked to budget negotiations and distribution of budget burdens. It is sometimes even better to conceptualize side-payments as just another negotiation topic or issue.

The second issue might actually be much more salient for the parties concerned than the research focus of this thesis⁶-agricultural policy reform. When there are only two issues and two players at the international level, then negotiation space can be displayed graphically as is done in the following Figure 3. In that figure, two rational benevolent chief negotiators

⁶ The creation of industrial goods common market—and not the often fought over CAP—was most likely much more important for the nascent EC decision-makers in 1950s and 1960s.

representing the nations A and B are negotiating over two issues, X and Y. In the current case, the iso-utility curves of the chief negotiators coincide with what would be welfare maximizing of their nations. The shape of the iso-utility curve shows how concessions in one issue can be traded off for gains in another issue. The shapes the iso-utility curves shown in this example imply that negotiators prefer balanced solutions (they gain something in both issue areas) to corner solutions (where they triumph in one issue area entirely and gain nothing in another). One of these iso-utility curves forms a reservation curve for each nation. Any combination of X and Y that is not at least on the reservation curve would be rejected by the chief negotiators because the utility from BATNA would be higher than from such an agreement. Hence, these reservation curves define the ZOPA area. Points connecting Pareto efficient agreements—that is, agreements whereby neither nation’s utility can be further increased by changing to another combination of X and Y without reducing the utility that its negotiating partner can get from its share of X and Y—define the contract curve. Mayer (2010, 53) notes that, while in theory, unitary negotiating actors should reach an agreement that lies on the contract curve, they often fail to do this because of asymmetric information and concerns about relative gains. Figure 3 shows equal distribution of relative gains.

Figure 3: Two Unitary Actors, Two Issues, One level



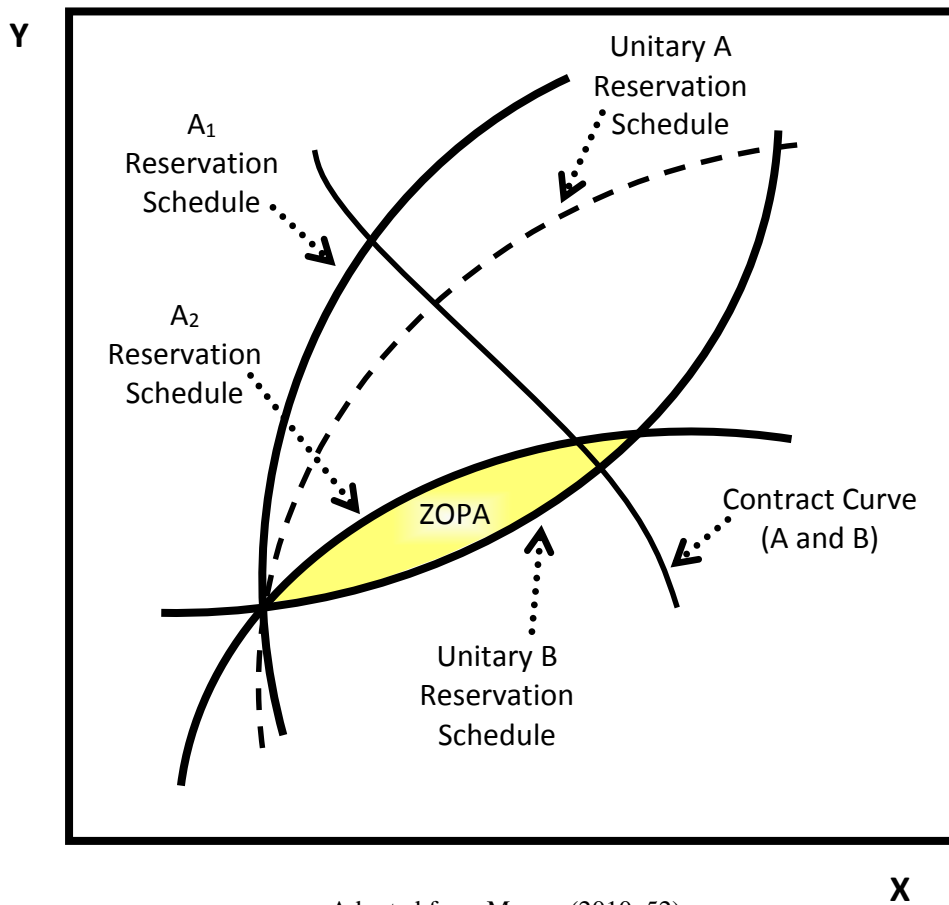
Based on Mayer (2010, 52) and Putnam (1988, 447)

Two Issues, Two levels

Similar to the one issue model, when one actor is internally divided into two veto players, then iso-utility curves no longer represent nations' welfare maximization. This is so because the national chief negotiators are now forced to satisfy the interests of one or another narrow special interests group instead of the nation as whole. In the international negotiation space, this theoretical relaxation increases the reservation schedule and reduces the ZOPA. However,

“the relative size of the respective [international level] win-sets will affect the distribution of the joint gains from the international bargain” (Putnam 1988, 440). Indeed, Figure 4 shows that if the external negotiation is largely distributive, then internal division can enhance A’s bargaining positions because many of A’s inferior outcomes are now outside the ZOPA. Schelling (1980 [1960], 22-23) emphasises that national chief negotiators might try to manipulate their reservation schedule by intentionally promoting or even institutionalizing internal division. However, from the CAP reform perspective, national executives are unlikely to call for domestic institutional overhaul simply to gain bargaining advantage at the CAP reform table, but the chief negotiators are in a good position to exploit their internal divisions even if they have no control over them (Putnam 1988, 440). A skilful chief negotiator of A could actually increase their share of gains in both issues compared to the situation where he or she was representing a unitary actor. This is so because the structural constraints imposed on A’s internal division might not be fully transparent to its negotiation partner(s), the chief negotiator of B in this case (Mayer 2010, 61). On the other hand, if the external game is largely integrative, then bargaining advantages that internally divided actors might gain (due to their domestic configurations) are likely to be offset by foregone opportunities for joint gains, particularly if both parties are divided (Mayer 2010, 55-56)! This problem, as will be shown throughout the thesis, is especially salient in the case of the CAP reform negotiations.

Figure 4: Two Actors (one unitary, one internally divided), Two Issues, Two levels



Adopted from Mayer (2010, 52)

As can be seen from the above figure, the ZOPA has decreased considerably. What is more, only a short section of the Pareto efficient contract curve lies now within the ZOPA and, depending on the exact configuration, might be outside of it entirely. In the latter case, when the agreement is not on the contract curve, the utility of at least one sub-national actor could be increased by dividing X and Y differently between nation A and B. Hence, internal divisions can cause international negotiations to end with agreements that are inefficient. Efficiency loss could be particularly severe if veto player is otherwise numerically and economically marginal—for example, when such a special interest group represents only few percent of the population and fewer percent of the total economic output.

Two Issues, Three Levels

So far, discussion has remained at the borders of Putnam's original two-level games theory framework. Mayer (2010, 57), however, argues that policy making in the EU should be analysed as MLG, rather than two-level games. Indeed, Meunier (2000), for example, points out that the EU itself becomes an actor when it is negotiating with external partners such as the United States. "When the EU enters into trade negotiations with third countries, its teen member states have to reach a common position at the European level before it can be defended at the international level with a 'single voice.' Member states use several different rules to aggregate their divergent interests into this single voice" (103). For this thesis, the crucial question arising from the EU's external negotiations is how to place them into Putnam's original framework? Is the Doha Round the international stage that Putnam is speaking about? If the Doha Round and other similar external negotiations constitute the international stage (or Level I in Putnam's notations) then what would the Community level negotiations be? Are they still international or are they domestic? Lee Ann Patterson (1997, 141), in order to address these issues, suggests using "an additional level of play, the Community level, in which member states attempt to achieve domestic goals while simultaneously pursuing cooperative integration." In this sense, the EU can be conceptualized as a federal-like polity. Like national chief negotiators, the Commission with its staff is trying to maximize benefits and minimize costs (Woolcock 2010), at least to themselves, if not for the European Union and its member states as a whole.

In short, domestic coalitions formed with the member states influence the EU's agricultural policy. Community agricultural policy in turn affects world markets and supply chain configurations elsewhere. The world markets in turn have a huge influence on various stakeholders, particularly producers of agricultural products (but lately also environmental and

consumer protection organizations), both within the EU and abroad (Patterson 1997, 141). The world market's impact on foreign producers might result in reconfiguration of the EU's external partners' domestic coalition. Later, in turn, this would influence the EU's partners' reservation schedules during international negotiations such as that of the Doha Round. Similarly, the world market's impact on various domestic producers in the EU might result in re-configuration of these member states' domestic coalitions.

The third chapter of this thesis attempts to test these theoretical statements in with the empirics of the Mid-Term Review reform.

Chapter 2: Background of the Mid-Term Review

Introduction

This chapter tries to give an overview of the international political environment, the CAP's legacy and various other exogenous inputs that are necessary to analyse the Mid-Term Review from with MLGT.

The 2003 Mid-Term Review of Agenda 2000, also known as the 'Fischler Reforms'⁷ covered in this chapter was in reality much more than a progress review. Together with some minor follow-up reforms in 2004, MTR gave the main features of the current system. This is so because the 2008 CAP Health Check succeeded in making only small adjustments to the system that had previously been established by the MTR (Hill 2012, 143). What is perhaps most striking about the Fischler Reforms is that despite the CAP's obvious problems and broad re-alignment of some actors' preferences at all three levels, the MTR (like its predecessors) kept the CAP within the state-assisted paradigm and the sector's rents remained secure and isolated from the world market. Or, as Fischler himself put it during an internal seminar in April 2001: "For us, the relevant policy question is *not if*, but *how* to continue support for EU agriculture" (Fischler 2001, 4). This, however, only reveals the intention of one important actor. It does not answer the question what set the MTR in motion, and what started the negotiations.

After all, there was little to no pressure from the agricultural markets for *immediate* reform. As can be seen in table 1 below (for most commodities), the balance was going to be reached in medium term. By 2002, successive reductions of institutional prices since the MacSharry

⁷ Named so after Dr. Franz Fischler, who was the Commissioner for Agriculture, Rural Development and Fisheries between 1995–2004.

reforms in 1992 seemed to have transformed CAP subsidies into a ‘safety net’. Some sectors (wheat) had even started exporting without export subsidies.

Table 1: Levels of self-sufficiency in the EU

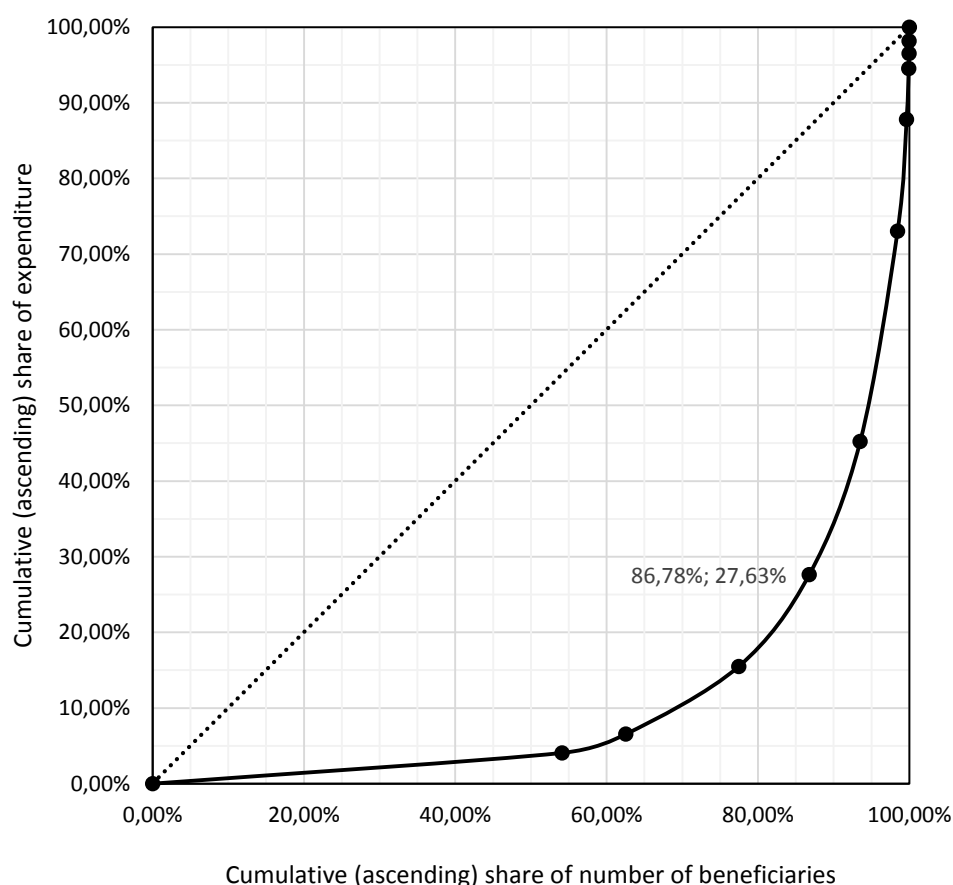
	1985 1986	1996 1997	1996 1997	1998 1999	1999 2000	2000 2001	2001 2002
	EC12	EU12	EU15	EU15	EU15	EU15	EU15
Wheat	126%	112%		120%	120%	116%	116%
Total Grains	114%	105%					
Sugar	129%	130%	128%			128%	
Wine	105%	111%	109%	109%	109%		
Beef	106%	116%	116%	105%	103%		109%
Veal	113%						
Whole milk				201%	370%		
Milk	102%	101%	101%	100%	123%		
Skim milk powder	123%	129%	129%	132%	247%		
Butter	110%	109%	109%		116%		
Pig meat	102%	106%	106%	108%	1110%		107%
Poultry meat	104%	110%	109%	111%	109%		106%
Eggs		102%	102%		103%	101%	102%

Source: 1985-1997 data from Ackrill (2000, 74), 1998-2001 data from various *The Agricultural Situation in the European Union* reports such as the Commission (2004).

Imbalances remained, however, for minor crops (rye, rice) which were witnessing very worrying levels of intervention stockpiles that were expensive to store, while the dairy sector had to face up to substantial decisions on whether to maintain production quotas. Finally, many export subsidies were still used to get rid of many minor agricultural commodities (Garzon 2006, 97). Therefore, there was lot of legacy from the pre 1992 era that would start to haunt the EU decision makers, either because of budgetary concerns in the light of enlargement or because of trade liberalization negotiations at the Doha Development Round (DDR).

Furthermore, in 2002, the European Commission (2002) published a report confirming that previous reforms in 1992 and 1999 had done little to increase equality among recipients. Following figure 5 illustrates CAP support inequality with a payment- Lorenz curve.

Figure 5: Inequality of direct payments in 2002



Note 1: Data displays distribution in the EU15.

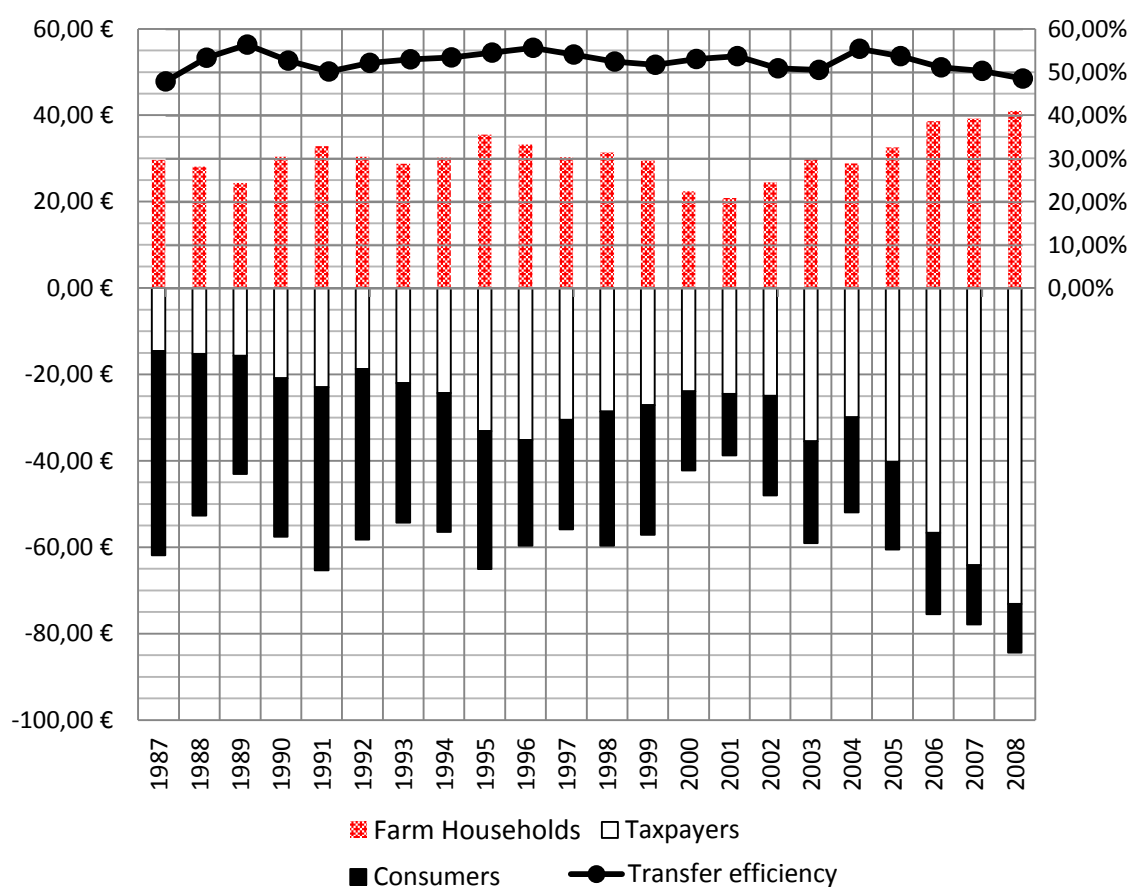
Nota 2: This figure excludes those 'recipients' who, due to uncovered fraud or other reasons, had to pay the EU, instead of receiving a payments from the EU. These 'recipients' made up 0.05% of the total recipients and combined, they contributed € 7,5 million or 0.03% of the total direct payments budget that year.

Source: Author's compilation and calculations based on the DG AGRI (2004) data obtained through personal correspondence with Mr. Rudi Genbrugge, Assistant External Auditor at the DG AGRI.

A further study by the OECD (2003, 5) showed how the majority of European farmers really made a living: part-time farming had been on the rise for decades this can be attributed largely to the fact that despite its vast cost, the CAP was unable to provide enough income to many

farmers for the latter to specialize solely on that activity. Another examination by the Court of Auditors (2003) highlighted the difficulty of separating farm income from other income sources. In other words, while it was possible to estimate how much rent farmers in the EU received due to the CAP, the impact of this transfer on the disposable income of farmers was ambiguous at best when farmers' incomes were, in practice, made up of revenue from both farming and non-farming occupations. Furthermore, as can be seen from the following figure 6 transfer efficiency itself was a major problem. Just before MTR, in 2002, only 51% of the money that the tax payers and consumers contributed actually reached farmers as revenue (and this picture ignores dead weight loss caused by the CAP and in-direct economic costs resulting from inefficient resource allocation in the economy).

Figure 6: Transfer efficiency



Source: Author's compilation of OECD (2011) data.

Rational Ignorance

Why did taxpayers and consumers put up with CAP in the light of all of its problems highlighted in the previous section? Nello and Pierani (2010) have argued that ‘rational ignorance’ is the culprit. While agricultural community’s rents are large (if taken together), they are quite small if divided between many individual taxpayers and consumers. Making informed decisions about one or another policy, however, requires investment on behalf of the population. Investment⁸, that people are rarely willing to make unless something salient for them is at stake. In case of the CAP reform, acquiring information about it, instead of social or macroeconomic policies which are likely to have larger impact on any non-farming person, would have been inefficient use of resources. Therefore for “consumers and taxpayers the costs of information signalling their preferences with regard to the CAP exceed the expected benefits of doing so, so their rational choice is to remain ‘ignorant’ about the CAP” (Nello and Pierani 2010, 12). While the growth of mass media might have reduced information acquiring costs, it might have taken consumers and taxpayers to another extreme. As Nello&Pierani (2010, 12) point out, with a lot of, often contradictory, information available about the CAP and many other issues, information that is necessary to make informed decisions about the CAP might get lost in the noise.

Members of general public were not, however, equally disinterested in the all aspects of the CAP. Swinnen, Negash and Vandermoortele (2010, 34) note the strong preferences of consumers with regard to food safety. This can be explained by two things. Firstly, one’s physical survival—which, among other things, means eating safe food—is a high priority for

⁸ Even casting a vote itself, could be, in fact, considered an investment which pays off only if voter ends up being median voter’s whose vote decides the outcome of the elections. In the light of this, it might be irrational altogether for people to learn about politics and to vote on elections until a large number of other people do it because the probability of being the decisive median voter is very small (Hindriks and Myles 2006, 322-329).

people. More efficient CAP, on the other hand, would only mean a few more euros in the pocket as a result of reduced rent transfers and increased economic efficiency. Secondly, how more economically efficient CAP exactly benefits any individual consumer and taxpayer is an extremely complex calculation, beyond easy learning. Imagining what food poisoning could do, however, is relatively easy. Other issues—such as animal welfare and environmental protection—taken more or less seriously by the general public also share the characteristic of a eas learning curve. More importantly, they can be portrayed more easily in the media and portrayal of food safety, animal welfare or environmental degradation is much more likely to cause an emotional reaction than descriptions of economic inefficiency and rent seeking behaviour.

Chapter 3: Multi-level negotiations in practice

The actual bargaining game at the Community level revolved around a limited number of issues: financial burden-sharing after enlargement, reservation value at the international level (DDR) talks, and the implementation of a European agricultural welfare state in the future. Fischler himself had argued that the reforms would help the EU to meet the challenge at the Doha Round, and would at the same time integrate the new member states into a system of agricultural support operating in the rest of the EU (Bache, George and Bulmer 2011, 377-378). But why continue support at all, especially if one's tax monies have to be shared with many new gold diggers—to use Clapser and Thurston's term (2010, 3)—among the new member states? After all, if the Doha Round was really the main driver, then the best solution would have been something along the lines of a bond scheme, perhaps best elaborated by Swinbank & Tangermann (2004, 55-78)⁹. However, nothing like that was ever discussed. This chapter attempts to illustrate how multi-level games structure different actors' incentives in a way that even seemingly rational actors will end up agreeing to pareto-inferior policy.

The issues: cost of the CAP and eastern enlargement

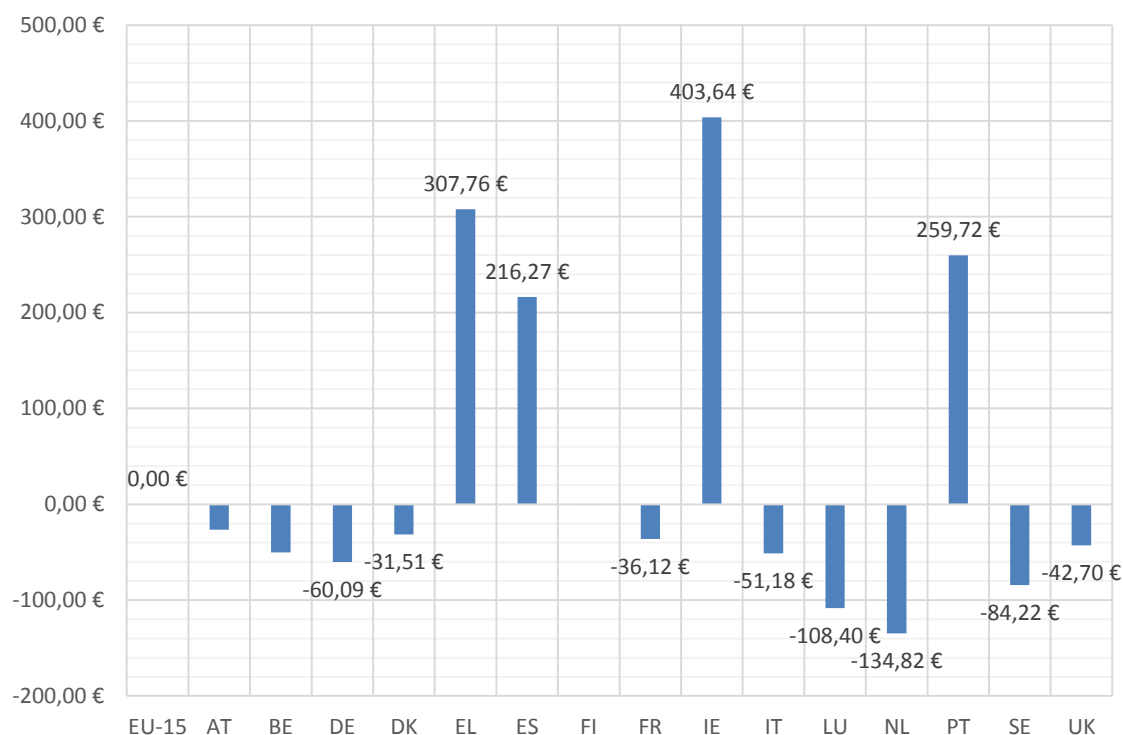
When the Commission (2002) first made the reform proposal public, it sparked rejection and criticism among the chief executives of many member states, not because the proposal was too modest to eliminate economic distortion, special interest rents and farming practices that are damaging for the environment. Instead, either particularistic discontent—not enough money

⁹ The idea of replacing all direct payments with bonds that would give recipient farmers same annual income as they used to receive through the CAP is itself not a new idea. It has been out there at least since Tangermann (1991).

for my country or too much money from my country—or outright rejection of the drive towards economic efficiency that would threaten the rents of domestic special interests was voiced. Even generally pro-reform countries such as the United Kingdom, Sweden, the Netherlands and Germany were initially hostile to the Commission’s reform proposal because it included extension of direct payments to the new member states. It is no coincidence that these countries were among the highest net contributors to the budget (see figure 7) and hence their executives were concerned that the extension of the direct payments to new members would turn direct payments (which were initially introduced to ‘compensate’ farmers for the 1992 MacSharry reform-related price cuts) into permanent institutionalized rents for farmers in other distant constituencies. In other words, this move did not help domestic coalition-building and the executive’s popularity in these countries in any way. If anything, it made building a coalition based on domestic interests more difficult for the ruling governments. Also, a diversion of CAP funds to the new member states would not earn them support from their own farmers. Even in countries such as Germany, where the most favoured party of the farmers’ lobby was not actually part of the governing coalition¹⁰, there was little enthusiasm for the Commission’s proposal. The introduction of a perpetually high-cost CAP could negatively impact the appeal of the then-chancellor Schröder’s SPD party to more centrist voters.

¹⁰ Farmers in Germany usually lobbied the Christian Democrats and their Bavarian arm, the Christian Social Union, not the governing coalition of Social Democrats and Greens.

Figure 7: Per capita operating budgetary balance in 2002



Source: Author's calculations based on the Commission's (2009) data.

A similar dynamic can be argued to have characterized the other large net contributor—Britain—whose Labour government had nothing to gain from the extension of CAP's direct payments to the new member states. Therefore, the aforementioned high net contributor member states tied their consent to the EU's negotiating position in the enlargement talks to a pre-accession reform of the CAP (Garzon 2006, 98). They were able to leverage this dimension of the negotiations because, despite much pressure from the CEECs, several countries still had many accession chapters open and there was therefore no final agreement on the accession timeline at the time the Mid-Term Review proposal was published in July 2002. One of the

most important remaining topics¹¹ was the introduction (and the level of) direct payments and quotas for the new member states. However, Romano Prodi's Commission had made timely enlargement one of its top priorities (Swinnen 2008, 148) and this forced the Commission, as chief negotiator with the CEECs, to find a solution that would both satisfy the pro-CAP-reform member states of the EU15 and provide a solution that would not cause resentment in CEECs or a delay in the accession of the CEECs. The latter was a possibility if the CEECs were forced¹² to choose either accession with no CAP monies or no accession but a continuation of negotiations that might eventually lead to a better outcome¹³. Another major issue was the distribution of the financial burden of accession within the then currently legislated financial framework for 2000–06. The candidate states, needless to say, were asking for full payments from the CAP and the structural funds, while those members states of the EU15 that were going to lose out from the diversion of funds and the increased financial burden (net contributors and current beneficiaries of the structural funds) were obviously opposed (Swinnen 2008, 150).

For the pro-reform camp, not extending direct payments to the new member states promised to bring double gains, as long as it did not derail the enlargement process. Firstly, it would have reduced concerns about the EU's financial sustainability. But doing so would not have necessarily decreased current expenditure and distribution of monies between member states. Most likely, not extending direct payments to the new member states would have meant that the new member states would have been allocated funds of similar magnitude for other projects, such as those falling under the cohesion policy or rural development. These alternative

¹¹ Another hot topic was the desire of the CEEC countries to obtain a limited duration exception in the purchasing rights of foreigners to agricultural land to avoid having foreigners buying up too much valuable agricultural land.

¹² Such developments would have reflected MLGT's predictions that if one party imposed excessively harsh conditions on another, though it may obtain the consent of the opposing chief negotiator, this chief negotiator might not be able to ratify the agreement later at home.

¹³ It should be kept in mind that acceding member states already faced, for example, closed labour markets during the transition period. It is difficult to estimate where another concession could have been extracted from acceding CEEC, but what is clear is that it would have caused resentment and possibly even delays.

spending projects were much less likely to result in the formation of future anti-reform rent-seeking special interest groups in the new member states, and the supporters of reform certainly did not want to create new opponents. Therefore, not extending the direct payments would have resulted in more flexible future budget negotiations at the Community level. Secondly, by the same token, not extending direct payments to the new member states would have put countries such as France and Spain in a precarious position. As time went by, these anti-reform countries would have had trouble justifying the direct payments in their own countries and would have been left with few allies at the Community level should reform of the CAP come up again, as indeed it did in 2008 with the CAP Health Check. On the other hand, the extension of direct payments to the new member states promised to create some natural allies for the French-Spanish group.

Iraq War as an exogenous catalyst for community level coalition building

While neither Jacques Chirac's administration in France nor Gerhard Schröder's cabinet in Germany was interested in the no-agreement scenario, there was no good reason why they would agree to cooperate in the CAP reform. Change to this, however, was prompted by an entirely unrelated issue: the build-up to the Iraq War. For Schröder, whose domestic support included relatively sceptical social-democrats and the overtly pacifist Green Party (with whom he was in government), supporting the US-led Iraq invasion build-up was not an option. However, as a result, he had found himself internationally isolated to a certain extent and maintaining good Franco--German relations became far more important than it otherwise would have been. "International political coalition [with France] because of the Iraq war and

enlargement was more important than the preferences of his Green Party coalition partner on CAP reforms” (Swinnen 2011, 62). This allowed the two countries to take the initiative and sort out differences between themselves before the negotiations began.

Hence, at the 11th hour, in September 2002, French and German chief negotiators reached an agreement on CAP financing for the next multi-annual budget framework (2007-13). This agreement laid out how CAP spending ought to be distributed not only in the new member-states but also in the rest of the EU (Garzon 2006, 99). As one Commission official summarised it to Swinnen (2011, 61), “the French agreed with the enlargement if the Germans agreed to pay the bill”. The agreement, which can be conceptualized as a classic ‘two actors-two issues game’, contained two elements. Firstly, Chirac and Schröder agreed that direct payments should not be extended to the new member states on an equal basis with the older member states. Instead, they favoured a 10-year transition, starting with a level of 25 per cent of the direct payments the old member states had received in 2004. Secondly, in order to make sure that their position received enough support from the middle-ground countries such as Greece, Belgium, Luxembourg, Finland, Austria and Italy (Swinnen 2011, 61), the Chirac-Schröder agreement included a cap on CAP spending, or, more precisely, they decided that the market-related expenditure and direct payments combined would never be allowed to exceed €45.3 billion. (Garzon 2006, 99)

Until Chirac was able to use the anti-Iraq war alliance with Schroder to keep the latter on his side in the CAP debate, there was no community-level ZOPA for reform. However, Fischler and his administration then decided to ask one of the pro-reform domestic chief negotiators, Tony Blair, to try to counter the Franco-German alliance. More precisely, Swinnen (2011, 62) writes that Fischler asked Blair to approach José María Aznar, the Prime Minister of Spain at the time. Spain was chosen because its minister of agriculture, Miguel Arias Cañete, “was

believed to have joined the French more in order to gain some breathing space than because he was opposed to the whole reform approach.” (Pirzio-Biroli, 2008, p. 107)

Blair’s job was to convince Aznar to switch sides and support the CAP reforms. Blair, who “had supported the CAP reforms all along, agreed on one condition: the Commission had to drop the capping of support to large farms”. Capping the payments would not only have hurt large UK farms and landowners, but might also have caused further distribution of cap monies away from Britain. Even though this exception did not quite address the concerns of Fischler’s other supporters concerning the inequality of CAP direct payments (shown in figure 5), he agreed to this as part of his community-level coalition building. In any case, Blair did manage to convince Aznar to switch sides in the CAP reform debate. According to Swinnen (2011, 62), this left the opposing coalition severely weakened.

Impact of the international trade negotiations

The survey of decision makers by Arlindo Cunha and Alan Swinbank (2009) shows that “the GATT/WTO negotiations were a major motivating force behind the [past] reforms” (259). While international negotiations did not have the same intensity as in 1992 because the pressure to open up markets was less, it nevertheless played a significant role. Within the Commission and the pro-reform camp, there was a general recognition of the need for further price cuts and the extension of direct payments for all commodities which were still supported through higher prices. This was to improve the situation of the market and to facilitate trade negotiations at the Doha Round since, by 2003, “it became clear that the EU could not take part in a WTO agreement on the basis of the Agenda 2000 package” (Garzon 2006, 101-5). It also became clear that something had to be done about Direct Area and Headage payments. This may

explain why the Commission was so interested in turning headage payments into a flat-rate decoupled single farm payment (Daugbjerg 2009, 405-406).

However, there were those who did not view international pressure as a valid reason for reforms. Decoupling was opposed by France and Spain, who contested the need to consider the international dimension altogether. They came up with a tactical argument that perfectly fits the theoretical foundations laid down previously: French and Spanish representatives defended the concerns of their domestic farmers' organisations by arguing that the EU should not pursue unilateral reforms before the EU's trading partners, essentially the United States, did the same (Garzon 2006, 108). For French and Spanish representatives, unilateral reform was like unilateral disarmament, reflecting Paarlberg's (1997) theoretical insight from MLGT that "Internationalizing a reform debate gives domestic rent seekers (e.g., farm lobbies) a potentially attractive means to shift blame for their rent-seeking conduct onto foreigners" (423-424).

But why did the EU choose to reform the CAP instead of resisting the pressure? Or more precisely, why did the Council finally agree to a reform that clearly took international negotiations into account (after all, other directions were available)? Perhaps the best answer to this question is that the EU would have been locked into defending a position which could not withstand the pressure against export subsidies and domestic support. The Cairns group of agricultural exporters (i.e. Australia, Canada, Argentina), supported by the United States, gave priority to the 'core' agenda (market access, domestic support, export subsidies). There was no way that the EU could compensate international negotiation partners in return for accepting the pre-MTR CAP. Without reform, there might not have been any ZOPA left for future trade talks. As for the unilateral disarmament charge, the most likely cause for pre-emptive reforms may be found in the strategy adopted by the Commission in international negotiations. Instead of

going out on the defensive, the Commissioner for Trade, Pascal Lamy, instead wanted the EU to take the initiative (Swinnen 2008, 144). It is therefore no coincidence that the Fischler Reforms were finally agreed on just before the ill-fated WTO Ministerial meeting in Cancun. There were high expectations of the Cancun meeting, which was thought to be an important step on the road to a final agreement that would conclude the Doha Round before the official deadline of December 2004. Or, as agricultural ministers themselves put it in the Council's brief upon adopting the Reform package:

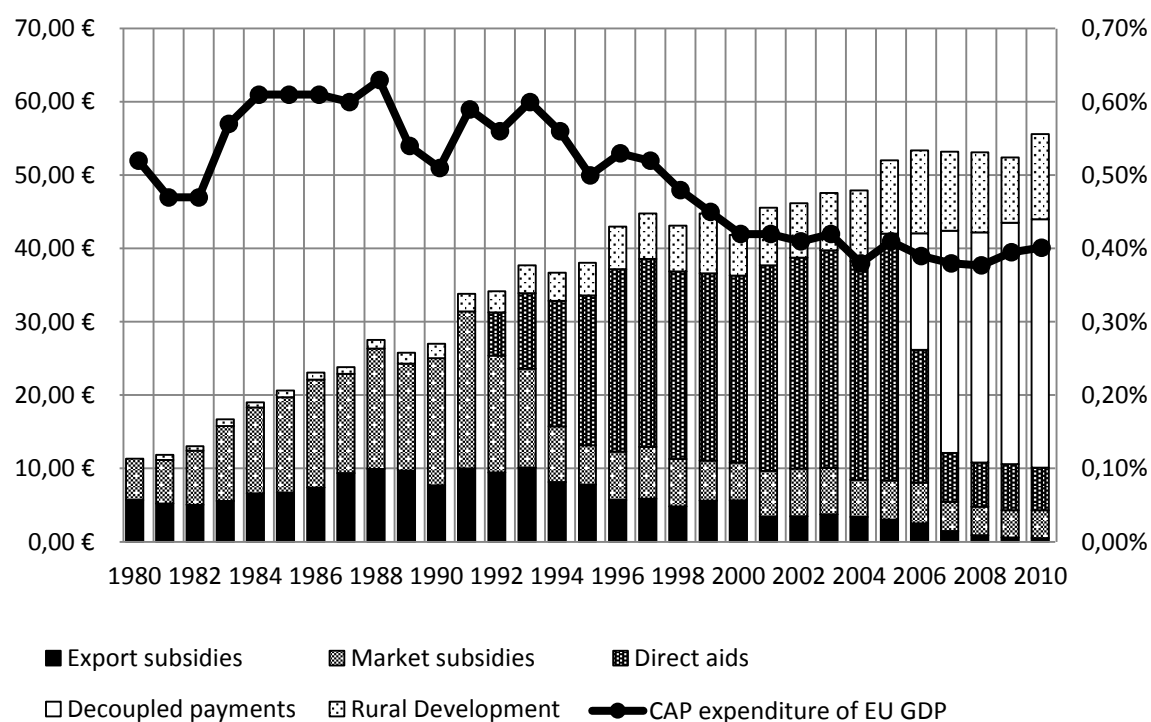
This reform is [...] a message to our trading partners [...] It signifies a major departure from trade-distorting agricultural support, a progressive further reduction of export subsidies, a reasonable balance between domestic production and preferential market access, and a new balance between internal production and market opening. [...] The CAP reform is Europe's important contribution to the Doha Development Agenda (DDA), and constitutes the limits for the Commission's negotiating brief in the WTO Round. Its substance and timing are aimed at avoiding that reform will be designed and imposed in Cancun and/or Geneva -which could happen if we went there empty handed. (Council of the European Union 2003, 3)

Public posturing, however, does not necessarily explain the the true motives of the Community-level decision makers. After all, it is known from previous reforms that there is “incoherence between, on the one hand, the factors that were officially invoked to justify the reforms and, on the other hand, those that really seem to have motivated them” (Cunha and Swinbank, 260). However, it is true that domestic budgetary pressures were not as significant as they had been during previous reforms, and that though there were alternative methods available for dealing with new member states, some of them would have caused much frustration among the EU's trading partners. Furthermore, there is empirical evidence that the EU sincerely attempted to take a leadership role in the Doha Development Agenda. For example, in the spring of 2004, after the MTR was already being implemented, the Commission made an attempt to relaunch

the Doha talks that had failed at the Cancun meeting. More importantly, the EU offered to put on the table all agricultural export subsidies, which, as can be seen from figure 8, contributed only a small proportion of the rents farmers were receiving by 2004. This offer, however, was to be reciprocal: the EU's negotiation partners in the WTO had to promise the same, otherwise the EU would withdraw what it considered a revolutionary concession. But even with this offer, the closest the EU ever got to a deal in the international arena was in August 2004 when the Doha Round participants adopted a package of *temporary* agreements, including commitments such as the abolition of agricultural export subsidies. (Meunier and Nicolaïdis 2005, 261)

However, considering that no meeting has to date succeeded in completing the Doha Round by making even the above-mentioned temporary agreements permanent, it might be argued the international level did not reverberate strongly enough through to the Community level and more importantly, it did not reverberate enough through the domestic politics of pivotal member states.

Figure 8: The path of CAP expenditure in billions of euros and in % of EU GDP



Source: The Commission (2012, 9)

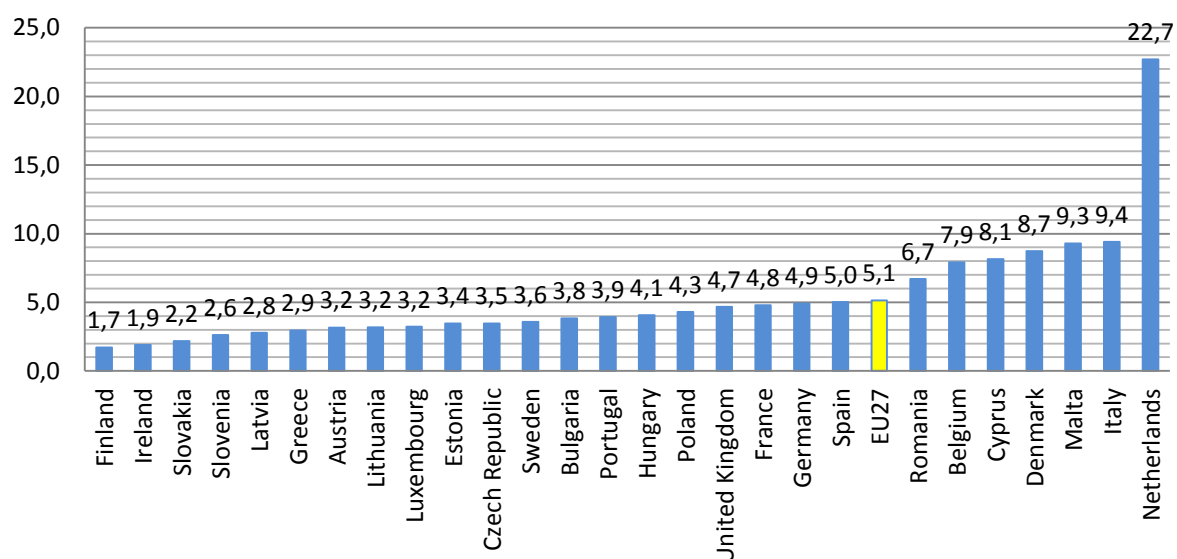
Impact of the domestic level realignments

Changes in the domestic political environment played a crucial role for the outcome of the MTR. In some countries, such as France and Ireland, there was wide consensus between farmers' unions and politicians that the BATNA was preferable to the Commission's proposals and therefore there was strong resistance to reform from those countries (Mahe, Naudet, & Roussillon-Montfort, 2010, p. 105). At the other end of the spectrum were countries such as the United Kingdom and Sweden (which had gone through a process of radical liberalisation of its agricultural policy in the early 1990s (Swinnen 2011, 58)) where the agricultural lobby was no longer part of the corporatist support base of the government, while the voice of environmentalists' was taken seriously. Furthermore, while domestic coalition politics is more complex in Germany, the Netherlands and Denmark, their dedication to environmentalism (and efficiency of transfers too, perhaps) placed them firmly in the pro-reform, pro-decoupling camp. However, with the exception of Germany, for these countries, having fewer domestic constraints and being firmly placed in the pro-reform camp meant that the bargaining power of the chief executive at the international level was, as the theory chapter suggests, somewhat reduced.

Among the middle ground countries with interesting domestic political configurations were Finland and Austria. Finland, a member state with one of the most inefficient farming sectors (see figure 9), was governed by Mr. Matti Vanhanen from the agrarian Centre Party. Austria, which could not boast of an efficient farming sector either, was governed by Wolfgang Schüssel from the Christian-democratic Austrian People's Party which has close ties with the Austrian farm lobby, the Agrarmarkt Austria (AMA). Due to their precarious position with the farming community, these chief negotiators supported farm subsidies as small farms in disadvantaged areas of these countries were dependent on subsidies. However, Swinnen (2011,

58) points out that as with high-income member states with many small scale farms that were often located in mountainous or Arctic regions, Finland and Austria were more inclined to uphold Rural Development and agri-environmental policies rather than coupled direct payments which favoured larger scale producers.

Figure 9: Relative importance of subsidies to farmers



Average farm total output (FADN code SE131) divided by average direct payment (less taxes and excluding investments) (FADN code SE605). This measure actually slightly underestimates subsidy dependence since part of the value of total output is inflated by border protection and export subsidies.

Source: Author's calculations based on Farm Accountancy Data Network (the data shows the post enlargement situation, but it is unlikely that these figures changed dramatically in a few years).

Of particular interest, however, is the domestic politics of Germany. While the German chief negotiator was the same as in 1999, several changes had taken place in German domestic politics since the previous reform of the CAP. There had been a public outcry over the Bovine spongiform encephalopathy (BSE)¹⁴ crisis in 2000 (Deutsche Welle 2001) and the new

¹⁴ While it can be argued that the wide spread of Bovine spongiform encephalopathy (BSE) was, at least partially, caused by the industrialized farming that the CAP had nurtured, it would be difficult to support counterfactual claims with regard to the BSE impact under a different, hypothetical, CAP. Therefore, from a theoretical perspective, the BSE crisis should be seen as a good example of an exogenous shock that destabilized games, eventually, at all three levels.

Minister of Consumer Protection, Food, and Agriculture, Renate Künast from the Green Party, was determined to change the agricultural priorities. Heavy media coverage of the BSE events reduced information asymmetries and information gathering costs for the public and many more Germans became aware of the realities of industrialized agriculture, even if the production units themselves were romanticized family farms. Mrs Künast had few farmers among of her own constituency but had much to lose in the next elections if she failed to address issues of food safety and production methods¹⁵. This meant that she and her party—a veto-wielding component of Schröder’s domestic coalition, to use Tsebelis’s (2002) term from the theory chapter—were in favour of the CAP reform along the lines of the Commission’s (2002) proposal.

Furthermore, as a special interest group, German farmers were losing their grip on domestic politics (Hennis 2005, 169). Its umbrella lobbying organization, Deutscher Bauernverband (DBV), had traditionally enjoyed a close relationship with the federal government¹⁶. Now, however, it was debilitated by internal conflicts (in which the impact of the 1992 and 1999 CAP reforms on the distribution of rents played significant role) and had come into sharp conflict with other corporatist actors in federal politics. In addition, “the corporatist model had not automatically expanded to East Germany. In fact, this is also shown by the diminished electoral support of farmers for the CDU since reunification, in spite of the increase in actual number of farmers” (Hennis 2005, 158). Despite having acted as a catalysing element in the previous reforms, the disunity of the German agricultural community meant that DBV was now more reliant on their French counterpart FNSEA¹⁷ than ever before to do the lobbying on its

¹⁵ Greens preferred less intensive ways of producing food such as organic products (Perraud (2004) in Garzon (Garzon 2006, 100))

¹⁶ Hennis points out that while historically only some 7% of German farmers voted for the SPD, the “rather cooperative way of policymaking” that characterized the German political system meant that farmers had enjoyed generous rents even when their highly favour party, the CDU, was not in power. (Hennis 2005, 147-8)

behalf (Garzon 2006, 112). While the French did try to lobby their own government and the Commission, at least as much as was possible in view of the secrecy¹⁸ surrounding the Fischer Reform proposal before its publication in 2002, the French agricultural lobby obviously had no direct impact on the German government's position on the CAP reform.

These domestic developments in Germany allowed Künast to change Germany's initially hostile stance on CAP reform. However, realizing her pivotal position in German domestic politics and its impact on the Community level game, she easily extracted a small, but important for Germany and the Green Party, change in the Fischler Reform proposal: the Greens wanted to implement the decoupled payments based not on the 'historical model' (what farms had received in the past) but instead on the 'regional model' (that is, paying farms in the same region the same payment, regardless of what they had received in the past). (Swinnen 2011, 62) This reflects the advantage of being pivotal in the QMV environment.

Ironing out the final agreement

After tough negotiations on the reform proposal, the Commission finally managed to broker agreement at the Council of Agricultural Ministers during an all-night session on 30 June 2003. It can be argued that the use of QMV forced domestic chief negotiators to compromise at the Community level. Firstly for fear of being isolated in the 'no' camp and, secondly, by making a decision impossible as long as a blocking minority refused to compromise. Garzon (2006, 114) argues that this is what happened when France and Spain attempted to lead a coalition

¹⁸ Swinnen (2011) points out that in order to overcome the resistance of orthodox DG AGRI administrators, the Fischler reforms were prepared in secret with only six top officials fully aware of its contents. Of course, other employees of the DG AGRI could not have been kept entirely in the dark since preparations for the reform required a lot of work, including much policy analysis. However, the few policy analysts within DG AGRI who were tasked with aiding the reform were working on a need-to-know basis (Swinnen 2011, 58).

(with Ireland, Portugal, Greece and Belgium) with the aim of constructing a ‘blocking minority’ coalition to oppose decoupling (since France had no German support for that). But, as previously discussed, Fischler and Blair had managed to convince Spain to switch sides. When the Spanish defection became obvious, other ‘blocking minority’ coalition members suddenly started to re-evaluate their positions also. For example, when the Irish government realized in the final stage of negotiations that its beef sector would be able to cope, despite its farmers’ insistence to the contrary, with full decoupling, Ahern’s administration also changed its position (Garzon 2006, 114). This increased the area of the ZOPA of the pro-coalition. Realization that the pro-coalition member states were, through trial-and-error negotiation, likely to eventually find a point in the multi-dimensional ZOPA that allowed them to agree to a reform that might be highly disadvantageous to the French national chief negotiator, the latter also chose to modify his position.

The French reaction to events is, perhaps, one of the best proofs of the logic of multi-level games. As the theory predicts, events and re-alignments at one level of the game reverberate through another and cause further re-alignments there. This is exactly what happened in France: faced with isolation and exclusion from the pro-reform coalition, the previously solid front against the Fischler Reform within France started crack too. “As soon as Spain moved in favour of the reforms, French Minister Hervé Gaymard read the tea leaves and started negotiating at the last hour in order to grab at least some concessions in exchange for his positive vote” (Pirzio-Biroli, 2008, p. 107).

The final moments then witnessed Italy (which, having refused to join the French, then found themselves leading the ‘no’ coalition) making a number of unacceptable requests. However, these requests were all rejected since Italy’s vote was no longer pivotal, and the Italian

representative did not even bother to cast a protest vote. Only Portugal, which still wanted a larger milk quota for the Azores, decided to cast a no-vote (Pirzio-Biroli, 2008, p. 107).

Outcome

It can therefore be argued that, by and large, the patterns of negotiations described so far in this chapter fit neatly into the MLGT framework. Furthermore, the reform negotiation process, as conceptualized in this chapter within the MGLT framework, can also explain the puzzling persistence of the CAP with all its attendant problems. In the end, exogenous influences and ongoing bargaining at all three levels resulted in policy making where the most important question—*why should farmers still receive rents and how to progressively end this?*—was not asked. The closest that question came to being addressed was when the French and Germans were discussing what later became the Franco-German deal over enlargement and the budget (which included limitations on the nominal growth of the CAP budget). This shows that not only does policy-making in multi-level games fail to produce rational, benevolent, welfare-maximizing behaviour, it can also boil down to simple pork-barrelling when it comes to coalition building. After all, transfers to farmers under the newly created SPS generate no obvious benefits to society (Hill 2012, 154). Much of the money is diverted to people who are unlikely to need it but who might be good lobbyists, or at least be able to hire people of that profession.

An analysis by Oxfam (2004, 2) identified that the major beneficiaries of the SFP in the United Kingdom include many land-owning members of the nobility and the wealthy bourgeoisie. It can surely be argued that these people do not experience such low standards of living that the rest of society should intervene to help them out. Furthermore, the largest beneficiaries of the

SFP are large agro-companies, not individuals. Berkeley Hill (2012, 262) reports that in the case of the 2008 payments to the UK, Tate and Lyle Europe received €828 million and Nestlé UK Ltd received €197 million. To put these numbers into perspective, the average SFP in the UK that year was €12 517. The costs come out of the EU budget, and payments can clearly be seen to be going to beneficiaries who often have higher incomes and greater wealth than the rest of society which finances them. Nevertheless, these payments have become a familiar part of the economic landscape of EU agriculture and an important source of income to farm operators. “While it would be hard to justify their use if they did not already exist (another example of path dependency) the reality is that is not possible to withdraw them completely” (Hill 2012, 154).¹⁹ However, instead of viewing farm support as a burdensome legacy that should be gradually phased out, Fischler and his Commission went to great lengths to devise ways to save it. As Pirzio-Biroli (2008) puts it:

Scrapping the CAP [was] not an option [....] The Fischler reform was aimed at helping the CAP and its farmers reconcile the needs of modernisation and restructuring with the acknowledgement of their community function, and their cognition of the positive externalities generated by agriculture, and rural activities and spaces [....]. Fischler acted in the conviction that the EU needed to keep a strong agricultural policy, but periodically update it in order to adapt it to new realities. (Pirzio-Biroli 2008, 124)

While representing impressive progress compared to the past, the MTR reforms not only failed to open the EU’s markets further, they also imposed some new restrictions to external producers, restrictions that may spell serious trouble for the EU at the DDR. (Olper 2008, 97)

The Commission, of course, has sought to argue the contrary. From the Commission’s

¹⁹ The idea that it is not possible to completely withdraw all agricultural support at short notice without dire consequences was not (and is still not) a credible argument against CAP reform. As previously mentioned, scholars such as Tangermann (1991) have proposed compensating farmers by issuing them with fixed income bonds.

perspective, the MTR has reformed the CAP in a fundamental manner. Former commissioner of agriculture Fischer Boel has, for example, repeatedly argued that the new CAP is responsive to demands for stronger protection of the environment, safer food and improved animal welfare and is therefore, of course, worth preserving (2008, 170). Outside observers however, such as Josling (2008), are more sceptical, arguing that “[u]ltimately, the CAP has proved unable to adjust to the need to modernise EU agriculture” (64). Perhaps this is also the reason why the Commission sought, and the member states agreed, to conduct follow-up reform just few years later, in 2008.

Chapter 4: Implications for future reforms

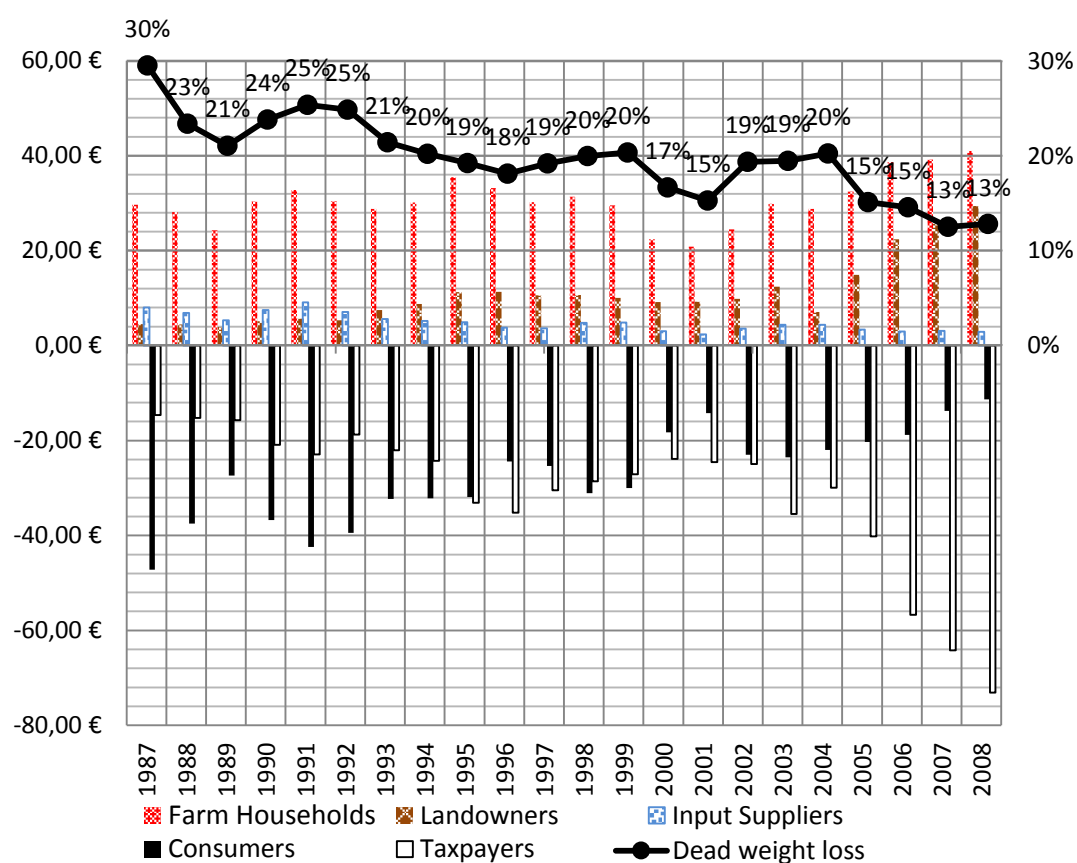
This chapter evaluates four different future scenarios of the CAP (summarized in table 1 below) and estimates the likelihood of the realization of these scenarios using the theoretical insights outlined in previous chapters. To provide further background information, the first section of the chapter gives an overview of the rather minor CAP Health Check reform that has taken place since the MTR. The final section of the chapter considers recent institutional developments and how these might impact CAP reform, and proposes a future research agenda.

The CAP Health Check

While MTR has given the current the CAP its current outlook, it is not the last reform that the CAP has gone thru. In November 2008—after French had considerably watered down the thrust of a new reform (Daugbjerg and Swinbank 2011, 71)—the Council reached agreement on the CAP Health Check, which in effect completed the Fischler Reform package. The main goal of this reform was to make the Single Farm Payment scheme more effective (in light of transfer efficiency shown on figure 6) and simpler by moving by away from the historical system that used to various extend in the old member states. Historical system, notes Nello (2011, 304), was becoming harder to defend over time and therefore, those still using it, were obliged to shift to the flatter rate regional system. Furthermore, virtually all direct payments were to be decoupled as the scope for member states to choose partial decoupling was reduced, eliminating the 25 per cent exception that lubricated the MTR deal in latter's final stage. However, this complete decoupling posed “what might be called a public relations problem for

the CAP as a whole. Full decoupling turns the single payment into a subsidy to farmland ownership” (Baldwin and Wyplosz 2009, 374). This is evident from the figure 10 below which shows rapid rise of the CAP transfers to the land owners already since the MTR. It was also decided that from 2010 onwards, extra funds for Rural Development pillar generated by modulation will be partially used to fund four new priorities and one old priority. These four new priorities are climate change, renewable energy, water management and biodiversity. The old priority mentioned is the troublesome the dairy sector which had suffered from a severe drop in the milk price and where intervention instruments were left nearly unreformed. (Daugbjerg and Swinbank 2011, 71)

Figure 10: Distribution of the CAP's benefits and costs



Source: Author's compilation of OECD (2011) data.

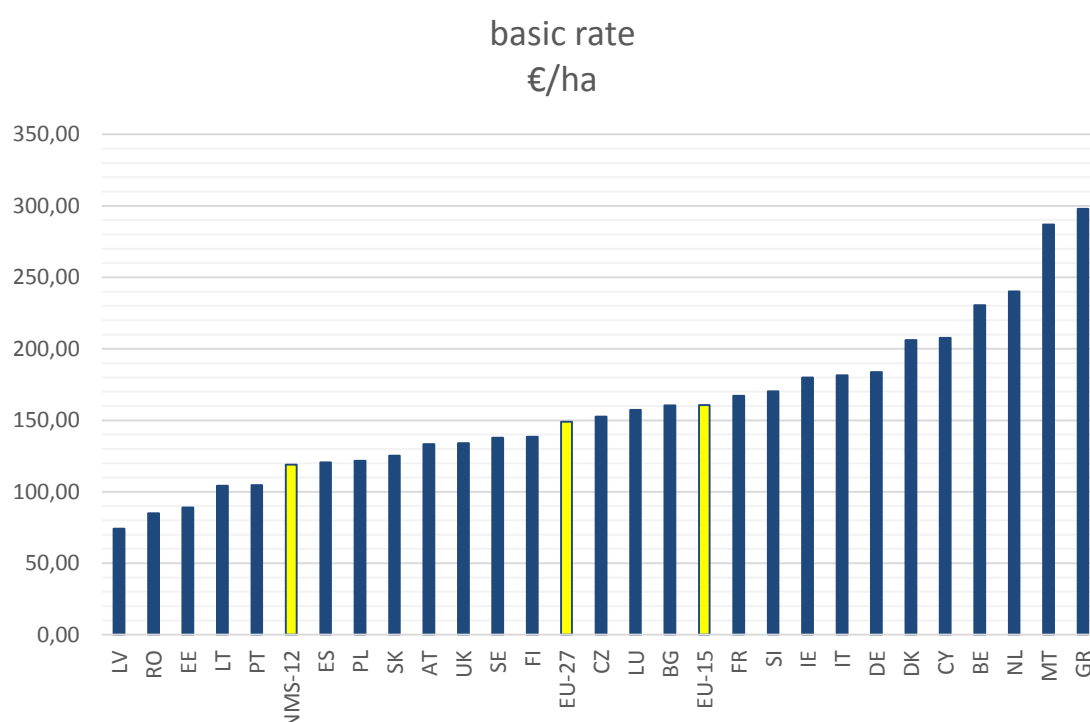
Four scenarios

Adjustment of direct payments scenario

In late 2011 the European Commission, after lengthy discussions with various stake holders, outlined three possible scenarios of CAP reform. The first of these envisioned an incremental adjustment of the CAP. Reforms in this scenario would be pursued with the goal to regain public confidence without jeopardizing farmers' welfare. In the European Commission's vision, this would entail a moderate increase in the Rural Development funding at the expense of direct payments. Direct payments themselves, however, would be kept as the principal means of income support. They would be justified publically on the grounds of providing "basic environmental public goods" (The Commission 2011, 40).

However, the Commissions seems to consider several options of redistribution of direct payments' envelopes between the Member States. Based on the past experience from reforms, this alone is likely to cause disputes in the Council and possibly even block any ambitious 'adjustment' scenario reform. Concrete proposals how to redistributive redirect aid included (1) an EU wide flat rate system of direct payments, (2) a so-called 'pragmatic approach' which would take into account political realities of the Community level negotiations and redistribute direct payments only in a limited manner to avoid major disruptions to existing levels and at the same time enforce a *minimum level of per hectare (ha) payment* based on a share of the EU average. This seems a likely reform scenario because, as can be seen from figure 11 below, with the exception of Romania, all other member states with very per ha direct payments are small. Therefore, expenditure redistribution needed to bring them to 85% of the EU27 average is relatively small and larger beneficiary countries such as France and Italy might be willing to consent to a small reduction in their envelope in order to save the face of the CAP, especially when threatened with alternative, more ambitious reforms.

Figure 11: Base level per ha direct payments



Source: Author's compilation of the Commission (2011, 67 (Annex 3)) data.

The Commission also considered (3) a so-called 'objective criteria', which would mean including economic—possibly means testing—and environmental considerations when allocating direct payment monies between member states. It is difficult to judge both the probability and the desirability of the 'objective criteria' based incremental reform. Much depends on how economic needs and environmental threats are going to be defined. Based on the MTR multi-level negotiation patterns, it is unlikely that there would be anything objective in the 'objective criteria'. Domestic farmers' lobbies would push national chief executives to argue that their farmers are in the most dire economic situations and that their environmental situation deserves special attention and funding. The final (4) proposal for redistribution of the direct payments within the adjustment scenario would simply be a combination of the second and third approaches.

While the adjustment scenario would understandably avoid radical changes to the direct payments, it is somewhat surprising that controversial market measures would be only “simplified and streamlined” within the framework of the current system and this would be done “without changing support levels” (The Commission 2011, 40), despite the fact that, desired rents could be transferred to farmers through other, less distorted, mechanisms than market instruments. Furthermore, in the name of environmental concerns, even *coupled* payments would be maintained in those member states which currently use them to support suckler cows, sheep and goat grazing (The Commission 2011, 41). The Rural Development (which actually has seen its proposed budget for 2014-2020 fall), would follow the Health Check model of a moderate increase under the adjustment scenario. However, Rural Development funding would be constrained by the overall CAP budget and the distribution of funds between the Member States would remain the same as it is now in the post Health Check period (The Commission 2011, 41).

Integration of ‘green’ concerns and equity concerns scenario

A second, more ambitious scenario called ‘integration scenario’ goes in many ways in the opposite direction than all past reforms. It entails maintaining expenditure in the first—direct payments—pillar under the new popular ideology of ‘greening’, which of course, also “requires an appropriate budget” (The Commission 2011, 38). If the adjustment scenario were only to maintain the levels of support currently afforded to farmers, then the integration scenario would go further “strengthening the role of producers through appropriate market instruments” (The Commission 2011, 38). Therefore, this would be a regression as much as the previous reforms have taken the CAP away from market instruments, which under this scenario would only be

simplified and streamlined. In order to avoid the situation where farmers would have to bear the expenses of greening themselves, it is proposed that the farmers' organizations would be given more formal powers so that they would be in a stronger bargaining position in relation to 'middle men' of the food industry (The Commission 2011, 41). While farmers' organizations—with the help of militant labour-union like tactics—could be able to extract more for their products from the middle men, it is necessary to emphasize that middle-men might also be able to pass on the costs. The end result would be that EU consumers would be paying again much higher food prices like they did back in the pre-MacSharry reform era in 1980s. The difference is that instead of paying for the maintenance of family farm, they would be now paying for foodstuff with dubious²⁰ 'green' credentials while foreign producers would be again prevented from entering the EU market because their food does not meet the EU's 'green' food production practices criteria. Needless to say, if this scenario becomes reality, it is likely to cause a destabilizing back-clash at the international level, particularly in the Doha Development Round.

The international level, however, would not be the only arena where this scenario could encounter strong resistance. Since the integration scenario also includes "better targeting of payments to achieve a more effective balance of both economic and environmental concerns within Pillar I" (The Commission 2011, 42-3), it is likely to stumble upon the same community level negotiation difficulties expected to be encountered under the adjustment scenario. For example, capping of payments when the overall CAP budget is maintained, will be objected to by the United Kingdom and Germany (possibly also Slovakia and the Czech Republic), who

²⁰ Across the board 'greening' attempts can be considered dubious because, as Tangermann (2012, 324) emphasizes, it is at all clear whether (1) conditions attached to the green direct payments would really make a significant contribution the environmental situation and fighting climate change and whether (2) payments have to be made in order to ensure that farmers comply with such conditions. Indeed, it can be argued that socially harmful farming practices should be taxed on the principal that 'polluter pays' instead of subsidied on the principal 'society bribes the polluter into not polluting'.

would lose out from such an arrangement. Furthermore, while normatively appealing to many, increased degressivity and capping rewards inefficiency in production. As Tangermann (2012, 325) emphasises—when large production units receive lower payments per hectare than smaller production, then these—otherwise more efficient larger production units—will find it more difficult to compete for land than smaller farms.

Also, any economic and environmental criteria that would be used to determine redistribution at the Community level will be contested. To make things more complex, the Commission, for its part, has proposed to divide the direct payments into different components, which would be judged separately. To maintain farmers' rents, a national or regional flat rate basic income support would be distributed in all member states (The Commission 2011, 3). The Commission does not explain in its report why flat rate or other income support is necessary if the goal is to achieve 'green' agriculture. The second component would be an optional area-based direct payment for naturally disadvantaged regions. It can be expected that most member states would argue that most of their agricultural areas are naturally disadvantaged and therefore deserve full support when it comes to this component. The third component, a compulsory further 'greening' payments throughout the whole EU, seems (at least on paper²¹) to be the only one component actually pushing the CAP towards integration of environmental and climate concerns. These payments would be made for complying with non-contractual environmental measures that exceed normal benchmark standards of cross compliance. The final component of direct payments would be a voluntary *coupled* support for specific sectors. In other words, full decoupling would be partially reversed under this integration scenario.

²¹ Tangermann (2012, 324) argues that the 'greening' of the direct payments "cannot really be considered to be justified on the grounds of objectives related to the environment and climate change." Instead, 'greening' is likely to serve political purpose of justifying farmers' rents.

Like direct payments, Rural Development funding (which would be kept at the existing level of the EU as whole) would be redistributed between member states according to “policy objectives” (The Commission 2011, 43), namely environment and climate crisis objectives. As with direct payments, redistribution entails some difficult bargaining at the Community level with a lot of vested domestic interests playing a role in the outcome, if agreement for the integration scenario can be reached in the first place. The latter is unlikely to happen, however, as proposals towards this scenario are likely to stumble upon fierce opposition from too many actors at the same time. Despite the fact that the Commission has explicitly mentioned strengthening of farmers’ organizations (to extort rents from the middle-men in the future, instead of taxpayers), most member states’ agricultural lobbies still oppose the greening that this scenario would bring with it. In particular the “ecological focus”, which often relates to the unpopular set aside requirement, is seen to bring undesirable negative productivity shock (Bureau 2012, 318). Also, from the national farm lobbies perspective, no agreement on the reform, would be, *ceteris paribus*, more desirable than giving up current rents only to start extorting them again out from the middle-men. The non-agricultural business lobby would be hostile to this scenario’s proposals because of its dangerous implication for international trade negotiations. Regressing back to the market instruments—even if they would be pursued under the aegis of environmental concerns or in the name of fighting the climate crisis—can cause further gridlocks at the international level. After all, it can be easily conceived how the CAP’s budget could be used much more cost-effectively elsewhere in the world to pursue these goals. This sheds serious doubt on the sincerity of the EU when it tries to justify its agricultural policy. In addition, as much as ‘green’ prices would be passed through middle-men to consumers, higher food prices would also put pressure on wages (particularly in poorer member states)—a clearly undesirable effect from the employers’ perspective as real wages would decline. Finally, there is little faith in the ‘greening’ from environmental non-governmental

organisations. While it ‘greening’ sounds good in principle, these organizations, as Bureau (2012) points out, often see the greening proposals as just another justification of “continuation of direct payments, which are largely harmful to the environment, whereas serious reform would require reallocating portions of the budget to the provision of public goods” (318). It can be therefore speculated that national chief executives would find it difficult to build credible domestic coalitions in support of the ‘greening’ ideas and this, in turn, means the Commission is unlikely to be able to push through reform plans falling under this scenario. Most likely, since it is the Commission (as the chief negotiator at the international levels) that has to face the consequences and possible retaliation at the WTO if ‘greening’ turns into hidden protectionism, it is unlikely to be overly dedicated to this scenario either.

Re-focusing the CAP on the Rural Development scenario

In the third, re-focus scenario, total budget of the CAP would be reduced altogether. All current market support instruments ²² abolished and all current direct payments would be progressively—in order to avoid ‘hard landing’ for the farmers who are dependent on them—phased out during the next Multiannual Financial Framework. The focus of the Rural Development policy would be restricted to environmental concerns and the climate crisis. This means even the refocus scenario would not abolish the CAP altogether and most of the funding freed from the direct payments would be transferred to Rural Development. This would, of course, bring with it substantial redistribution of the CAP budget between Member States (The Commission 2011, 44). There are, however, two major problems with this scenario. Firstly,

²² The only exception would be the disturbance clauses that could be only used when severe crises such natural disaster, catastrophic draught or man-induced conflict appears.

despite the weight given to this component of the CAP in the public debates, there is no credible evidence that Rural Development spending is effective in achieving its desired goals (Court of Auditors 2007). Koester & Nello (2010, 76) even suggest that the whole proposal of rationalization of the CAP is actually just another attempt to continue with agricultural protection in a *less transparent* way. They find support for this suggestion in the incompatibility of the Rural Development objectives with the other pronounced objectives of the CAP and in the profound lack of systematic evaluations of the effectiveness of rural support measures. “The weakness of implementation and lack of genuine control suggests that the EU cannot guarantee adequate operation of the farm investment programme, so it is highly questionable that the EU should support such a scheme” (Koester and Nello 2010, 76).

As for the negotiations, refocus reforms might be able to gain some ground from more reform-minded member states with even some governments supporting the idea. As things stand, there will be some key beneficiary member states, such as France, where government maintains close relations with the farmer’s lobby and which are therefore against both, reduction in the total budget of the CAP and emphasis on the environmental concerns within the Rural Development pillar since the latter leaves farmers’ current rents more than uncertain. Furthermore, in the enlarged EU, some of the larger New Member States (Poland, Hungary, Rumania) will have very large stakes in the future CAP and “they are in favour of the status quo both in terms of the budget and CAP measures and adverse to any possible form of national co-financing of the CAP” (Henke, Severini and Sorrentino 2011, 8). Therefore, the refocusing scenario is unlikely to materialize in the current conditions.

Radical change and renationalisation scenario

None of the three scenarios elaborated by the Commission, however, envision radical reform of the CAP which would phase out the rents that farmers (and increasingly, land owners) currently receive and at the same time would not expand dubious alternative centrally financed spending schemes related to agriculture. Why is this? The Commission (2011, 39) itself argues that “certain policy instruments that were discussed and suggested in the public debate and in the public consultation [were] not included in the options [considered by the Commission because these options were] judged to be less relevant to the objectives of the CAP, not complying with the general direction of CAP reform or *politically unfeasible*” (italics added by the author). Obviously, if the Commission is not even considering it, radical change is unlikely to happen any time soon. Without attractive side-payment scheme, this scenario is also unlikely to gain wide-spread domestic support in all but most liberal net contributing countries that would be better off with re-nationalized agricultural support measures. Countries such as Britain and Sweden which could gain from this scenario and lead the way with domestic support for it (and even there, only under certain domestic governing coalitions), are unable to find many allies in the Council.

Table 2: Four scenarios of the CAP's future reform

Future scenario	Pillar I		Pillar II	Likelihood of the scenario
	Market instruments	Direct Payments	Rural Development	
Adjustment scenario (maintaining of current farm support levels)	Streamlining and simplification of currently used instruments.	Use of one or combination of 1) EU wide flat rate system 2) 'objective criteria' 3) 'pragmatic approach'	Small raise in budget and no redistribution between member states compared to current situation	Most likely.
Integration (better targeting of aid measures and 'greening')	Increasing the collective bargaining power of farmers.	Redistribution, capping and 'greening'	Funding kept on current level. Redistribution based on environmental and climate crisis concerns	Unlikely.
Re-focus (limiting the scope of CAP interventions to environmental aspects)	Abolished.	Progressively phased out	Funds freed by Pillar I transferred to Rural Development. Redistribution based on environmental and climate crisis concerns	Very unlikely.
Radical Change (abolishing rents and devolution responsibilities based on the principle of subsidiarity)	Abolished.	Replaced by bond scheme	Re-nationalized	Least likely.

The CAP will be ‘muddling through’

Application of the Multi-Level Games Theory to various future scenarios that the CAP's reform path points towards first of them, which can be alternatively labelled as the ‘muddling through’ scenario. Maintaining direct payments for the time being is supported by the general perception among the EU and national decision makers that past efforts, which have resulted in significant decrease of the actual WTO Aggregate Measurement of Support²³ from €72 billion (the EU ceiling) to some €10 billion, have not been matched by other countries. Indeed, Butault, Bureau, Witzke, & Hecke (2012, 22) show that government subsidies that are in one or another way linked to the quantity of products produced by farmers have grown significantly in emerging countries such as China, Turkey, Russia, Ukraine and even Brazil. Furthermore, one of the most important international negotiation partners—the United States—is also recessing towards a more trade distorting agricultural policy due to its large-scale insurance programme (Bureau 2012, 78).

As long as decisions in the EU are made at the multi-level bargaining game, which manifests itself in intergovernmentalism, then a major overhaul of the EU's budget and the CAP spending will encounter firm opposition in the Council. This is so because “the balance of payments transfers are far from negligible [and] farm ministers and sometimes heads of states are prone to take positions on the CAP, which are biased by short-run national interests” (Mahe, Naudet and Roussillon-Montfort 2010, 105). After all, as MLGT implies, chief executives mostly maximize their re-election chances, not the aggregate welfare of the society they are governing. It is therefore not so surprising that national chief negotiators prefer non-agreement to major

²³ Numbers 72 and 10 billion refer only to the total effect of *trade distorting* instruments as defined by the WTO under as Aggregate Measures of Support. For example, the value of market protection does not figure on any government balance sheet, but transfers significant amount of money from domestic consumers and foreign producers to domestic producers of goods. On the other hand, decouple direct payments are not trade distorting.

reforms unless an exogenous event destabilizes domestic coalitions. France, Spain and Greece, along with many New Member States, are likely to oppose cutbacks in order to maintain the current CAP spending levels (Henke, Severini and Sorrentino 2011, 11) and, as things stand, there will not be enough member states with such domestic coalition configurations that would achieve qualified majority in the Council. This political reality, as Bureau (2012) notes, makes it “difficult for the Commission to propose more ambitious reforms of the system of direct payments, which currently represent the bulk, if not all, of farmers’ net incomes in some sectors” (321).

Institutional factors and further research

The Treaty of Lisbon (2007) substantially altered the way decisions about the CAP reform will be made in the future. More specifically, previously side-lined²⁴ European Parliament’s role was enhanced in two ways. Firstly, the EP gained new powers over the EU’s budget. Secondly, the decision-making procedure used to decide matters related to the CAP was changed to Ordinary Legislative Procedure (OLP) which means that the Parliament as a whole now has a veto power over the CAP reform. As Christophe Crombez et al. (2012, 337) point out, this change transferred powers from the Commission to the EP and the member states. This thesis has already covered the effects of multi-level bargain games on the community level decision-making and it can be argued that based on theoretical insights, reduced power of the Commission further reduced the likelihood of reform as the Commission will be constrained more in its efforts to build up a pro-reform Community level coalition. By the logic of MLG,

²⁴ Grant (2008) has argued that throughout MTR, the “European Parliament was not a significant actor” (167-168).

international level agreements are now also slightly less likely as a result. However, should the deal be reached at the DDR, it is now likely to be more favourable to the EU as its community level constraints increased its chief negotiator's reservation value.

More research, however, would be required to determine the exact impact of the EP's increased power on the future reform. The use of OLP obviously makes reforms less likely if the EP wants less reform than the Commission does. Outcomes of community level negotiations will now also depend on the bargaining powers of various actors who are represented in the Conciliation Committee (Crombez, Knops and Swinnen 2012, 337). As for the EP' there is a good reason to suspect that it will be less reform-minded than the Commission. Crombez et al. (2012) examined the CVs of the 44 full members of the Committee on Agriculture and Rural Development (COMAGRI) and found that the majority of the MEPs are "former agricultural ministers or secretaries of state, agricultural advisors, farmers' unionists, members of farming associations, doctors in agricultural studies or farmers themselves" (340). Perhaps it is this revelation that has led Christilla Roederer-Rynning (2010) to call COMAGRI "a conservative forum welded to the defence of vested interests" (119).

Intuitively, the EP's enhanced role could be placed into the MLGT similarly to the national chief negotiators, in the sense that the MEPs also need to secure their re-elections and satisfy special interests back home. Like national administrations, they do not have to face the tough international trade negotiations. On the other hand, the EP as a whole is—to a certain degree—responsible to voters like national chief executives are. The latter are (besides returning favours to narrow special interests) forced to concern themselves with the general welfare of society too—at least to a certain extent—in order to maximize re-election chances. If, and why, this dynamics plays itself out less when it comes to the EP and the CAP reform, should be further researched. Probability probing indicates that rational ignorance of the voters and

general lack of interest in the European issues by the general public might be a step towards answering the question.

Conclusion

This thesis has re-validated Multi-Level Games Theory (MLGT) by applying it to the decision making processes of the European Union (EU) with a focus on the processes that have shaped one of the Union's most controversial policies—European Common Agricultural Policy (CAP). MLGT's intellectual attraction comes from the fact that it allows researchers to overcome the level of analysis problem. That is, to overcome the problem of parallel conceptualization and systematization of international-, domestic and individual actors' behaviour. Based on MLGT, it was theorized that politics behind the CAP reform (or lack of them) takes place at three different levels. Firstly, at the international level where the EU negotiates trade and other agreements with partners such as the US. Secondly, at the community level where the governments of the EU member states negotiate between themselves (and with the Commission which serves as their chief negotiator at the international level) in order to decide how the CAP should be governed. Finally, there are always on-going negotiations within each member state in regards to what position the government should take at the community level. All three levels are always interconnected and all actors are present in all game boards. This means that events in one game can destabilize the status quo in another.

Analysis of the CAP reform called Mid-Term Review (MTR) with MLGT revealed how various issues such as the Iraq War, extension of direct payments to the New Member States, the EU's future budget and de-coupling of support measures were used by various political actors, such as national chief executives and the community level chief executive Commissioner Fischler, to advance their agenda. The task of the MLGT ultimately was to explain policy persistence in face of mounting criticism and it can be argued that *MLGT still*

serves its purpose. Analysis showed that the main culprit to be blamed for the absence of CAP reform is still the close relationship between national governments and their respective national farmers' lobby. It was also shown that this connection does not have to exist in all member states. Since qualified majority voting is used to make decisions about the CAP reform in the Council, one or two larger member states (where domestic coalition includes farmers) can block the CAP reforms with the help of few smaller net beneficiary member states. As Mahe, Naudet and Roussillon-Montfort have pointed out, "such a situation does not provide an adequate framework for virtuous decision-making of EU institutions" (Mahe, Naudet and Roussillon-Montfort 2010, 105).

Theoretical insights from the MTR process indicate that *the CAP is likely to keep farmers on welfare*—to use Knudsen's (2009) term. Only specific instruments of rent paying are likely to change. Major or even radical changes to the CAP are unlikely to gain enough support within a sufficient number of member states because governments rely on their domestic coalitions, which may include farmers' interests. Alternatively, they might be purely concerned with the budget balance of their country, knowing that net beneficiary status is more likely to secure re-election than net contributor's status which the state might find itself in if radical CAP reform would redistribute resource flows between member states. Even the Commission might also have an alternative agenda such as writing its member's name into history by securing timely enlargement of the union. Therefore, the EU is likely to 'muddle through' by making small, incremental changes to the CAP. These small reforms would have the aim of re-legitimatization of the CAP in the eyes of the general public. Aggregate welfare of society will not be a major goal in farm politics in the EU any time soon. In the absence of credible side payment

mechanisms, only exogenous shock can (possibly coming from the international level) cause a decisive re-alignment of the actors who are involved.

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