PN-ABD-803

INTERNATIONAL
FOOD
POLICY
RESEARCH
INSTITUTE

ECOLE
NATIONALE
SUPERIEURE DES
SCIENCES
AGRONOMIQUES
APPLIQUEES

# PRESSURES ON EUROPE'S COMMON AGRICULTURAL POLICY

MICHEL PETIT

# INTERNATIONAL FOOD POLICY RESEARCH INSTITUTE


## Board of Trustees

Dick de Zeeuw
Chairman, Netherlands

Harris Mutio Mule
Vice Chairman, Kenya

Yahia Bakour
Syria

Claude Cheysson
France

Anna Ferro-Luzzi
Italy

Yujiro Hayami
Japan

Gerald K. Helleiner
Canada

Roberto R. Junguito
Colombia

Dharma Kumar
India

James R. McWilliam
Australia

Theodore W. Schultz
U.S.A.

Leopoldo Solís
Mexico

M. Syeduzzaman
Bangladesh

Charles Valy Tuho
Côte d'Ivoire

John W. Mellor, Director
Ex Officio, U.S.A.

# PRESSURES ON EUROPE'S COMMON AGRICULTURAL POLICY

MICHEL PETIT

INTERNATIONAL FOOD POLICY RESEARCH INSTITUTE
1776 MASSACHUSETTS AVENUE, N.W.
WASHINGTON, D.C. 20036-1998 U.S.A.

ECOLE NATIONALE SUPERIEURE DES SCIENCES
AGRONOMIQUES APPLIQUEES
BOULEVARD PETITJEAN
21000 DIJON, FRANCE

OCTOBER 1989

ISBN 0-89629-312-2

# Contents

Foreword . . . . . v

Acronyms Used in this Report . . . . . vii

1. Introduction . . . . . 1

2. The 1985 Price Package . . . . . 10

3. Elaboration of the French Position in the 1986 Reform of the Cereal Policy Regime . . . . . 19

4. Pressures on French Wine and Spirit Exports to the United States . . . . . 27

5. Conclusions . . . . . 36

References . . . . . 38

# Tables and Illustrations

Table 1—Summary of member countries' reactions to the Commission proposals, as expressed on March 11 and 12, 1985 . . . . . 14

Figure 1—Schematic presentation of a recursive model of policymaking . . . . . 7

Figure 2—Production and domestic use of cereals (excluding durum wheat) in the 10-country European Community, 1973/74-1985/86, and projections to 1990/91 . . . . 12

Figure 3—Evolution of total wine consumption in the United States . . . . . 28

Figure 4—Evolution of wine consumption by type of wine in the United States . . . . . 29

# Foreword

It has become clear to students of the European Community's Common Agricultural Policy that this policy, at least as it exists today, cannot be sustained. The pressures for change are tremendous, affected not only from within, through debates on public spending issues, but also from without, through the momentum gradually but inexorably building in the Uruguay Round of the GATT (General Agreement on Tariffs and Trade).

The International Food Policy Research Institute has maintained an interest in and commitment to thorough analyses of developed-country policies in the belief that these policies have a tremendous impact on developing-country food security. Through world market prices, every change in developed-country policy has an effect on production and consumption, and therefore directly on trade, in developing countries. In attempting to better understand how this occurs, IFPRI research in the past has examined the specific case of how world wheat prices and supplies are affected by developed-country policy, measurement of the costs of OECD protection to developing countries, the implications of European grain policy to these countries, and the determinants of agricultural policies in the United States and the European Community.

What gives this research work particular cogency is the premise underlying the primary objective. That is, that economic policies are not formed in a vacuum, but rather through a process of integrating and compromising a complex array of influences and interactions. Michel Petit has become an expert in public choice theory as it applies to European agricultural policy and offers us a unique and fascinating look at who the policy actors are, what motivates them, what are their stakes, and what are the boundaries of negotiation among the actors.

The three case studies themselves are used primarily as a means of illustrating and expanding on the concepts and hypotheses presented in the early part of the paper. But the importance of these examples lies in their significance to our understanding of the current agricultural policy drama. In articulating and clarifying this essential policymaking process, the author is giving us not only a method by which we can scrutinize policies in the future, but also examples that show this method to be a fruitful and thorough one. The question of how far these methods may be extended remains, but there should be no question that this paper is an excellent beginning.

John W. Mellor

Washington, D.C.
October 1989

# Acknowledgments

The material and financial help of Ecole Nationale Supérieure des Sciences Agronomiques Appliquées (Dijon), International Food Policy Research Institute, and U.S. Department of Agriculture must first be acknowledged.

As usual in any research work, the author owes a great debt of gratitude to others for bringing his effort to the final stage of publication. In addition to numerous intellectual debts, acknowledged to a large extent in the bibliographical references, the author wishes to recognize the contributions and encouragement of colleagues working for the administrations of the United States, France, and the European Community: particularly Reed Friend and Mark Newman, as well as André Grammont, Ralph Ichter, Bruno Julien, and Anne Parquet. In addition, Ulrich Koester, Wayne Moyer, and George E. Rossmiller, who read a preliminary version of the manuscript, provided useful comments.

A special debt is owed to the author's two students, Catherine Charpentier and Françoise Jarrige, who collected most of the material for the two case studies, and, more importantly, provided encouragement through their questions and their enthusiasm.

Finally, Denise Cid, Mauricette Méot, Fleurdeliza Canlas, and Hilda Villanasco were the author's patient and untiring secretaries while this research was done.

# Acronyms Used in this Report

| | |
|---|---|
| AGPB | Association Générale des Producteurs de Blé |
| AGPM | Association Générale des Producteurs de Mas |
| APCA | Association Permanente des Chambres d'Agriculture |
| ASA | American Soybean Association |
| BNIC | Bureau National de l'Interprofession de Cognac |
| CAP | Common Agricultural Policy |
| CDU | Christian Democratic Party |
| CNJA | Centre Nationale des Jeunes Agriculteurs |
| COPA | European Committee of Farm Organizations |
| CSU | Christian Socialist Union |
| DBV | Deutsche Bauernverband |
| DIAA | Direction des Industries Agro-alimentaires |
| DPE | Direction de la Production et des Echanges |
| DREE | Direction des Relations Economiques Extérieures |
| EC | European Community |
| ECU | European Currency Unit |
| EMS | European Monetary System |
| FEOGA | European Agricultural Fund |
| FEVS | Fédération des Exportateurs de Vins et Spiritueux |
| FFCAC | Fédération Française des Coopératives d'Approvisionnement et de Céréales |
| FNSEA | Fédération Nationale des Syndicats d'Exploitants Agricoles |
| GATT | General Agreement on Tariffs and Trade |
| GGAFFT | Grape Growers Alliance for Fair Trade |
| ITC | International Trade Commission |
| LTEF | Long-term Economic Forces |
| MCA | Monetary Compensatory Amount |
| NABI | National Association of Beverage Importers |
| NFU | National Farmers Union |
| OCM | Organisation Commune de Marché |
| ONIC | Office National Interprofessionnel des Céréales |
| SCA | Special Committee on Agriculture |
| SGCI | Secrétariat Général de Coordination Interministérielle |
| SNIA | Syndicat National des Industries Agro-alimentaires |
| UNCAC | Union Nationale des Coopératives d'Approvisionnement et de Céréales |

# 1

# Introduction

## RESEARCH OBJECTIVES

Agricultural policies in most developed countries are under great strain, for both domestic and international reasons. This is particularly true in the European Community (EC) where the Common Agricultural Policy (CAP) is at the center of the policy debate, as indicated by the emphasis placed on agriculture in recent European summits of heads of states or governments. For instance, the failure of the Copenhagen summit in December 1987 was largely due to the inability of the participants to compromise on reform of the CAP. The same problem previously caused the failure of the Athens (December 1983) and Brussels (March 1984) summits. It is clear that the CAP, as it exists today, cannot be sustained. The pressures exerted on it are probably overwhelming, as illustrated by the decision taken at the Brussels summit in February 1988 to put a ceiling on growth of the CAP budget. Thus, it is important to identify these pressures and to investigate their origins and the modalities of their influences and interactions if one wants to understand the evolution of the CAP. Such is the first objective of this research.

Understanding how a given policy changes requires an interpretation of the determinants of that policy. In short, one must know "why governments do what they do." This is precisely the question raised by "public choice" theory or more generally by the "new political economy" (Colander 1984).

For several years, the author has been engaged in a research program designed to understand better the determinants of agricultural policies in the European Community and in the United States,[1] which is the first and more general goal of the research reported here. An approach largely inspired by the theoretical literature in political economy has been developed. It relies on concepts and hypotheses relating to the existence of policy actors, to their individual actions and strategies, to their interaction through the political process, and to the long-term influences of economic forces in shaping that process. The second objective of this report is to test these concepts and hypotheses and to assess the validity of the overall approach.

After these concepts, hypotheses, and methods are presented, the results of three case studies are discussed. These include, first, a description of the political activities behind the 1985 EC price package; second, a deeper analysis of the interaction at the national level that led to the reform of the EC cereal policy regime in 1986, with particular emphasis on the roles of various French actors; and, third, identification and discussion of the political pressures regarding French exports of wines and spirits to the United States. The choice of studies is justified on two grounds: first, domestic agricultural policies of various nations and blocks, such as the European Community, are more and more interrelated; external influences play a growing role in the determinants of agricultural policies. Since the general objective of this research is to analyze the determinants of agricultural policies, it seems legitimate to investigate, in one case study, the play of such external pressures. Second, the approach developed for this research emphasizes the role of conflicting economic interests in the interaction among policy actors and the regulation of these conflicts through the political process. Clearly, such phenomena are important features of trade discussions and negotiations among countries. Thus an exploration of the validity of the general approach for the analysis of international trade issues could prove interesting.

## CONCEPTS AND HYPOTHESES

In borrowing from the literature on the new political economy, it is assumed here that economic policies are not designed to achieve some social optimum. Instead, they are viewed as the result of diverse forces and pressures interacting within a political process. These pressures and forces are exerted or reflected by the actions of policy actors. These are either individuals pursuing somewhat narrow, private interests, often of an economic nature,

[1] See in particular Petit (1985) and Petit et al. (1987).

or government agencies fulfilling their specific role within the set of public authorities that make up the government. Because of their bureaucratic nature, these government agencies have a degree of autonomy even though coordination procedures among them are numerous and more are constantly being developed. After a review of the literature on the new political economy, hypotheses on the individual behavior of these actors will be suggested. It will then be possible to explore the general interaction process among policy actors usually involved in agricultural policy debates. Finally, specific hypotheses on this interaction will be presented for the particular case of the EC agricultural policymaking process.

## The New Political Economy

Even if more and more analysts accept the view expressed by Bates (1983) that "Policies [are] the outcome of political pressures exerted by members of the domestic economy, i.e. by local groups seeking the satisfaction of their private interests from political action," there is not yet a well-established theory of policymaking, or even of the economic determinants of policies.[2] What is available is a set of approaches, concepts, and hypotheses. Even though these ideas have not been articulated in a comprehensive theoretical framework, they constitute a useful starting point. The most important elements of this set for the purposes of this study are briefly reviewed here.

Stigler's "theory of regulation" is based on the idea that even though the social legitimacy of a regulation may be the protection of the public, actually "as a rule, regulation is acquired by the industry and is designed and operated primarily for its benefits" (Stigler 1970). For instance, guaranteeing to the public the competence of medical doctors legitimates the control of entry into the medical profession, and this, as a result, ensures that medical doctors can collect a monopoly rent through the fees they charge. The thrust of this interpretation is appealing as an explanation of the general orientation of agricultural policies in developed countries, where they protect farmers from the free play of market forces and generally benefit them at the expense of consumers.

According to Stigler, building on Downs' earlier work (Downs 1957), the explanation for this phenomenon is to be found in the information cost involved and the time needed for individuals to organize themselves in order to express a preference and put effective pressure on public officials. Generally speaking, the stakes involved in agricultural policy debates are high enough for farmers that it is worthwhile for them to gather the necessary information and to get organized. But this is not so for consumers. Hence farm organizations are active participants in agricultural policy debates, whereas consumer groups usually are not.

Attempts to incorporate Stigler's ideas into formal models of public decisionmaking are interesting (see, for example, Peltzman 1976), but they suffer from a serious limitation: they are based on simplified assumptions regarding the interaction process among actors in public institutions, and these assumptions are specific to the U.S. institutional system.

The theory of rent-seeking, as developed first by Krueger (1974) and then by Buchanan, Tollison, and Tullock (1980) and others, can be viewed as a development of Stigler's theory. It is more general, however, because it explains a common behavior of economic agents in their relationships with public authorities, independent of any specific political system. Rent-seeking is defined as a social phenomenon: it is the allocation of resources by individuals or interest groups in order to secure the collection of an institutional rent, that is, a rent created by a public regulation. At the microeconomic level, rent-seeking cannot be distinguished from profit-maximizing. But the phenomenon takes on more significance at the macroeconomic level, inasmuch as the resources used in rent-seeking activities are wasted for society. They do not contribute anything to the social product (to the gross national product, for instance). Numerous examples of such activities are available: taxicab licensing by municipal authorities, the selection of civil servants through meaningless competitive examinations in ancient China, the sale of officers' commissions in Britain or of various privileges and monopoly rights by French kings, and the distribution of import licensing in many countries, to mention just a few.

The main thrust of the theory is that important amounts of resources are wasted. This concept of social waste may be illustrated by the somewhat extreme example of theft suggested by Buchanan, Tollison, and Tullock (1980). Stealing itself cannot be interpreted as a social loss. In economic terms it is a simple transfer from the legal owner to the thief. But the resources employed by the thieves to ply their trade (at least their time and equipment), as well as the resources devoted to secure protection from theft (police, the judicial system, locks, alarm systems, and so forth) are social losses. In the same fashion, rent-seeking activities use resources that could be productive for society; the forgone production is a social loss.

---

2 This section is a revised version of a discussion in Petit et al. (1987).

The main lesson to be drawn from the theories of regulation and of rent-seeking for the purpose of this research is the widespread behavior of economic agents attempting to collect institutional rents—putting pressure on public officials in order to derive some benefit from the public policies that affect them. Hence political pressures are exerted in order to protect or to enhance economic interests.

In most cases, particularly in the field of agricultural policy, economic interests are expressed through groups. Individual agents such as farmers would not be powerful enough to exert significant influence. It is in this context that Olson's theory of collective action (Olson 1965) becomes particularly significant. His main contribution is the treatment of the "free rider" problem. He has shown that the existence of a common objective is a necessary but not sufficient condition for collective action to be possible. Individuals sharing the common objective will derive a benefit from the collective action even if they do not pay for it. If they can, they will avoid paying, as does a free rider on public transport if he can escape detection. A major aspect therefore of collective organization behavior is the invention of schemes designed to minimize the free-rider problem. Such is the case of associations selling mutual insurance services. If the individual wants to insure himself, he has to pay an insurance premium; at the same time, the association can collect a membership fee. Olson illustrates this widespread phenomenon with various examples, including a detailed story of the American Farm Bureau Federation, the most important general-purpose U.S. farm organization.

Clearly, these contributions by economists are useful because of the insights and the concepts that they provide. A limit must be recognized, however. In their discussion of economic policies, these authors emphasize their social costs. This is particularly evident in Olson's more recent and ambitious book on the rise and decline of nations, where he views the growing weight of private interest groups on public decisionmaking as choking public interest and, therefore, as a major cause of decadence (Olson 1982). A similar belief is probably a cornerstone of the free-market ideology, which led to the wave of deregulation in the early 1980s. But, as expressed by Salmon (1985), "endogenizing the state as do most economists working in the framework of a neoclassical political economy is, to a large extent, contradictory with the type of normative analyses or conclusions which many authors continue to formulate."

The purpose here is of course not to evaluate a doctrine or the policies that were inspired by it, but to search for concepts and hypotheses in order to gain an understanding of why policies are what they are. From this perspective, much can be gained from Allison's work. In his study of the Cuban missile crisis (Allison 1971), he shows that different models of public decisionmaking provide complementary insights into that process. Allison's first model, which he calls "the rational actor," is essentially based on economic literature. When it is applied to public policy, the government is assumed to be a rational actor, that is, to make "consistent, value-maximizing choices within specified constraints." Allison shows that such a model, often used in political science analyses of international relations, provides useful interpretations of the behavior of both the United States and the Soviet Union during the Cuban missile crisis.

In the second model (labeled the "organizational" model), the government is not a unitary actor but a constellation of organizations among which tasks and responsibilities are distributed. Each has its own priorities, defining goals for itself that it can pursue within a set of constraints. These constraints result not only from the goals of other organizations but also from internal considerations. Each organization is typically made up of many individuals and subgroups; in order to coordinate the activities of a large number of people, the organization can act only according to "standard operational procedures enabling it to perform specific programs."

In the third model, called the "bureaucratic" model, emphasis is placed on conflicts and power relationships within a bureaucracy. Actions of governments are viewed as "political resultants." According to Allison (1971), "What happens is not chosen as a solution to a problem, but results from compromises, conflicts, and confusion of officials with diverse interests and unequal influence."

Both the second and third models of Allison can be extended to incorporate the play of economic agents in the policymaking process. These models have the great advantage of stressing the dynamic nature of the process leading to and therefore determining public decisions. This dynamic feature is obviously critical. To recognize this is to identify a limitation of the rational actor paradigm. It is essentially of a static nature. The same limitation applies to the theories of regulation, rent-seeking, and collective action, which were presented earlier, at least as they have been used by their original creators in their interpretation of public policies.

## Identification and Individual Behavior of Policy Actors

Viewing policies as the "results" of interactions among policy actors requires one to identify policy actors and to interpret their individual behavior before discussing their interactions. Many individuals are involved in any policy debate. One could con-

ceivably view the outcome of any debate as the result of an interaction among all these individuals. For the sake of clarification, and at the cost of some simplification, it is probably preferable to identify collective actors and to study the interactions among them. A collective actor, then, is a group of individuals whose actions are coordinated because they belong to the same organization, that is, their role is to contribute in a prespecified manner to the objectives pursued by the organization to which they belong This leads to two consequences of importance here: first, policy actors will be identified by the objectives that they pursue. Second, the decomposition of an organization into several policy actors is always conceptually feasible; whether it should be done and how far it should be pushed will depend on the specific purpose of the analysis being conducted.

To identify policy actors by their objectives leads one to an investigation of why these objectives are what they are. The adaptive behavior paradigm (Day 1976; Petit 1981) is useful in this respect. It suggests that objectives are closely interrelated with the actor's situation, that is, with his constraints and action possibilities. For an organization, many of these constraints can be subsumed under the heading of its institutional setting: How was it established? To do what? With what resources? Under which procedure? For the answer to these questions, lessons can be derived from organization sociology, as illustrated by Allison's organizational model. Similarly, insights can be gained from such analyses concerning the role and limited margins of maneuver of an organization's leaders. Each has a role in deciding what his organization should do and, more importantly, in implementing the strategy decided by the governing body of the organization. The leader acts also as a spokesman for his organization. Although leaders have influence, one should not forget that their margin of maneuver is limited, and this facilitates the task of the outside analyst.

The behavior of an organization is usually quite predictable. As explained by Allison, an organization can only perform specific tasks according to standard procedures. And a leader usually cannot do whatever he pleases, without running the risk of losing his position as leader. For instance, the leader of a farm organization is obliged to address the effects of a possible policy change on farmers' incomes. Similarly, in most countries, the first role of any minister of agriculture is to maximize the political support (or to minimize the opposition) of farmers to the government to which the minister belongs. In some countries, a minister of agriculture can entertain high political ambitions for a future career, whereas in others this position is the highest political office that can be hoped for, but in all cases performing the main political task identified above is critical. The situation dictates the objectives that the minister pursues in the policy process. The same is true for other policy actors.

Numerous examples could be given to illustrate this point; one more will suffice here: in all countries the budget director must worry about keeping a balance between budget receipts and outlays. As a result, in agricultural policy debates, budget directors (and the administration) are always in favor of limiting budget expenditures. They do not always win—in fact, they never win completely because other actors who carry some weight have other priorities—but knowing that limiting spending is the priority is useful in predicting the behavior of budget directors.

With this background on the behavior of all policy actors, it is useful to distinguish between two categories of actors: those who pursue specific, relatively narrow interests, often of an economic nature, and those who are part of public authorities. As with all distinctions, this one has its limitations. The main difficulty is that it ignores the well-known existence of clusters of power (Ogden 1972). Many individuals often move back and forth between private pressure groups and government agencies interested in the same issues. This leads to a set of close interactions defining a very autonomous cluster of power, which may not respond much to the coordination pressures exerted by public authorities at higher levels.

Yet the distinction is useful. Private organizations have their own by-laws and procedures. Their objectives are defined by their composition, the purposes for which they were established, and their history. They often pursue specific economic interests, but their objectives may be broader, as, for example, when a consumer organization worries about whether a food is healthy. Sometimes the objectives of a private organization are not even primarily economical, as is the case with nature protection associations complaining about the excessive use of fertilizers by farmers. But nevertheless a private organization pursues specific and identifiable objectives, which can be inferred from an analysis of the organization itself. In addition, a private organization cannot directly decide or implement a public policy. To influence public policies, it has to exert pressure on one or several government agencies.

By contrast, government agencies are, as their name indicates, part of the broader set of public authorities that constitute the government. Their objectives are dictated by the function that they perform within, and often for, the government. A single agency seldom has the power to decide on or even to implement a public policy by itself. But it is part of the state apparatus that monopolizes public action. Thus government agencies differ from private policy

actors both in the way their objectives are determined and in their action possibilities.

### Interaction Among Actors Involved in Agricultural Policymaking

In the short run, policies result from a process of interaction among policy actors that is mainly of a political nature. Power relationships are essential in determining the outcome of the process. The political process critically depends upon political institutions, and pressure groups organize themselves in order to exert as much influence as possible. If institutions change, significant readjustments may be required. This was dramatically illustrated in France in the 1950s following the change of constitution between the Fourth and the Fifth republics. Farm organizations had been quite powerful under the Fourth Republic. They were geared to exert influence in what was then a parliamentary system, the main center of power being the National Assembly. With the new constitution, in 1958 power shifted to the presidency and the administrative bureaus. The traditional farm organizations lost important battles, and it took them several years of reorganization before they regained their influence.

Political scientists have long studied the process of political interaction and assessed the relative merits and performances of various institutional systems. For instance, Lindblom, as quoted by Moyer (1988), has developed a model of "partisan mutual adjustment," characterized by bargaining. He argues that such a system is likely to lead to results of better quality than policy reached through "central synoptic decisionmaking with heavy reliance on cost-benefit analysis" for several reasons. In particular, many policy problems involve too many variables with measurement uncertainties, including values to be attached to them, to permit effective analysis.

In spite of the political scientists' works, it is difficult to suggest precise and general hypotheses that take account of the interaction process among policy actors in the short run. An attempt to do so is, however, presented in the next section of this chapter for the specific case of agricultural policy decisions taken by the Council of Ministers of the European Community.

More can be said in general about the interaction process in the long run, largely because of the interrelationship between economic and political phenomena in determining agricultural policies. Simple observation and various econometric studies have shown that in the long run economic forces have an important effect on the evolution of policies. For instance, agricultural policymakers in developed countries could not have opposed the rise in the general price of labor, relative to other prices in the economy. Agricultural policies had to accommodate that powerful long-term trend. In the same fashion, the CAP must adjust because domestic agricultural supply in Europe has for decades been growing much faster than domestic demand (2-3 percent per year versus 1 percent or less).

The linkage of economics with the short-run political process of interaction results from the simple fact that economic changes affect the distribution of interests among policy actors at any point in time. Thus the economic stakes of the policy debate are determined by economic phenomena. In the long run, the evolution of the interests at play can be so great that it has a critical influence on the outcome of the policy debate, which means on economic policies. In that sense, economic constraints shape the feasible domain of policy choices. But recognition of an economic constraint as a policy constraint is itself a political choice.

The macroeconomic policy debate in France during the presidential election campaign of 1981 provides a useful illustration of the phenomena involved here. The incumbent, President Valéry Giscard d'Estaing, ran on his record of achievements, arguing that the economic performance of France during his administration (1974-81) could be compared favorably with that of similar-sized countries, and that external constraints had prevented his governments from pursuing more expansionist policies. His critics, mainly from the Left, denied the existence of such an "external constraint" and campaigned on a promise to accelerate economic growth through a more expansionist macroeconomic policy and protectionist measures designed to facilitate the "reconquest of the domestic market" (according to their campaign rhetoric). The electorate, in choosing the socialist candidate, François Mitterrand, implicitly rejected his opponent's argument that France was faced with an "external economic constraint." A new socialist government, led by Pierre Mauroy, was promptly installed by Mitterrand, and it implemented an expansionist macroeconomic policy. But in the summer of 1982, this orientation had to be revised: inflation was running high, the balance of trade had deteriorated rapidly, and devaluation of the franc was unavoidable. But because France is part of the European Monetary System (EMS), it could not devalue the franc unilaterally. The choice was then either to change drastically the orientation of domestic macroeconomic policies and stay within the EMS or to continue the policy but leave the EMS. Mitterrand chose the first alternative, and more drastic domestic measures had to be taken in 1983 to confirm this reorientation. It was thus clear that an external economic constraint, namely the need to balance domestic demand with supply possibilities within a reasonable degree of foreign indebtedness, had forced the change in the orientation of eco-

nomic policies. The very formulation of the economic constraint given above illustrates that recognizing it as a policy constraint was indeed a political choice. After all, it would have been possible to leave the EMS—all EC member countries do not belong to the system—but faced with two evils, Mitterrand chose the one he thought was the least.

This example may appear extreme, inasmuch as many economic policy choices do not necessarily imply so political a decision as membership in a monetary system. Yet it appears that in all cases, recognition of a constraint is based on an assessment of the consequences involved if it were not recognized and a judgment that the costs of these consequences would be prohibitive.

The concept of economic constraints limiting the domain of possible policy choices, which was just discussed, should be contrasted with the more common idea of the existence of political constraints. The latter is linked with the idea that somehow an economic optimum can be proposed to policymakers on the basis of economic analyses, taking the policymakers' preferences and available policy alternatives into account. The policy that permits this optimum to be reached is then viewed as the best. But political considerations may prevent the best policy being chosen, and such considerations define a political constraint.

The approach suggested here, based on the hypotheses that have been discussed, is very different. It does not rely on the existence of an economic optimum, and thus the concept of a political constraint is irrelevant. On the other hand, the role of economic constraint as presented above is central to the conception that the relationship between economic and political phenomena determines agricultural and, more generally, economic policies.

A recursive model of policy determination could be useful in capturing the essential features of a dynamic process. At this stage, however, it is not possible to precisely specify a fully recursive model; much uncertainty remains, in particular, about the duration of various adjustment periods. Yet the following schematic presentation helps convey the essentially dialectical relationship between economic and political phenomena in the determination of economic policies (Figure 1).

Policy decisions at time t ($D_t$) are the result of the forces at play among policy actors in the political bargaining process. Some of these are organizations $(Org)_t$ defending specific economic interests $(Ec\ Int)_t$. Others are government agencies $(Gov\ Ag)_t$, which heavily depend on the set of existing institutions $(Inst)_t$. Long-term economic forces at period t $(LTEF)_t$ influence $(Ec\ Int)_t$. These economic forces are mainly exogenous variables in the analysis. Thus $(LTEF)_{t+1}$ results from $(LTEF)_t$ and from some exogenous influence. The broken line linking $D_t$ to $(LTEF)_{t+1}$ indicates that policy decisions have an influence on long-term economic forces, but this influence is limited. By contrast, $D_t$ has a direct influence on the future distribution of economic interests. This is expressed by the solid line linking $D_t$ to $(Ec\ Int)_{t+1}$ and to $(Ec\ Int)_{t+n}$ through the sequence $D_{t+1}, \ldots D_{t+n}$. Institutions are also assumed to be largely exogenous to the agricultural policymaking process.

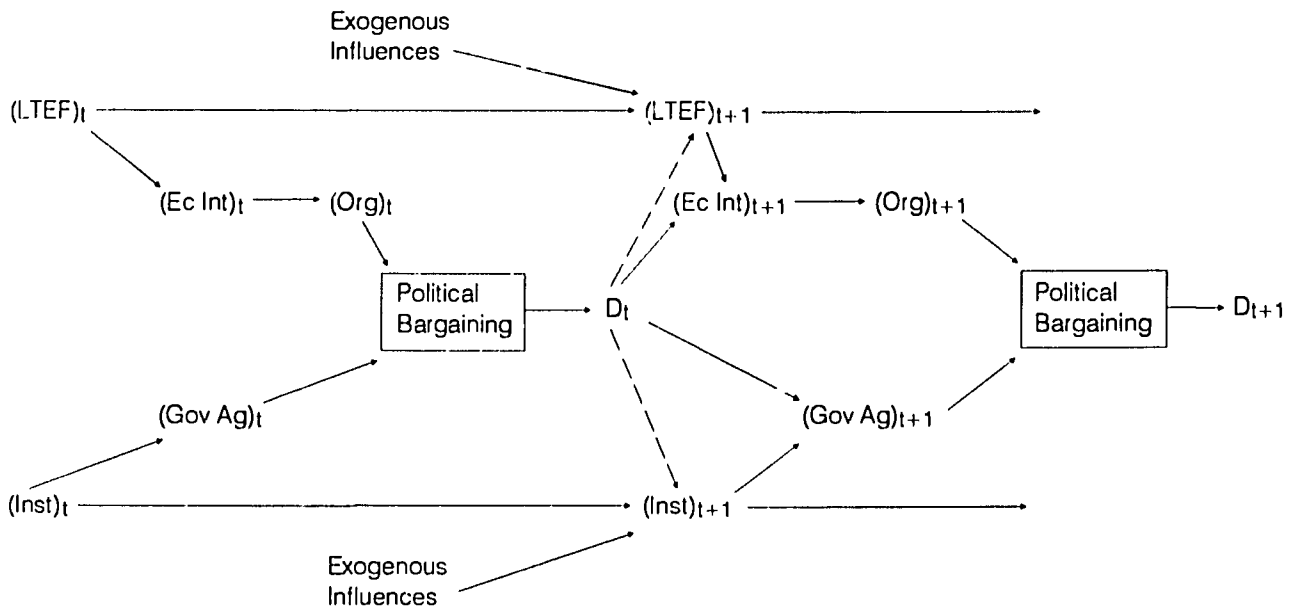
For his own use, Moyer (1988) has modified an earlier version of this schematic model (Petit 1985), after having pointed out several of its limitations. Long-term political trends are only reflected in Figure 1 $(Inst)_t$. This does not capture such phenomena as "changes in the strength of the farm lobby caused by population movement" or the "evolution of public attitudes to farming." General political interests, such as "preservation of political stability," are also ignored. These limitations reflect the specific purpose of the approach and of the research it is designed for: clearly the analysis here emphasizes the influence of economic phenomena in determining the evolution of agricultural policies.

Other limitations pointed out by Moyer deserve further discussion. For the purpose of this report, it may be sufficient to stress that, since the ambition was to build a recursive model, policy decisions at any time ($D_t$) are heavily dependent upon past decisions. This may not be explicitly reflected in the arrows of the figure, but it is obviously a part of the model. In addition, "economic interests" must be understood broadly. Some of the pressure groups that they could lead to would be "latent groups" in Olson's (1982) terminology. Even if they are inactive, they sometimes cannot be ignored. Thus when budget outlays increase, taxpayers' interests are at stake. They may not be formally organized, but public officials are fully aware that they have to be careful because there are political limits on the amount of taxes that can be collected.

Thus developed, the model can be operated as follows: Let us assume that at time t, a consensus emerges among policy actors on the nature of what is politically feasible. This will set the terms of the policy debate in a pluralistic society. Within this feasible domain, various organized interests act to put pressure on other groups and on government officials in order to obtain a policy outcome as favorable to them as possible. They encounter the opposition of other actors defending other interests. Alliances and coalitions are formed as integral parts of the political regulation process. Any policy decision can be viewed as the outcome of this interaction process, that is, as a result.

Afterwards, at time t + 1, the earlier consensus on the feasible policy domain may be destroyed. This may be because economic circumstances have changed or because some groups' percep-

## Figure 1—Schematic presentation of a recursive model of policymaking




($D_t$) = Policy decisions at time t
$(LTEF)_t$ = Long-term economic forces
$(Ec\ Int)_t$ = Economic interests at time t
$(Org)_t$ = Economic interest organizations at time t
$(Inst)_t$ = Institutions at time t
$(Gov\ Ag)_t$ = Government agencies at time t

tions of the situation have been transformed. A new policy debate may ensue, producing a new outcome. The new policy that emerges may not respect some constraint (C) that had hitherto been recognized as such.

At some later date, say, at time t + n, the consequences of the new policy unfold. These consequences may be drastic enough that they are rejected by a vast majority of policy actors. In this case, a new consensus emerges that recognizes C as a constraint: this recognition appears to be a truly political result—a political choice. Thus, it will shape the feasible policy domain.

For the rest of this report, this recursive model provides the basis for the approach used to conduct the case studies.

### Interaction within the European Community

The general model discussed above is valid when applied to the European Community, provided one deals with the complication that two levels of interaction are involved: the EC level and the national level. At the national level, the schematic presentation can be used to interpret how national positions, to be defended in Brussels, are elaborated. At the EC level, procedures are sufficiently formalized that hypotheses about the interaction process can be further specified. Previous research has shown that such hypotheses can be relevant: they can explain various features of EC decisions and the decisionmaking process. The rest of this section is devoted to a brief discussion of these specific hypotheses and of their most important consequences.

The two main institutions for decisionmaking and implementation in the European Community are the Commission of the European Communities and the Council of Ministers. In EC affairs, the final decision is formally taken by the Council of Ministers, which is made up of representatives of the national government of each member country. For instance, when it discusses agricultural policy, the Council includes the 12 national ministers of agriculture. Sometimes the meeting can be broader and the ministers of agriculture are joined by their colleagues for finances and for foreign affairs. But in all cases, the Council of Ministers is made up of representatives of national governments. Formally, the Council decides by a vote. A qualified majority is required if the vote is taken on a proposal presented by the Commission. Otherwise, votes have to be unanimous. This underpins the critical role in EC decisionmaking

played by the Commission, which is made up of commissioners who are not supposed to defend national points of view, even though they owe their appointments to their governments. The Commission acts as a guardian of the interests of the Community as a whole in the face of national governments concerned primarily with national interests.

In recent years, a new body has been formally added to these two main actors: the European Council. Made up of the highest political officials in each country, either presidents or prime ministers, it meets at least twice a year. Its role is to reach general agreements at the highest political level. These agreements are then implemented in formal decisions taken by the Council of Ministers. Other bodies, such as the European Parliament and the Economic and Social Council, have consultative voices. Their role has not been major in EC decisionmaking.

Beyond the formal rules regarding unanimity and qualified majority voting, special attention should be given to the de facto unanimity requirement embodied in the so-called "Luxembourg compromise," which was adopted after a crisis in the mid-1960s. If a country stated that its "vital interest" was at stake on a particular point, under the compromise there was a political understanding that a unanimous decision was required. Juridically, this was achieved through the behavior in the Council of Ministers of the ministers representing those countries that are in principle opposed to any dismantling of their national sovereignty. When any country invoked its vital interest, representatives of the United Kingdom, Denmark, and France would support it on that issue, whatever their earlier positions may have been.

In principle, the Luxembourg compromise has become obsolete. The Single European Act, which reformed EC institutions in 1986, restored qualified majority voting. But some close observers and participants in EC decisionmaking are convinced that a political understanding remains active and that, within the Council of Ministers, the threat to invoke one's vital interest remains a subtle but effective instrument for exerting pressure. Thus the effective rule governing current decisionmaking may have become ambiguous.

For many years, the de facto unanimity requirement had important consequences for the decision process. No minister could be completely defeated or humiliated by the outcome of a Council meeting. Each had to be able to point out positive results to his countrymen, particularly, if he was a minister of agriculture, to the farmers of his country when he came home from Brussels. This largely explains why EC decisions are taken by "packages," balancing concessions and satisfactions for each member country. The unanimity requirement also explains the difficulty of changing policies. There is a tremendous bias in favor of the status quo. But policies do change; decisions are made. Thus there must be some force that overcomes this bias for the status quo. This is probably the political cost of not making a decision, which can lead to a crisis where the credibility and sometimes even the survival of the European Community is threatened. Indeed it often appears that the European Community is always moving from one crisis to another. But if one steps back, the historical momentum is obvious: European integration has progressed, the Community has been enlarged geographically, and more and more topics are covered by common rules or common undertakings.

The important role of "the cost of no decision" is also reflected in a small feature of EC decisionmaking; decisions, particularly those related to agricultural prices, are always taken in the wee hours of the morning. This may appear trivial, but it is sufficiently permanent to be revealing. A concession made by a minister after a long night of negotiation may be acceptable if it appears that it was necessary to avert a major crisis. The same concession made at a more normal working hour would not have this appearance.

In a final package of decisions, one may distinguish "core" issues from those that are at the "periphery." The former are those around which the negotiations that led to the package revolved. These issues are usually important for several countries, but they cannot be too numerous; otherwise, the negotiation is too complicated. The final package includes additional issues, usually less important or of importance to only one or two countries, that complement the package, permitting a better balance of advantages and concessions. The individual skills of a negotiator play an important role in determining whether or not a peripheral issue is added to the core issues in the final package. He has to convince his colleagues that he will veto the package and bear the political cost of the absence of a decision if the issue is not added. The distribution of the political cost of a failure is, however, somewhat subtle. If the failure is attributed to a disagreement on a minor point, the blame may be placed as much on those who refused to grant a concession as on those who made this issue critical.

Generally speaking, these hypotheses about the interaction process among policy actors at the Community level explain several specific features of EC decisionmaking. They are consistent with the general model presented in the previous section, and thus they allow for the influence of long-term economic forces on the evolution of the CAP. It must, however, be recognized that there remains much uncertainty in the process of political interaction. Accordingly, it is always difficult to predict what the outcome of a specific negotiation will be.

## METHODS

The hypotheses presented are not specific enough nor of general enough validity to lend themselves to a formal test. In such a situation case studies are warranted. They can be conducted following an approach based on the hypotheses that have been discussed. Case studies can then be used to explore the domain of validity of the hypotheses, and they can help in specifying these hypotheses further.

At this stage, it may be useful to summarize the hypotheses:

- Individual policy actors, that is, pressure groups and government agencies, can be identified, and their behavior in the policy process can be interpreted as the result of their objectives having been adapted to their situation, and vice versa, the situation being defined in terms of constraints and action possibilities.
- Policies are the results of an interaction process among policy actors. In the short run, the interaction process is essentially of a political nature. It takes place within a politically feasible domain shaped by economic constraints. In the long run, economic forces determine the evolution of these economic constraints and, as a result, often have a critical influence on the evolution of policies.
- In the European Community, as in any other political entity, the interaction process among policy actors is influenced by the specific institutional setting. For the purposes of this report, the main feature of that setting is that decisions are made on proposals of the Commission at the EC level by the Council of Ministers, which is made up of representatives of national governments. Special characteristics of the European Community affect the decisionmaking process. Decisions are made by packages. Each package is made up of a small number of core issues, around which the policy debate revolves during the preparation phase, and of peripheral issues, which are critical to the political viability of the package. Because of the strong, inherent bias in favor of the status quo, a sense of crisis is necessary for policies to be modified: the political cost of the absence of decision must be high for decisions to be made.

The research presented in this report follows previous work done by the author, alone or in collaboration with others, which also relied on case studies. After a comparison of the history of commodity programs in the United States and the European Community (Petit 1985), a detailed study of the process leading to the CAP reform of March 1984, when milk quotas were introduced, was conducted (Petit et al. 1987). Two case studies reported here complement this earlier analysis: the study of the 1985 price package, which was vetoed by the Federal Republic of Germany, permits a further test of the specific hypotheses about the EC interaction process derived from the March 1984 case; and the study of the elaboration of the French position in the debate that led to the reform of the cereal policy regime in 1986 permits an assessment of the validity of the model of policy interaction at the national level. Finally, the investigation of the political pressures exerted on French exports of wines and spirits to the United States provides an opportunity to extend the approach developed earlier to the analysis of international trade conflicts. In a sense this has permitted further specification of the hypotheses presented in an earlier analysis of the agricultural trade confrontation between the United States and the European Community (Petit 1985).

The methods used to conduct these studies are simple (reading of documents, interviews, collection of secondary statistical data, and elaboration of a general interpretation of the decision process), but as asserted earlier, the implementation of these simple methods is delicate. This research provides further information on this point. Access to published documents, if only to keep abreast of current policy developments and debates, is never easy. Much use has been made here of a systematic review of *Agra Europe*, a jointly published weekly report produced in both French and English by two different news agencies, which proved to be a valuable source though far from exhaustive; it probably neglects to report the positions of some actors who may be important.

Fortunately, the interviews with actors involved in the decision process usually yield reliable information on the relative roles of the various actors. For two of the case studies reported here, interviews were conducted by two students. Beforehand, the author wondered whether they would be viewed as credible interlocutors by the actors they were to interview. Afterward, it was clear, however, that these two students managed to collect a rich amount of information, often of a confidential nature. This may be because, as students, they did not appear at all threatening to the persons being interviewed. Whatever the reasons, this experience shows that the method can be implemented by somewhat junior researchers, provided they are intelligent and understand with some subtlety the games being played in a political process.

# 2

# The 1985 Price Package

On May 16, 1985, the ministers of agriculture of the European Community reached only a partial agreement on common agricultural prices. The usual price package was incomplete because the German minister of agriculture, Ignaz Kiechle, expressing his government's position, opposed the final compromise on prices for cereals and rapeseed by threatening to invoke the "Luxembourg compromise," the legally weak but politically effective understanding that permits a member country to veto a measure viewed as opposed to its "vital interest."

In this chapter the process that led to this outcome is reviewed in the light of the hypotheses presented in the previous chapter. It should thus be possible to illustrate the fruitfulness and the limitations of the approach, as well as to provide substantive information on the determinants of the CAP.

## THE COMMISSION PROPOSALS

On January 30, 1985, the Commission submitted, as usual, a package of price proposals for the coming marketing year. In principle, this allowed enough time for the European Parliament and other consultative bodies to express their views and for the Council of Ministers to make a decision before April 1, as required by the existing market regimes. First, the arguments, justifications, and specific proposals of the Commission will be examined; then the validity and usefulness of the hypotheses in rendering an account of the Commission position will be discussed.

### Analyses, Justifications, and Specific Proposals

A new Commission, under the presidency of Jacques Delors, with Frans Andriessen in charge of agriculture, had just been installed at the beginning of 1985. Putting forth these price proposals was one of the Commission's priority tasks because prompt and diligent action was required on the agricultural front. The Commission asserted the need "for continuity in the development of agricultural policy" to help European agriculture face up to the challenges confronting it in the latter half of the 1980s. These challenges resulted from the continuously increasing and even accelerating rise in agricultural productivity, whereas food demand was not increasing. Thus the Community became more and more dependent on world markets as outlets for its production. Because of inelastic demand, the budget costs of domestic intervention were high. In this difficult economic situation, public financial resources to help agriculture both at the Community and the national level were limited.

To solve these problems, there was no "miracle" solution. The orientation taken by the former Commission in its famous memorandum of July 29, 1983 (the document labeled COM 500, introducing milk quotas, which led to the March 1984 reform of the CAP) "remained entirely valid." After that, the market situation did not improve; in some cases it even worsened. Thus there was no alternative in the short run but to pursue the following course:

- To seek a more market-oriented price policy, taking EC obligations to the agricultural population into account.
- To apply guarantee thresholds in agreement with orientations already defined by the Council of Ministers, in such a manner that if EC production exceeded some limitation, the financial responsibility would be shared with producers.
- To evolve a farm structure policy in the direction proposed by the Commission more than a year earlier.

Nevertheless, the Commission emphasized that the agricultural population needed medium- and long-term perspectives. If the CAP did not give hope to farmers for the next generation, according to the terms of Article 39 of the Treaty of Rome, which established the European Community, the great danger would be a renationalization of agricultural policy, with all the dire consequences that this would entail for European unity. As a result the Commission announced a broad debate on the future of European agriculture to be launched during the second half of 1985.

After a brief review of the general economic situation, the Commission examined the market outlook situation for major agricultural commodities. Reproducing all these analyses is unnecessary for

the purpose of this report. One example will suffice: because of the key role played by cereals in the decision process under study, this commodity category will be briefly discussed.

Figure 2, which gives the evolution of production and domestic use of cereals from 1972/73-1985/86 in the 10 member countries of the Community and trend projections to 1990/91, summarizes the essential points of the Commission's analysis.

The 1984 harvest, estimated at 144 million metric tons, reached a record level thanks to exceptionally good weather conditions.[3] It confirmed the trend of a continuously increasing level of production, at a rate higher than 3 percent per year since 1978. The main cause of this increase is seen to be the rise in yields, particularly that of wheat, which accounted for 48 percent of total cereal production. Yield variability due to weather conditions seems to have declined in recent years. Under the hypothesis of a continued restrictive price policy, the total area planted in cereals is projected to remain relatively stable until 1991 at 25.7 million hectares. Wheat will continue to substitute for other cereals. This will bring total cereal production to 148 million tons in 1991.

On the demand side, stagnation has been striking. Human and industrial consumption, as well as use for seeds, stayed around 40 million tons for about 10 years. Even if industrial use could increase, say, by about 1 million tons, total cereal demand would continue to depend mainly on livestock consumption. And this would be influenced by total pork and poultry production, as well as by the price ratio between cereals and cereal substitutes, such as cassava (manioc), bran, and corn gluten feed. Under the hypothesis of a restrictive price policy, the demand for cereal for livestock feed might reach 74 million tons in 1991. Thus total domestic demand could be 115 million tons. This would leave a surplus of production over domestic consumption of 33 million tons, as compared with about 10 million tons in 1983/84 and 32 million tons in 1984/85.

The evolution of international trade is difficult to project because, even if supplies were sure, the evolution of world demand is uncertain. It depends mainly on the situation in the Soviet Union and on the solvency of developing countries. Given budget constraints, merely maintaining EC market shares would require that cereal prices within the Community be not far from its main competitors' prices.

The price proposals of the Commission, based on analyses of this type and on the objectives recalled earlier, can be summarized as follows:

Price adjustments for 1985/86 had to be no less prudent than for 1984/85.

For most products, price adjustments had to be between 0 and +2 percent. In some specific cases, a price reduction was justified because production had increased beyond the guaranteed threshold level. Such was the case for cereals and rapeseed.

A consistency between various prices was required: prices of livestock products had to be set taking account of variations in livestock feed prices. The existence of milk quotas provided an incentive to increase production of alternative livestock products. This influence had to be taken into account when setting up prices of the latter group of commodities.

Globally the Commission price proposal would have led to an average 0.3 percent reduction in European Currency Units (ECUs) for the whole Community, including a 3.6 percent reduction for cereals (-4.4 percent for rye and 0 percent for durum wheat). For milk, it was proposed that an increase of 1.5 percent of the indicative price be implemented but applied to a smaller total quota, and, more importantly, a 4 percent decline in the intervention price for butter, combined with a 6.8 percent increase for milk powder. It was proposed that existing monetary compensatory amounts (MCAs) be lowered. In addition, prices would be frozen for meats and wine. Negative MCAs would be suppressed, and all German and Dutch MCAs set at 1.3 percent. The estimated budget cost of these proposals (19.3 billion ECUs) represented an extra cost of 700 million ECUs over the initial budget presented earlier by the Commission.

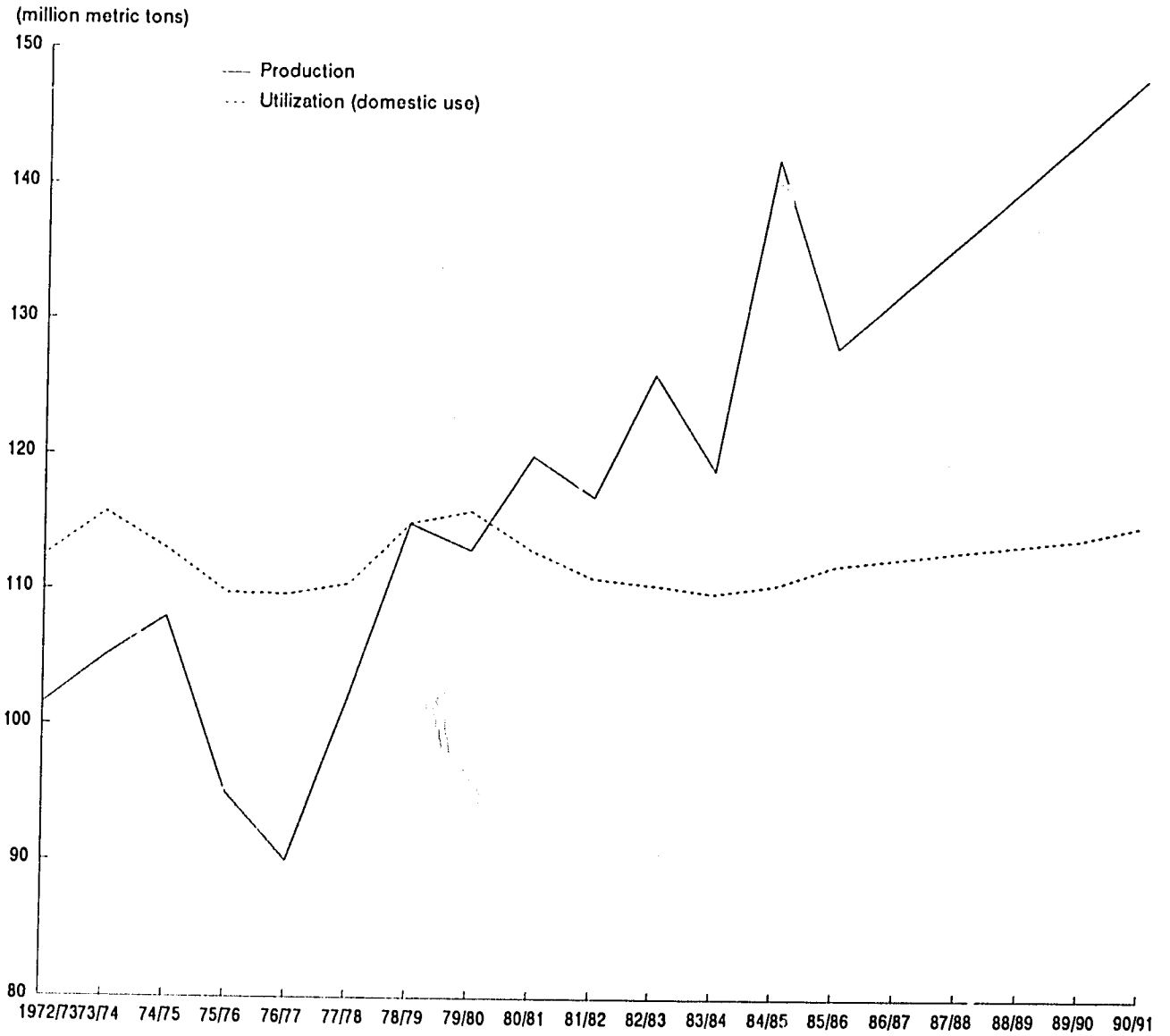
## Interpretation

Perhaps the most striking feature of the Commission's behavior during the period under study is its continuity. The proposals put forth in January 1985 were fully consistent with the orientation of the CAP reform suggested by the previous Commission in July 1983 in the Com 500 document. This is particularly noteworthy because membership of the Commission had largely been reappointed and its leadership totally changed.

Actually, the Commission continued to emphasize the strength and the relevance of long-term economic forces. Budget costs escalated as world prices declined and the imbalance between domestic supply and demand worsened. Under these pressures, the need to support farm income was recognized but eventually sacrificed. The Commission's repeated references to Article 39 of the Treaty of Rome (which established the European Community) illustrates its awareness that the ultimate social legitimacy of the CAP rests on its support of

3 All tons referred to in this report are metric tons

**Figure 2—Production and domestic use of cereals (excluding durum wheat) in the 10-country European Community, 1973/74-1985/86, and projections to 1990/91**




Source: EC Commission

farmers' incomes, even though the official objectives of the CAP, as spelled out in Article 39, are more complex. But, faced with a rising and unacceptable level of budget outlays, the Commission had to sacrifice this important income objective. Its promise to launch a major debate on the future of European agriculture illustrates that such a sacrifice would probably not be sustainable in the long run. In other words, no short-term solution could be found to the policy crisis resulting from the contradiction between an escalating budget cost and a deteriorating average farm-income level.

Attention to long-term economic forces did not preclude the Commission from behaving as a political actor. The very timing of its proposals, submitted one month after its new leaders formally took office, was clearly a sign that it intended to play its role effectively in the EC's cumbersome decisionmaking process. Such timing could have helped give momentum to the negotiations. In addition, the price package was reasonably balanced, inasmuch as it would have broadly distributed the costs of adjustment to the budget constraint among EC farmers of various countries, regions, and products.

The fact that the whole package was not fully agreed upon at the end of the process may be taken as a sign that the Commission's foresight in imagining and developing a politically acceptable package may have been less clear than in past negotiations. But, as argued in more detail later, such a criticism is probably exaggerated. Perhaps precisely the way to force the hand of the German government was to oblige them to veto the package alone, thus leaving it to the Commission to unilaterally manage market interventions as it saw fit without formal approval by the Council of Ministers.

In summary, the behavior of the Commission appears consistent with the hypotheses presented in the first chapter of this report on the rationality of its behavior. It did act as the major guardian of EC achievement and, through its vigorous proposal, tried to increase or at least maintain its share of power within the EC hierarchy. Emphasizing the importance and relevance of long-term economic forces was probably critical for the pursuit of this second objective. These forces define economic constraints, such as budget costs that cannot be increased indefinitely or production that must find some outlet. These constraints must sooner or later be recognized by policymakers. As argued earlier, recognition of an economic constraint is itself a political decision; presumably, the sooner a constraint is recognized the better, because otherwise the ensuing economic and political costs of not recognizing it will escalate. The Commission has over the years derived moral authority from having called the ministers' attention to the fact that existing policies were not sustainable. This has been viewed as defending the long-term EC interest. In this instance, the new Commission pursued the same line as its predecessors.

Finally, this continuity in the behavior of the Commission illustrates the importance of the institutional setting in determining an actor's behavior. As argued in Chapter 1, the objectives of a policy actor do not depend on the personal whims of those in charge. They are largely determined by the "situation," that is, the possibility of acting and the constraints limiting the domain of feasible actions.

## THE RESPONSE OF MEMBER COUNTRIES

The EC decisionmaking process is such that after the Commission put forth its price proposals, the center of action moved to the Council of Ministers, where each minister expresses and defends the point of view of his national government. Debates within the Council are not public, yet the main positions taken by the participants are widely reported in the press. This section is based essentially on reports published by the weekly *Agra Europe* (French version).

First, the national positions and their evolution will be chronologically described; afterward an interpretation based on the hypotheses presented in Chapter 1 will be suggested.

### Description

The first discussion took place in the Council of Ministers on March 11 and 12, 1985, almost six weeks after the Commission submitted its proposal. Table 1 summarizes the main reactions of member countries to the Commission proposal expressed during those meetings. The strongest opposition was expressed by the German minister, who did not accept price reductions and the dismantling of the positive German MCAs, which would have led to a further reduction of support prices expressed in German marks—those that are directly related to the prices received by German farmers. With some nuances, the Commission proposal was generally well accepted by France, the Netherlands and Denmark. Italy, Ireland, Belgium, Greece, and Luxembourg indicated that they would prefer higher prices for some products, particularly for some vegetables and sugar, but this was not seen as opposing the proposal. The United Kingdom, although generally favorable to the proposal, would have preferred that cereal prices be lowered further than the 3.6 percent suggested by the Commission. On the dismantling of positive MCAs, Michael Jopling, the British minister of agriculture, expressed the fear that the end result might be an increase in the prices received by farmers in some countries (as had occurred the previous year when a "switch" had been made in the way of computing MCAs). The Netherlands indicated a willingness to dismantle its MCAs, provided Germany did the same. Incidentally, the Dutch position was exactly the same as a year earlier.

In addition, many other smaller issues were raised by individual ministers—the price of sunflower seeds, for instance, or the variable premium paid to British sheep farmers, or the payment modalities of the superlevy imposed on above-quota milk production. But it was clear that these would only be peripheral issues. The core of the package was clearly the price of cereals and the dismantling of positive MCAs.

The Council of Ministers met again on March 25-27. The firm position of Germany on cereals prevented an agreement in time for the normal but not often respected April 1 deadline. Transitory measures had to be taken. Jopling reminded his colleagues that they had already accepted the principle of a budget discipline, limiting the growth in EC spending on agriculture. But no progress could be

## Table 1—Summary of member countries' reactions to the Commission proposals, as expressed on March 11 and 12, 1985

| Reaction | Belgium | Germany | Denmark | France | Greece | Ireland | Italy | Luxembourg | Netherlands | United Kingdom |
|---|---|---|---|---|---|---|---|---|---|---|
| General response | Mixed | Neg. | Pos. | Pos. | Mixed | Mixed | Mixed | Mixed | Pos. | Pos. |
| On cereal prices | ... | No | OK | OK | ... | ... | ... | ... | OK | ... |
| On sugar prices | ... | OK | ... | OK | OK+ | ... | OK+ | OK+ | OK+ | OK- |
| On pork prices | ... | ... | ... | ... | ... | OK | ... | ... | ... | ... |
| On MCA+ | Yes | No | Yes | Yes | ? | Yes | ? | Yes | OK* | Fear price impact |
| On MCA- | ... | ... | ... | ... | OK | ... | ... | ... | ... | ... |

Notes. The responses indicate the following viewpoints:
Yes firm approval
No strong opposition
OK acceptable
OK+ would prefer higher prices
OK- would prefer lower prices
? position unknown
OK* The Netherlands were willing to dismantle their positive MCAs provided Germany did the same.

made. The ministers of agriculture decided to meet again on April 1, but they did not succeed then either. Repeated failures to reach a decision after two more days of negotiation led to a reassessment of tactics on April 23. It was decided that focusing on cereals, as had been done, was counterproductive. Filippo Pandolfi, the Italian minister, who was then chairing the Council, was urged to try to isolate the German representative, Ignaz Kiechle, and he undertook a series of intensive bilateral contacts, seeking the components of an acceptable global compromise. At the same time, the French minister, Henri Nallet, let it be known that he could, after all, understand the position of his German colleague. What really mattered to France was the competitiveness of its cereals on international markets. Higher-than-desirable price levels on the domestic European market could be acceptable, provided guarantees could be given by the Commission that it would not, as a consequence, be more restrictive in the distribution of so-called export "restitutions."

The French version of *Agra Europe* reports on a press conference with François Guillaume, then president of the Fédération Nationale des Syndicats d'Exploitants Agricoles (FNSEA), the main farmers' organization in France. He complained that the Council's failure to make a decision on time was costly to farmers, and he asked for special help and various measures at the national level. This illustrates the type of political pressure that is brought to bear on the Council when it delays decisions.

On the same day, April 23, 1985, the Council of Ministers in charge of the budget met. *Agra Europe* reports that the British and German ministers showed more flexibility on agricultural spending than is usual for the representatives of these two countries, which are traditionally opposed to growth in European budget outlays.

In spite of these signs that national positions had begun to be less entrenched than before and that the political pressure to find a compromise was becoming strong, the Council of Ministers failed again to come to a decision on May 2. Not until its meeting of May 15-16 was a partial compromise reached, Germany "vetoing" the price decrease for cereals and rapeseed.

## Interpretation

To interpret the positions taken by the various government representatives, one must remember that these positions are the products of a complex set of interactions among policy actors at the national level. This research did not permit a detailed analysis of the national interactions. One must rely here on previous research and examine whether or not the observed behavior of individual ministers of agriculture in this instance is consistent with past observations and interpretations.

The most visible position was that of Kiechle, the German minister of agriculture. He took a firm stand against any price decline for German cereal farmers and eventually was able to convince the whole German cabinet to state that the "vital interest" of his country was at stake in this matter. This may seem surprising since the final compromise proposed by the Commission and rejected by Germany included only a 1.8 percent reduction in cereal support prices. Earlier, Germany had indicated that a 0.9 percent decrease would be acceptable, provided the delay for intervention payments by the Commission to grain merchants and cooperatives would also be reduced from 120 to 60 days (a shorter delay means a more effective intervention mechanism, and hence a smaller gap between intervention and market prices).

How can Kiechle's firmness be explained? Actually, the positions taken in this instance are not new. German farmers have a powerful organization, the Deutsche Bauernverband (DBV), which has always had a close relationship with the minister of agriculture. In addition, German cereal farmers within the DBV were highly mobilized; the large, efficient, Northern farmers being well aware of the issues at stake. They benefited from a feeling of strong solidarity with other farmers, cereals being widely grown throughout the country. Thus Kiechle was subjected to strong pressure from the DBV. He was able to use it as a lever within the cabinet, because of his specific political situation as a member of the Christian Socialist Union (CSU), the Bavarian wing of the Christian Democratic Union Party (CDU). His resignation would have destroyed the delicate balance between the various members of the ruling coalition led by Chancellor Helmut Kohl, particularly the balance between the CSU of Frantz Josef Strauss, on the one hand, and the Free Democratic Party, on the other. In addition, all members of that coalition knew that they needed the farmers' political support in order to stay in power at the next Federal election and also in the various Länder (state) elections. This view was later vindicated when subsequent electoral defeats of the CDU were attributed, at least in part, to greater than usual abstention among farmers.

The position of the French minister may appear surprising in the light of earlier behavior. For the first time France supported the Commission, which advocated a prudent, even a restrictive, price policy. Perhaps more surprising yet was the position of Association Générale des Producteurs de Blé (AGPB), the French grain farmers' organization. They supported the Commission and the French government position. This reflected their conviction that the long-run objective of maintaining competitiveness on world markets was more important than the objective of pushing for as high an income as possible in the short run.

Because France is a major exporter of grains outside of the Community, maintaining market share is a high priority for France. This was reflected in April when the French minister stated that he could understand his German colleague's position and that he could go along with a higher domestic European price, provided that enough funds would be made available to pay the larger export restitutions that would be required to maintain the competitiveness of French grain exports on world markets.

The French position on MCAs was not innovative. The reduction in French negative MCAs was a convenient way for the minister of agriculture to come home from Brussels and announce that prices received by French farmers, as expressed in French francs, would increase even if the general level of support prices expressed in ECUs was to decline. The pressure on positive MCAs from such countries as Germany and the Netherlands has been a constant component of the French government's attitude. French government agencies and farm organizations argue that positive MCAs act as export subsidies to agricultural exports from member countries having currencies that are appreciating (at least in relative terms).

Finally, it is worth noting that the French position did not significantly change when Nallet replaced Michel Rocard as minister of agriculture in late March 1985. This again illustrates that a policy actor's behavior is largely dependent on his institutional setting and much less on his personality.

The other government positions can easily be understood in terms of previous analyses of their past behavior. The UK representative pushed for lower price and fiscal restraints but defended the variable premium benefiting UK sheep farmers. The Dutch minister was also in favor of restraint on the price and fiscal fronts. His highest priority was to maintain the competitiveness of Dutch agriculture in both European and outside markets. Grain is not a major Dutch export item. Thus it is not surprising that the Netherlands did not play a major role in this instance. Their insistence on keeping on a par with Germany on dismantling of positive MCAs reflects both their willingness to accommodate pressures

from other member countries and their priority objective of maintaining their competitiveness with all their trading partners. For many livestock products, they did not want German farmers to benefit from a relative advantage over Dutch farmers as the result of different positive MCAs.

Belgium, Ireland, Denmark, Luxembourg, Italy, and Greece attempted to influence the final compromise in such a way that some of their farmers would benefit. Northerners pushed for higher prices for cereals or sugar beets; southerners supported higher prices for some fruits or vegetables. But most of these positions related to peripheral issues in the package. In that respect, their behavior was fully consistent with the hypotheses suggested in Chapter 1. They did not play a major individual role in negotiations on the core of the package, but collectively they were important, inasmuch as they helped to isolate Germany. This general attitude of global acquiescence with the Commission proposal reflects, first, the fact that the Commission proposals were politically well balanced to begin with. In addition, it also reflects the growing recognition of the futility of opposing the long-term economic pressures (supply-demand imbalances and escalating budget costs of the CAP), which played such an important role in determining the Commission proposal.

## THE PROCESS OF INTERACTION AMONG POLICY ACTORS

Accounting for the behavior of individual policy actors is relatively straightforward in terms of the actors' objectives, the institutional setting, and the possibilities for action, these three concepts being easily distinguishable but closely interrelated. But it is much more difficult to interpret the process of interaction among policy actors using only a limited number of clear and relatively general hypotheses. It is now time to reflect on the lessons of this case study regarding the process of interaction among policy actors at the Community level. Here again it will be useful to compare the observations from this case study with the concepts and hypotheses on this topic elaborated for and resulting from previous research. But in order to do so, several features of the specific interaction process must be emphasized. The story narrated so far must be completed. Subsequent reactions to the partial decision taken on May 16 by the Council of Ministers help illuminate the whole process.

### Reactions to the Partial Agreement

The diversity of reactions by national farmers' organizations from member countries illustrates the different attitudes of these various organizations toward the CAP. But more importantly for the purpose of this research, these differences in attitude mainly reflect the differences in the way farmers are viewed in their own countries as reflected in national public opinions. It is useful to review these reactions here because they underscore the complexity of the pressures exerted on the Council of Ministers.

On May 16, according to *Agra Europe*, the German DBV asked to be heard directly by the Commission because the agreement did not respond "in any just manner" to the situation of German farmers, and "it ignores the social significance of agricultural enterprises" for Germany. The DBV also took note of Kiechle's firm position. The DBV asked that the negotiations that it wanted to open with the Commission and the Council deal with issues of guarantees to be given to indebted farmers and of fiscal exemptions for low-income farmers.

The British National Farmers Union (NFU) expressed moderate, somewhat positive, views after the agreement. Its president, Sir Richard Butler, regretted the absence of a decision on grains and rapeseed but was satisfied that other prices had been fixed. He particularly approved the decisions on dairy products and beef. He emphasized, however, the need to restore the "special arrangements for UK exports of mutton."

*Agra Europe* reported that the French organizations hesitated between "weariness and anger." For the FNSEA the lack of a complete agreement illustrated "the state of degradation within the Community." The various prices were viewed as unsatisfactory in any case, since they were well below the cost increases. The FNSEA asked the French government to contribute to a reduction of production costs through exemptions of taxes paid on petroleum products. It suggested maintaining the cereal price but introducing a co-responsibility levy, a payment by farmers to the European Community, assessed on volume of production (or marketing), in order to avoid U.S. criticisms (of export "restitutions," presumably).

The French grain growers, as represented by the Association Générale des Producteurs de Blé (AGPB), were critical of the German lack of flexibility, which they viewed as "concentrating only on short-term income problems but ignoring the serious problems of market outlets" (*Agra Europe*). (Note that this consideration is much more important for a major exporter of grains, such as France, than for a net importer, such as Germany.)

The Dutch federation of farm organizations (Landbouwschap) expressed satisfaction with the price levels agreed upon but concern about the future of the Community, fearing that the German attitude could lead to the end of the CAP. The 2.5 percent rise in the price of milk was welcomed by the

Landbouwschap, as milk is an important product in the Netherlands.

The Belgian Boerenbond, the powerful farm organization in the Dutch-speaking part of Belgium, regretted the delay in fixing cereal prices, reiterated its opposition to a price reduction, and said it was disappointed by the price level for other products, particularly for milk. But it also asked that, at the next meeting of the European Council to be held in Milan in June 1985, the Council pay special attention to the de facto veto right of the Luxembourg compromise.

*Agra Europe* does not report the reactions of farm organizations in other member countries, which is obviously a limitation for the purpose of this research. It also probably indicates that such positions may not have been formulated clearly or that they were deemed unimportant in a European context. For instance, previous research has shown that the division of Italian farm organizations along ideological lines has seriously limited their collective effectiveness (see Petit et al. 1987, Chapter 3).

The president of the European Committee of Farm Organizations (COPA), Jans Hinnekens, stated that the decisions taken by the Council were bad for farmers, bad for the CAP, and bad for Europe:

> These decisions imposed on farmers uniquely for budget reasons do not take any account of either the already very difficult situation of the farmers' purchasing power, or the considerable receipt losses resulting from the two month delay in implementing the new prices for milk, beef and mutton...The partial character of the Council decision and the strengthening of the trend toward renationalization of agricultural policies threaten the cohesiveness of the CAP and even its existence, with all the unavoidable consequences for the construction of Europe.
>
> (*Agra Europe*)

This statement illustrates the difficulty COPA faces in its coordination task. The only consensus that can be reached among national farm organizations is on the basis of the highest demands (all farm organizations are a priori for as high a level of farm prices as possible). But this leads COPA to bargaining positions that are not politically realistic and seriously impairs its effectiveness in the political bargaining process. As a result, the best tactic for national farm organizations is often to put pressure on their national governments. The positions these national organizations take have that as their main purpose, and this explains the diversity that was just illustrated.

After the partial failure of May 16, the Commission declared that "it would take the necessary measures of market management" to avoid extra budget outlays. Without a formal change in price supports, it took market management measures that, for all practical purposes, implemented the final compromise that had been rejected by Germany. That this was not challenged by Germany afterward is interesting. Only conjectural hypotheses can explain this apparent paradox. Kiechle may have judged that he had made his political point vis-à-vis German farmers by his spectacular veto. In addition, German officials sensed that their country was isolated. They were unanimously blamed for blocking a difficult policy decision on an issue whose direct stakes (less than 1 percentage point difference in the price of cereals and rapeseed) were disproportionate to the long-term political costs to the Community of not making a decision. Thus they may have felt that raising this issue again in a fight with the Commission would be too costly in political terms.

### The Main Interactions in the Community Decision Process

As indicated in the first chapter, the policy process can be viewed in the short run as made up of a set of interactions among policy actors leading to a specific decision. Long-term economic forces influence that process because the distribution of interests at stake at any given time is shaped by these forces. The pressure exerted by these economic forces is sometimes so strong that observers of and participants in the policy process have the impression that a real constraint of an economic nature limits the domain of feasible policy decisions. As already indicated, however, recognition of an economic constraint is itself a political decision. The process under study here illustrates this point. It also exhibits specific characteristics particular to the EC decisionmaking institutions.

First, in this case, as in all policy decision processes, the sequence of events is important. The new Commission promptly put forth a proposal soon after it was established. Such timing was critical for the Commission to play its role effectively. To assert its influence, the Commission had to convey a sense of urgency, thus appearing to defend the EC interests in the face of the individual ministers, who must put the interests of their national governments first.

The very fact that the Council of Ministers did not formally discuss the Commission proposals before March 11—almost six weeks after the Commission made it public and only three weeks before the April 1 deadline when support prices were supposed to be fixed—illustrates by contrast the unusual haste of the Commission.

After a slow start, action in the Council reflects the build-up of pressure to reach a decision. As previous research has shown, the de facto quasi-obligation to reach a unanimous decision acts as a

powerful brake on the decision process, whereas the engine of that process appears once again to be the political cost of not reaching a decision. This was illustrated by the various statements of policy actors, particularly farm organizations who complained about the delay and asked for compensating national measures. The cost of not making a decision is also reflected in the mellowing of the budget ministers at their meeting of April 23.

The culmination of the process in the German veto of May 16 dramatically illustrates the need to reach unanimity, in line with the Luxembourg compromise. But subsequent events showed that such a veto may not be absolute. The Commission went ahead and implemented the decision that had been vetoed by Germany. As discussed above, the fact that the German government did not protest probably reflects the political cost of not reaching a decision. That cost would have been carried by the German government alone, and Germany probably saw the burden as unbearable. This illustrates the complexity of the sequential interaction process that leads to a policy decision. At the same time, it explains why it is so difficult to formalize an interpretation of that interaction.

Finally, this particular case study confirms earlier observations that EC decisions are made in packages. It also supports the hypothesis that the main interaction process revolves around a few key issues, which form the "core" of the package. In this case the core issues were cereal prices and the dismantling of MCAs. This core is surrounded by many peripheral issues, which are indeed an integral part of the final package but which play a secondary role in the interaction process.

Regarding the behavior of individual actors, this case study confirms that the influence of the Commission rests on its institutional prerogative to make proposals to the Council of Ministers, and its recognition that countries must adjust to long-term economic forces. The decisionmaking process of the Council is the direct result of its being made up of national government representatives. The behavior of each government is strongly influenced by the consensus emerging within each country on what can be viewed as the national interest. In this respect, the contrast between France, a large exporter of cereals, and Germany, a net importer, is striking, inasmuch as in both countries public opinion is generally favorable to public support of agriculture.

# 3

# Elaboration of the French Position in the 1986 Reform of the Cereal Policy Regime

The case study presented in this chapter focuses on one type of commodity, cereals, and on one country, France. In the spring of 1986 the Council of Ministers of the European Community decided to reform the cereals regime. In a way, this chapter is a sequel to the previous one.[4] In 1986, as in 1985, a number of decisions were packaged together, including the support prices of many commodities besides cereals. The core of the package, however, was clearly the reform of the cereal policy regime. Thus, concentrating on grains seems legitimate in this instance. This study has the added advantage of permitting a more detailed investigation of the actors involved in the policy debate.

Circumstances and available resources made it possible to conduct interviews only in France and in Brussels. Thus special emphasis will be placed here on the French debate leading to the position taken by France in the Council of Ministers. Given the major role played by France, the largest EC producer of grains and by far the major exporter of cereals, this case is interesting in its own right. But here again, of course, the main purpose of the case study is to test or to further specify the hypotheses of this report. Paying special attention to one group of commodities and to one country will allow a more detailed examination of some hypotheses than was feasible for the more global analysis in the previous chapter.

## SEQUENCE OF EVENTS

The Commission, which had just been appointed in 1985, was under pressure to present its price proposals on time. Previous events had shown that the CAP was under great stress because of a fundamental contradiction between the objective of supporting farm incomes and the growing budget cost that this entailed. The new Commission decided to launch a broad debate on the future of the CAP. For that purpose the Commission published in July an official report entitled *Perspectives for the Common Agricultural Policy*, popularly known as the "Green Paper" (Commission of the European Community 1985a). With hindsight, one can see that the debate that was launched did not bring forth many new ideas, nor did it lead to a consensus; rather it reflected the same major contradiction. Yet the Green Paper was important because it expressed the new Commission's view of current agricultural policy problems, and it provided the intellectual basis for the subsequent actions and positions of the Commission. Regarding the reform of the cereal policy regime, it is useful to separate the preliminary discussions launched by the Green Paper from the formal decisionmaking process that occurred between February and April 1986.

### Preliminary Discussions

The Green Paper. The Commission asserted the need to maintain a large number of farms in the European Community without wasting large amounts of public resources. It reviewed various problems, of which only those pertaining to the cereal sector are discussed here.

The Green Paper asserted that cereal support prices should be significantly decreased to balance supply and demand. This would be preferable to supply-control measures, such as land set-aside or production quotas, which were viewed as leading to higher prices and lower demand, and not to higher farm incomes. In addition, in order to increase exports of grains without unbearable budget costs, EC prices should be brought closer to prices received by producers in other exporting countries.

The intervention regime should be modified to restrict the period of intervention purchases to the months of April and May. The implementation of the guarantee threshold concept should be strengthened, with support prices being lowered during the

4 Much of the material for this chapter was collected by Catherine Charpentier for a research paper done under the author's direction (see Charpentier 1986).

crop season when it appears that the harvest volume will exceed the threshold, instead of waiting for the next crop season.

Moreover, producers should bear part of the financial burden caused by surpluses of production over domestic demand by paying a co-responsibility tax, whose proceeds could be used to promote new cereal uses or as a financial contribution to the payment of export restitutions.

To compensate small farmers affected by price reductions if the CAP reforms suggested by the Commission were implemented, additional direct income support measures should be adopted. Savings on the price guarantee section of the European Agricultural Fund (FEOGA) should permit an increase in expenses for sociostructural measures, that is, measures favoring the mobility of land, labor, and capital for the development of more efficient production units.

The November Memorandum. After broad consultations with national government representatives, farm groups, and other interested parties, which went on until late October, the Commission specified its position through the publication on November 13, 1985, of another official document entitled, *A Future for European Agriculture, the Commission Orientations* (Commission of the European Community 1985b). This document includes a memorandum on reform of the cereal policy regime, the Organisation Commune de Marché (OCM). Along the lines suggested in the Green Paper, the Commission proposed the following policies:

- Adoption of a restrictive price policy, consistent with market realities (the price reduction suggested is small, in order to avoid spillover effects on other commodities, particularly surpluses of crops competing with cereals at the producers' level);
- Strengthening of quality criteria to discourage the production of low-quality feed wheat;
- Weakening of intervention mechanisms to favor commercial uses instead of intervention storage; and
- Initiation of a co-responsibility tax to lighten the FEOGA financial burden and make farmers more sensitive to market realities. This tax would be levied on sales and not on production to favor the direct use of grain on farms. The first 25 tons would be exempted so that the income of small farmers would not be affected. The amount of the tax would be computed on the basis of the cost incurred to dispose of the excess of production over nonsubsidized consumption, but after adding to the latter the amount of cereal substitutes imported for animal feed compounds.

Reactions to the Memorandum. The memorandum on the cereal regime was formally presented by Frans Andriessen at the Council of Ministers' meeting, November 18 and 19, 1985. With the exception of the United Kingdom and Italy, representatives of member countries indicated their willingness to negotiate on this basis. The UK Minister of Agriculture, Michael Jopling, proposed a 20 percent price cut to be spread out over two years. His Italian counterpart, Filippo Pandolfi, opposed the co-responsibility tax. On that tax, representatives of Denmark, Ireland, and the Netherlands expressed a preference for assessing it on acreage rather than on production. Discussions continued within the Commission and within a working group made up of high-level civil servants in charge of agricultural market policies in the various member states. Formal reform proposals were presented to the Council of Ministers by the Commission in February 1986. These were followed by the annual price proposals for all agricultural commodities supported within the CAP. The two proposals were presented by the Commission as two distinct entities, emphasizing their differences and stressing the unusual character of the cereal regime reform. But it became immediately clear to all participants in the policy process that the two proposals would be discussed as parts of a single package.

### The Formal Decisionmaking Process

The Commission Proposals. The price proposals for the 1986/87 crop year and the proposed changes in the cereal policy regime were published in two different documents (Commission of the European Community 1986a, 1986b). Taken together, these changes included: freezing price support levels; initiating a co-responsibility tax of 3 percent of the intervention price; exempting the first 25 tons marketed from the co-responsibility tax; shortening the intervention purchase period from the usual July 1-June 30 to December 1-April 30; strengthening quality criteria so that the reference moisture content would be 14 percent instead of 16 percent; and imposing penalties on wheat that did not comply with new breadmaking specifications.

As a whole, these changes were fully in line with the orientation given in the memorandum. Now that specific proposals were on the table, amounting to a significant reduction in the prices that farmers would receive, the center of action moved to the Council of Ministers.

Council Meetings. The ministers of agriculture examined the Commission proposals on February 24 and 25, but the Council president, Gerrit Braks of the Netherlands, felt that a real discussion was not possible for two reasons: the budget situation would remain uncertain until the finance ministers met on March 10, and the prospective French legislative elections, to be held on March 16, would disturb the debate.

A series of bilateral meetings between Braks, Chairman of the Commission Andriessen, and other Commission officials and national government representatives was undertaken. Instigating such meetings is a common procedure for a Council president. It permits exploration of the various negotiation margins, presumably in order to find a mutually acceptable compromise.

Another meeting of the Council of Ministers was held on March 24 and 25. It was attended by the new French minister of agriculture, François Guillaume. This represented a new round where national positions on the Commission proposals were restated, a step that "could not be avoided but did not yield any progress in the negotiation process," according to one close participant's remark. Thus, the April 1 deadline could not be respected.

A final decision was taken on April 25, early in the morning and after a long negotiating session, which lasted for four consecutive days. The negotiation was particularly difficult because, for the first time, 12 countries had to come to an agreement, Spain and Portugal having joined the European Community on January 1, 1986. In addition, the package was quite complex, and preliminary discussions within the Special Committee on Agriculture or the high-level working group had not produced a very elaborate basis for a final compromise.

Credit for shrewd chairmanship of the Council of Ministers should be given to Braks and his close associates. As usual, the Commission made successive proposals as the negotiation progressed. Matters proceeded fairly quickly once the third proposal was adopted, the chairman taking an informal, indicative vote on each element of the package. Since none of the elements was blocked by use of the qualified majority rule and since no member country invoked its vital national interest, the package was declared adopted by the chairman without another formal vote on the whole package. The final decision was close to the first Commission proposal: price support levels were frozen, grain-quality criteria were strengthened, the intervention purchase period was shortened from 12 to 7 months (October 1-April 30), and a 3 percent co-responsibility tax was initiated. The Council slightly softened the pill for farmers: bread wheat satisfying specific and stringent criteria was granted a 2 percent price premium, the reference moisture content was fixed at 15 percent instead of the 14 percent suggested by the Commission, and the first 25-ton exemption of the co-responsibility tax was replaced by a program of direct income payments to small producers. On the whole, it was estimated that in countries where these measures were not mitigated by a dismantling of negative MCAs, and where average grain quality is usually mediocre, the price received by farmers would drop by about 11 percent.

## THE FRENCH POSITION

France was the largest producer of grains in the European Community (close to 58 million tons in 1984), followed by Germany and the United Kingdom (about 26.5 million tons each). Together these three countries had contributed more than 72.2 percent of total EC production and their share was increasing. Average yields were high: 5.7 tons per hectare for soft wheat in France for the three-year period, 1982-84. This was about the same as in Germany and slightly less than in the United Kingdom, where grain quality is usually lower, fit only for livestock feed. France was also the largest exporter of wheat; its share of intra-EC international trade for wheat was 67 percent, and France contributed 80 percent of total EC exports of wheat outside the Community. By contrast, the corresponding figures for the United Kingdom were 17 percent and 10 percent respectively, these shares having increased in preceding years. German exports were negligible. Whereas export markets were vital for French wheat farmers, who exported 56 percent of their production, they were of almost no interest to German farmers. These striking differences led to quite divergent interests in the cereal policy debate.

The main actors involved in the policy debate can be classified in two categories, first, those representing specific economic interests, and, second, government agencies.

### Farm Organizations

Farm organizations make up the first category in this instance. The most important actor among them was the AGPB (the wheat growers' association). This is not surprising because commodity interests were obviously at stake in the debate.

The Association Générale des Producteurs de Blé (AGPB). This organization defends the interests of wheat growers, who often also produce other marketed feedgrains. Thus AGPB is the spokesman for cereal producers' interests in general. There is, however, also a specialized maize growers' association, Association Générale des Producteurs de Mas (AGPM), which is separate from AGPB. Both are members of FNSEA, the general farm organization. FNSEA attempts to develop a unified position for all farmers; it acts as a coalition of various commodity interests. For several years, dairy farmers have held a dominant position in FNSEA. Because the general organization must also take into account the interests of the grain producers, AGPB exercises real influence when cereal policies are under discussion.

Having long advocated high price support levels, AGPB recently and discreetly shifted its position. It

had indicated to the French government in 1985 that it would accept a lower price. This was consistent with the conviction that French grain production has a comparative advantage in Europe. But AGPB was in favor of maintaining and managing the intervention measures as before, and it was strongly opposed to the co-responsibility tax. It also campaigned for a reduction of several specific national taxes on cereals, which were used to finance statistics, operations of the cereals board, Office National Interprofessionnel des Céréales (ONIC), and the extension service, and even contributed to financing the farmers' health insurance scheme.

In 1986, conscious that the pressure on the EC budget had been exacerbated and fearing the imposition of production quotas, AGPB accepted the principle of a co-responsibility tax, but it requested what it called an "active co-responsibility," meaning the allocation of the new tax proceeds to market development measures, particularly new industrial uses and export enhancement.

AGPB is a powerful organization. Its members are generally well-off, educated, and conscious of their interests. They can easily be mobilized and do not hesitate to drive long distances to participate in a demonstration anywhere in France or even in Brussels. The organization is well financed and has a good reputation for professionalism and efficiency. But most of its influence stems from the economic significance of the French cereal sector, which provides a large trade surplus in an economy chronically plagued with difficulties and thus helps balance France's current external accounts. The views of AGPB are usually supported and relayed by FNSEA, but AGPB also has the means to express its position through its publications and through ready access to policymakers at all levels.

AGPB reacted to the various analyses, suggestions, and finally specific proposals of the Commission by developing an alternative analysis of the outlook for the grain sector. It argued that new markets could be developed and, as a result, European grain production should be allowed to continue to expand at a reasonable rate. Food uses could be increased through a reduction of wheat imports (which are usually special quality wheats blended with domestic European wheat to manufacture specific flour types). Feed uses could be increased by restricting imports of cereal substitutes, such as cassava or corn gluten feed. New food or feed uses could also be developed through research and fiscal incentives. In this respect the most promising outlet could be the development of bioethanol (alcohol), which could be used as a solvent to produce lead-free gasoline.

To promote such developments, AGPB created or participated in various lobbying activities. It put pressure on EC and national public authorities to obtain three measures: an extension of export restitutions to cereal-based industrial products; a reduction of the specific tax on alcohol to make it more competitive with gasoline; and public support on investment (fiscal incentives, a direct subsidy, subsidized credit, or a combination of these measures).

Given such measures, AGPB argued that cumulated public stocks of cereals could be about 10 million tons in 1991/92 instead of the 80 million tons projected by the Commission. It also argued that the Commission estimate of cereal substitute imports was much too low; it computed a figure of 22.3 million tons instead of the 14.1 million tons estimated by the Commission. This difference rests on a matter of definition, AGPB including in the cereal substitute category such products as molasses, fats and oils, and oil seeds and meals, which were not taken into account in the Commission estimate.

As a result, AGPB was against the Commission proposals. In particular, it rejected a reduction in the price support level and the idea of a co-responsibility tax as suggested by the Commission (that is, without earmarking the tax proceeds for market development). AGPB accepted the strengthening of quality criteria but wanted, as a compensation, a premium on high-quality wheat. It was against any weakening of the existing intervention measures. And AGPB criticized the Commission for not proposing an active export policy, for doing nothing about corn gluten feed imports, for accepting an increase in manioc imports from Thailand, and for seeking a condemnation of the French government in the European Court of Justice concerning a sale of wheat flour to Egypt supported by a public credit guarantee scheme.

Union Nationale et Fédération Française des Coopératives d'Approvisionnement et de Céréales (UNCAC and FFCAC). Grain cooperatives market more than 70 percent of all grains in France. They have two major national organizations: UNCAC, which mainly fulfills an economic role (exporting the grain of some 400 co-ops), and the FFCAC, which acts as a pressure group. The co-op movement collaborates closely with AGPB; it plays a specific role because of its intimate knowledge of marketing channels. Thus, for example, UNCAC was critical of the Commission proposal to strengthen quality criteria, which it viewed as only a device to indirectly lower the price support level. It claimed that buyers abroad are not interested in having a single quality standard: when they want a specific type of cereal, they can usually find it. Thus UNCAC felt that there was no need for the Commission to take action in this domain. In Europe, millers in the various member countries have different requirements. Thus it may not be meaningful to define a single set of quality criteria for the whole Community, except for the requirement relating to moisture content. For

instance, buyers for the Soviet Union require a 14.5 percent maximum moisture content.

The main concern of the cereal cooperatives during the period of the policy debate was the creation of new negative MCAs in France, following the devaluation of the French franc after the legislative elections and the change of majority in March 1986. FFCAC immediately requested the total dismantling of the French negative MCAs.

Fédération Nationale des Syndicats d'Exploitants Agricoles (FNSEA). FNSEA is the most influential general farm organization. It has actually been strengthened in recent years by the socialist government's failure to break FNSEA hegemony among farm organizations. Under attack, FNSEA claimed that the farmers' interests were best defended by a single organization rather than by a number of small organizations, each representing the specific interests of a small category of farmers. Thus the FNSEA platform must necessarily include positions in favor of all segments of the coalition that constitutes its membership.

As already indicated, dairy producers are dominant in FNSEA. On cereal policy issues, FNSEA supports its affiliate, AGPB, unless the AGPB position appears to be in clear conflict with livestock farmers' interests. Nevertheless, FNSEA has long been in favor of limiting imports of cereal substitutes into Europe. At first glance this may be viewed as contrary to the interests of livestock farmers, who should prefer lower rather than higher feed costs, but this apparent contradiction can be resolved by noting that French livestock farmers benefit less from cheap imported feed ingredients than their competitors from Northern Europe who are located close to major harbors such as Rotterdam or Hamburg where the large and efficient feed mills are concentrated.

FNSEA has real political clout because of its influence on the rural electorate, and all political parties want to appear to support farmers' welfare. Because its positions are well publicized, FNSEA's statements contribute greatly to the government's positive or negative image among the farm population. Thus FNSEA is the main partner of the minister of agriculture in any agricultural policy debate.

Following AGPB, FNSEA rejected the analysis put forth by the Commission, particularly on the need to reduce grain production in Europe. FNSEA not only opposed any reduction in the level of support given to grain production, but it asked for a 4.7 percent increase in the price support level.

To show its political power, FNSEA invited the leaders of the four major French political parties (Jacques Chirac, Valéry Giscard d'Estaing, Lionel Jospin, and Georges Marchais) to attend its national congress in November 1985. All four accepted and thus found themselves seated at the same table for a few hours, a unique and symbolic happening. On the basis of this demonstration of its strength, FNSEA continuously criticized the French government for the weakness of its opposition to the Commission during this period, contrasting it with the determination displayed by Andriessen in the name of the Commission. Also in November, Guillaume, who was then FNSEA president, went to the United States to negotiate directly with the Americans, a trip that received wide press and television coverage.

After the change of majority in March 1986, Guillaume became minister of agriculture of the new Chirac government. This led to a complete change in FNSEA's attitude. The organization stated that it would continue to watch carefully the negotiations in Brussels but expressed its pleasure that its president had become minister, trusting that he would defend the French farmers' interests well.

Other Farm Organizations. Two other general farm organizations, allied or directly linked to FNSEA, were active in the policy debate. They are the Centre National des Jeunes Agriculteurs (CNJA) and the Association Permanente des Chambres d'Agriculture (APCA). The former, an affiliate of FNSEA, is an organization for young farmers less than 35 years old. It has some autonomy vis-à-vis FNSEA, and its positions are listened to by farmers and their economic and social allies in rural areas. CNJA criticized the Commission for paying exclusive attention to CAP budget costs and for not outlining any long-term vision for European agriculture. Refusing to accept a reform adopted without a full debate on the future of agriculture, CNJA suggested in March that all intervention measures and price supports be frozen at their 1985-86 levels, thus leaving time for a full debate. CNJA was proud to receive the support of the AGPB on this position. CNJA indicated that it would present a general scheme of reform of the CAP at the "opportune time," but such a design was never presented.

CNJA had long been in favor of co-responsibility taxes. During the cereal policy debate, it reasserted its position in favor of a differentiated tax, whereby the largest producers would pay a higher rate than the smaller ones. This idea was not supported by AGPB and was never really discussed. CNJA criticized the French government for not developing an alternative proposal to counter the push for quotas of the German government and the pro-free-market stance of the Netherlands, equal evils in the eyes of CNJA.

APCA is made up of the presidents of the Chambres d'Agriculture, semipublic organizations that exist in each *département* (administrative district). Their main activity is the provision of various advisory services to farmers. Although under some administrative control, the Chambres d'Agriculture are managed and led by farmers. APCA, the apex

organization at the national level, does not have any important difference of philosophy with FNSEA. But the two organizations sometimes compete for farmers' attention. For several years APCA had taken a more flexible position than FNSEA on the need to reform the CAP. This time, however, APCA did not play an active role in the policy debate, but it took a firm stand against negative MCAs.

### Government Agencies

The main actors in this category were the Ministry of Agriculture, several directorates under the Ministry of Agriculture, the Ministry of Economics and Finances, its directorate of external economic relations, and the Ministry of the Budget.

The Direction de la Production et des Echanges (DPE) of the Ministry of Agriculture. The DPE administers agricultural market interventions in France. It closely monitors and participates in EC affairs, and keeps in close contact with farm organizations, particularly the specialized commodity groups.

Early in the debate, DPE took a position against a drastic reduction in grain price support levels, arguing that the consequences of such a reduction on grain production and farm structure were uncertain. A concentration of production in the most fertile areas and a shift of cultivated area away from grains toward oilseeds would be likely, leading to higher FEOGA expenditures—just the opposite of the Commission objective. In addition, such a price reduction would be politically impossible. It would face strong opposition from farm organizations in France and even more in Germany. DPE favored a slight price reduction. It was convinced that French producers could support such a reduction by being more careful with their use of inputs and thus improve their productivity, which would enhance their competitiveness within Europe. DPE wanted to avoid production quotas. It feared that quotas would not really curtail production but would limit the volume covered by European restitutions. Hence French farmers or the French government would have to support the cost of exporting what was produced beyond the quotas. In addition, this would decrease the contribution of the French grain trade to France's balance of trade.

A co-responsibility tax was viewed as acceptable because it would lead to only a small reduction in the prices received by farmers and, thanks to the tax proceeds, it would alleviate the budget constraint. DPE did not favor a co-responsibility tax exemption for small producers because this would have benefited mainly German and Italian farmers. But DPE supported strengthening quality criteria, particularly related to moisture content, because this would facilitate exports and UK farmers would be the ones most penalized.

Direction des Industries Agro-alimentaires (DIAA) in the Ministry of Agriculture. The main mission of the DIAA is to promote the development of food-processing (agri-food) industries. Its main partner among economic pressure groups is the Syndicat National des Industries Agro-alimentaires (SNIA), the organization of the agri-food industries. The task of DIAA within the Ministry of Agriculture is often difficult because farmers and their organizations dominate the minister's political agenda .

In the cereal policy debate, DIAA's main concern was the grain quality issue. For a long time, DIAA had been urging that more effort should be directed to improving grain quality, so its position on this matter was quite different from that of DPE.

DIAA favored lower grain prices, which would benefit processing industries, but DIAA did not have enough influence in the Ministry of Agriculture to impose this view. DIAA did not oppose the idea of a co-responsibility tax but it feared that the tax, as proposed, would favor the direct consumption of grains on farms at the expense of the feed-mixing industry because it would be a tax on marketed grains, not on total grain production. Because of its limited influence within the ministry, the DIAA advised the agri-food industries to pressure the minister and the European Commission to give it a voice in the implementation of the co-responsibility tax.

Other Government Agencies. Both the Ministry of Economics and the Ministry of the Budget have a direct stake in the CAP. Their main concern in recent years has been the limitation of budget costs. But because of the relative influence of the economic groups involved in the agricultural policy debate, they have to take the political weight of the Ministry of Agriculture into account. Both ministries were opposed to the principle of production quotas. But they favored a price decline, which would reduce the budget cost of the CAP, an important objective for France because it had become a net contributor to the Community Budget in 1984. They opposed the co-responsibility tax because they thought the signal it gave to farmers was less clear than a straightforward decline in support prices would be. In addition, a tax is more vulnerable inasmuch as it can be rescinded at any time.

Direction des Relations Economiques Extérieures (DREE) is mainly concerned, as revealed by its name, with the external trade balance. As such, its influence in French economic policymaking is important. Conversely, in some ways, it is important for DREE that cereals have a significant trade surplus. DREE was against the co-responsibility tax because French producers would be the major contributors, whereas in decisions about the use of tax proceeds the weight of France would be limited. In addition, DREE did not support a drastic reduction of French grain production and exports. A slightly

lower price would be acceptable to French grain producers, viewed as more competitive than their counterparts in other European countries. It would boost demand and signal to the United States a will to take countermeasures after the 1985 farm bill, the Food Security Act of 1985, which was viewed as clearly geared to reconquering market shares.

The Minister of Agriculture. By function, the minister of agriculture expresses the French government's position in the Council of Ministers. This position is a result of the interaction among actors at the national level, which justifies discussing the role of the minister of agriculture after having reviewed the behavior of the other actors.

Two different persons, Nallet and Guillaume, belonging to two quite different governments, served successively as minister of agriculture during the study period. The sets of political constraints defining their possibilities for action were quite different, however. But what is most striking is the similarity in the objectives that they pursued. Each (as would any minister of agriculture) tried to maximize the political support or minimize the opposition of farmers to their government. For that purpose they both had to be concerned with the evolution of farmers' incomes that would result from the reform. Nallet was constrained by the ideological opposition of the FNSEA leadership to the socialist government. Guillaume benefited from the farm organizations' confidence that he, as a former president of FNSEA, would defend their interests. But Guillaume also had the difficult task of convincing farmers that the reform of the cereal regime adopted in Brussels could not be avoided and was a lesser evil than any other feasible compromise. Eventually, Nallet and Guillaume presented to the Council of Ministers the position of the French government: avoid quotas but accept a small reduction in the price received by farmers. This included the acceptance of a small co-responsibility tax and of tighter quality criteria. After the devaluation of the franc, shortly after the Chirac government took office, dismantling the negative MCAs that had just been created became a high priority item on Guillaume's agenda. Eventually he partially succeeded. Therefore, the price decline in French francs was smaller than that for the common price expressed in ECUs.

### Interaction at the National Level

The French government has developed a formal procedure for elaborating the French position in the Council of Ministers. This procedure provides the framework for interaction among policy actors in France. On Mondays and Tuesdays the Special Committee on Agriculture (SCA) of the European Community meets in Brussels. Made up of representatives from the 12 member states, its main function is to sort out the issues in order to prepare policy decisions to be taken by the Council of Ministers. On the previous Thursday the French position to be taken in the SCA is decided in France. In the morning, a meeting is held at the Ministry of Agriculture, with representatives of the DPE, DIAA, and the cereal intervention agency, ONIC, present. DPE plays the leading role in determining the ministry position. In the afternoon, representatives of the various ministries involved meet in the Secrétariat Général de Coordination Interministérielle (SGCI). This secretariat, under the prime minister's office, is where the positions of the various French ministries (economics and finances, foreign affairs, budget, foreign trade, and agriculture) are considered and a common position is defined. In the field of agricultural policy, the major actors are most often the ministries of agriculture, the budget, and, to a lesser extent, foreign trade. If an agreement cannot be reached at the SGCI level, the issues are referred to the prime minister or his chef de cabinet, who makes a final decision. France's permanent representative to Brussels is then instructed on the position he is to take in the SCA and perhaps on his permitted margin of maneuver. For meetings of the Council of Ministers the internal French procedure is the same as for the SCA.

Given this institutional framework, the interaction process during the period under study can now be examined. After publication of the Green Paper, Nallet requested President Mitterrand, to whom he had just been special adviser on agriculture, to give him complete authority over CAP negotiations. This he was refused, which confirms that agricultural policy decisions have to reflect many considerations and pressures originating outside of agriculture.

In the fall, Mitterrand exerted strong pressure on the Commission president, Jacques Delors, to avoid any decrease in public support to cereal producers before the French legislative elections, which were scheduled for the following March. During the same period, Minister of Agriculture Nallet and his immediate collaborators were fearful of the German pressure in favor of production quotas. To avoid this danger, Nallet actively pushed the principle of a co-responsibility tax, after having checked with the main farm organizations that this was acceptable to them. As indicated above, the farm organizations did not accept the Commission analysis leading to the conclusion that the growth in production should be checked, so they did not endorse the co-responsibility tax. However, it was clear to all participants that a drastic price reduction or production quotas would be unavoidable otherwise, and such policy changes were viewed as worse than the co-responsibility tax. The acceptance of that tax was conditional on earmarking the proceeds for market development measures. The French government

adopted the idea of the tax without considering in detail its consequences for the feed-mixing industry, in spite of the complaints expressed by SNIA, DIAA, and ONIC. Under French pressure, the Commission introduced the co-responsibility tax in its formal proposals. And then the debate started again.

In February, Nallet used the CNJA proposal to freeze all intervention measures according to their status in 1985 in order to take a year to shape a really new policy, thus blocking the negotiations for a while. It was clear anyway that no decision could be taken before the French legislative elections on March 16.

The agricultural policy agenda in France after the new Chirac government took office was deeply changed. The devaluation of the French franc and the revaluation of the German mark led to the creation of negative MCAs in France (-6.3 percent for cereals). At Ootmarsum, Netherlands, where these new exchange rates were fixed by the 12 ministers of finances and economics, the French minister agreed that no member state would ask for dismantling of these negative MCAs "before the end of the current agricultural price-fixing procedure." This was a hard blow for French farmers. Accepting it in the wake of the devaluation was politically expedient for the new government, since the devaluation was clearly presented as the consequence of the previous government's bad economic policies. Afterwards, Guillaume presented himself as a strong defender of the farmers' interests by asking for the dismantling of the negative MCAs, in spite of his colleague's promise that the French government would not do so. Eventually, negative MCAs on cereals were reduced by 1.4 percent, and this sweetened the somewhat bitter pill of the cereal policy reform. For Chirac, the choice of Guillaume as minister of agriculture had been politically astute. It neutralized the potential opposition of farm organizations to the decline in public support of cereal producers.

## LESSONS REGARDING THE EC DECISIONMAKING PROCESS

The main lesson to be learned from this decisionmaking process is that important decisions in the European Community can only be taken as part of a package. In addition, this example confirms that it is useful to distinguish between the core and the periphery of a particular package of decisions. In retrospect, the co-responsibility tax appears to have been at the core of the package under debate. In recalling how it evolved, another aspect of the EC decisionmaking process can be stressed—one that has been little discussed so far—namely the relationship between the national and EC levels.

In summary, the idea of the tax appeared for the first time in the Green Paper in July 1985. The tax was presented as a possible instrument for collecting funds for the FEOGA and developing new markets. Following this publication, several member states including Germany, Italy, and the United Kingdom indicated that they would prefer or accept the production quota solution. French interests felt threatened by production quotas, inasmuch as the French government and some farm organizations feel that France has a comparative advantage in Europe for grain production. This explains the position in favor of the co-responsibility tax taken by the French government early in the debate. In its memorandum, the Commission adopted the idea of the co-responsibility tax but for the sole purpose of increasing FEOGA receipts. The proceeds were not earmarked for market development, as requested by French farm organizations when they accepted Nallet's support of the tax.

The Commission suggested that the tax be levied at the marketing or intervention level and that the first 25 tons be exempted. This latter provision was eventually replaced by a program of direct income payments, as requested by the French government. Guillaume managed to convince the Commission officials and Kiechle, his German counterpart, who had supported the exemption, to accept the direct payments. It was also decided that the tax would be collected at the level of first processing, intervention, or export. This was to allay fears of possible fraud, particularly in Italy and Greece.

This brief description illustrates the complex movements of the policy debate at the national and the EC levels. It also confirms the idea that in a decision package some issues are at the core of the debate and others at the periphery. The importance of the issues in the peripheral category should not be underestimated, however. After all, Germany had vetoed a small price decline for grains in 1985. In addition to the desire not to bear once again the political cost of a veto, the German government was probably satisfied with the promise that small German grain producers would be compensated through EC or national measures. This peripheral element avoided a stalemate.

# 4

# Pressures on French Wine and Spirit Exports to the United States

Domestic and trade agricultural policies are closely interrelated. Conflicts of economic interest often underpin trade disputes, as they do domestic policy debates. Both domestic and trade conflicts are settled through a political process: for trade disputes that process is essentially made up of negotiations among national governments, often within the General Agreement on Tariffs and Trade (GATT). Thus, although GATT and the European Community are quite different international institutions, in both cases the process involves a political interaction: the first, at the national level, results in the position taken by the government representative at the second, the international level. Accordingly, the approach developed in this report and used in previous chapters should also be relevant for the interpretation of agricultural trade disputes. The case of the political pressures revolving around French exports of wines and spirits to the United States has been selected for study here because it is relatively simple, highly symbolic, and revealing.

The problem is simple because the issues are clear-cut. Wine exports from France to the United States grew rapidly because the demand for wine expanded in the United States. Neither political interference nor government support in Europe were responsible for this expansion. Political pressures to check that growth, however, have been exerted by well-identified pressure groups pursuing clear and straightforward objectives, and pressure has been brought to bear on the U.S. Congress and the administration through the International Trade Commission. In addition, the U.S. government has clearly threatened trade retaliations on wines and spirits in order to pressure the European Community into granting trade concessions following the enlargement of the Community to include Spain and Portugal.

Exports of French wines and spirits are highly symbolic on both sides of the Atlantic. In the United States, wine consumption has grown mainly as a result of a trend set by expansion of a young affluent class called "yuppies." Being a wine connoisseur has become a sign of cosmopolitan awareness and refinement, a proof that one really knows the "good things" in life. From their perspective, the best French wines and cognacs are highly valued. In France, wine making and knowing how to appreciate good wines are essential features of the national culture. The phenomenal growth in exports of high-quality wines to the United States, northern European countries, and Japan is viewed as a widespread recognition outside of France of a critical element of the French quality of life.

Thus, a study of the pressures on French wine exports can lead to a better understanding of the process of international interaction involved in trade disputes and negotiations. First, the long-term economic trends behind the growth of French exports to the United States are reviewed to provide a background for interpreting three instances of political pressure exerted on this trade flow in recent years: (1) the Wine Equity Act, (2) a suit filed with the U.S. International Trade Commission, and (3) threats of U.S. retaliation that followed the Iberian enlargement of the European Community.

## GROWTH OF U.S. IMPORTS FROM FRANCE: ECONOMIC DETERMINANTS

For France, the economic stakes involved in its exports of wines and spirits are high indeed. The trade surplus in this sector has been around 20 billion francs (Fr) in recent years. This may be compared with trade surpluses of less than Fr 30 billion for the whole agri-food sector and of Fr 28 billion and Fr 40 billion respectively for the aircraft and armament industries in 1986. The United States is a major outlet for these exports (about Fr 5.0 billion total: Fr 3.3 billion for wines and Fr 1.7 billion for spirits). In addition, the volume of wine and spirit exports multiplied more than threefold between 1975 and 1985. During this period U.S. domestic supply could not keep up with the rapid growth of demand, and the high value of the dollar in the 1980s made imports economically attractive.

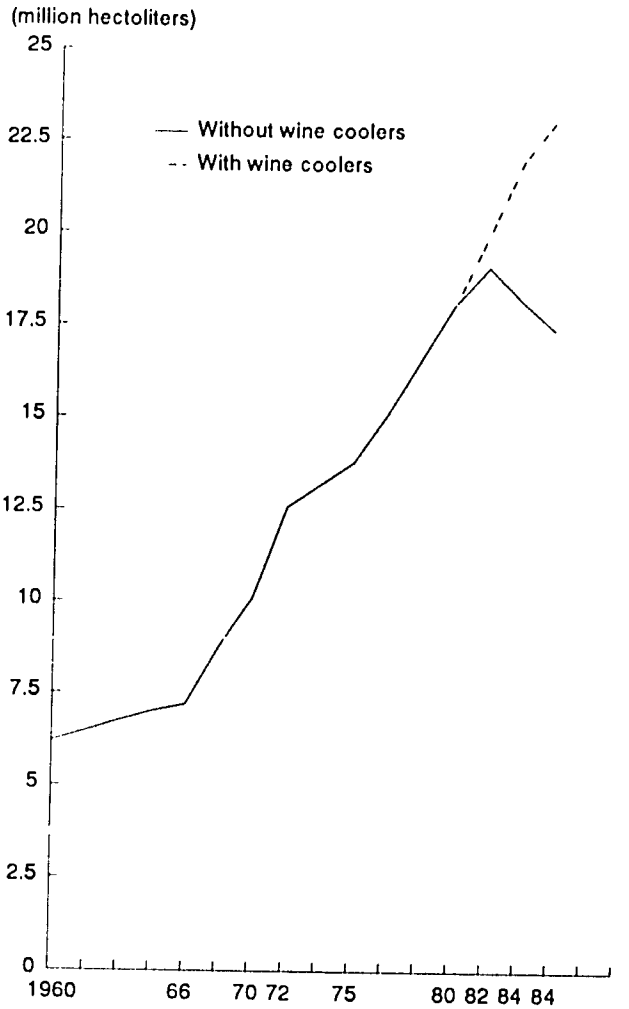
## Growth in U.S. Domestic Consumption

The evolution of total U.S. wine consumption between 1960 and 1985 is given in Figure 3. In 20 years total consumption almost trebled—a rate of growth close to 6 percent per year. But in 1982, this rate of growth slowed down to 2 percent. Total consumption even declined in 1985, after having reached a maximum of 19.8 million hectoliters in 1984. In the meantime a new product appeared on the market: the wine cooler, a mixture of fruit juice, tonic water, and white or red wine. Invented in 1981 by a small Californian winery, wine coolers soon experienced explosive growth in sales. With 5.4 million hectoliters consumed in 1986, coolers represent 22.3 percent of the total wine market (including coolers). In a Mediterranean culture, such a mixture would not qualify as wine. Figure 3 suggests, however, that wine coolers substituted for wine in an expanding U.S. market, since total sales of the two types of products continued to increase on the same trend as did wine consumption before the appearance of the coolers.

With 19 million hectoliters, U.S. total wine consumption ranked 5th in the world in 1984, yet per capita consumption remained at a relatively low level (8.9 liters per capita), placing the United States in 22nd position. By contrast, per capita consumption in Italy, Portugal, and France was about 84 liters per capita, and in Germany it was about 27 liters per capita.

The evolution of wine consumption by type of wine in the United States also reveals a profound transformation in consumption habits and presumably in taste preferences (Figure 4). Dessert wines represented an important share of the market (about 50 percent) in the 1960s, but their relative importance fell to 5.4 percent in 1986. The major share of the market has been captured by still wines (which today represent about 75 percent of wine consumption, coolers excluded). Sparkling wines and champagne have seen their importance expand in a growing market. They now represent about 8 percent of the market. Vermouths have never been very important; their share of consumption is now about 1 percent. The rapid growth of still wine consumption could be interpreted as reflecting the emergence of more mature consumption habits in a country where wine consumption is not a tradition. But such an interpretation may be exaggerated. As already indicated, wine coolers have become substitutes for still wines. Also, among the still wines, the importance of the whites grew from 25 percent of consumption in 1971 to 64 percent in 1985. These developments do not reflect a domination of the market by connoisseurs. Yet this dynamism in demand probably reflects significant new consumption habits, leading to a high income elasticity of demand. Since, as discussed in more detail below, French wines continue to be highly valued in this market. French exporters hoped that the scope for growth in this expanding market, was great indeed. This explains why the stakes involved in the trade disputes affecting French wine exports were viewed as very high. The same is true for spirits.

**Figure 3—Evolution of total wine consumption in the United States**




Source: Impact Data Bank

Total U.S. consumption of spirits grew rapidly until 1975, reached a maximum of 17.3 million hectoliters in 1981, and declined afterwards to 15.2 million hectoliters in 1986. But this general picture is the result of different evolutions of specific types of spirits. Whiskeys are the major component of total spirit consumption. Their consumption declined from 9.3 million hectoliters in 1970 to 7.8 million in 1980 and to 6.9 million in 1984, whereas total con-

sumption of "white" alcoholic drinks (gin, vodka, rum, and tequila) increased from 3.9 to 6.8 million hectoliters between 1970 and 1981, remaining stable afterwards. Brandy consumption (including cognacs) grew from 0.57 to 0.83 million hectoliters, and total "specialties," which include brandy, cordials, liqueurs, and mixed cocktails, grew from 1.5 to 2.8 million hectoliters between 1970 and 1984. This is another illustration of changing consumption habits. For French exports, the important feature of this evolution is that French products are mainly brandies and liqueurs, the two categories of spirits with a growth market.

### Sources of Supply

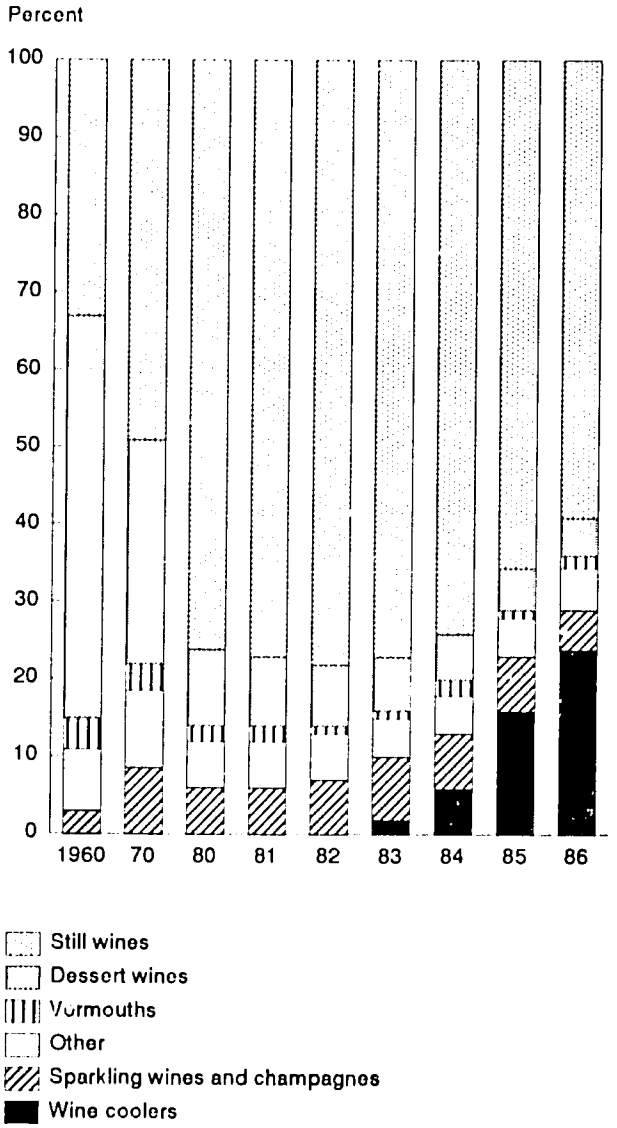
The main supply of wines on the U.S. domestic market comes from California production, which has provided at least two-thirds of total consumption since 1970, the exact share of California declining slightly from 73 percent in 1970 to 66.1 percent in 1985 and rebounding to 69 percent in 1986.

In California, many grape growers have the choice of allocating their harvest among three main uses: table grapes, dry raisins, and wine. In 1986, the distribution among these three outlets was 12.4 percent, 42.7 percent, and 44.9 percent respectively. In recent years the area harvested has grown rapidly, leaving large carryover stocks of wine and raisins from one harvesting period to the next.

Supplies of wine from other American states have increased in volume, but their market share has remained slightly below 10 percent in the 1980s, with the exception of 1985 when it reached 13.6 percent.

As a result, imports into the United States have continued to play a significant role. They grew from 11.3 percent of the market in 1970 to 21.4 percent in 1980 and 25.3 percent in 1984 but lost ground in 1985 (20.2 percent), recovering only partially in 1986. Thus growth in imports, which had been rapid until 1984, has been checked by the growth of such substitutes as domestic U.S. wines and wine coolers. Most of the imports came from the European Community (97 percent in 1986). In volume the largest share is contributed by Italy (52 percent of still wines in 1984), followed by France. In value terms, the ranking is reversed: France gets 43 percent of U.S. spending and Italy 34 percent. France sells higher-priced wines than Italy, benefiting from the positive image of French wines, even if French sales cover a much broader range of qualities than the prestigious Bordeaux and Burgundies. For sparkling wines and champagnes, imports provided 34.5 percent of the market in 1985 and 31.6 percent in 1986 (170,000 hectoliters). In volume terms, Italy is the largest supplier, but France ranks first in value terms, as for still wines. The value of French imports

**Figure 4—Evolution of wine consumption by type of wine in the United States**




Source: Impact Data Bank

was US$171.3 million in 1986: this corresponded to a growth of 10 percent over 1985, at a time when total imports declined. Over the last few years, Italy has been losing market shares to the benefit of France and Spain, a relatively recent newcomer on the market but progressing quickly.

For spirits, imports have increased their market share from 25 percent to 32.5 percent between 1970 and 1984, but they declined to 25.6 percent in 1986. Imports of brandies from France are important (31 percent of U.S. consumption in 1984). Sales of

French cognac trebled between 1975 and 1985, when they reached 15.5 million liters, but all imports of French brandies declined in 1984 and 1985. Imports of French liqueurs increased at a rate of more than 5 percent per year in the early 1980s, but they declined by 3 percent in 1986.

As for the impact of the rising value of the dollar on French imports in the early 1980s, Blandford and White (1987) estimate that between 1980 and 1984, 77 percent of the increase in French wine imports into the United States could be attributed to the effect of variations in the exchange rate. But these imports were also hit when the general outlook on the wine market changed in 1985 and 1986, that is, even before the dollar began to decline.

Blandford and White also show that the U.S. demand for two types of wines showed little sensitivity to prices: the least sophisticated at the cheapest end of the spectrum (Lambrusco style) and the most expensive, such as the Bordeaux and the Burgundies. For the latter category, the competitiveness of French wines on the U.S. market seems to be robust.

## U.S. POLITICAL PRESSURES ON FRENCH IMPORTS AND THEIR CONSEQUENCES

As indicated earlier, pressure groups, particularly California grape growers, hurt by wine imports from France and Italy, have exerted political pressure on both the U.S. Congress and the administration. These pressures led to the Wine Equity Act and to suits being filed in the International Trade Commission.

In 1983, the California grape and wine sector was experiencing difficult times. The growth in wine demand had begun to slow down. As a result, carryover stocks increased at a time when interest rates were high. A larger share of the grape harvest was then diverted to the fresh grape and raisin markets, glutting them. At the same time, because of the high value of the dollar, imports increased 15 percent in 1983, while exports declined by 13.5 percent. Wine prices on the domestic market were also depressed by a price war between two major producers: Gallo and Taylor. But the European Community was seen as the main culprit: it was accused of subsidizing its exports, of taxing imports, and of blocking U.S. imports through regulations banning common U.S. wine-making practices. In spite of mutual concessions agreed to in July 1983, economic pressure on California growers continued to build, and this led to two actions: a legislative proposal in Congress and a dumping and countervailing-duty suit filed in the International Trade Commission.

### Sequence of Events

The Wine Equity Act. A proposal was introduced in the Ways and Means Committee of the House of Representatives by Tony Coelho (Democratic congressman from California) in August 1983 and in the Senate Finance Committee by Pete Wilson (Republican senator from California) in November 1983. The bill was supported by the Wine Institute, a pressure group with headquarters in San Francisco. It would have required the administration to take protectionist measures against countries restricting the entry of U.S. wines and registering a wine trade surplus with the United States.

Congressman Coelho actively lobbied his colleagues, presenting the bill as a measure to promote freer trade because it would boost U.S. exports of wines and spirits. Many legislators agreed to cosponsor the bill, but it immediately faced strong opposition from the administration and various pressure groups fearing the direct or indirect effects of the bill if it were enacted. The U.S. trade representative, William Brock, emphasized that, although the promotion of U.S. exports was a valid objective, the bill contained protectionist measures that would be dangerous. In particular, it introduced a new concept of a sectoral balance of trade, which is in complete contradiction to the benefits to be derived from a specialization resulting from the play of comparative advantages. In addition, replacing government-to-government negotiations with automatic, unilateral retaliations would run a high risk of escalating trade barriers.

European interests, such as the French Fédération des Exportateurs de Vins et Spiritueux (wine and spirits exporters), expressed their opposition to the bill through their national governments and the Commission of the European Community, using diplomatic channels. They pointed out that the concept of a sectoral balance of trade and the automatic retaliations based on it were not recognized at all in the GATT.

Several U.S. interest groups also opposed the bill. These included not only the National Association of Beverage Importers, but also several other organizations fearing that the bill could lead to European retaliations on products of direct concern to them. At a time when a tax on the consumption of oils and fats other than butter was being discussed in Europe (indeed, it had been formally proposed by the Commission) the U.S. soybean industry feared that U.S. protectionist actions by the United States would lead to more European protection.

This powerful opposition caused the first proposal of a Wine Equity Act to be abandoned in February 1984. But this was only a temporary defeat for its supporters. In the spring of 1984 a new version was elaborated by the Wine Institute, a coalition

of grape growers' organizations calling itself the Grape Growers Alliance for Fair Trade (GGAFFT), and the American Soybean Association (ASA). For the latter organization, the objective was to avoid the most objectionable features of the previous bill without antagonizing powerful, potential agricultural allies. In addition, the ASA was disappointed that the European wine and spirit exporters did not oppose the proposed EC tax on the consumption of oils and fats other than butter with more enthusiasm.

Opposition to the bill continued. The administration and European interests pointed out that access of U.S. wines to the European market had just been improved (a tax related to the "reference price" had been dismantled and U.S. wine-making practices had been accepted). Large corporations, such as Seagram and Almaden, opposed the bill because they import large quantities of wines and spirits into the United States. U.S. cereal interests (including the National Wheat Growers Association and Cargill) also opposed it because they feared retaliation.

Nevertheless, the new version of the Wine Equity Act was adopted as part of an omnibus trade bill and enacted by President Ronald Reagan on October 30, 1984. An important feature of this new legislation is that it changes the definition of the wine industry. Fresh grapes are considered a "like product" in the wine sector. Thus grape growers can legally claim that their interests may be unduly hurt by another country's wine policy measures. The legislation, however, is only valid for two years. As discussed more fully below, these two features have had offsetting influences so far, the latter blunting the potentially aggressive consequences that could have resulted from the former.

Anti-Dumping and Countervailing Duty Suits in the International Trade Commission (ITC). The ITC is an autonomous organization within the federal government. Acting on a suit filed by a domestic industry, the ITC must investigate and decide whether or not measures taken by foreign governments that impede international trade inflict damage on a U.S. industry. If the ITC answers positively, the Department of Commerce must undertake an investigation to appraise the amount of subsidy or dumping involved. Then the ITC makes a more detailed "final investigation." If the existence of unfair trade practices by other countries is confirmed, the president may intervene in order to protect national production. He is, in particular, authorized to increase border taxes on products coming from the countries being investigated.

The first suit was filed on January 27, 1984, by GGAFFT, accusing ordinary French and Italian wines of benefiting from subsidies and dumping. According to the procedure against dumping and for countervailing duties (sections 703 and 733a of the 1930 Tariff Act), the suit first defined the "like products," in this instance ordinary table wines. Two questions related to definitions immediately arose: Should grape growers be included in the domestic industry under investigation? What place should be given in that industry to firms such as Seagram that produce but also import wine? On the first question, the ITC decided to exclude grape growers for three reasons: the lack of a close economic integration between growers and wine makers, the existence of two other uses for grapes besides wine, and the absence of a close relationship between grape and wine prices. On the second issue, Seagram was included in the industry because of the importance of its domestic production compared with the limited amounts it was importing.

ITC investigators collected data on tariffs, volumes, profit margins, and subsidies from many sources. They sent questionnaires to U.S. producers and importers, and to European exporters and public authorities (the Italian and French governments and the European Commission). A hearing was held in Washington on February 27, 1984. On the basis of this information, the situations of the various interests at stake were analyzed. It was observed that the prices of European wines on the U.S. market were higher than those of corresponding U.S. products. Prices had declined between 1981 and 1983 mainly because of a price war among leading U.S. firms. Moreover, ITC investigators remarked that they had difficulty comparing prices because many U.S. firms did not provide the necessary information. They did not willingly cooperate with an investigation that they had not requested, the main plaintiffs initiating the case having been the grape growers. In March 1984, the ITC stated that the accusations against French and Italian wine exports were not sufficiently established to pursue the case.

But the adoption of the Wine Equity Act in the fall of 1984 provided GGAFFT with another opportunity to file a complaint with ITC. This was done on September 10, 1985. A new preliminary investigation was undertaken, following the same procedure against dumping and for countervailing duties as before. This time the domestic industry included the wineries and the grape growers. Imports from Germany were also taken into account and the existence of damage resulting from the cumulative effect of imports from the three countries was investigated.

To support its case, GGAFFT used the results of an econometric model indicating that wine imports were the main factor explaining the slump in domestic sales. But this model was viewed by ITC experts as too tentative and biased. Again prices could not be fully compared because several major U.S. firms failed to cooperate. In spite of the existence of subsidies that indirectly helped European exports and wine surpluses in France and Italy, the ITC again

concluded in October 1985 that imports of French, German, and Italian wines did not constitute "unfair competition" inflicting damages on the U.S. domestic industry.

### The Actors and Their Behavior: The United States

Following Baldwin (1987), the main actors involved on the public side in U.S. import policies are the president, other officers of the executive branch, Congress, and the ITC. In addition, private interest groups put pressure on public officials to secure protection. This is fully consistent with the general approach presented in the first chapter of this report, and an analogous analysis can be proposed for the European side, as will be seen later.

Public Officials. President Reagan did not directly play a major role in the debates under study here, but his general attitude in favor of freer trade influenced the behavior of the various actors from the executive branch who were involved in the debates. Given this background, his signing of the Wine Equity Act may appear surprising. As a matter of fact, this illustrates once again that policy decisions are the result of conflicting pressures. President Reagan was opposed to the protectionist measures of the Wine Equity Act, but the act was presented to him as part of an omnibus trade bill that included, among other things, a generalized free-trade agreement with Israel and General System of Preferences (GSP) measures in favor of developing countries. Vetoing the bill would have blocked these elements.

The main actor from the executive branch in the debates under study was the U.S. trade representative, William Brock, who forcefully opposed the Wine Equity Act when it was discussed in Congress, denouncing it as dangerous because it could lead to an escalation of protectionist measures in Europe against U.S. products.

The Department of Commerce and the Department of Agriculture only provided expertise. The former must estimate the amount of damage, once the ITC preliminarily decides that such a damage exists. The latter supported the California grape growers but was not listened to by the ITC. In addition, the chief of operations of the Compliance Division of the Bureau of Alcohol, Tobacco and Firearms, Robert Maxwell, provided expertise in the preparation of the Wine Equity Act because of the intimate knowledge of wine imports accumulated by his bureau, which is the regulating agency for these imports at the federal level. His advice reputedly played a moderating influence on the language of the act.

The International Trade Commission (ITC) was created by Congress in 1916. Its task is to provide impartial information to the president and to Congress for conducting U.S. international trade policies. The six members of the ITC are appointed for a nonrenewable nine-year term by the president, and they must be confirmed by Congress. At the maximum, three of the six members may belong to the same political party. These procedures regarding membership ensure the ITC a great degree of independence. According to Baldwin (1987), the record shows that ITC decisions are essentially based on economic considerations, determining whether or not a domestic industry really needs to be protected against unfair competition. The case under study here supports this general appraisal. In spite of real political pressure for protection of California grape growers, the ITC upheld the general stance of the U.S. government in favor of free trade.

The U.S. Congress has a powerful influence on U.S. international trade policies. Since the 1930 Tariff Act, the president has been granted tariff-cutting authority for limited periods of time when negotiating mandates specifically legislated. Trade agreements, negotiated by the president with trading partners, must ultimately be ratified by Congress.

Given the geographic base on which representatives and senators are elected, it is not surprising that protectionist pressures are particularly visible in Congress. If an industry is in trouble, the congressmen elected from districts or states where that industry is important will be subjected to strong pressures to do something about it, and they will be expected to use all their political clout in Congress to secure a result. This is exactly what happened to the Wine Equity Act. California legislators felt they had to be actively involved. Congressman Coelho played a leading role in the drive to ensure passage of the act. As chairman of the Finance Committee of the Democratic party (that is, as a significant source of funds for financing electoral campaigns), he clearly had some influence over his colleagues.

In addition, the California lobbyists were astute enough to conduct their drive as a bipartisan initiative. This broadened their political base because neither of the parties wanted the other party to hold a monopoly on the grape growers' interests.

Private Interest Groups. The main actors involved in the case under study were, of course, wine and grape-grower organizations. In the United States these organizations are numerous and diversified. Only the behavior of the most active ones in the debate will be reviewed here before briefly discussing the role of other organizations.

The Wine Institute is an organization that defends the interests of the California wine producers. In addition to providing various technical services, the Institute is heavily involved in political lobbying at both the state and the federal levels. Its influence is linked to the economic importance of grapes and wines in a state where total agricultural production,

particularly of fruits and vegetables, is extremely high. It also benefits from the economic and electoral weight wielded by California as one of the largest states in the Union.

Like most single-commodity organizations, the Wine Institute must always seek coalitions and therefore accept compromises with other organizations. This was the case in the debate about the Wine Equity Act. To secure passage, an alliance was formed with the American Soybean Association, which meant that it was necessary to accept a watered-down revision of the first version of the bill. The influence of the Wine Institute is also limited by its own internal difficulties. As indicated above, several large producers are inactive and sometimes uncooperative members of the organization. In Olson's (1965) terminology, the Wine Institute lacks a "privileged group" of leading firms actively negotiating with public officials. Yet the Institute is active and influential: in that sense, it has reached beyond the "latent" stage in the development of a group.

The Grape Growers Alliance for Fair Trade (GGAFFT) was created specifically to oppose wine imports from Europe. This alliance was made up of a few wineries and several local associations of grape growers, some of which sold their grapes exclusively for raisin production. The presence of wineries within the alliance was necessary to establish the acceptability of the suit with the ITC and to support the claim that grapes and wines should be treated as "like products." After the failure of their efforts before the ITC, the alliance disappeared. It lacked the necessary internal cohesion to survive. But this is a common phenomenon on the U.S. political scene. Alliances, which have limited resources of their own, are formed for a specific purpose. Each member organization fully understands that it, and not the alliance, will survive and continue fighting for its own objectives in the future. Thus the GGAFFT was a significant but temporary policy actor.

The National Association of Beverage Importers (NABI) is composed of importers into the United States of wine, beer, and spirits. Created after prohibition was abolished, NABI has more than 200 members, importing more than 90 percent of total beverage imports. Besides providing technical and information services to its members, NABI is politically active. Because its headquarters are in Washington, contacts with European embassies, with legislators, and with regulating agencies are easy. But the interests of its members are so diffuse that NABI has little political leverage. The great diversity of interests and economic size among its members makes it difficult for NABI to formulate a common and forceful position. In the debates under study, NABI took a position against the Wine Equity Act and against the suit filed in the ITC. It is doubtful, however, whether this position had much effect on the final outcome.

The American Soybean Association (ASA), which is made up of soybean producers as well as of soybean processing firms, is a powerful lobby defending the interests of the entire U.S. soybean sector. It is critically interested in maintaining an export market for U.S. soybeans and processed soybean products, particularly in Europe. This explains the ASA's involvement in the Wine Equity Act debate. It first opposed a protectionist version of the act and then was active in forging a compromise with the Wine Institute that led to the more moderate version that was finally incorporated in the Omnibus Trade Bill.

### The Actors and Their Behavior: Europe

European officials at both the EC and national levels were involved in the debates raised by the Wine Equity Act and the ITC investigation. But since both debates took place on the domestic U.S. scene, it is not surprising that only a limited number of European actors were involved and some of them only marginally.

International trade matters belong to the domain of EC affairs. In international negotiations, the Commission acts as a spokesman for the European Community on the basis of a specific mandate from the Council of Ministers. In that sense, it is similar to the U.S. situation, where the administration negotiates on the basis of a mandate from Congress. The U.S. Wine Equity Act and the ITC investigations, however, did not require European reactions of a magnitude that would have had to be handled by the Council of Ministers. Thus the issue was monitored by the Commission, through its delegation in Washington. At the national level, officials from the French, Italian and, later, German governments were involved.

The agricultural attachés of the Commission delegation in Washington closely monitored developments on the U.S. political scene. They were also instrumental in helping European producers present their case to the ITC. In particular, they helped Italian producers secure the assistance of a consultant to argue their case. Of course, they also reported to their superiors in Washington and in Brussels. There is little doubt that Commission officials let it be known to their U.S. counterparts, through various official and unofficial channels, that passage of the Wine Equity Act or a ruling of the ITC vindicating the California complaint could be very damaging to an already complicated agricultural trade confrontation between the United States and the European Community.

French representatives decided to complement the action of the Commission through an indepen-

dent initiative. The Fédération des Exportateurs de Vins et Spiritueux (FEVS: Federation of Wine and Spirit Exporters), which is made up of most of the private French firms exporting wines or spirits, hired the services of a lawyer, who worked in close contact with the French agricultural attaché in Washington, to present the FEVS case to the ITC. In addition the Bureau National de l'Interprofession de Cognac (BNIC) followed the situation closely. Cognac being a geographically concentrated production, the BNIC can easily mobilize the support of local politicians. Thus it has significant political clout. In this instance, it did not prove necessary to use that clout, since imports of spirits into the United States were not really threatened.

### Conclusions

The policy debate engendered by efforts to check imports of wine from Europe was mainly restricted to the United States. In that sense, it did not fully involve a political regulation process made up of negotiations among sovereign governments. Yet European interests were clearly at stake and they organized themselves so as to weigh on the final decision.

The general scenario described in the first chapter of this report has been followed so far. Policy decisions continue to result in conflicting pressures regulated by a political process, be it within the U.S. Congress or through a specific institution, such as the ITC. It remains to be seen whether the same approach is fruitful when the political process involved is made up of intergovernmental negotiations, as when the U.S. government threatened imports of wines and spirits from France following the Iberian enlargement of the Community.

## THREATS OF TRADE RETALIATION BY THE U.S. GOVERNMENT

On January 1, 1986, Spain and Portugal became members of the European Community. A 10-year transition period had been negotiated as part of the adhesion treaty joining the two countries to the European Community. This meant that the rules of the CAP would gradually become applicable in the two countries. Similarly, these two new member countries would implement the common external tariff. In particular, this meant that the principle of EC preference would, in due time, favor the exports of cereals from the older member countries of the European Community to Spain and Portugal, displacing the existing import flows from the United States. For the transition period, a guaranteed access to the Spanish market was granted to other EC countries for a specific quantity of cereals. A quantitative restriction was also placed on imports of soybeans from third countries into Portugal for the duration of the transition period. For soybeans and other cereal substitutes, border measures for the European Community had long been bound by GATT. But Spain and Portugal had a high level of protection on these products before entry. Thus it would have been feasible, under GATT rules, to unbind border measures on these products for the European Community when it expanded to 12 countries. The new common external tariff for soybeans was not specified in the adhesion treaty. Presumably, this was to be negotiated in GATT with trading partners, including the United States, following the Article 24.6 procedure. This article applies to new or enlarged common markets. It specifies that compensations to third parties for trade diversions must be negotiated with them.

The United States vigorously opposed these dispositions, perceiving that its grain exports to Spain and Portugal were threatened and fearing a rise in total European protection of soybeans, other oilseeds, protein-rich crops, and other cereal substitutes in livestock feeds.

Even before negotiations started in GATT the European Community stated that potential U.S. trade losses in agriculture would be more than offset by gains in industrial products, because the new average level of protection for the Community would be much lower than it had been for Spain and Portugal before entry. Of course, assessing the impact of a change in tariffs is always fraught with difficulties. U.S. spokesmen pointed out that even if Spanish and Portuguese industries were eventually less protected, the main beneficiaries might be other European industries who would enjoy a further decline in barriers to their exports. U.S. officials were asking for compensations within the agricultural sector. Given the reluctance of the Europeans to oblige, the U.S. government threatened to retaliate against European exports of various products, including wines and spirits. The list of the products concerned was carefully drawn up. It put pressure on all EC member countries, but in varying degrees, somewhat in proportion to each country's unwillingness to compromise.

### The Sequence of Negotiations

Discussions began early in 1986. The U.S. administration, under pressure from the American Soybean Association and the U.S. Corn Growers Association, threatened to retaliate by imposing quotas on imports of European white wines, confectioneries, fruit juices, and beers. The United States also

threatened to impose a 200 percent tariff on the import of such spirits as whiskeys and cognacs. The European Community responded with a list of counterthreats. Eager to avoid these dire consequences, the two parties concluded a provisional agreement on May 19, 1986, guaranteeing U.S. corn growers a minimum volume of exports to Spain in that year.

This provisional agreement led to a violent controversy in Europe, particularly in France. The French corn growers were offended that the new French minister of agriculture, François Guillaume, had not opposed the agreement, even though he had just been appointed as part of President Chirac's government and had been until then the president of FNSEA, the main farmers' organization. This led to an open conflict between the French maize-growers' association (AGPM) and Guillaume.

At the same time the BNIC launched a discreet but active lobbying campaign to defend its members' interests. To avoid the 200 percent tariff on cognac imports into the United States, BNIC recommended that U.S. demands on cereals be accepted.

The provisional agreement was to expire on December 31, 1986. A protracted series of discussions and disputes, the details of which do not really need to be reported here, extended over the whole second semester of 1986, and it took one extra month of negotiation to reach a final agreement on January 29, 1987. This agreement, valid for four years (January 1987-December 1990) included a preferential access to the Spanish market for 2 million tons of maize (corn) and 300,000 tons of sorghum every year. Imports into Spain of corn gluten feed, citrus pellets, and a few other cereal substitutes would be deducted from these amounts. In addition, custom duties collected by the European Community on imports from the United States of several agricultural and industrial products (dried onions, avocados, nuts, bourbon, and whiskey, for example) would be lowered.

This did not settle the basic issue regarding what constitutes proper compensation under GATT Article 24.6. The outcome was the result of a compromise reflecting a power relationship, which many in Europe resented. Yet French wine and spirit exports escaped the threat of retaliation, and the FEVS expressed a sense of relief.

### Lessons for the Analytical Approach

The U.S. government's threats on wine and spirit imports from France can indeed be analyzed in the framework of the approach presented in this report. Clear conflicts of economic interests were at stake, and organizations defending specific private interests were active on the political scene, influencing the behavior of government agencies and the final outcome.

The conflicts of interest were numerous and pitched producers on each side of the Atlantic against each other. The interests of grain, as well as wine and spirit producers, and those of the other products potentially affected were at stake.

In this instance, the objectives of the organizations that became policy actors were straightforward. They all tried to influence government agencies in order to promote their interests. Perhaps it is worth noting that all these organizations were reacting to perceived threats. There is no evidence, for instance, that U.S. wine and spirit producers put pressure on their government to threaten trade retaliations in order to promote their own interests. Of course, an outside observer can never be sure that no such pressure was exerted, but even so, the contrast with the active and public behavior of California organizations, as discussed above, in the ITC or in favor of the Wine Equity Act is striking. The government agencies and agents identified as active in this case were U.S. Trade Representative Clayton Yeutter; the EC Commission, particularly Willy de Clercq, the commissioner in charge of external affairs; the Council of Ministers; and especially regarding the threats to French exports, François Guillaume.

The political process involved in this instance deserves special attention. It is made up of negotiations among governments, the EC Commission negotiating for the European Community as a whole. The fact that the dispute developed and was settled outside of GATT procedures illustrates the role of power relationships in the final outcome, which is a specific characteristic of a political process. But this does not mean that GATT rules and procedures were totally irrelevant. On the contrary, the existence of Article 24.6 and the divergence of views about its interpretation was a constant point of reference for both parties. Perhaps this illustrates that institutions and judicial rules constrain the behavior of governments only inasmuch as governments find the political cost of transgressing these constraints prohibitive. There is a close analogy with the influence of economic constraints on policies, as discussed earlier.

In this case no specific economic constraint seems to have had a significant influence, but long-term economic forces played an important role. As always, they shaped the economic interests at stake during the debate. In this case perhaps more than in other instances, expectations about future economic developments following the inclusion of Spain and Portugal in the Community had a strong impact on the behavior of policy actors.

# 5

## Conclusions

Europe's CAP is under great pressure indeed. It has thus far failed to achieve its main objective—supporting farm income—and its budget cost climbs higher and higher, having now reached a level where it is a political constraint. At a European Council meeting in Brussels in February 1988, the heads of states or governments decided on a procedure to effectively limit the level of spending related to EC intervention on agricultural markets. It remains to be seen, of course, whether the corresponding decisions will really be implemented and whether growth of spending on agricultural commodities will actually cease and EC financial resources increase. It is clear, however, that budget pressure on the CAP will not be reduced. One political condition for the creation of new EC financial resources was the creation of a convincing set of measures to enforce real budget discipline on the CAP. Moreover, other demands on the EC budget will grow because there is now a wide consensus that new CAP policies should be launched or developed.

If measures to check farm budget spending do not prove effective, it is likely that new, more stringent measures will be adopted. A similar scenario took place for milk quotas. It was not obvious when they were adopted in March 1984 that milk quotas could be effectively implemented. But the budget pressure that led to the adoption of milk quotas forced policymakers to take stricter measures in subsequent years (such as effective payment of penalties and global reduction of total milk quotas) in order to ensure that milk production would stop growing. The record shows that these successive measures have been effective, at least so far; the growth of milk production in Europe has been checked.

On the other hand, the decision made at the same Brussels summit meeting of February 1988 to introduce national land set-aside programs with partial EC financing will probably not lead to important declines in the production of cereals and oilseeds. Exactly what the national measures will be is uncertain. Limits on projected spending are such that the area involved will be relatively small, and it will not offset the increasing trend in yields. Besides, the political economy context of this measure is completely different from that which led to milk quotas. Milk quotas were proposed by the Commission in July 1983, and they were constantly at the core of the policy package under debate until the decision to introduce the quotas was taken in March 1984. Set-aside measures were not originally proposed by the Commission. They were imposed by a coalition of several member countries as political compensation to farmers in a policy package whose core included the decision to strictly enforce budget discipline on farm spending.

The second most important pressure on the CAP comes from outside the European Community. It is exerted by trading partners seeking the abolition of unfair EC trading practices, such as export subsidies. More generally, in the Uruguay Round of multilateral trade negotiations (MTNs) held under GATT auspices, several important actors, including the United States and the Cairns Group,[5] are demanding drastic reductions or even total elimination of government policies that interfere with international agricultural trade. If that pressure were heeded, the CAP would have to be totally dismantled. At this stage, it is too early to determine the results of these MTNs. But this time, as opposed to previous rounds of MTNs, significant policy changes may be brought about by this process. High-level European policymakers have already agreed to joint declarations. At an OECD ministerial meeting in May 1987 and at the Tokyo and Venice Group of Seven economic summits of June 1986 and June 1987, they agreed that international agricultural trade should be liberalized and domestic agricultural policies should be reformed in such a manner that they do not create trade problems and conflicts.

The analysis of the pressure exerted on the CAP and the observation of more recent developments permit an interpretation of the forces at play today.

5 The Cairns Group was established in Cairns, Australia, in August 1986. Its members include Argentina, Australia, Brazil, Canada, Chile, Colombia, Hungary, Indonesia, Malaysia, New Zealand, and the Philippines. The Group was created to enhance the position of these agricultural exporters in GATT negotiations.

On this basis, possibilities for the evolution of the CAP can also be briefly summarized: budget pressures will cause the growth in EC spending related to interventions on agricultural markets to slow, and such spending will be limited by the rule on budget discipline agreed to at the 1988 Brussels summit. But this does not mean that the CAP will be dismantled. On the contrary, with the creation of new financial resources for the Community, the Brussels summit guarantees the solvency of the European Community and the financial viability of the amended CAP until the end of 1992. What might then be the outcome of the GATT negotiations? The answer to this question is uncertain. Complete dismantling of the CAP seems unlikely for domestic political reasons. The analysis of U.S. pressures on French exports of wines and spirits presented in Chapter 4 illustrates, however, that outside pressure on European interests and policymakers could be considerable, much greater than they have ever been in the past. Thus, a heightened conflict with the United States and other countries seems the most likely scenario today.

It is hoped that this interpretation of the forces at play around the CAP will convince the reader that the approach used to explain it has been fruitful. The case studies reported here as well as earlier case studies previously published may be viewed as tests of the hypotheses, and they provide the theoretical basis of the approach used. In some instances, the case studies led to a more precise specification of the hypotheses. At this stage two issues regarding the choice of a research strategy for the future arise. First, are more case studies warranted, or should other means of testing the hypotheses be used? Second, to what extent is the approach restricted to the case of developed countries, where the political process is relatively open? Would it be relevant, with appropriate modifications, for policymaking in developing countries?

More case studies are always useful. By inference, they would provide insights into the policymaking process, particularly into the interaction among policy actors. But how much further should this be pursued? Case studies conducted so far have shown the fruitfulness of the approach and its relevance to understanding specific situations. In a sense, the research has produced a method of investigation that can be used by anyone interested in a particular set of policies or by a specific policymaking institution. But for the purpose of research alone it is not certain that many more case studies would be productive. If this is true, what other methods could be used? Could a more systematic test of hypotheses be thought of? Faced with such a question, econometric techniques come immediately to mind. The challenge in this respect, however, is to design a test that would be both specific and powerful enough to be of real interest.

Extension of the approach used here to developing countries would be of interest. It would stress the question of why governments do what they do. Until recently, the main question addressed by policy analysts was "What should governments do?" As discussed earlier, in order to answer the latter, attention to the former question is essential. It is true that in many developing countries the political process is less open and the identification of the relevant policy actors is difficult, probably in part because the identity and the roles of the various actors are ambiguous. Yet cursory observation indicates that conflicts of interest are also at stake there, economic interests try to find ways to influence public officials, and the interaction among policy actors is of a political nature. Thus the main features of the general approach discussed so far should be relevant.

# References


Allison, Graham T. 1971. *The essence of decision: Explaining the Cuban missile crisis*. Boston: Little, Brown.

Baldwin, Robert E. 1987. *The political economy of U.S. import policy*. Cambridge, Mass., U.S.A.: MIT Press.

Bates, Robert H. 1983. Governments and agricultural markets in Africa. In *The role of markets in world food economy*, ed. D. Gale Johnson and G. Edward Schuh, 153-183. Boulder, Colo., U.S.A.: Westview Press.

Blandford, David, and Gerald White. 1987. The outlook for U.S. wine imports. *Fruit Situation and Outlook Report*, TFS 241. U.S. Department of Agriculture, Economic Research Service.

Buchanan, James M., Robert D. Tollison, and Gordon Tullock, eds. 1980. *Toward a theory of the rent-seeking society*. College Station, Tex., U.S.A.: Texas A and M University Press.

Charpentier, Catherine. 1986. La réforme de la politique européenne céréalière: analyse de l'élaboration du compromis d'avril 1986. Dissertation, Ecole National Supérieure des Sciences Agronomiques Appliquées, Dijon.

Colander, David C. 1984. *Neoclassical political economy: The analysis of rent-seeking and DVP activities*. Cambridge, Mass., U.S.A.: Ballinger Publishing Company.

Commission of the European Communities. 1957. *Treaty establishing the European Community*. Rome.

_____. 1983. *Common Agricultural Policy—proposals of the Commission*. COM (83)500 Final. Brussels.

_____. 1985a. *Perspectives for the common agricultural policy*. COM 85/33. Brussels.

_____. 1985b. *A future for European agriculture, the Commission orientations*. COM (85)700. Brussels.

_____. 1986a. *Commission proposal on the prices for agricultural products and on related measures, 1986/87*. COM (86)20 Final. Brussels.

_____. 1986b. *Proposals for Council regulations (EEC)*. COM (86)30 Final. Brussels.

_____. Undated. La Commission de la Communauté Européenne propose les prix agricoles pour la campagne 1985/86. *Notes rapide de l'Europe verte. No. 28*. Brussels.

Day, R. H. 1976. Notes on adaptive economic theory. *European Review of Agricultural Economics* 3 (2/3): 235-264.

Downs, Anthony. 1957. *An economic theory of democracy*. New York: Harper and Row.

Jarrige, F. 1987. Les exportations françaises de vins et spiritueux aux Etats Unis. Dissertation, Ecole National Supérieure des Sciences Agronomiques Appliquées, Dijon.

Krueger, Anne O. 1974. The political economy of the rent-seeking society. *American Economic Review* 64 (No. 3): 291-303.

Lindblom, Charles E. 1959. The science of muddling through. *Public Administration Review* 19 (Spring).

Moyer, Wayne, and Timothy Josling. Forthcoming. *Agricultural policy reform: Politics and approaches in the United States and the European Community*. London: Harvester, Wheatsheaf.

Ogden, Daniel M. 1972. Outdoor recreation policy and politics. In *The political economy of environmental control*, ed. Anthony Downs, Joe S. Bain, and Warren F. Ilchman, 98-103. Berkeley, Calif., U.S.A.: Institute of Business and Economic Research, University of California.

Olson, Mancur. 1965. *The logic of collective action*. Cambridge, Mass., U.S.A.: Harvard University Press.

_____. 1982. *The rise and decline of nations: Economic growth, stagflation and social rigidities*. New Haven, Conn., U.S.A.: Yale University Press.

Peltzman, Sam. 1976. Toward a more general theory of regulation. *Journal of Law and Economics* 19 (August): 211-240.

Petit, Michel. 1981. Théorie de la décision et comportement adaptif des agriculteurs. In *Formation des agriculteurs et apprentissage de la décision*. Dijon, France: Ecole National Supérieure des Sciences Agronomiques Appliquées Dijon, Institut Nationale de Promotion Superiéure Agricole, Institut Nationale de la Recherche Agronomique, and Institut National de Recherches et d'Applications Pedagogiques de l'Enseignement Agricole, Dijon.

_____. 1985. *Determinants of agricultural policies in the United States and the European Community*. Research Report 51. Washington, D.C.: International Food Policy Research Institute.

Petit, Michel, Michele De Benedictis, Denis Britton, Martijn De Groot, Whihelm Henrichsmeyer, and Francesco Wilhelm Lechi. 1987. *Agricultural policy formation in the European Community: The birth of milk quotas and CAP reform*. New York/Amsterdam: Elsevier.

Salmon, P. 1985. L'économie politique néo-classique: de la polémique à l'analyse? *Annales de la Societé d'Etudes et de Documentation Economiques Industrielles et Sociales* 48 (November).

Stigler, George. 1970. Director's law of public income redistribution. *Journal of Law and Economics* 13 (April): 1-10.