Change and the CAP: A Case Study Approach

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Abstract

Against a background of constant and intense criticism, the Common Agricultural Policy of the European Union has proven resistant to attempts at economic and policy reform. Although shifts have taken place, the original principles set in the policy fifty years ago, as well as actual policies in some cases, are still visible today. In an effort to explain the difficulty of change, the competing conceptualizations of path dependency and process sequencing have emerged in the literature. While similar in some respects, these ideas differ in the envisioned level of restriction of choice. A sector-specific case study of the dairy regime and the use of production quotas is used to assess which concept best captures understanding of policy reform of the CAP.

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Introduction: Why care about the CAP?

The Common Agricultural Policy of the European Union is a vital topic of international political economy. The form, content and size of the CAP have crucial trade, environmental and social implications in the external world as well as in the EU. One of the most striking aspects of the program is its size. Funding for the CAP takes up 40% of the total EU budget. It covers a wide range of policy instruments. These include direct transfers of income as well as funding for incentives relating to the protection of the natural environment, food safety, rural development, biodiversity, and cultural heritage. The CAP directly regulates a huge amount of land in the EU, the livelihoods of EU citizens, environmental regulation, and the EU's domestic food supply. It consists of the outcome of a huge number of competing political actors and objectives. Criticism of the CAP has been a prominent feature of discourse on the European Community since its inception. Euroskeptics have seized on various program aspects as wasteful, unfair, backward, unproductive, or worse[1]. From the perspective of studies of political processes, the CAP is of interest because it is the oldest part of the supranational European project[2]. The durability of policy in the CAP, or put differently, the difficulty of enacting reform, is inseparable from the state of the EU as a whole.

The Common Agricultural Policy was one of the original elements of the European Community. The responsibilities of the CAP have not changed since the Treaty of Rome, which set out five objectives: to increase productivity, to ensure a fair standard of living for those working in agriculture, to stabilize markets, to secure the availability of supplies, and to provide consumers with food at reasonable prices. These have not been altered since their original conception in 1958. Notably, they center on the importance of a stable, secure food supply. Despite maintaining a consistent set of objectives, the policy instruments which make up the CAP move and mutate, responding

[1] Valentin Zahrnt, "A Guide to CAP Reform Politics: Issues, Positions and Dynamics," *Aussenwirtschaft* 66, no. 1 (March 2011): 89–130,140.
[2] Berkeley Hill, *Understanding the Common Agricultural Policy* (Milton Park : Earthscan, 2012).

to internal and external pressures as well as changing and shifting priorities.[3] Elements of the Common Agricultural Policy which deal with intangible benefits to society are relatively new to the program. Ecological considerations, now known as the "greening" component, did not become a preoccupation until the middle of the 1970s. The early 1990s saw the inclusion of rural development objectives, another result of societal pressure. In this way the CAP has a history of reflecting broad concerns and values at any one time, as a product of negotiations between member states, which were motivated by sometimes radically different concerns. Representatives of the farm lobby—a particularly organized, vocal group with well-defined mandates—exerted their influence on policy outcomes[4]. This is an interesting dimension of the policy debate, especially in the light of the considerable technical complexity of relevant policy issues.

In the understanding of the remarkable longevity of the CAP, theorists have emphasized the role of historical determinism. Borrowing from research on suboptimal settings in economic markets, the concept of "path dependency" has emerged. This term expresses an understanding of policy as determined firstly by the setting of its origin, insulated from change by increasing returns and other factors of inertia. In another vein, those who promote process sequencing visualizations envision policymakers as solving problems in a sequence, informed by history but not in thrall to it[5]. Though both perspectives assert the importance of history, the importance of original policy factors and the degree of determinism are high in path dependency approaches and de-emphasized in process sequencing models[6]. Although there is a general agreement that 'history matters,' in the rigidity of CAP expenditure, precision is lacking. These applications have tended to focus on either broad-strokes overviews of the policy as a whole or on single reforms, ignoring the uneven nature of CAP development and obscuring differences across sectors and between reform periods. The contribution of this

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[3] Ibid.
[4] Linda Botterill, "A Policy Community Under Threat? CAP Reform and the European Policy Community," *CESAA Review*, no. 33 (May 2005).
[5] Michael Howlett, "Process Sequencing Policy Dynamics: Beyond Homeostasis and Path Dependency," *Journal of Public Policy* 29, no. 03 (December 2009): 241–262.
[6] Michael Howlett and Jeremy Rayner, "Understanding the Historical Turn in the Policy Sciences: A Critique of Stochastic, Narrative, Path Dependency and Process-Sequencing Models of Policy-Making over Time," *Policy Sciences* 39, no. 1 (May 13, 2006): 1–18.

project is to use a sector-level approach to apply existing theories to the policy process, a test which adds to existing theoretical understanding. A case study approach allows for analysis of the applications of these concepts over a long range of time to analyze the precise role of history for a single policy, deepening existing understanding of policy formation.

The aim of this project is to theoretically contextualize the move in the CAP away from a command-and-control model towards market liberalization. The goal of the case study approach is to understand why the dairy sector policy regime continued for so long without substantial change, and the reasons behind it reorientation. This sector is chosen for several reasons: its relevance to almost all EU member states, its intense politicization, and its high visibility in global agricultural trade, among others. The relationship between the political sensitivities of the dairy sector and its resistance to reform is of particular interest. To achieve comprehension of the whole story, it is necessary to analyze the history of the dairy sector against the wider context of the CAP. The experience of one sector is used as a case study in order to explain wider change.

Methodology

In studies of the CAP, many theorists discount economic motivations in explaining CAP structures, instead citing political processes. The dairy production quota system is frequently cited as an example of an economic policy difficult to explain or justify with a foundation of economic theory[7]. Since its inception as a command and control model in the 1960s, the CAP has moved towards greater and greater market liberalization, but in an uneven and gradual way. Resistance to change, conceptualized in a variety of different ways, frequently comes up in literature on the subject. This project takes a theoretical approach, looking at resistance to change in the context of EU agricultural policy. To do this, it uses a case study, or vignette, approach in analyzing the history of dairy sector policy.

The advantage of the case study approach is related to the non-uniform nature of the CAP, which treats products, sectors, and member states differently within its framework. Over the long life of the CAP, a holistic focus obscures important policy

[7] Alison Burrell, “The 2003 CAP Reform: Implications for the EU Dairy Sector,” *Outlook on Agriculture* 33, no. 1 (March 1, 2004): 15–25.

differences within the agricultural sector. The thesis draws on analytical literature produced about the CAP and the dairy sector from political economy, international relations, and political science perspectives. Some source material from EC and EU publications, as well as publications from farm lobby organizations and similar documents, has also been incorporated to give additional background.

Among parts of the economy administered to by CAP organization, the dairy sector represents an anomaly in terms of its political and economic situation. Milk is produced in every EU member state, without exception. Naturally, the dairy sector varies in size and type by member state. Critical discussion of the CAP regime found a focal point on the dairy sector in the mid-1970s, with one report calling it a "problem child for European agriculture[8]." In some form, this tradition has continued through to the present day. Farmers sprayed milk on police officers in a heated protest over milk prices outside of Berlaymont Palace in Brussels in September of 2015.[9] The extraordinarily active, even violent, nature of the protest drew attention. At the 2016 Salon de l'Agriculture in Paris, political messaging about the state of the French agricultural community focused on the dairy sector; centerpiece of the show was a milk cow named Cerise[10].

As these examples show, the dairy sector has a strong claim to being the most politically contested field in the European Union CAP debate. Even in the context of CAP policy debate, the dairy sector is notable for the high volume and emotional charge of discussion. Considerable media attention on the dairy sector dates from the late 1970s, when criticism of the existing regime focused on overproduction subsidized by EU funds. The evocative phrase 'mountains of butter' became symbolic of CAP wastefulness, overspending and profligacy. The solution to this problem was the policy innovation of a production quota system, instituted in 1984. This system was designed to stem the

[8] Hector de Baere, "Milk: Problem Child of European Agriculture. Green Europe, Newsletter on the Common Agricultural Policy No. 166," *Green Europe*, 1979, accessed May 2, 2016, http://aei.pitt.edu/5372/.
[9] Graham Ruddick, "Farmers Clash with Police in Brussels during Milk and Meat Prices Protest," *The Guardian*, September 7, 2015, sec. Environment, accessed April 12, 2016, http://www.theguardian.com/environment/2015/sep/07/farmers-clash-police-brussels-milk-meat-prices-protest.
[10] Lauren Collins, "Come to the Fair," *The New Yorker*, April 4, 2016, accessed April 2, 2016, http://www.newyorker.com/magazine/2016/04/04/inside-the-salon-international-de-lagriculture?mbid=social_twitter.

oversupply issue by setting limits on dairy delivery enforced by levied fines, the result of a lengthy set of negotiations between member states.

One solution to the 'mountains of butter' problem was the reselling of product, at lower prices, to the rest of the world. In the 1980s, the selling of excess beef and butter to the USSR drew public criticism[11]. Twenty years on, this situation repeated with the unloading of excess skim milk powder, a product with a long stable shelf life, to developing country markets. NGOs working in developing countries heavily criticized this practice, blaming it for preventing the development of domestic industry, and a new term was coined: milk dumping[12].

The status quo in the dairy market persisted for thirty years with very little meaningful change despite these strong critiques. As a 'heavy' regime, one that involved a significant number of policy instruments and interventionist measures, the milk regime was one of similar programs for such items as cereal and wine. The inertia became more and more visible as these different regimes underwent reform which simplified policy and reduced government support. Market liberalization occurred in other sectors, but the dairy sector remained as an "island," shielded from market signals at a relatively high rate for thirty years.

The end of the quota system came during the Fischler reforms of 2003, which reinforced the market orientation trend of the CAP regime. The institution of support to farmers which was decoupled from production was the major theme, and the plan included dairy. The original 2002 proposal from the Commission detailed four possible reform choices for the dairy sector[13]. The reorganization marked a reconsidering of the command and control model of production[14]. Although the environment produced by the reform cannot be described as one of total trade liberalization, it made a significant

[11] Hill, *Understanding the Common Agricultural Policy*.
[12] Penny Fowler, "Milking the CAP: How Europe's Dairy Regime Is Devastating Livelihoods in the Developing World," *Oxfam Policy and Practice: Agriculture, Food and Land* 2, no. 2 (October 1, 2002): 60–93.
[13] Arlindo Cunha and Alan Swinbank, *An inside View of the CAP Reform Process: Explaining the MacSharry, Agenda 2000, and Fischler Reforms* (Oxford: Oxford Univ. Press, 2011). p.130
[14] Peter Nedergaard, "The 2003 Reform of the Common Agricultural Policy: Against All Odds or Rational Explanations?," *Journal of European Integration* 28, no. 3 (July 1, 2006): 203–223.

change from the existing status quo. In 2008, the end of quotas was confirmed, and a process of slow relaxation of the limits took place in order to create a "soft landing" for producers and the dairy market.

The dairy sector's role as something of a lightning rod for criticism has been connected to the visible singularity of the production quota regime. Looking at the history of the sector, a few questions naturally develop. Why and how was the quota regime instituted? How did it come to be removed? Examining producer and consumer interests against the new milk program is important; it is still held to its main objectives from the Treaty of Rome, and to additional social standards both in EU circles and in world opinion. An unusual political sensitivity is also a factor. There is a well-organized, motivated and dedicated opposition element to CAP reform from this sector[15]. Among agricultural subdivisions, the dairy regime has an unusual history. Dairy production is a significant part of European agriculture, both because every member state has a dairy sector and because of the sector's role in global agricultural trade. The most common criticisms of the CAP, from its wasteful production support to its disservices to the world economy, have specific applications in the dairy context. From a policy perspective, milk production experienced sharp change early on with quota institution, and then remained stagnant for a long period of time, provoking questions about European policymaking. These factors serve to make the dairy sector a useful case study for understanding the theoretical applications of CAP dynamics.

[15] Burrell, "The 2003 CAP Reform."

Chapter 1 - Overview of CAP History

The Common Agricultural Policy is variously described as the heart of the European unity project, or as some kind of a strange illness afflicting it. The single market for agricultural products was the first to develop in European integration, and it has commanded a large amount of the EU's financial and political resources. To the disappointment of its many critics, the program has seen very few instances of major change or reform during its lifetime. The principles of the CAP set out in the Treaty of Rome of 1957 have never been altered, persisting through the experience of enlargement, internal criticism, external pressures, and policy changes elsewhere. Three major guiding principles continue to define CAP objectives since the early 1960s: market unity, financial solidarity, and community preference. However, it has not remained totally static. Beginning in the early 1990s, a major rethinking of the CAP's goals and structure occurred, bringing some palpable steps away from the traditional and much-criticized command-and-control structure. This section deals with the life story of the CAP, with particular attention to episodes of policy change.

As it was originally conceived, the CAP placed a huge emphasis on stimulating and incentivizing farmers' production. The main reasons for this are interrelated: first, the historical experience of famine led policymakers to create incentives for abundance[16], and secondly, it continued existing patterns of agricultural protectionism in such European Community member states as France and Germany. In addition, the income levels and welfare of farmers, at that time a relatively large and poor sector of society, were also of concern[17]. The Mansholt Plan of 1968 involved structural change to lessen the amount of people and land dedicated to agriculture, including a special mention of the

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[16] Nick Evans, Carol Morris, and Michael Winter, "Conceptualizing Agriculture: A Critique of Post-Productivism as the New Orthodoxy," *Progress in Human Geography* 26, no. 3 (June 1, 2002): 313–332.
[17] Rosemary Fennell, *The Common Agricultural Policy of the European Community: Its Institutional and Administrative Organisation*, 2. ed. (Oxford: BSP Professional Books, 1987).

reduction of dairy farming activity, as well as an attenuated price policy[18]. Fundamentally, the policy rested on market price support, which received the most taxpayer funding. Restrictions on imports, such as high tariffs, the practice of intervention buying-up of surplus products, and export subsidies formed the main policy instruments.[19] The European Agricultural Guidance and Guarantee Fund (EAGGF), representing non-market intervention policy funding, was a very minor part of the administration[20]. Product-specific regimes, known as Common Market Organizations (CMOs) were developed to determine intervention buying levels and prices for individual products, arranged by the meetings of specialized committees[21]. The CAP program also involved special monetary conversion rates which were only used in the context of agricultural arrangements, called "green rates," a scheme of considerable technical complexity. At the beginning of the 1960s, the European Community was a net importer of food: by the end of the 1970s, self-sufficiency and even surpluses in most products had been achieved, mostly due to technical improvements in farming. The lack of imports necessarily affected the revenue from import tax, and support buying came into play[22].

The first major change of the CAP coincides with the case study presented in this thesis: the milk regime. As will be detailed in later sections, the application of a quota system to the milk regime was an ad hoc policy change directed at overcoming an unintended consequence of the original policy. National levels of acceptable deliveries to dairies were set, with the penalties to be paid into EAGGF. This was one of the first ways in which the fund began to expand its sources of support and its role. The institution of quotas was successful in bringing down the levels of intervention stocks and the costs associated with buying and storing the extra products[23]. The basic idea, that producers

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[18] Hill, *Understanding the Common Agricultural Policy*.
[19] Cunha and Swinbank*, An inside View of the CAP Reform Process*.
[20] Ibid.
[21] Wyn Grant, *The Common Agricultural Policy*, trans. to digital print., The European Union series (Basingstoke: Palgrave, 2003).
[22] Hill, *Understanding the Common Agricultural Policy*.
[23] Michel Petit, "The CAP After Fifty Years 2008 - EuroChoices," *EuroChoices* (2008), accessed April 21, 2016, http://onlinelibrary.wiley.com/doi/10.1111/j.1746-692X.2008.00098.x/abstract.

should be compensated for their income, remained unchanged. The policy instrument triangle of import tariffs, intervention buying and export subsidies was not altered[24]. The quota was successful in bringing down the levels of intervention stocks and the costs associated with buying and storing the extra products. As originally instituted, it was only designed to last five years, but it survived for thirty.

Criticism of the CAP from an economic theoretical standpoint was common. The main charges against it were that it was an inefficient distribution of resources, costly to taxpayers and consumers, a major barrier to world free trade, and created waste.[25] In addition to these flaws, many analysts found certain structural components of the CAP to be unfair to the lower-GDP member states, who often ended up subsidizing wealthier farmers elsewhere in the European Community.[26] Farmers' lobby groups, such as the Committee of Professional Agricultural Organizations (COPA), its national member organizations and product-specific groups, played a part in the discourse as well. COPA's representatives were present at the Stresa Conference in 1958, in a mostly observational capacity, and have continued their participation in wider discussions ever since. The technical complexity of CAP reform issues has not been a barrier to the participation of these groups, who were vocal in their development and advocacy of policy positions.[27] These positions were overwhelmingly in favor of the price support schemes, and prejudiced towards direct support alternatives. Consumer groups, and for that matter economic theorists, lack the equivalent lobbying capacity.

A parallel can be drawn between the response to milk overproduction in policy reform in 1983 and the response to grain overproduction in the early 1990s.[28] In the case of the 1992 reform, the rising costs of high levels of production in one specific sector drove policy changes for the rest of the CAP structure. The price support regime for grain

[24] Richard Howarth, "The CAP: History and Attempts at Reform," *Economic Affairs* 20, no. 2 (June 1, 2000): 4–10.
[25] Zahrnt, "A Guide to CAP Reform Politics."
[26] Cunha and Swinbank, *An inside View of the CAP Reform Process*.
[27] Matthew Elliott and Allister Heath, "The Failure of CAP Reform: A Public Choice Analysis," *Economic Affairs* 20, no. 2 (June 1, 2000): 42–48.
[28] H. Wayne Moyer, "EC Decisionmaking, the Macsharry Reforms of the CAP, Maastricht, and the GATT Uruguay Round" (conference, Washington, DC, 1993), accessed April 24, 2016, http://aei.pitt.edu/7239/.

was incurring high and rising costs, which due to the product's importance in animal feed and processed food for people, had wide-ranging ramifications in high prices for food throughout the CAP. During the reform round of 1992, named the "MacSharry Round" after the agricultural commissioner of the time, moves towards market liberalization were made. The CAP reform process coincided with WTO and Uruguay Round Agreement on Agriculture (URAA) governance of trade relations. The OECD's position made a clear preference for decoupled payments as the least distorting and the most welfare-optimal way to support farmers.[29] Meanwhile, COPA and its cohort opposed the payment decoupling, arguing that it would hurt the economic well-being of farmers, as well as be inappropriate to their social values. The original proposal had two main parts: price cuts on cereal, beef and milk, complemented by a need-based subsidy to producers. The idea for a bond scheme payment, which would provide farmers with a tradable form of income support independent from production, was proposed and then rejected[30]. Despite its lack of success, this policy innovation was a sign of things to come. This external situation heavily pressured the EU to change its price distortion and its position on imports. The decision reached to put limits on CAP expenditure and suppress exports to an extent did not entirely satisfy those who called for a re-thinking of the CAP, rather than surface alteration of the existing system[31].

The Agenda 2000 reform round is typically considered the next 'Big Bang' moment in agricultural policy change. Anxieties about enlargement, which expanded the number of national agricultural and public demands on the CAP as well as involving resource distribution issues, were at the fore. Since the 1970s, increased public awareness of the negative environmental effects of agriculture had intensified policymakers' inclusion of non-production initiatives. Rural development concerns influenced the policy discussion, part of a larger discourse about differences in income and development in the European Community. A diverse set of measures were bound together under a single

[29] Kennet Lynggaard and Peter Nedergaard, "The Logic of Policy Development: Lessons Learned from Reform and Routine within the CAP 1980–2003," *Journal of European Integration* 31, no. 3 (May 1, 2009): 291–309.
[30] Stefan Tangermann, "Evaluation of the Current CAP Reform Package," *World Economy* 12, no. 2 (June 1, 1989): 175–188.
[31] A. Swinbank, "CAP Reform and the WTO: Compatibility and Developments," *European Review of Agricultural Economics* 26, no. 3 (September 1, 1999): 389–407.

rural development regimen.[32] In the Agenda 2000 round, the change from price supports to direct transfers was extended to more and more crops, as well as the beef and somewhat later, the milk markets.[33] Milk quotas were extended to 2006.[34] These changes were met with hostility from farmers' lobby groups, and by extension the agricultural ministers of different member states. These groups opposed the moves to direct transfer, either for reasons of fear of change or a preference for the more discreet social support that the market price supports constituted.[35] For reasons including the actions of farmers' interest organizations as well as the positions of member states, no consensus was reached on the introduced concept of "degressivity." Degressivity referred to the suggestion that support payments to farmers should be limited in time and be reduced over periods of time[36]. The dogma of supporting farmers' income as a recognition of the high fixed costs of agriculture and the relative deprivation of rural areas retained its primacy. However, the high costs of the CAP had drawn calls for this goal to be achieved in a different, more efficient manner.[37]

The 2003 Mid-Term Review picked up the unfinished business left behind in the Agenda 2000 discussions in addition to separate reform initiatives. Building on what had already been done, these continued the move towards replacing the traditional price support instruments with direct support payments. The most important policy instrument included in this round was the Single Farm Payment (SFP). The SFP was a payment made to eligible EU farmers on the basis of their status as landholders, without reference to their levels of production. In addition to the instrument of 'cross compliance,' a list of environmental and animal welfare regulation, it rewarded farmers for providing public goods outside of production. The implementation of a payment system decoupled for

[32] Hill, *Understanding the Common Agricultural Policy*.
[33] Jörg-Volker Schrader, "CAP Reform, the Berlin Summit, and EU Enlargement," *Intereconomics* 35, no. 5 (September 2000): 231–242.
[34] Ibid.
[35] Carsten Daugbjerg, "Policy Feedback and Paradigm Shift in EU Agricultural Policy: The Effects of the MacSharry Reform on Future Reform," *Journal of European Public Policy* 10, no. 3 (January 1, 2003): 421–437.
[36] Katherine Falconer and Neil Ward, "Using Modulation to Green the Cap: The UK Case," *Land Use Policy* 17, no. 4 (October 2000): 269–277.
[37] Séan Rickard, "The CAP: Whence It Came, Where It Should Go," *Economic Affairs* 20, no. 2 (June 1, 2000): 27–33.

production in the CAP had by this time developed a long history of support[38]. Pressure from WTO negotiations and the US to reduce the level of market price distortion had mounted since the 1992 round[39]. The policy tool of 'modulation,' was introduced alongside cross-compliance. This somewhat elastic term covered the practice of member states of slicing payments to farmers in order to appropriate more money for environmental protection and rural development.[40] The MTR also implemented degressive payments, albeit in a very limited sense: the degressive payments applied to a very small proportion of total CAP instruments, and the time scheme involved was extensive, frustrating those who pushed for more extensive cuts[41].

Some of the issues left unresolved in the 2003 MTR were picked up for the 'Health Check' Round of 2008. Instead of being a mere 'check' of existing structures, this round extended production-decoupled payments and struck down production volume limits for sugar, dairy, and wine. The single payment scheme, although genuinely qualifying as a system of income support decoupled from production, allowed some leeway to member states to link payments to production. A threshold of 70% of previous levels was set in many cases. Member states had the option to refer to historical levels of support, regional classifications, or opt for some combination. Continuing the general trend of the last three reform rounds, direct farm payments were decoupled from production in arable crops and other sectors[42].

Five years on, the 2013 reform round constituted the next and most recent major CAP reform. Made under a new co-decision institutional format[43], the main political discussion did not involve the regimes for specific products, or even the topic of market intervention. Instead, it focused on aspects of compensation designed to be production-

[38] Nick Beard and Alan Swinbank, "Decoupled Payments to Facilitate CAP Reform," *Food Policy* 26, no. 2 (April 2001): 121–145.
[39] Rolf Moehler, "The Internal and External Forces Driving CAP Reforms," in *The Perfect Storm: The Political Economy of the Fischler Reforms of the Common Agricultural Policy*, ed. Johan F. M. Swinnen (CEPS, 2008).
[40] Falconer and Ward, "Using Modulation to Green the Cap."
[41] Secondo Tarditi, "CAP Pseudo-Reforms: A Penelopean Web," *Intereconomics* 37, no. 5 (September 2002): 241–243.
[42] Hill, *Understanding the Common Agricultural Policy*. p. 94
[43] Marko Lovec and Emil Erjavec, "The Co-Decision Trap," *Intereconomics* 50, no. 1 (February 5, 2015): 52–58.

neutral, specifically the role, extent, and allocation of "greening" payments compensating farmers and landholders for the provision of environmental public goods. Environmental aims were the major focus of this round. Cross-compliance initiatives guaranteed support for farmers who followed environmental regulations, but the extent, type, and specific arrangement of these was a topic of dispute between environmental organizations, farmers' lobby groups, and those focusing on a balanced budget. Market support in the form of intervention buying programs remained, mostly to provide a floor price for wheat, butter, and skimmed milk powder[44]. The transition to production-decoupled transfers targeted towards the environment, rural development, and other initiatives had extended to cover the whole CAP.

As this section has recounted, episodes of CAP reform have been stimulated by such diverse forces as budgetary consideration, concern over the environment and health, management of the production of food, cohesion between member states, and external trade pressures. Over time, the focus has shifted from stimulating production to making production secondary to a range of other needs and concerns. None of the major CAP reform episodes can be satisfactorily explained as a response to one single event, discourse, or state of affairs. Likewise, although the CAP is an economic policy, its form and content cannot be matched to literature on economic predictions[45]. In the years since the formation of the CAP, several different approaches in theories of political economy have competed to best explain both the long periods of stasis in CAP policy and instances of policy change and re-orientation.

Chapter 2 - Literature and Theory

There is an abundance of scholarly material on almost every conceivable aspect of the Common Agricultural Policy, which takes a wide variety of different approaches and material. The rapid pace of change of CAP mechanisms and debate themes makes for an interesting flow of academic literature on the subject. The CAP is of interest to a wide

[44] Gerry Alons and Pieter Zwaan, "New Wine in Different Bottles: Negotiating and Selling the CAP Post-2013 Reform," *Sociologia Ruralis* (May 1, 2015): n/a–n/a.
[45] Zahrnt, "A Guide to CAP Reform Politics."

variety of theorists working in the fields of public policy, political economy, and international relations. The literature produced varies in content, focus, and theoretical orientation. This section provides a survey of the existing literature on CAP market policy formation, focusing on the European dairy sector.

By far the most comprehensive study of the dairy regime to date comes from a book published by a team of five professors of agricultural economics in Europe. As one of a series on agricultural policy formation in Europe, "The Birth of Milk Quotas and CAP Reform" guides the reader through an astonishing mass of statistical and qualitative data dealing with the period from July 1983 to March 1984. The text draws from published material as well as interviews. Its main limitation is that it was published in 1987[46], in what turned out to be the infancy of the quota system. Writing after the 2003 Mid-Term Review, Alison Burrell provided an article-sized version of the same exercise for the dairy sector[47], focusing on future projections while giving an overview of the politics of reform. Coverage of the end of the quota system in academic literature is relatively scant, mostly appearing inside larger overviews of recent reforms[48]. Searches for the topic on scholarly databases yield a variety of articles dedicated to statistically modeling the probable results of quotas[49] in economic terms, as opposed to an engagement with political economy theory or reform politics. The scarcity of this literature is probably attributable to the recency of the quota abolition. In addition, the dairy market, like the agricultural market in general, is volatile. Short-term news outlets have made surface reports on the change[50], but detailed analysis has yet to emerge.

[46] M. Petit et al., *Agricultural Policy Formation in the European Community: The Birth of Milk Quotas and CAP Reform* (Elsevier, 2012).
[47] Burrell, "The 2003 CAP Reform."
[48] Jean-Christophe Bureau et al., "The Common Agricultural Policy after 2013," *Intereconomics* 47, no. 6 (December 11, 2012): 316–342.
[49] R. H. M. Bergevoet et al., "Entrepreneurial Behaviour of Dutch Dairy Farmers under a Milk Quota System: Goals, Objectives and Attitudes," *Agricultural Systems* 80, no. 1 (April 2004): 1–21; Zohra Bouamra-Mechemache and Vincent Réquillart, "CAP Reform in the Dairy Sector: Remove Export Subsidies and Retain Milk Quota," *EuroChoices* 3, no. 2 (August 1, 2004): 12–17; Rafael Rosa Cedro and Leanne Melnyk, "An Interplay between Internal and External Markets EU Dairy Tariffs and the Doha Round of the WTO," *Alternatives: Global, Local, Political* 39, no. 3 (August 1, 2014): 177–186.
[50] Vincent Boland, "Irish Dairy Farmers Celebrate End of EU Milk Quotas," *Financial Times*, March 30, 2015, accessed April 28, 2016,

Most literature on CAP reform is not limited to analysis of specific sectors, products, or actors, due to a broader interest in looking at non-market aspects of agricultural policy. However, the text *Farmers on Welfare* discusses the political economy of farmers' welfare through the debate on grain prices[51], using one narrative to illuminate the other. Most literature on the CAP has a broad focus across sectors and other divisions, the major split in the literature being between those which see the CAP as a political project and those who consider it from an economic perspective instead. A large percentage of work on the CAP focuses on analyzing the effect of some major external factor, such as enlargement[52] or multilateral trade negotiation[53]. Those focusing on internal issues usually take institutional perspectives, focusing on the roles of EU structures. As in other policy formation studies, theoretical perspectives have emerged to explain and predict events in CAP formation.

A strong tradition exists of applying broad policy theory to the CAP from different sectors and opinions within studies of international political economy. In this vein, some of the most influential work has been done by Adrian Kay on analysis with concepts of path dependency[54], while Carsten Daugbjerg has formulated a vocabulary of reactive sequencing[55], which distinguishes itself by broadening the available paths and watershed events. These contributions have been contested and built upon by other authors. Johan Swinnen has written extensively on almost every CAP aspect since the

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http://www.ft.com/intl/cms/s/0/24087084-d6c2-11e4-97c3-00144feab7de.html#axzz479FCFRYT; "Letting the Cream Rise," *The Economist*, February 21, 2015, accessed April 28, 2016, http://www.economist.com/news/business/21644159-end-quotas-frees-efficient-european-dairy-farms-expand-letting-cream-rise.

[51] Ann-Christina L. Knudsen, *Farmers on Welfare* (Cornell University Press, 2009), accessed April 19, 2016, http://muse.jhu.edu/book/25039.

[52] Schrader, "CAP Reform, the Berlin Summit, and EU Enlargement."

[53] Jean-Jacques Hallaert, *Special Agricultural Safeguards: Virtual Benefits and Real Costs-Lessons for the Doha Round* (International Monetary Fund, 2005).

[54] Adrian Kay, "Path Dependency and the CAP," *Journal of European Public Policy* 10, no. 3 (January 1, 2003): 405–420; Adrian Kay, "A Critique of the Use of Path Dependency in Policy Studies," *Public Administration* 83, no. 3 (August 1, 2005): 553–571.

[55] Carsten Daugbjerg, "Sequencing in Public Policy: The Evolution of the CAP over a Decade," *Journal of European Public Policy* 16, no. 3 (April 1, 2009): 395–411.

early 1990s[56], melding these theoretical perspectives with events on the ground and wider economic information.

Theorizing the Role of History

A generalized view of the CAP reform process might be as follows: the Commission proposes, member states bargain, farmers lobby, and the Council disposes a weakened version of the original proposal. Taking into account the long history of the CAP, the variety of interests of actors that it encompasses, and the range of its policy instruments and areas of competence, explaining the policymaking of the CAP as an institution represents a challenge for analysts attempting to maintain analytical coherence. Against the theoretical grounding of seeing the CAP as an institution, path dependency and process sequencing have emerged from the literature as overarching visions of policy stasis and reform[57]. A close look at a single regime offers the advantages of avoiding the confusion associated with the diffuse, uneven pattern of reform across the CAP, while allowing for a long-range historical focus. While the traditional command-control structure of the CAP gradually changed over time to be more and more market-oriented, this process has not been linear or comprehensive. Some sectors, and notably the dairy regime, have resisted the change. The milk quota system was instituted in 1984 policy solution to an overproduction problem, which for some people demonstrated the strength of the CAP and the resilience of the European Community. Others thought that the correction did not obscure the fact that the original issue had been caused by the CAP. Subsequently, the milk quota system ran from 1984 to 2015, with very few significant changes to its operation. It attracted criticism from a wide variety of groups motivated by social, political and economic concerns about equity, efficiency, and broad questions about the role of agriculture, yet followed the same fundamental policy course. The exercise is to compare real events with two theoretical

56 Johan F. M. Swinnen and Thijs Vandemoortele, "Policy Gridlock or Future Change?: The Political Economy Dynamics of EU Biotechnology Regulation" (2010), accessed April 6, 2016, https://mospace.umsystem.edu/xmlui/handle/10355/9963.
57 Howlett, "Process Sequencing Policy Dynamics"; Kay, Adrian, "Policy Trajectories and Legacies: Path Dependency Revisited," in *Routledge Handbook of Public Policy*, ed. Eduardo Araral et al. (Routledge, 2012), 462–470.

concepts put forth to explain them. Is the actual path of CAP reform a better fit for path dependency or for process sequencing?

Following the classic framework provided by Arthur Okun, the milk regime, like other economic phenomena, should be looked at against the rubric of its ability to provide efficiency or equality[58], providing either side of the compromise. The milk regime is not well explained as providing either of these things. Efficiency certainly is not served by limiting deliveries to dairies everywhere. A secondary consideration of efficiency is that the administrative structure required to keep the necessary organization in place, including levies and land management, is considerable. The system goes against the conventional principle of comparative advantage. On the equality side, not much can be said in favor of the quota system, which restricted market access for established producers, prevented new farms from being established, and limited sales. Economists analyzed these problems at length[59]; but milk quotas survived. Since an economic explanation is not satisfying, the next logical place to turn would be a political analysis. The political development of the dairy regime offers insight to the larger processes of CAP reform.

Before 1992, it is difficult to apply the term 'reform' to the policy revision process; changes to the CAP were incremental and ad hoc in nature, intended to correct unforeseen issues rather than fundamentally change the policy. The shift beginning in the early 1990s directed the agricultural program away from the traditional command and control structure to greater and greater market orientation[60]. However, this change has not been linear, comprehensive, or easy to follow from a technical perspective. There is a lack of agreement on the most important drivers of reform, such as external trade negotiation commitments, budget constraints, or public goods received from agriculture and rural land. Academic observers from a variety of fields have taken multiple

[58] Arthur M. Okun, *Equality and Efficiency: The Big Tradeoff* (Washington: Brookings Institution Press, 1975).
[59] Dr Konrad Hagedorn, "Public Choice and Agricultural Policy: The Case of the CAP," in *Issues in Contemporary Economics*, ed. Professor Partha Dasgupta, International Economic Association Series (Palgrave Macmillan UK, 1991), 43–71, accessed April 22, 2016, http://link.springer.com/chapter/10.1007/978-1-349-11579-2_3.
[60] Howarth, "The CAP."

theoretical views on the issue of explaining CAP outcomes, focusing on themes such as EU institutions, historical framing and multilateral bargaining.

Much literature on CAP analysis deals with the problem of assigning the correct weight and influence to different institutions and political influences. Neither path dependency or process sequencing offer insights on this point, and analysts draw very different conclusions on issues such as the role of the union of farmers; groups, COPA. The most comprehensive source on the formation of milk quotas, by Michel Petit et al., does not contain one mention of COPA[61]. However, some institutionally focused models of CAP reform attribute the difficulty of dismantling support in place to the work of lobby organizations such as COPA, its national chapters, and product-specific groups. The different conceptualizations of the EU either as a 'policy community,' to mean a strictly defined group, or as a more inclusive and comprehensive 'policy network,' express this disagreement[62]. In the 'community' view, the public goods coming from agriculture and the need for the CAP to satisfy a diverse set of demands draw in a wide variety of reformers.

The idea of the Common Agricultural Policy as an institution with an identity in its own right undergirds much of recent analysis. The institutionalist viewpoint, gaining ground in studies of EU policy, holds that EU institutions, like other supranational institutions, have identifiable interests and norms of their own, rather than a mere aggregation of those of other actors, such as member states[63]. These have developed through the practice of governance exercised by these institutions. An institutional comprehension of the CAP also opens a way forward for incorporating historical understanding of policy[64]. The institutionalist perspective in the EU context has also been

[61] Petit et al., *Agricultural Policy Formation in the European Community*.
[62] Lawrence Busch and Arunas Juska, "Beyond Political Economy: Actor Networks and the Globalization of Agriculture," *Review of International Political Economy* 4, no. 4 (October 1, 1997): 688–708; Carsten Daugbjerg, *Policy Networks under Pressure: Pollution Control, Policy Reform, and the Power of Farmers* (Aldershot: Ashgate, 1998).
[63] Simon Bulmer, "New Institutionalism, the Single Market and EU Governance" (conference, Seattle, WA, 1997), accessed April 22, 2016, http://aei.pitt.edu/2542/.
[64] J. Jupille and and J. A. Caporaso, "INSTITUTIONALISM AND THE EUROPEAN UNION: Beyond International Relations and Comparative Politics," *Annual Review of Political Science* 2, no. 1 (1999): 429–444.

critiqued as anthropomorphic in that it creates personality where it is not found. The claim revolves around the issue that certain member states tend to dominate these institutions because of their economic and historical advantages, using the institutions rather than themselves[65].

The focus on the institutional structure of the EU is used to account for both the rarity of reform as well as the content of policy. The conceptualization of "political asymmetry" describes EU decision-making institutions, particularly the Council, Commission, and Parliament, as inherently containing deep power imbalances between member states with heterogeneous interests. These divides create openings for lobby groups, such as farmers, to promote their own interests[66]. The design of EU institutions, then, unfairly privileges the farm lobby, leading to the amplification of their voices and interests in policy[67]. The relationship of lobby group influence to CAP inertia has been a fertile subject in literature. As the interests of farmers are often expressed to be closely related to the status quo as well as against market liberalization, the roles of agricultural lobby groups on a national level, as well as COPA on a supranational level, have been closely scrutinized in studies of the CAP's historical resistance to change.

Many approaches towards CAP reform analysis isolate single episodes of reform. A 'historical turn' has resulted in several conceptualizations of the importance of history to policy outcomes. Path dependency is one of the most popular of these, a vision in which the way a policy begins is the most significant predictor of its lifespan. As policy choices narrow over time, the chances for reform are small as inertia forms. This tendency is explained using various concepts, many borrowed from the language of economics, including the sunk costs spent in forming and enforcing policy, and the idea of increasing returns and benefits accruing to actors as the status quo ages. Historical experience is the important determining factor in this approach, but there is still the possibility of new policy directions; it is not necessarily 'locked-in' and inertia may be

[65] Bulmer, "New Institutionalism, the Single Market and EU Governance."
[66] Peter Nedergaard, "Market Failures and Government Failures: A Theoretical Model of the Common Agricultural Policy," *Public Choice* 127, no. 3–4 (May 3, 2006): 385–405.
[67] Guenther Schmitt, "Agricultural Policy Decisions in the EC," *Food Policy* 11, no. 4 (November 1, 1986): 334–344.

overcome. A turning point, termed a critical juncture in the literature[68], serves to shock the inert system into change. This turning point may be an exogenous upset coming from outside the policy system, some factor outside the control of policymakers, or it may be endogenous, originating from the policy's human or economic territory. In path dependency, policy development is envisioned somewhat like a snowball rolling down a hill; the older the policy, the more weight and speed it gathers on its way. Path dependency emphasizes the initial conditions in which a policy is formed[69], with later contextual changes being much less important in the development of the pattern. Those who promote path dependency also note that the understanding expressed encompasses instances of change and departure from the path, not only resistance to it[70]. Overall, path dependency envisions policy outcomes as a straight line extending past its origin point in one direction only, occasionally interrupted by short shocks of change.

Other conceptions of the role of history allow more room for choice; process sequencing is one such idea[71]. Although bearing a passing similarity to the path dependency idea, process sequencing places a greater emphasis on the role of non-inertia factors in policy development. In a process sequencing model, policy choices set in motion a succession of linked policy events, not limited rather than controlled by earlier sets[72]. Policymakers solve policy problems with various solutions, informed by experience. Conceptualizations of historical dependency and change avoidance in CAP have been further refined by recognition of the policy feedback phenomenon[73] as defined in public policy literature, in which existing policies create their own political discourses and conditions. Policymakers do not have the freedom to make choices from a blank slate at every election or appointment, as they must interact with the structure already present.

68 Kay, "A Critique of the Use of Path Dependency in Policy Studies."
69 Kay, Adrian, "Policy Trajectories and Legacies: Path Dependency Revisited"; Pierre Garrouste, Stavros Ioannides, and European Association for Evolutionary Political Economy, *Evolution and Path Dependence in Economic Ideas: Past and Present* (Edward Elgar Publishing, 2001).
70 Kay, "A Critique of the Use of Path Dependency in Policy Studies."
71 Carsten Daugbjerg and Alan Swinbank, "The Politics of CAP Reform: Trade Negotiations, Institutional Settings and Blame Avoidance," *JCMS: Journal of Common Market Studies* 45, no. 1 (March 1, 2007): 1–22.
72 Howlett, "Process Sequencing Policy Dynamics."
73 Daugbjerg, "Policy Feedback and Paradigm Shift in EU Agricultural Policy."

In terms of the CAP context, each generation of farmers which depends on a subsidy system will defend it, and then the next generation will as well[74]. Both path dependency and process sequencing have enjoyed more popularity in institutionalist literature than in other schools of thought, but are easily extended past this association to analysis of other policymaking influences.

[74] Alan Greer, *Agricultural Policy in Europe*, European Policy Research Unit series (Manchester: Manchester Univ. Press, 2005). p.28

Chapter 3 - 1970-1984: The Beginning of the Quota Regime

1970s: “Butter mountains” and “milk lakes”

As mentioned in the discussion of path dependency, the concept privileges the setting in which policy is formed in analysis, rating it as crucial to later development. The dairy regime began alongside other regimes for specific products as part of an overarching scheme for agriculture in the European Community. The protectionist character of the new agricultural policy continued existing patterns in France and Germany, with intervention to maintain existing standards of farmers’ income in a competitive market[75]. The main mechanism of this support was a high price policy. The expectation that farming incomes be supported, in the form of price supports, formed the core of existing practice[76]. As it was initially formed in 1962, the CAP was made up of common market organizations (CMOs) or regimes, sets of regulations for specific products. Basic products, such as wine, olive oil, sugar, and beef, were subject to classical market regulations, known as heavy-duty regulation[77]. These involved internal regulation as well as measures directed toward import and export. In an effort to stabilize prices, intervention was possible in the form directly buying shelf stable products to remain in storage paid for by the EC agriculture budget, as well as compensation payments for private storage. Non-staple products were subject to few market intervention measures. Some products considered as staples, notably potatoes, were never subject to CMOs at all[78].

The dairy regime was a classic example of a heavy-duty regime. Price and aid levels were guaranteed, and quantities eligible for support were unlimited[79]. Complementing this, feed was plentiful, as soybeans and cereal substitutes were available

[75] Hill, *Understanding the Common Agricultural Policy*.
[76] Knudsen, *Farmers on Welfare*. 96
[77] Fennell, *The Common Agricultural Policy of the European Community*.
[78] Arie Oskam, ed., *EU Policy for Agriculture, Food and Rural Areas* (Wageningen Academic, 2010).
[79] Petit et al., *Agricultural Policy Formation in the European Community*.

at low cost. Farmers were then guaranteed a high price for whatever amount of milk they delivered to dairies, as there were no ceilings on the intervention mechanisms, either on quantities eligible or on total sums to be spent[80]. Within a relatively short period of time, the situation ran into unforeseen problems which threatened the whole future of the CAP. Although explicitly designed to stimulate production by providing rewards for production, it was destined to become a victim of its own success. Unintended consequences of the policy made change necessary in a relatively short amount of time.

The earliest relevant use of the phrase "butter mountain" in published material comes from 1977[81]. No one knows exactly who coined the term, but by the early 1980s it was familiar to newspaper readers as the symbol of the wastefulness and poor organization of the Common Agricultural Policy, along with the evocative 'lakes of milk.' In the German press, the terms *Butterberg* and *Milchsee* were coined[82]. The budget had become stressed by the costs of payment for the milk and butter, and of storage and disposal for it. Overproduction, stimulated by the rewards offered by the CMO for milk, had become a problem requiring a policy solution. One official report[83] referred to milk as "European agriculture's problem child."

The original conception of the Common Agricultural Policy emphasized the provision of support for food production. Policymakers held the state of the domestic food supply as a paramount concern, emphasizing abundance of available food in Europe along with farmers' incomes. Importantly, their mechanisms for ensuring production did not include limits on CAP spending or the quantities eligible for support. The mountains of butter were an unintended consequence of the CMO's success in doing what it was meant to do: stimulating production.

The year 1973 saw the accession of Denmark, Ireland and the United Kingdom to the European Community. These three states had large dairy industries. The 1970s saw the adoption of advancements in veterinary and agricultural science in Northern Europe,

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[80] Grant, *The Common Agricultural Policy.*
[81] Andre Gunder Frank, "Long Live Transideological Enterprise! Socialist Economies in Capitalist International Division of Labour," *Economic and Political Weekly* 12, no. 6/8 (1977): 297–348.
[82] Ursula Heinzelmann, "Möhrenlaibchen: How the Carrot Got into the Cheese," *Gastronomica* 9, no. 3 (2009): 48–52.
[83] de Baere, "Milk."

particularly in respect to Ireland. More dairy cows were living longer and producing more milk than ever. Between 1973 and 1983, milk production per cow rose by 23% across the European Community[84]. All the surplus milk was to be bought by using CAP funds, administered by member states[85]. Stress was placed on the dairy budget as the levels of public stocks of milk and butter, bought and stored with European Community funding administered by member states, swelled. Huge amounts of public money were spent to support excess production, growing year after year. The budget for dairy market intervention was 3.3 million ECU in 1982, rising to 4.4 million in 1983 and then 5.8 million in 1984[86]. The intensity of agricultural production also took an environmental toll, creating consequences in water and land use.

These pressures did not go unnoticed by policymakers or unreported in the media. The quota system was not the first step taken by policymakers to address the problem of overproduction. Other policy instruments tried included sales subsidies, herd conversion to beef, premiums on slaughter, price reductions, and duties designed to curb production[87]. Starting in 1977, a co-responsibility levy was instituted as producers paid 1.55%, then 2.5%, of their receipts[88] to the FEOGA, the European Agriculture Guidance and Guarantee Fund. However, even in combination these measures were not effective in cutting surplus production. The co-responsibility levy in particular was rarely enforced[89]. These measures were mostly based on producers' voluntarily agreeing to take advantage of CAP-provided opportunities for changes of direction in their operation. The beef industry was affected by the herds turned to beef, and extra supports had to be added to the beef regime to compensate[90]. The majority of dairy farmers continued their previous rates of production without making recourse to these initiatives. The policy course supporting production had been already set, and the response to overproduction involved limiting means of support, rather than removing the impetus to produce. The solution is

[84] Tilo Ulbricht, "Reform of the CAP," *Food Policy* 14, no. 3 (August 1, 1989): 248–252.
[85] Fennell, *The Common Agricultural Policy of the European Community*.
[86] Petit et al., *Agricultural Policy Formation in the European Community*.
[87] E. L. Naylor, "EEC Dairy Policy," *Geography* 72, no. 3 (1987): 239–241.
[88] Petit et al., *Agricultural Policy Formation in the European Community*.
[89] L. P. Mahé and T. L. Roe, "The Political Economy of Reforming the 1992 CAP Reform," *American Journal of Agricultural Economics* 78, no. 5 (1996): 1314–1323.
[90] Hill, *Understanding the Common Agricultural Policy*.

revealing in that it shows a desire to continue price support and manage the levels, rather than shift to market openness.

The further proposed solutions to the issue involved reducing the support price for milk, hotly contested by farmers' interest groups. The scale of the oversupply, expressed as a "butter mountain" rather than hill, kept these proposals alive in the political process against resistance. The negative consequences of the milk regime had become clear to farmers, the public, and policymakers alike. With the dairy-heavy new member states and increased efficiency in milk production, continuing on the existing course of policy would mean a breakdown of the CAP budget. In path dependency vocabulary, by the late 1970s the 'critical juncture' envisioned by theoretical policy analysts[91] had developed. A policy response was necessary to prevent a collapse of the CAP.

1984: The Beginning of the Quota Regime

Sparked by these concerns, the Stuttgart summit meeting of the European Council in July 1983 put planning to limit spending on dairy high on the agenda[92]. The issues on the table were several and complex. The enlargement to include Spain and Portugal was in the background, and the most pressing issue was the CAP's spiraling costs, in conflict with the Community Budget and driven by the mismatch between supply and demand. To deal with these issues, the Commission proposed to introduce individual quotas for milk, and a consumption tax on non-butter fats[93]. Importantly, both of these measures were introduced as temporary. The idea was that the immediate budget overflow would be stopped, and then the quota would be lifted in the subsequent rounds, perhaps as soon as five years later. The provision of the quota as an arrangement with an expiration date made it easier to promote.

[91] Adrian Kay and Robert Ackrill, "Institutional Change in the International Governance of Agriculture: A Revised Account," *Governance* 22, no. 3 (July 1, 2009): 483–506.
[92] "The European Council [Stuttgart Summit 1983], Stuttgart, 17-19 June 1983," 1983, Archive of European Integration, University of Pittsburgh, accessed April 21, 2016, http://aei.pitt.edu/1396/.
[93] Ibid.

Acceptance of the quota system was an easier prospect for some players than others. Every member state of the EU had a dairy industry, although the size of this sector varied considerably across member states and across regions. In addition, there were a range of approaches to the quota suggestions, even among dairy farmers. French milk producers opposed quotas, but their German counterparts saw them as acceptable[94]. The differing potential for benefit among member states posed a challenge for negotiators pushing the milk quota scheme. Drama ensued, as a last-minute overnight session barely secured Ireland's acceptance of the milk quota, which it conceded only on being allowed an exception due to the economic weight of its dairy sector.[95] Those member states with relatively insignificant dairy sectors found it easier to contemplate production ceilings than those with more dairy-dependent populaces. The selection of a base year of production for quota level determination was its own special field of battle. The technically complex issue revolved around the choices of 1981, 1982, 1983, or some combination of the above. Italy had an aversion to 1981, due to its particularly low output in that year[96]; meanwhile, the Dutch favored 1983[97].

In the end, milk production quotas were set at levels of 1981 production plus 1 percent, with an extra 1 percent for 1984/1985. Italy received a special allowance, as did the Irish Republic; both used 1983 as a base level[98]. Several member states objected heavily to the concessions for the Irish Republic. The United Kingdom's agricultural minister only accepted the quota system after concessions were made in the beef regime and the budget rebate[99]. Quotas were transferrable between producers as they were attached to land, but transfer between states was not legal. On top of the set levels, a Community reserve was established at the disposal of Luxembourg, Northern Ireland and the Irish Republic[100]. States found to be producing above the quota limit would have to

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[94] Ulbricht, "Reform of the CAP."
[95] Graham Avery, "Europe's Agricultural Policy: Progress and Reform," *International Affairs (Royal Institute of International Affairs 1944-)* 60, no. 4 (1984): 643–656.
[96] Naylor, "EEC Dairy Policy."
[97] Petit et al., *Agricultural Policy Formation in the European Community*.
[98] Carolyn Tanner and Alan Swinbank, "Prospects for Reform of the Common Agricultural Policy," *Food Policy* 12, no. 4 (November 1, 1987): 290–294.
[99] Ulbricht, "Reform of the CAP."
[100] Tanner and Swinbank, "Prospects for Reform of the Common Agricultural Policy."

pay a fine, quickly termed the "super levy," to the EU authority. This would be financed in turn by member states' charging penalties to the overproducing farmers. The levy was set at 115% of the target price for milk, earning it the status of a 'superlevy'[101]. A minority of states chose to have their own administration manage the monitoring of overproduction; others decided to give that responsibility to dairies[102]. In both cases, CAP bureaucracy was not immediately accessible to farmers, who seldom interacted directly with it[103]. The milk quotas instituted were meant to run until 1989, with a bookmark for later review. The superlevy was an extension of the co-responsibility levy of 1977, a policy sequence in which a previous choice was repeated and amplified. The costs spent in ensuring this agreement were huge, which path dependency would predict as a factor amplifying the durability of reform.

Also part of the proposal were monetary features of the agricultural regime, namely the 'green money' measures, the special monetary conversion rates for agricultural payments. This system was used as a bargaining chip in interstate negotiation, securing support[104]. The proposal for the consumption tax on fats and oils was not accepted, due to the interests of member states which variously produced and consumed these items: only France supported the idea[105]. Weighing heterogeneous member state interests with each other, it is possible to come up with an impression of the

The negotiations between member states about reference years, currency conversion rates and other technical points were secondary to the real bargain being struck. Economists agreed that reduction in production support prices would have been much more efficient, but the losses to producers facing a price reduction were not politically tenable. The quota system was a more saleable alternative[106]. The shape of the quota regime did not change much throughout its lifetime. Alterations that took place were minor in impact and mostly involved raising quota levels to achieve support for reform from pro-abolition member states. The CAP administration involves a variety of

101 Oskam, *EU Policy for Agriculture, Food and Rural Areas*.
102 Fennell, *The Common Agricultural Policy of the European Community*.
103 Daugbjerg, "Policy Feedback and Paradigm Shift in EU Agricultural Policy."
104 Petit et al., *Agricultural Policy Formation in the European Community*.
105 Ibid.
106 David R. Harvey and David Colman, "Time to Get Rid of EU Dairy Quotas?," *EuroChoices* 2, no. 2 (August 1, 2003): 12–17.

reviews, reports and other management tools designed to identify policy problems and solutions at regular intervals throughout the year[107]. These were fairly frequent in the 1960s and only increased in occurrence as time went on and more member states were added.

[107] Hill, *Understanding the Common Agricultural Policy*.

Chapter 4 - 1992-1999: Expansion and Reform

1992: The MacSharry Reform Era

The MacSharry reforms included a variety of measures associated with environmental, public health and social well-being targets in addition to market intervention. The changes enacted extended beyond the original proposals authored by Commissioner Ray MacSharry. Importantly, the reforms took place in the context of stalled WTO/GATT talks and a budgetary crisis, with analysts disagreeing on which of these two stressors was more dominant in stimulating reform[108]. The reform round concentrated on cutting prices for cereals, oilseeds and protein crops, which were the focus of external pressure[109], with changes in the dairy regime coming as something of a side effect. By the 1990s, the "butter mountains" and "milk lakes," the structural surpluses promoted by the CAP, had been kept at manageable levels for a long time, but their memory was not forgotten. Although the issue was not the core or focus of the reform round, as part of multistate bargaining, milk quotas were extended for another eight years and cut by 3%, with the exceptions of Greece and Spain, which respectively received 100,000 and 500,000 ton increases in quota levels[110].

The increases for Greece and Spain were enacted due to the milk deficiencies in both countries, which were of long standing and attributable to structural underdevelopment. The enactment of quotas in 1984 did not include the participation of these states. In addition, the butter intervention price was cut by 5%. This was unlikely to influence the southern member states, which were experiencing deficiencies and unlikely to reach intervention levels. Throughout the rest of the 1990s, further editing was made to the milk quota regime, under a new administrative structure of multi-year decision making[111]. In the price review in 1995, Italy and Greece secured permanent quota

[108] Swinbank, "CAP Reform and the WTO."
[109] Ibid.
[110] Nicholas C. Baltas, "The Restructured CAP and the Periphery of the EU," *Food Policy* 22, no. 4 (August 1997): 329–343.
[111] Johan F. M. Swinnen and Centre for European Policy Studies, eds., *The Perfect Storm: The Political Economy of the Fischler Reforms of the Common Agricultural Policy* (Brussels: Centre for European Policy Studies, 2008).

increases. In fact, Italy's milk production had come in over its quota allocation every year, without exception[112].

Together with cuts in the price of cereals, the allowances for Spain and Greece boosted low production levels. In this way the quota system was altered, to accommodate the needs of disadvantaged member states and to encourage small producers while the basic concept of limiting production to ensure price stability remained. This satisfied those member states seeking change while not disrupting the overall status quo. The example is well-suited to a path dependency mold: in response to criticism, the policy went through enough just editing to survive.

In analysis, explanation for the timing and the content of the MacSharry reforms falls into two separate camps. One side claims that external pressure from trade negotiations instigated the reform. Under the onslaught from external forces forming an exogenous shock, policymakers made changes to accommodate these demands and strengthen the EU's position in global trade. The other camp focuses on endogenous factors, citing the budgetary pressure caused by high CAP costs throughout the 1980s as the principal driver of reform. In this narrative, the spiraling costs of the combined agricultural program caused member states to act[113]. In addition, some accounts in the literature emphasize the policy entrepreneurship shown by Commissioner MacSharry[114], suggesting that the presence of another individual in the role might have led to a different outcome. As broad visions, both process sequencing and path dependency leave an analytical blank space for both endogenous and exogenous factors influencing reform.

Since the CAP's inception, it has attracted criticism for its high cost, market intervention, and multiple inadequacies connected to its policies. The high visibility and costs of overproduction in the 1970s, caused by the factors discussed earlier, made the

[112] Zohra Bouamra-Mechemache et al., "Partial Market Liberalization and the Efficiency of Policy Reform: The Case of the European Dairy Sector," *American Journal of Agricultural Economics* 84, no. 4 (November 1, 2002): 1003–1020.
[113] Moehler, "The Internal and External Forces Driving CAP Reforms."
[114] Cunha and Swinbank, *An inside View of the CAP Reform Process*; Moyer, "EC Decisionmaking, the Macsharry Reforms of the CAP, Maastricht, and the GATT Uruguay Round"; Isabelle Garzon, *Reforming the Common Agricultural Policy: History of a Paradigm Change*, Nachdr., Palgrave studies in European Union politics (Basingstoke, Hampshire: Palgrave Macmillan, 2007). p.82

milk CMO visible in the media and vulnerable to critique. The quota reform system silenced some objections because it successfully brought down production and CAP spending on milk. The dairy regime did not escape general criticism of the CAP and continued to draw specific complaints, for its longstanding resistance to change as much as its policy content. The sheer numbers involved were attention-grabbing: in 1985, expenditure on milk comprised 33% of the total agricultural budget[115]. The specific criticism of the quota system shares many themes with the general criticism of the CAP as a whole.

The negative effects of the quota system for land use developed as a common theme in literature critiquing the milk regime. On an individual level as much as a state one, no direct relationship between quota ownership and efficiency can be assumed. The allocation of quota allowances per individual farmer also involves making decisions about whether the quotas will be sold or given for free, whether they will be transferrable, and the equity of the system for those beginning to farm. Quota rights were transferred along with land in most member states, with exceptions such as Denmark, which held twice-yearly auctions[116]. The process has been termed 'quota theft', but this term is inexact and needlessly recriminatory. In fact, quota transfers with land were legal. The relative ease of transfer has been portrayed by some as contributing to the enlargement of a few farms in Europe at the cost of the disappearance of others[117]. Leasing of quotas was made legal in Germany, for example, which led to the creation of "sofa milkers" or "armchair farmers," individuals who purchased and profited from quotas without owning a single cow[118]. In this way, many farmers and landowners of larger operations saw returns and rents from quota allocation. Across member states, these individuals pursued their own interests in maintaining the quota system through national farmers associations and the EU-focused COPA.

[115] Naylor, "EEC Dairy Policy."
[116] Burrell, "The 2003 CAP Reform."
[117] Esther Boere et al., "The Dynamics of Dairy Land Use Change with Respect to the Milk Quota Regime," *European Review of Agricultural Economics* 42, no. 4 (September 2015): 651–674.
[118] D. Barthelemy and J. David, *Production Rights in European Agriculture* (Elsevier, 2001).

Economic theory on production quotas is well-developed, and has been applied before to the EU milk quota system. The quota levels were set at amounts greater than would satisfy EU demands in a free market[119], which underlines the idea of the reasoning of the quota being to limit intervention buying. The body of theoretical analysis suggests that the use of quotas in agriculture will neutralize the incentive for efficiency on the part of farmers[120], who will not benefit from increased production unless they have rights to sell. Alongside these problems is the critique that the national quota system, and the special exemptions made to it, is incompatible with the single market for agriculture, the core value of the CAP. It is worth noting that the absence of quotas and the contemporary dairy regime would have combined to collapse the CAP budget, threatening its entire existence. Like other path dependent policies, modifying the CAP was much more feasible than making a total reorientation.

The reform process left significant technical questions, as well as deeper policy issues, unresolved[121]. By the late 90s, predictions of the end of the quota system were fairly common. A consensus in the academic community formed about the end coming in 2006, and some attention was given to predicting how events would turn out after the change.[122] During the process, a 'bond scheme' idea, which would convert support for farmers into freely saleable annual bonds, was floated and then rejected due to a lack of cohesive support among member states. Agricultural lobbies disliked the idea, preferring the existing price support structures to the bond scheme model, which was closer to direct social transfer.[123] The idea of CAP support separate from production targets was wounded, not dead. The role of the MacSharry reform in instituting more reforms like it, creating a policy feedback loop, became an important point of understanding of continuing CAP reform[124]. In a perfect process sequencing scenario, some similar

[119] Hill, *Understanding the Common Agricultural Policy*. p. 134
[120] P. J. Dawson, "The Simple Analytics of Agricultural Production Quotas," *Oxford Agrarian Studies* 19, no. 2 (January 1, 1991): 127–141.
[121] Mahé and Roe, "The Political Economy of Reforming the 1992 CAP Reform."
[122] Neil Andrews, "Agenda 2000: Reforming the European Union's Dairy Policies," *Australian Commodities Forecasts and Issues* 5, no. 4 (December 1998): 522–531.
[123] Beard and Swinbank, "Decoupled Payments to Facilitate CAP Reform."
[124] Daugbjerg, "Policy Feedback and Paradigm Shift in EU Agricultural Policy."

solution to the CAP problem would have been instituted; as a major departure from existing structures, it faced resistance from those invested in the status quo.

1999: Agenda 2000

The Agenda 2000 reforms are often viewed as an extension of the reforms enacted in 1992, continuing on the same path towards market liberalization and away from incentivizing production[125]. The negotiation of the Agenda 2000 reforms took place in 1999, only a few short years after the height of the bovine spongiform encephalopathy crisis. Beef production was still in excess of demand, as was milk production, even after 15 years of quota restriction[126]. The debate on CAP issues took place in the context of a wider discussion about the total EU budget and the enlargement of Central and Eastern European countries. In the absence of immediate pressure from external trade situations, the budgetary issue then took center stage, especially in the context of the dairy sector, which had a low degree of exposure to international trade[127]. The CAP budget had been agreed upon first, and in the event of failure to adhere to it, accessing new sources of revenue would be a difficult proposition. The 'guideline' of the total allowable agricultural spending budget had been within a stone's throw of spending in the years immediately preceding.

Milk quotas were extended as part of the Agenda 2000 package[128]. Price cuts to the beef and cereal sector were combined with a 15% reduction in the milk price. A diversity of opinion characterized member states' interests toward dairy policy questions: Italy, Greece, Spain and Ireland held that they would only continue support of the quota system on the condition of the receipt of increases, while the UK, the Netherlands, Sweden and Denmark were in support of quota abolition[129]. Denmark, Italy, the UK, and Sweden formed the so-called 'Gang of Four,' or 'London Club,' both nicknames for a potential veto minority committed to seeing the milk quota regime demolished. A

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[125] C. Folmer et al., *The Common Agricultural Policy beyond the MacSharry Reform* (Elsevier, 2013). p. 113
[126] Garzon, *Reforming the Common Agricultural Policy*. p. 77
[127] Mahé and Roe, "The Political Economy of Reforming the 1992 CAP Reform."
[128] Council Regulation (EC) No 1255/1999 of 17 May 1999 on the common organisation of the market in milk and milk products
[129] Cunha and Swinbank, *An inside View of the CAP Reform Process*.

majority of member states still favored the quota regime, and were apprehensive of the budgetary burden of replacing it[130]. The quota abolition did not take place: policymakers reviewed their choices and, seeking to reduce friction, made adjustments to their path to ensure member state support. In the end, the compromise solution gave increases to Italy, Greece, Spain, Ireland and Northern Ireland, with an understanding was that the quota system would be looked at under the 2003 Mid-Term Review, with a view towards a possible phasing-out in 2006. The price cut for milk was delayed until 2005, with the quota increases making an acceptable deal. As more payments throughout the CAP were unlinked from production, the compromise solution maintaining the quota system became undone. Price intervention levels for dairy products were held constant[131].

Although the member states promoting quota abolition were entrenched enough to earn a nickname, theirs was a minority opinion. Increasing the quotas satisfied the immediate ends of these member states, and a reform agreement was reached. Some analysts had predicted major change in the CAP regimes affecting cattle as a logical response to the European experience with BSE. Although the crisis was an issue of the beef rather than the dairy industry, it had implicated large-scale farming and intensive animal raising and incited public criticisms of these practices. More regulation, rather than less, was Quota abolition, which threatened small farms, had a public relations issue in this sense. Rather than the long-range historical view being the deciding factor of the policy outcome, as a path dependency lens would project, the immediate experience of a food safety disaster exerted huge influence. Price and quota level changes were modest. The problem of the loss of public trust in the European food supply, separate from the national regulatory failure, motivated the extension of the status quo. The reasoning behind the extension of production limitations can be found in the immediate past, pointing towards process sequencing.

[130] Sylvia Schwaag Serger, "Negotiating CAP Reform in the EU - Agenda 2000" (2001).
[131] Arlindo Marques Cunha, "A Political Economy Analysis of the 1992, 1999 and 2003 CAP Reforms" (Ph.D., University of Reading, 2007), accessed April 28, 2016, http://ethos.bl.uk/OrderDetails.do?uin=uk.bl.ethos.486317.

Chapter 5 - 2003-Beyond: Rise of the Market

2003: Mid-Term Review

In the 2003 MTR, dairy quota reform was promoted by the United Kingdom, the Netherlands, and Sweden. In contrast, France and Germany led a majority of member states who preferred the continuation of the quota system[132]. The alliance of states united in a desire to continue with quotas secured a majority. If freed from the limits of the quota system, the UK, Sweden and the Netherlands would have taken a greater share of the dairy market in Europe, disadvantaging farmers in the pro-quota member states. On an individual level as much as a state one, there existed no direct relationship between quota ownership and efficiency. Since the quota system had been in place for 20 years, adaptation to it had gained in increasing returns. The negative effects of the quota system for land use are a common theme in literature critiquing the milk regime. Quota rights were transferred along with land in most member states, with exceptions such as Denmark, which held twice-yearly auctions[133]. The process has been termed 'quota theft', but this term is inexact and needlessly recriminatory as in fact, quota transfers with land were legal. The relative ease of transfer has been portrayed by some as contributing to the enlargement of a few farms in Europe at the cost of the disappearance of others[134]. Those defending the quota system can point to the fact that member states were responsible for their own regulation of quotas domestically. This freedom was increased in 1999 with the removal of the obligation to connect quota rights to land ownership. Undesirable aspects of the quota market can then be attributed to quirks of different member states, rather than the CAP scheme itself. Leasing of quotas was made legal in Germany, for example, which led to the creation of "sofa milkers" or "armchair farmers," a name for individuals who purchased and profited from quotas without owning a single cow[135]. The allocation of quota allowances per individual farmer also involves making

[132] Garzon, *Reforming the Common Agricultural Policy*. p. 107
[133] Burrell, "The 2003 CAP Reform."
[134] Boere et al., "The Dynamics of Dairy Land Use Change with Respect to the Milk Quota Regime."
[135] Barthelemy and David, *Production Rights in European Agriculture*.

decisions about whether the quotas will be sold or given for free, whether they will be transferrable, and the equity of the system for those beginning to farm.

Economic theory on production quotas is well-developed in both the abstract and the context of the EU milk quota system. The quota levels were set at amounts greater than would satisfy EU demands in a free market[136], which underlines the idea of the reasoning of the quota being to limit intervention buying rather than overall production. The body of theoretical analysis suggests that the use of quotas in agriculture will neutralize the incentive efficiency on the part of farmers[137], who will not benefit from increased efficiency unless they have the quota right to profitably sell it. Alongside these problems is the idea that the national quota system, and the special exemptions made to it, go against the single market for agriculture, a core value of the CAP. It is worth noting that the absence of quotas and the contemporary dairy regime would have combined to collapse the CAP budget, threatening its entire existence.

In most analyses, the single most important reform of the CAP ever was the implementation during the 2003 MTR of the Single Farm Payment, or SFP, which decoupled support from production. Those farmers who complied with environmental and safety regulations received payment in the cross-compliance scheme. The importance of this shift for the CAP's intellectual framework should not be underestimated. Basically, the idea that farmers should be supported and price distortions should remain in place was not contested. However, the change was more than mechanical or technical, encompassing some of the pushed-for market openness through several new measures. The decoupling from production was not completely dictated: member states could choose the extent and spread of decoupling[138]. The extensive initiative also reached into the realm of milk producers, enlarging the dairy quotas beyond previous limitations. Fischler's original proposal to the European Parliament listed a reduction in milk prices as a key aim. As an institution, the EU Commission experienced some changes during this period. Commissioner Fischler's policy entrepreneurship is credited with developing

136 Hill, *Understanding the Common Agricultural Policy*.
137 Dawson, "The Simple Analytics of Agricultural Production Quotas."
138 Hill, *Understanding the Common Agricultural Policy*. p. 36

as well as creating consensus to implement policy content[139]. Fischler described his position as an intermediate stance, modulating between two extremes: development NGOs calling for the abolition of the CAP and COPA advocating more support.

Similarly to what has been described in terms of the 1992 MacSharry reform debate, in the literature, two major forces driving this instance for CAP reform dominate. One is external pressure, specifically the need for the EU to align itself with its GATT commitments. The US and the Cairns Group, led by Australia, made demands for market liberalization for European agriculture. The CAP has been heavily criticized for having negative impacts on agriculture in the world's developing countries for two reasons: on the one hand, for blocking imports of agricultural products, and secondly, the export of subsidized products to the market which prevented the development of domestic industry. Milk was singled out to be accused of this second sin. A 2002 Oxfam report coined the term 'milk dumping' to describe the situation[140]. The report used information provided by international NGOs, detailing the experience of domestic producers in these areas, who were consistently being shut out of the market by cheap imports of skim milk powder from the EU[141]. Oxfam began vocal calls for the total abolition of the CAP[142], or at a minimum, significant and far-reaching reforms directed at curbing export practices. The other major force were the demands of the EU public around issues such as environmental sustainability, rural development and animal welfare, which had supplanted the traditional dominance of food production initiatives[143].

The title of a 2008 book edited by Johan Swinnen, *The Perfect Storm*, neatly expresses the general feeling among academic observers of the Fischler reforms describing the nature of the turning point. The factors creating the 'storm' were several: the contribution of the CAP's price distortion to the EU's undesirable position in trade negotiation, the significant drop in the number of people employed in agriculture since 1958, public demands around rural development and environmental protection not

[139] Nedergaard, "The 2003 Reform of the Common Agricultural Policy."
[140] Fowler, "Milking the CAP."
[141] Ibid.
[142] Kevin Watkins, "Spotlight on Subsidies: Cereal Injustice under the CAP in Britain," *Oxfam Policy and Practice: Agriculture, Food and Land* 4, no. 1 (January 1, 2004): 61–98.
[143] Moehler, "The Internal and External Forces Driving CAP Reforms."

provided for by the CAP structure, and the fact that agricultural support spending had reached levels where it was becoming increasingly difficult to justify[144]. The shift from price support measures, which raise prices for consumers, to transfer payments, which affect the tax base but reduce prices, was suggested by economists many years before it was adopted[145], causing frustration in the academic community[146]. The dependency of member states on the success of the WTO negotiations varied; but the EU had to comply with its pledges. Taken together, these factors created the necessary atmospheric pressure for departure from the course of policy. Although COPA and its member organizations lobbied for a price support policy and lower regulations, they were outmaneuvered by the stronger forces of multilateral trade pressure and wider public expectations of environmental stewardship.

2008: Health Check

The phrase ‘health check’ was first used by Commissioner for Agriculture Mariann Fischer Boel, and then adopted widely to describe the reform round of 2007. As the name suggests, the round was not intended to change the fundamental trajectory of the CAP, but to address minor policy problems. Nevertheless, it did extend the previous changes asserted in the 2003 Mid-Term Review, spreading the reform principles to the wine, fruits and vegetables, cotton, tobacco, hops and olive oil markets[147]. In the realm of the dairy sector, the Health Check marks the moment in which abolition of the quota system took place. As a departure from the historical path, this policy alteration showed the CAP’s ability to change course. There was no single dramatic event which caused the shift; rather, the quota system had gradually outlived its usefulness. With the removal of production limitations, the dairy sector caught up to market orientation. The complex mechanisms designed to modulate quota abolition illustrate the difficulty of ending historical policy structures.

[144] Swinnen and Centre for European Policy Studies, *The Perfect Storm*.
[145] Nedergaard, “The 2003 Reform of the Common Agricultural Policy.”
[146] Hagedorn, “Public Choice and Agricultural Policy.”
[147] Cunha and Swinbank, *An inside View of the CAP Reform Process*. p.189

The change was not stark, but took the form of a phasing out, with a 1% increase in quotas over five years as part of a soft landing[148]. The idea was to acclimate producers and markets to the change, with the hope that the warning and the continuing gradual rate of increase would provide stability. The opposition to quota abolition from the dairy sector was intense, as a kind of 'last stand' took place for those in support of the existing quota system. Those in possession of quota rights had paid high prices to buy them, along with land, from their former owners. As COPA reminded policymakers in the run-up to the Health Check, in many cases the quota holdings served as security for farmers' bank loans[149], and in fact had played a number of financial roles outside their original conception. A dedicated special organization, the Milk Market Observatory, was enacted with the stated aim of helping farmers recognize market signals[150]. By and large, the farming lobby was hostile to the change, even modulated as it was by the "soft landing" scheme and other initiatives.

Statistical modeling exercises on milk production in the quota abolition scenario varied somewhat. Seeking to find an empirical basis for the discussion, econometric studies of quota abolition showed large price decreases, a moderate rise in production, and steep drops in sectoral gross margin[151]. A frequently cited study by Kempen et al. found an average increase of 4.4% in EU member states likely[152], while an earlier article using other models and quota rent definitions set the increase in production at 3%, with a correspondingly lower increase in price[153]. Importantly, the price support structure that had encouraged production was replaced with small amounts of intervention buying at

[148] European Union Regulation 1308/2013, Annex XVI
[149] COPA-COGECA, "First Views on the Future of the European Dairy Sector" (COPA, September 2007), www.copa-cogeca.be/Download.ashx?ID=668145.
[150] European Commission, "European Commission - Press Release - FAQ End of Milk Quotas, MEMO/15/4697," last modified October 22, 2015, accessed April 28, 2016, http://europa.eu/rapid/press-release_MEMO-15-4697_en.htm.
[151] Bouamra-Mechemache et al., "Partial Market Liberalization and the Efficiency of Policy Reform."
[152] Markus Kempen et al., "Economic and Environmental Impacts of Milk Quota Reform in Europe," *Journal of Policy Modeling* 33, no. 1, Special Issue: Impact assessment of agri-food policies in Europe:Methods, tools and applications (January 2011): 29–52.
[153] Heinz Peter Witzke and Axel Tonini, "Milk Quota Expiry Impacts and Sensitivity Analyses Using the CAPSIM Model," *German Journal of Agricultural Economics* 58, no. 5/6 (2009), accessed May 13, 2016, https://ideas.repec.org/a/ags/gjagec/134876.html.

low price levels. Price support had become an emergency back-up plan, rather than the backbone of prices and farming income. An additional factor was that 30 years of the quota regime had reduced the number of dairy farms and livestock significantly, alongside a general decrease in farming activity. Since 2010, only about 3 member states per year exceeded their dairy quotas, triggering superlevies: a significant number experienced noticeable shortfalls in production, producing as low as two-thirds of their allocated amounts[154]. It was clear that the "butter mountains" and "lakes of milk" of the 1970s were not going to return. The conditions in the 1970s which triggered the overproduction no longer existed, but the policy persisted nonetheless.

Change from existing patterns does not automatically exclude path dependency conceptualizations; the term is not restricted to total fossilization, embracing critical junctures and turning points in policy change. The exact circumstances which constituted the turning point necessary to change the existing policy situation are not immediately clear. Several gradual processes emerge as likely sources of influence. The most obvious factor is the perennial topic of individual member state dissatisfaction with the quota limitations, fueled by objections from national farmers' organizations.

In 2009, the dairy market experienced a steep price drop, and intervention buying took place. One of the biggest causes was the Russian ban on imports, Russia being by far the largest market for EU dairy export. CAP traditionalists used the episode as reasoning that a 'strong,' interventionist CAP was relevant, even necessary. Others decried the use of the intervention mechanism and considered that such large external shocks were extraordinary, rare occurrences, so that raising the maximum levels of intervention stocks was not the appropriate response. In addition to the issue with the Russian ban, income from dairy farming had begun on a decline beginning in 2007 due to high grain prices driving feed costs[155]. The price sensitivity of farmers' income was used

[154] European Commission, "Evolution of the Market Situation and the Consequent Conditions for Smoothly Phasing out the Milk Quota System" (European Commission, August 12, 2010), accessed May 10, 2016, http://ec.europa.eu/agriculture/milk/quota-report/com-2010-727_en.pdf; European Commission, "European Commission - Press Release - FAQ End of Milk Quotas, MEMO/15/4697."
[155] Giovanni Anania, *The Political Economy of the 2014-2020 Common Agricultural Policy: An Imperfect Storm*, ed. Johan F. M. Swinnen (Brüssel: Centre for European policy studies (CEPS), 2015). p.469

by some as a justification for CAP market intervention. Others interpreted events as a welcome sign that market exposure was working to lower prices.

2013: Ciolos Reform

Analyses of the 2013 reform round, sometimes termed the Ciolos reform, stress an unprecedented institutional structure. Pursuant to the Lisbon Treaty, a complex co-decision process was followed, with the Commission making a proposal and then facilitating its acceptance by the Council and the European Parliament[156]. This change necessarily limited the power and influence of COMAGRI, a group whose members' strong and universal agricultural ties had drawn criticism from those pushing for a diversity of background and opinion. The reform round taking place under Commissioner Ciolos is generally thought of as a modest instance of change, not radical or far-reaching. The reforms proposed by the Commission were fairly conservative, a circumstance attributed to both the newness and the high threshold of agreement of the co-decision process[157]. In addition, they continued the precedent set in giving member states the choice of models to continue newly decoupled funding, and left wide room for member states to select among voluntary policy tools to implement. The flexibility among the 28 different member states led to a divergent set of national policies under the supranational CAP. Much of the work set out in the previous reforms had been credibly accomplished. with the EU moving from an exporter to an importer of major products targeted by critics and promoting policy aimed at environmental protection, rural development, and other social concerns[158]. WTO and external trade pressures were not frequently mentioned in discussion, but at the same time the EU held to its existing commitments. Bureaucratic issues and environmentally targeted payments took up most of the policy discussion[159].

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[156] Ibid. p.39

[157] Patricia Garcia-Duran Huet and Montserrat Millet, "The Determinants of CAP Reform: Learning from the European Financial Crisis and CAP 2013" (2014), accessed May 15, 2016, http://diposit.ub.edu/dspace/handle/2445/57174.

[158] Zahrnt, "A Guide to CAP Reform Politics."

[159] European Voice, "Ciolos's Reform Plans Attract Criticism," *POLITICO*, last modified October 19, 2011, accessed May 13, 2016, http://www.politico.eu/article/cioloss-reform-plans-attract-criticism/.

The fundamental issue at stake was setting the EU budget and CAP spending, with concerns about public goods close behind. As expected by most, the new dairy policy included an intervention program for public buying and private storage aid for butter and skimmed milk powder. The modest maximum purchasable amounts and the very low price levels involved made it clear that the purpose intended was to provide a floor in the market in times of crisis[160]. The recent experience of using this mechanism during the 2008-2009 price drop was used by the agriculture lobby was able to successfully claim that it was not possible to do away with it, for fear of abandoning the incomes of EU farmers to market caprice. As Commissoner Ciolos expressed it in his speech to the Oxford Farming Commission[161], "The dairy crisis showed that we need tools to fight market volatility; we need tools to avoid the collapse of entire sectors." For this reason the risk management toolkit remained unchanged. The constraining feature of path dependency[162] emerges as evident in this scheme, as the existence of the risk management toolkit created the conditions which justified its continuance.

The milk package passed gave dairy farmers a non-financial entitlement that other farmers did not have. Dairy producer organizations received the ability to negotiate written contracts with collectors and processors which included prices[163]. Much of the impetus for this change came from the agriculture lobby, as COPA and its members pointed towards a poor distribution of profit margins in the dairy industry[164], implicitly linked to the administration of the milk quotas under dairies. This provision allowed policymakers to address the concerns of the agricultural lobby on farmers' incomes without allocating funds from the CAP budget. It is also a recognition of the high levels

160 Bureau et al., "The Common Agricultural Policy after 2013."
161 Dacian Ciolos, "The CAP beyond 2013 - Challenges and Opportunities for European Agriculture" (Oxford Farming Conference, January 6, 2011), http://www.ofc.org.uk/files/ofc/papers/ciolos.pdf.
162 Kay, Adrian, "Policy Trajectories and Legacies: Path Dependency Revisited."
163 Johan Swinnen, Jean-Christophe Bureau, and Louis-Pascal Mahé, eds., "Was the CAP Reform A Success?," in *The Political Economy of the 2014-2020 Common Agricultural Policy: An Imperfect Storm* (Centre for European policy studies (CEPS), 2015), 87–135, accessed May 14, 2016, http://search.ebscohost.com/login.aspx?direct=true&scope=site&db=nlebk&db=nlabk&AN=1052703.
164 COPA-COGECA, "First Views on the Future of the European Dairy Sector."

of competition faced by dairy farmers. Part of the idea is to encourage producers to concentrate on creating high-profit items such as cheese and yogurt, not low-profit and intervention-eligible milk and butter[165].

Vocal opposition to the CAP persistently referred to the move from production assistance to direct aid payments as a kind of old wine in new bottles[166], instead of a truly radical paradigm change. This charge comes from the idea that the old model of dependent agriculture is still very much in play: farmers are still subsidized and agriculture is still an inherently different sector from the rest of the economy, given exceptional treatment and political structures. The 'new bottle,' then, is the change in EU policy jargon: from the undefined, interpretable "multifunctionality" to quantifiable, deliverable "public goods." Some support for this viewpoint comes from the observation that intervention systems remain in place for butter and skimmed milk powder, as well as bread wheat.

Dairy producers have embraced the end of the quota system in many cases, making confident and ambitious predictions. In the *Financial Times*, one Irish producer expressed the desire to outpace New Zealand as his country set a goal of increasing milk production by half[167]; the Netherlands remains Europe's largest exporter of dairy. Generally, the expectation is that high-cost, traditional small family farms will find it difficult to continue, contracting while low-cost, factory-style operations expand[168]. To succeed in its ambitious goal, Ireland's dairy sector, like others, would have to take full advantage of CAP initiatives promoting startup farms as well as undergo a regional restructuring[169]. All available signs point to further adjustments in line for the dairy sector in the brave new world without quotas.

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[165] Jamie Gray, "Dairy Farming: It'll Be Survival of the Fittest," *New Zealand Herald*, March 12, 2016, sec. Business, accessed May 4, 2016, http://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=11604153.
[166] Alons and Zwaan, "New Wine in Different Bottles."
[167] Boland, "Irish Dairy Farmers Celebrate End of EU Milk Quotas."
[168] Eva Voneki, Daniel Mandi-Nagy, and Andras Stark, "Prospects for the European Union and Hungarian Dairy Sectors after the Abolition of the Milk Quota System," *Studies in Agricultural Economics* 117, no. 1 (2015): 1–9.
[169] Doris Läpple and Thia Hennessy, "The Capacity to Expand Milk Production in Ireland Following the Removal of Milk Quotas," *Irish Journal of Agricultural and Food Research* 51, no. 1 (2012): 1–11.

Conclusion: Lessons from the policy process

There is no one simple explanation which can encompass the actors, interests, and ideas of CAP reform, or make a linear narrative of a complex process "woven in the day and unraveled at night," in the words of Secondo Tarditi[170]. For the many people agitating for reform, the fact that the CAP is today recognizable as it was originally developed fifty years ago demands explanation. The theories of CAP reform which have emerged to explain this are varied, dependent on the actors, interests, and time frame under analysis. As theoretical categorizations , path dependency and process sequencing concentrate analytical focus on barriers to change, streamlining within the conceptual framework institutional factors and the influences of lobbyists, public opinion, and external tensions. This thesis set out to match the perspectives of path dependency and process sequencing to reform in one sector, contributing to existing understanding of policy inertia in the European agricultural context. Neither path dependency or process sequencing completely contain the narrative of CAP reform, although process sequencing comes closer; history matters in the CAP, but it does not matter more than everything else.

Path dependency has been extensively explored and investigated in the context of research on institutions. However, applications to policy have been limited, especially for economic policymaking. The strong resemblance of the contemporary CAP to its historic origins make it a logical fit for path dependency. The concept's usefulness in explaining why inefficiency persists has not been fully exploited[171], which the case study made in this thesis seeks to address. The first major reform of the CAP, milk quotas, was an answer to a problem posed by the CAP, overproduction caused by a price policy. The quota regime was immediately successful in reducing the "butter mountains" which had

[170] Tarditi, "CAP Pseudo-Reforms." p.241

[171] Carsten Daugbjerg and Alan Swinbank, "An Introduction to the 'new' Politics of Agriculture and Food," *Policy and Society* 31, no. 4, Policy analysis and the new politics of food and agriculture (November 2012): 259–270.

drawn such practical and financial criticism[172]. This points to a process sequencing outlook, in which the quotas represent a solution to a policy problem built on existing policy structures. As this text has detailed, the quota system endured for thirty years, with various increases and modifications as it became a pawn in interstate CAP reform bargaining rounds. The quota discouraged young dairy farmers, and established farmers' incentives to maintain the quota administration increased[173]. With the passage of time, the quota became more and more flexible, with increases tailored to specific member state situations, and instances of overproduction triggering levies decreased[174]. The change was incremental, and serious questions persisted as to whether the heavy dairy regime was optimal, as the pressures of enlargement, external trade commitments, and social change caused widespread policy change in the rest of the CAP. Justifications for the quota regime rested more and more heavily on historical continuity.

There is no accepted universal acid test which can determine whether a policy is path dependent[175], or the degree to which it owes its longevity to resistance to change rather than its own merits. To test the claim of a policy being path dependent is to seek out a way to justify a practice if it did not already exist. In other words, to claim that the system was legitimated by something other than inertia, it would have to be established that there were solid reasons to uphold the quota, regardless of its traditional or historical role. In a sense, the removal of milk quotas made a natural experiment of this kind. The immediate effect of quota abolition involved a rapid and steep fall in farmgate milk prices, causing an inevitable fall in farmers' income, still sensitive to price levels after years of increasing direct support. Although external factors could have been as influential on the price drop as quota abolition, milk producers lobbied both their national governments and EU policymakers[176], calling on them for the kind of far-reaching market intervention that they had recently opposed. The price drop was not an intended

[172] R. Jongeneel et al., "European Dairy Policy in the Years to Come; Quota Abolition and Competitiveness.," *Rapport - Landbouw-Economisch Instituut*, no. 2010–017 (2010): 56 pp.
[173] Burrell, "The 2003 CAP Reform."
[174] Ibid.
[175] Kay, Adrian, "Policy Trajectories and Legacies: Path Dependency Revisited." p.463
[176] Ruddick, "Farmers Clash with Police in Brussels during Milk and Meat Prices Protest."

effect of the new milk package: in fact, the soft landing of gradual quota increases was designed to prevent any such event. Traditionally, literature on the economic theory of agriculture dictates that it takes a severe price drop in order to reduce productivity: due to high fixed costs, farmers will keep on making more product for longer in the context of low prices, compared with other sectors of the economy[177]. This was the case in 2008 when the milk quotas were in force, even as prices dipped low enough to trigger EU intervention programs[178]. The 2012 milk package provided for an intervention buying program for skimmed milk powder and butter[179], albeit in small quantities at a low price level with emergency situations in mind.

After the current arrangements end in 2020, there are strong reasons to believe the CAP will persist in its turn toward the market, although probably not as starkly as some free-trade advocates would prefer. Although some EU member states have made explicit goals of becoming major players in exports, they face competition from long-established major producers[180], new players such as India's burgeoning dairy industry seeking outside market access[181], as well as stagnant demand at home[182]. Matching internal butter and milk prices to global levels would be a drop for EU producers, a major reason why the EU's WTO commitment to eliminate export subsidies is not predicted to be fulfilled in the immediate future. Outside of the world of agriculture, the stresses of wider economic and political tremors affect budgetary and CAP decisions.

[177] Cameron G. Thies, "The Declining Exceptionalism of Agriculture: Identifying the Domestic Politics and Foreign Policy of Agricultural Trade Protectionism," *Review of International Political Economy* 22, no. 2 (March 4, 2015): 339–359; Evans, Morris, and Winter, "Conceptualizing Agriculture."
[178] European Commission, "European Commission - Press Release - FAQ End of Milk Quotas, MEMO/15/4697."
[179] Ibid.
[180] Bouamra-Mechemache et al., "Partial Market Liberalization and the Efficiency of Policy Reform."
[181] Manitra Rakotoarisoa and Ashok Gulati, "Competitiveness and Trade Potential of India's Dairy Industry," *Food Policy* 31, no. 3, Evolving Dairy Markets in Asia: Demand Growth, Supply Adjustments and Policy (June 2006): 216–227.
[182] Zohra Bouamra-Mechemache et al., "Demand for Dairy Products in the EU," *Food Policy* 33, no. 6, Food Product Composition, Consumer Health, and Public Policy (December 2008): 644–656.

The main factors driving reform in this case study have not lost their relevance to the EU. In particular, the need to make spending efficient and targeted has increased under the pressures of enlargement and items being added to the agenda. Stress to the EU's budget and resources must invariably turn attention to agriculture, which takes up such a large portion of available reserves. Financial resources in the CAP must justify their use with explicit linkage to environmental and development objectives. The argument, therefore, is not whether this linkage will take place but the form it will take[183]. The scarcity of funds for other European Union policies cannot be separated from the reserves taken up by the CAP; for this reason, CAP reform remains a pertinent subject in European political economy.

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