THE POLITICAL ECONOMY OF AGRICULTURAL TRADE NEGOTIATIONS ON THE URUGUAY ROUND OF MTN: CAN THE U.S. AND EUROPEAN COMMUNITY REACH AN ACCEPTABLE COMPROMISE IN THE GATT?

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Abstract

A model of the political economy of agricultural policy formulation was used to analyze the current stalemate in the Uruguay Round of Multilateral Trade Negotiations. The combination of social welfare increasing and transferring policies in the European Community and the U.S. is one of the primary causes of the deadlock in trade negotiations. The Community's farm policy of high internal price supports, limited market access, and export subsidies represents short-term equilibria in the market for social-welfare policies which distribute benefits to producers at the expense of consumers and taxpayers. Thus, the opportunity for internal reform of the CAP leading to a compromise in the GATT negotiations is problematic at best. However, international commitments to agricultural policy reform will force the Community to make concessions which will bring equivalent change in domestic policy.

Key words: Uruguay round of Multilateral Trade Negotiations, interantional trade, GATT

Although agricultural trade policy reform constitutes only a small part of the Uruguay Round of Multilateral Trade Negotiations (MTN) under the auspicies of the GATT, it has become a serious stumbling block to concluding a trade agreement. Farmers, producer associations, and politicians are reluctant to give up border protection on agricultural commodities, reform internal support policies, or eliminate export subsidies; hence the GATT negotiations are at a stalemate. Solutions to this impasse are grounded in the complex systems of agricultural policies designed to support farm income in the U.S. and European Community (EC).

The European Community's Common Agricultural Policy (CAP) is one of the most complex systems of farm support among the developed countries. The European Community has been blamed repeatedly for the failure of the negotiators to reach an agreement on the Uruguay Round of GATT negotiations at the December 1990 Brussels meetings. Indeed, the accusations against the Community are so frequent and strident that they could be called "EC bashing." Drazek and Paggi, lobbyists for the American Farm Bureau, clearly placed the blame for the breakdown in negotiations on the EC. "Failure was snatched from the jaws of success by the European Community ....The intransigent position of those representing European agriculture signaled an unsuccessful conclusion to the troubled talks. The EC refused multiple requests from many countries to engage in meaningful negotiations ..." (p. 34).

Drazek and Paggi's prescription for success in the GATT talks hinges on (1) internal EC pressures from non-agricultural interests to "save the trade round," and (2) political commitments to EC farmers that their incomes will be protected in some acceptable fashion. EC flexibility on agricultural support is termed "minimal at best."

The U.S. took a strong adversarial position in the Uruguay Round from the very beginning. Its initial free trade proposal was viewed by the EC as "extreme and unacceptable." Thus, each side found the other's proposal unacceptable, ultimately leading to the suspension of the trade negotiations on December 7, 1990. Even as the talks resumed, fundamental differences in the two positions remained. Unless differences between the U.S. and EC over agricultural internal support, export subsidies, market access, and sanitary and phytosanitary measures can be resolved, agriculture will remain a major stumbling block to the successful conclusion of the Uruguay Round of MTN.

The objectives of this paper were to: (1) briefly review the theoretical basis of the social-welfare enhancing and transferring policies in the agricultural sector as they apply to the impasse in the Uruguay Round of Multilateral Trade Negotiations; (2) review the status of agricultural policy reform in the U.S. and EC as it applies to the trade negotiations; (3) analyze selected components of the current

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U.S. - EC trade dispute in a political economy framework; and (4) suggest areas for potential compromise in the Uruguay Round of GATT negotiations for agriculture.

JOINT POLICY APPROACH TO PUBLIC POLICY DEVELOPMENT

Models of the political economy of policy formulation may help explain the stalemate in the GATT negotiations. Current food and agricultural policies represent short-term equilibria in the political/economic markets for social-welfare policies (Rausser and Foster). In Rausser and Foster's model of political economy, governments seek to maximize their support from social groups through a combination of social-welfare increasing (PERTs) and welfare-transferring policies (PESTs).

Food and fiber "... policies are in place, in part, because they serve the interest of those with relative political power and influence" (Rausser and Foster p. 642). These policies are available to governments to maximize their support through manipulation of consumer and producer welfare. For a mathematical presentation of this manipulation process, the reader should refer directly to Rausser and Foster.

In their analytical framework, PESTs are policies designed to redistribute wealth from one social group to another while PERTs are policies that reduce transaction costs in the private sector by correcting market failures or providing public goods; e.g., environmental and conservation programs, new agricultural technology, research, and extension. PERTs are neutral with respect to their distributional effects. That is, large or small farmers have access to the same technology. The aggregate effect of these public goods on agriculture may be an increase in both producers' and consumers' welfare. However, the market effect of these PERTs may reduce producers' welfare as new technology shifts the supply of farm products, resulting in a decline in producer prices and farm income assuming no change in demand.

In this model of political economy, government is recognized as a dynamic institution with its own agenda in addition to its role as a locus of distributional struggles (De Janvry and Sadoulet). The lobbying effort by producers, consumers, taxpayers, or other political groups in response to changes in their welfare can be the catalyst that the government needs to change transfer mechanisms to more economically efficient combinations of policies. Governments, as the contracting parties in the Uruguay Round of MTN, certainly have their own agenda for the GATT negotiations larger than the needs of one specific sector. The U.S. is a prime example with its "free trade" agenda alternatively being supported and opposed by various agricultural, commercial, or taxpayer lobbies with narrow special interest agendas.

AGRICULTURAL PROTECTIONISM AND ASSOCIATED COSTS

Agricultural protectionism has its origin in government's response to agriculture's declining share of the national economy. During periods of economic growth, agriculture's share of economic activity declines, since the income elasticity of demand for food is less than that for nonfood items (Anderson). Moreover, agricultural productivity growth results in a downward pressure on commodity prices, farm income, and employment relative to the nonfarm sector. To avoid agriculture's having a declining share of economic activity, government policy ". . . requires either a strong bias in productivity growth towards the farm sector . . . and/or a heavy distortion of incentives towards agriculture" (Anderson p. 195). These incentives consist of a broad portfolio of PERTs and PESTs that became increasingly expensive in the 1980s.

The U.S. and the EC have vigorously pursued price policies designed to arrest the decline in agriculture's share of employment, exports, and income. Their policies have resulted in runaway budgetary costs, imbalances in world agricultural markets, and an escalation of trade conflicts among major trading partners. The taxpayer costs of agricultural support in the U.S. and EC became the catalysts for GATT proposals to reform internal support measures. Governments have responded with various reform proposals to reduce taxpayer costs. Farm lobbyists have countered with support or opposition to the MTN depending upon perceived welfare gains or losses from a change in agricultural protection.

AGRICULTURAL SUPPORT POLICIES IN THE URUGUAY ROUND OF MTN

The agricultural support policies of both the U.S. and EC have been manipulated during the Uruguay Round of Multilateral Trade Negotiations. Both the U.S. and EC responded to farm policy crises during the 1980s. The farm financial crisis of 1982-1983 in the U.S. preceded the start of the Uruguay Round of MTN, while the budget crisis in the EC coincided with the initiation of the GATT negotiations. The passage of the 1990 farm bill (Food, Agriculture, Conservation and Trade Act of 1990) and the establishment of the budget stabilizer package in the EC

(February 1988) were influenced by the ongoing GATT negotiations, the budget deficit crisis in the U.S., and the rising cost of the Common Agricultural Policy. The 1990 farm bill continues the market-oriented approach and aggressive export assistance contained in the previous farm bill (The Food Security Act of 1985.) Changes in the domestic support policies in the U.S. and EC represent only short-term welfare adjustments while the potential outcome of the GATT negotiations represent long-term shifts in consumer, producer, and taxpayer welfare.

The EC's agricultural policies have objectives similar to those in other industrialized economies. The Treaty of Rome, which set up the EC, explicitly mandated a common agricultural policy with specific objectives to: (1) increase farm productivity, (2) ensure a fair living standard for farmers, (3) stabilize agricultural markets, and (4) guarantee stable food supplies at reasonable prices to consumers (European Communities Commission 1987, Article 39, pp. 155-156). The EC has developed its widely-known system of internal price supports, border protection, food stocks, and export subsidies to achieve its objectives. "Together with rapid technological progress in agriculture, . . . [the Common Agricultural Policy] has stimulated EC food production well beyond self-sufficiency in many commodities, creating expensive surpluses and distorting international commodity markets" (Moyer and Josling, p. 25). Thus, the EC entered the Uruguay Round of Multilateral Trade Negotiations faced with internal pressures to curtail the high cost of the CAP and conflicts with its trading partners over market access and subsidized competition in world markets.

The public choice paradigm explains the resistance to reforms in the U.S. and the EC and predicts that individuals, in this case farm organizations, are likely to commit resources to influence the policy process in direct proportion to the degree to which their interests are at stake (Moyer and Josling, p. 206). "Price support policies in both the EC and USA create large rents and financial interests for farmers, which they have a strong interest in mobilizing to protect" (Moyer and Josling). Certainly, resources have been marshalled by farm organizations in the EC and U.S. to protect the PESTs in their respective systems. Price supports remain relatively high, border protection remains in place, and export subsidies are widely used to dispose of surpluses.

THE COMMON AGRICULTURAL POLICY CRISIS OF 1990-91 AND TRADE ISSUES

The European Community is caught in a web of problems and conflicting institutional proposals and positions in its agricultural support programs, all of which influence its position and proposals in the Uruguay Round of Multilateral Trade Negotiations. These include the annual price support package, conflicting interpretations of the 1988 ceiling on farm spending, the Agriculture Commission's CAP reform initiative, and the EC's GATT position itself. Each proposal impacts the set of PERTs and PESTs that enhance and transfer welfare to the EC's 9.4 million farmers (Herlihy and Weiss).

CAP Budget Costs

In the mid 1980s, the cost of farm support triggered the process of CAP reform. The February, 1988, European Council's supply management agreement–to limit CAP spending, establish production quotas, limit price support increases, and penalize overproduction with co-responsibility levies–was only a short-term measure and did not address the fundamental cause of the budget crisis.

European Community spending on agricultural price and income support climbed steadily during the 1980s, reaching a peak of 28.9 bn ECU ($34.1 bn) in 1988, as domestic production responded to high support prices (USDA). Thus, intervention activities (government commodity stock purchases) and export refunds accounted for more than 80 percent of CAP expenditures (Figure 1). Surplus commodities, mainly cereals (Figure 2) were either disposed of on world markets or placed in storage. The budget stabilizer agreement came into force in 1988 as the heads of government imposed a ceiling on Community spending for agriculture. In 1991, however, another budget crisis developed because of the overproduction of cereals, beef, butter, and skim milk powder; thus the EC Commission estimated that CAP costs would exceed the budget ceiling of 32.511 bn ECU ($39 bn).

The stabilizer agreement, approved by the European Council, imposed a strict limit on the growth of agricultural spending at 74 percent of GNP growth. Thus, agricultural support was tied directly to economic performance in the Community (Moyer and Josling). If economic growth slowed down, agricultural expenditures would have to be adjusted accordingly. Predicting the annual cost of the CAP is difficult due to the random elements in agricultural supply and demand. The Commission's estimates of CAP costs for 1991/92 indicated that expenditures would exceed the budget ceiling and hence this estimate precipitated the crisis over the 1991 annual price support proposals.

Mr. David Roberts, the Commission's deputy-director general for agriculture, argues that it is incorrect to lay the blame for the current 1991 budgetary

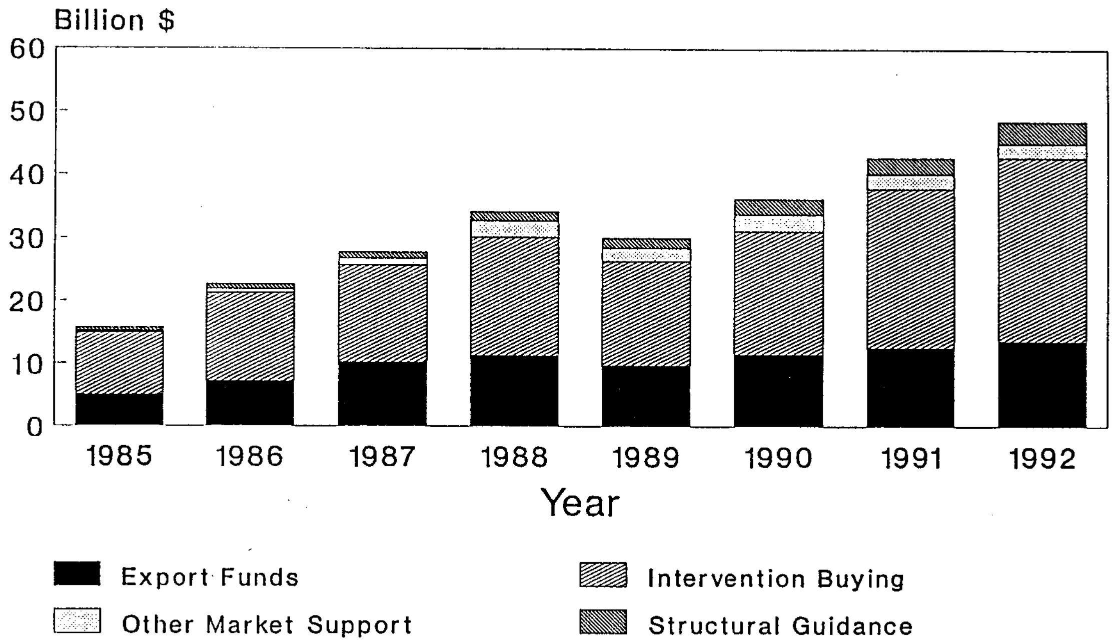

Figure 1. CAP Expenditure by Support Mechanism

Source: USDA, Western Europe Agriculture and Trade Report, RS-90-4. Nov. 1990 and Commission of the European Communities.

crisis on the 1988 stabilizers policy. He states that "When the heads of government agreed [to] budget discipline and the stabilizers, they signalled clearly that the problem of *imbalance between growing agricultural productivity and static demand* could no longer be resolved by ever growing exports at ever increasing budgetary costs. The stabilizers package was, however, incomplete because it did not explicitly confront the problem of [the gap between] growing productivity and static demand" [italics mine] (*Agra Europe*, March 1, 1991, p. P/3). Thus, the EC Commission's proposal for radical reform in the CAP placed additional limits on the supply side. It also shifted the CAP focus to social objectives such as maintaining the rural environment and shifting production away from intensive farming to extensive systems. Direct income aids would be used to protect the incomes of cereal and livestock producers (*Agra Europe*, January 25, 1991).

The 1991 Crisis of the CAP

Three important fiscal issues dominated the Council's debate over the crisis of the CAP in 1991. First, estimates of the cost of the 1991/92 CAP budget indicated that the expenditure ceiling would be exceeded unless constraints were placed on the annual support price package. Secondly, the EC Commission submitted its formal proposal for long-term CAP reform in July to the Council of Ministers and the European Parliament (Commission of the European Communities, March 1, 1991). Thirdly, both the annual price package debate and the long-term reform proposals came into public debate as efforts to restart the GATT negotiations were under way. A brief review of these issues illustrates the primary reasons why change and compromise are exceedingly difficult in the EC.

The Council of Ministers ultimately approved a farm price support package in late May 1991 containing cuts in the nominal support prices for beef, milk and cereals, an increase in the cereals co-responsibility levy (a tax on over-quota production) from 3 percent to 5 percent, a 2 percent reduction in milk quotas, a 1.5 percent cut in the guaranteed prices for oilseeds and protein crops, and a substantial reduction in the EC support for the tobacco regime depending on the variety (*Agra Europe*, May 31, 1991). A special one-year land set-aside scheme was introduced as an interim measure to control the CAP cost. In the view of EC-wide farm and cooperative associations (COPA/COGECA), these price proposals represented a renewed threat to declining farm incomes.

On July 5, 1991, EC Agriculture Commissioner, Ray MacSharry, released the details of his often-leaked CAP reform proposals. The axiom in public

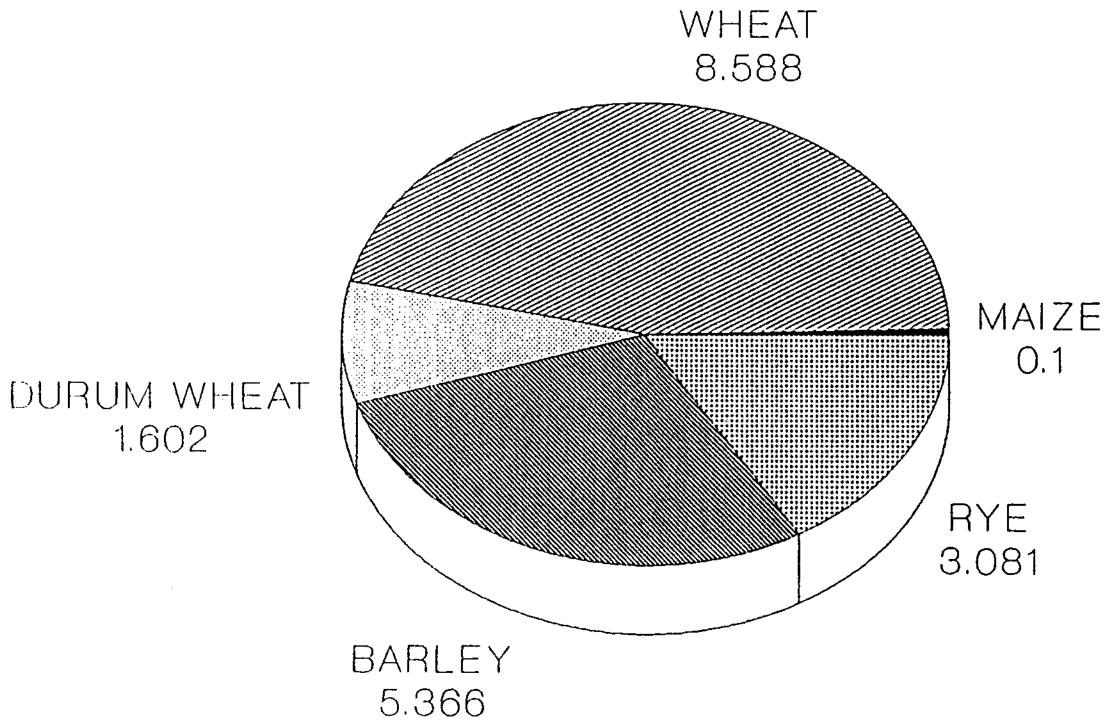

Figure 2. EC-12 Cereal Intervention Stocks, 1991, in Million Metric Tons

Source: AGRA Europe. July 5, 1991, M/15

choice theory that complex policies promote policy inertia and incrementalism is substantiated in MacSharry's proposals. The basic principles and instruments of the CAP for cereals were maintained in MacSharry's plan; however, he proposed cuts in target prices by 35 percent over three years, with income support paid on a sliding scale so that small farmers would be fully compensated for their loss of income. A 15 percent acreage set-aside program was also included as a supply control measure (*Agra Europe* July 5, 1991). Environmental programs and early retirement payments were also included in his proposal. In summary MacSharry's CAP reform proposals were designed to protect EC farm income through a complex system of decoupled payments and environmental support mechanisms.

AGREEMENT ON THE REFORM OF THE COMMON AGRICULTURAL POLICY

In May 1992, after lengthy negotiations and by a qualified majority, the Council of Agriculture Ministers reached agreement on the reform of the CAP based on a compromise put forward by the Portuguese Presidency to the EC's (MacSharry's) original proposal. The main features of the compromise agreement are as follows: By 1997, EC price supports will be cut 29 percent for grains, 15 percent for beef, and 5 percent for butter. The co-responsibility levy on excess cereal production over the maximum guaranteed quantity will be abolished. Individual producers will be compensated for their loss of income through direct compensatory payments equal to the difference between the current target price (155 ECU/mt or $221/mt) and the reduced target prices. These annual compensatory payments have been fixed at 25, 35, and 45 ECUs/mt, for three successive marketing years provided producers set aside 15 percent of their arable land. Compensation for set-aside land will be based on average yields, stipulated in separate regulations (See Council of the European Communities, May 1992; *Agra Europe*, May 22, 1992).

Complex changes in livestock sector policies were included in the CAP reforms. Ceilings on beef intervention purchases were to be reduced 53 percent through 1997 and price supports were to be cut 15 percent over three years. Milk quotas would remain unchanged but subject to annual review. Butter support prices would be cut 2.5 percent per year for two years (1994-95), while prices for skimmed milk powder would remain unchanged. Even with these price cuts, discrimination against fresh milk products remains, leading to surplus production of butter and milk powder so great that intervention purchases of dairy products, mainly butter and skim milk powder, exceeded 3.3 billion ECU in 1992, accounting for 14.2 percent of the EC's budget for surplus production. The total cost of the EC dairy program is in excess of 5 billion ECU per year.

In reality the CAP reforms were only minimal changes in the EC's system of relatively high price supports, border protection, and export subsidies. Indeed, the principle of EC preference remains intact, with the minimum import price for grain, or threshold price, fixed at 45 ECU/mt higher than the target price for cereals. The variable levy system also remains unchanged. Furthermore, export subsidies are still needed to dispose of EC surpluses. Compensatory set-asides greater than 15 percent would be needed to bring the EC's surpluses down to the 22 mmt, considered acceptable in Dunkel's GATT proposals (*Agra Europe*, July 17, 1992).

COST OF THE REFORMED CAP

The budgetary costs of the reformed CAP continue to rise. In nominal terms, estimated CAP price and income support costs will increase from 35 billion ECU in 1993 to 43.5 billion ECU in 1997 (Figure 3). However, EC farm lobbyists have strongly argued that real farm income will not improve under the CAP reforms and they have protested the anticipated cuts in farm income (*Agra Europe*, May 29, 1992). Farm lobbies increased the pressure for national income aids to preserve farm income. Indeed, French farmers have succeeded in securing tax breaks, credit concessions, disaster relief, and other subsidies from their government which the national farmers union considers compensation for the "damage" caused by the CAP reforms (*Agra Europe*, May 29, 1992).

In summary, the CAP reforms were a minimalist approach to curtailing rising budgetary costs. While price supports were cut and supply control measures were instituted, only minimal changes were made in the dairy program. The reforms preserve the complexity of the farm policy, and will require substantial monitoring and verification of new set-asides and environmental programs . Even these CAP reforms, however, may have strengthened the CAP's position in the multilateral trade negotiations.

CAP REFORM AND GATT NEGOTIATIONS

CAP reform proposals must be considered in the context of an EC commitment to reduce agricultural protection in the Uruguay Round of MTN. They have become implicitly linked to GATT Director-General Arthur Dunkel's compromise proposal for agriculture (Summary details can be found in *Agra Europe*, Jan. 3, 1992). Dunkel's proposal establishes five criteria defining permissible decoupled income support. Essentially, income support must not be related to the volume of production, factors of production, domestic or international prices, nor shall production be required to receive such payments. The CAP reform agreement preserves compensatory payments, but they are linked to production. "In order to be entitled to compensatory payments, each producer should submit annually an application setting out: (a) surfaces sown with arable crops [and] (b) surfaces left in set-aside" (*Agra Europe*, May 22, 1992). The set-aside area must equal 15 percent in order for farmers to qualify for payments. The EC insists that its decoupled compensatory income payments remain in the "green box" and are not subject to further reductions.

The new EC oilseeds policy provides a test case of the "adjustments" needed to bridge the gap between the CAP reforms and Dunkel's Compromise proposal. The new EC oilseeds policy switches support away from crushing aids (processor payments to compensate for high priced EC oilseeds) to direct income subsidies paid on a yield per-hectare basis. Farmers would receive the market price plus a direct subsidy payment. The value of the direct payment, which varies inversely with the world price, ensures farmers that their income will continue to be protected from world price declines (*Agra Europe*, January 17, 1992). However, the EC's oilseeds regime is embroiled in a controversy with the U.S. in a GATT dispute over the level of support provided to EC farmers.

THE SECTION 301 OILSEEDS CASE

In December 1987, the American Soybean Association filed a Section 301 Petition with the United States Trade Representative (USTR) claiming that the EC's oilseeds subsidies violated its GATT obligations. In December 1989, a GATT panel found that the EC's oilseeds subsidies were inconsistent with the GATT, because the subsidies nullified and impaired the EC's zero-duty bindings on oilseeds granted to the U.S. in 1962 (Danforth 1992).

In January 1990, the EC formally accepted the findings of the first GATT panel and agreed to make the necessary reforms in its oilseeds policies effective with the 1991 crop year. After some delay, the EC Council of Agriculture Ministers adopted the new subsidy plan (payments to producers on a per-hectare basis rather than the old subsidy payment to oilseed crushers). The new oilseed subsidy guaranteed EC farmers a return of approximately $13 per bushel, or twice the world market price for oilseeds.

The U.S. Senate became involved in the trade dispute in October 1991 when it voted 97-0 to urge the USTR to file a second action under Section 301

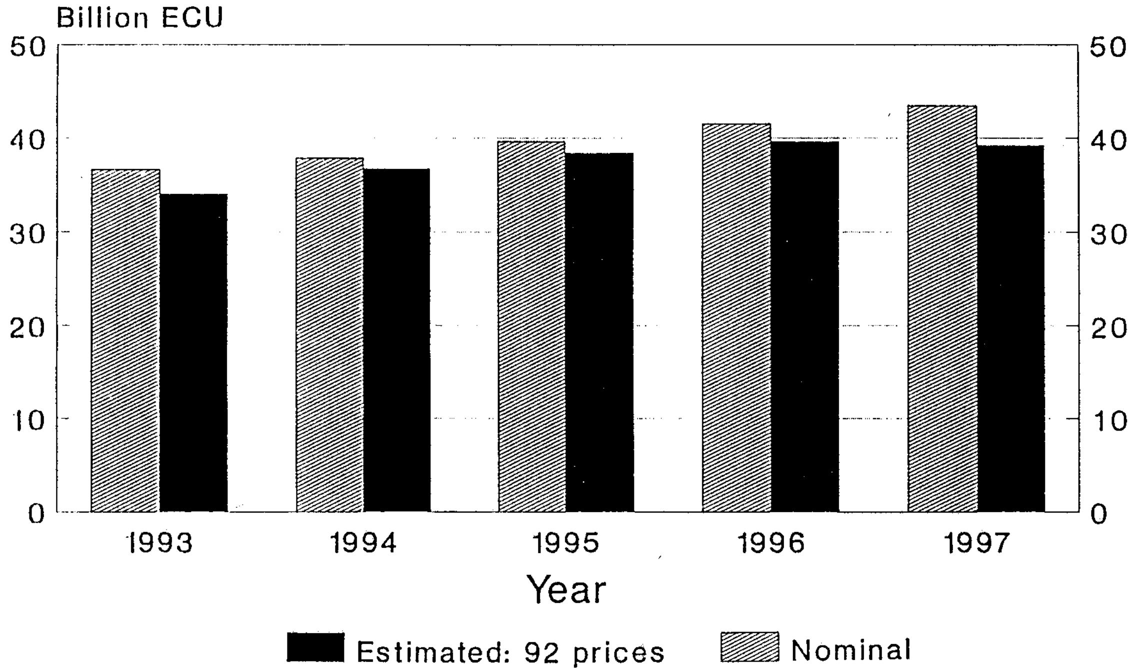

Figure 3. Estimated Reformed CAP Expenitures

Source: Council of European Communties, 7913/92; RAU 41, July 17, 1992

regarding the GATT ruling. The second GATT panel addressed the question of whether the new EC oilseeds regime, adopted in October 1991, met the requirements of the first GATT panel decision (Danforth 1992). In March 1992, the second GATT panel ruled the new oilseeds regime incompatible with the Community's GATT obligations (*Agra Europe*, March 20, 1992).

The Community's offer of compensation under Article XXVIII of the GATT has been rejected by the U.S. because the offer did not specifically compensate the injured party, soybean farmers, for their alleged losses. Under Article 28, signatories are bound either to reform the offending practices or to offer compensation; failure to do so allows the damaged party to seek retaliation through its own trade regulation mechanisms. The U.S. retaliated by publishing a provisional list of $2 billion worth of EC products, including wines, cheeses, beers, and other products, targeted for prohibitive tariffs of 100 percent or more (*Agra Europe*, June 12, 1992). The EC has extended the conflict into the GATT negotiations by insisting on a check of the U.S.'s right to take unilateral retaliatory action against its trading partners, such as the countervailing duties imposed under the 301 oilseeds case (*Agra Europe*, July 31, 1992).

The second GATT Oilseeds Panel Report calls into question the underlying principle of the EC's CAP reform of the cereals sector. The reform was based on the principle of compensating producers *on a product-specific basis* for the reduction of market support due to the reciprocal exchange of tariff concessions in the proposed GATT agreement. The difference between the oilseeds case and other commodities is, of course, that zero tariff bindings do not exist for other products. Thus, the EC would reject any Uruguay Round agreement which does not accept the principles of compensatory payments.

AREAS FOR COMPROMISE BETWEEN U.S. AND EC IN URUGUAY ROUND OF MTN

Several obstacles still exist before an agreement can be reached between the U.S. and the EC in the Uruguay Round. The primary issues are rebalancing, the volume of subsidized exports, the acceptance of the EC's compensatory payments, and the level of market access in a GATT agreement. Nevertheless, the CAP reform agreement may provide the necessary catalyst to a political agreement in the Uruguay Round.

Closely aligned with the Section 301 oilseeds case is the concept of rebalancing. The EC argues that in exchange for market access concessions on cereals under a Uruguay Round agreement, it should be allowed to raise protection on non-grain feedstuffs such as corn gluten feed, maize germ meal, and citrus pulp. The U.S. argues that not only is rebalancing counter to the spirit of the Uruguay Round of MTN but it also negates the zero-tariff binding negotiated in 1962. Rebalancing was explicitly omitted from Dunkel's text but it remains an implicit problem area that could be resolved by U.S.-EC bilateral negotiations outside of the GATT.

Both the U.S. and the EC have widely used voluntary export restraints (VERs) to limit imports of textiles, steel, automobiles, tapioca, and other goods that threaten their domestic producers. The bargaining power of the respective contracting parties may explain policy-makers' preference for a VER on U.S. exports of corn gluten feed, maize germ meal, and citrus pulp to the EC as a solution to the EC's demand for rebalancing protection on imports of non-feed grain substitutes. The U.S. could "voluntarily" agree to limit exports of byproducts of the wet corn milling and citrus processing, and in return the U.S. would receive a boost in total farm exports (estimated at $4-5 billion) under tariffication proposals of the final GATT agreement. As an example of a VER, the EC Commission has proposed an annual tariff-quota duty of 6 percent on corn gluten imports, up to 4.5 mmt, equivalent to 95.7 percent of U.S. exports to the Community in 1990 (*Agra Europe*, January 17, 1992). While producers' associations in the U.S. would be expected to oppose any VER that limited their commodity-specific market access, the distribution of gains in other areas among several interest groups could lead to an acceptable compromise.

Arthur Dunkel's draft plan for settlement of the Uruguay Round called for a 36 percent cut in EC export subsidies and a 24 percent reduction in the volume of subsidized exports. While the CAP reforms do not specifically contain cuts adequate to reach Dunkel's objectives, the mechanisms now exist to reduce both the value and volume of EC subsidized exports. Intervention prices for cereals have been cut through 1997, which reduces the gap between world market prices and EC prices, thus reducing the cost of subsidization. Second, set-asides will reduce the volume of surplus production. Moreover, the reform agreement specifically provides for annual set-aside adjustments. Since Dunkel's draft plan is only a basis for negotiations, the final cuts in subsidized exports can be achieved through the bilateral bargaining process.

The essential role of the EC's compensatory payments is an income subsidy to facilitate the orderly adjustment to the EC's new, lower market prices. Do the payments meet the criteria for decoupled income support exemptions as stipulated in Dunkel's draft plan? Probably not, because they are related to specific commodities and a base period of production. Nevertheless, these payments may approximate "green box" decoupled payments in that they are not tied to *future* levels of production. Thus, they are less likely to stimulate production and distort world markets than other forms of existing payments.

The market access issue has been only partially addressed by the CAP reforms. Threshold prices or minimum import prices have been cut by almost one-third through 1997, thus making imports cheaper. However, EC preference is still maintained as discussed previously. The EC argues that minimum access has been achieved via lower minimum import prices, while other contracting parties like the U.S. have neither offered nor implemented significant market access concessions. The EC has clearly strengthened its position in the negotiating process by concluding a "reform" of its domestic agricultural policy prior to bargaining over a multilateral agreement. Flexible policy mechanisms now exist in the CAP that would allow adjustment to an external GATT agreement without changing the overall policy framework. This has been a primary objective of EC negotiations since the beginning of Uruguay Round of MTN.

CONCLUSIONS AND IMPLICATIONS

The CAP reforms have given the EC farm policy several characteristics similar to those of the U.S. farm program. Both target and intervention prices have been fixed for three years in advance. Thus, there is less opportunity for the farm lobby to exert pressure on the Council of Ministers during annual price fixing. Also, the level of compensatory income payments have been fixed for three years. Regulations stipulating which crops can be grown on set-aside land are similar to the rules governing the use of conservation reserve acres in the 1990 farm bill. Since farmers have considerable discretion over use of set-aside acreage, the same uncertainty exists surrounding their production decisions as in the U.S. The outlook for a final GATT agreement on agriculture hinges on the direction and extent of reform of the Common Agricultural Policy and the response of the U.S. to the progress, or the lack thereof, of the negotiations on the key issues of export subsidies, internal support, and market access.

The political economy models, discussed earlier, provide a useful framework to analyze the reform proposals and their linkage to the multilateral trade negotiations. The most useful components include: (1) complexity and reform, and (2) the role of catalysts in the bargaining process.

Complexity and Reform. Moyer and Josling (1990) argue that policy complexity leads to inertia and incrementalism in reform proposals. The CAP reform agreement contains only incremental changes in the support mechanisms, although they appear at first to contain drastic cuts in price, and hence income support, for EC farmers. MacSharry's proposals and the Agriculture Ministers' final agreement follow a well established scenario for a response to a crisis in agriculture generated by over-production: cut commodity prices, reduce the agricultural resource base, and export the surplus. The reform agreement adds to the complexity of an already intricate CAP policy. The criteria for set-aside compensation are complex while there are manifold regulations governing set-aside land use.

Catalysts and the Reform Process. Moyer and Josling hypothesize that only a crisis such as the budget crisis of 1988 could stimulate the legislative and bureaucratic actors to overcome their basic inertia and resistance to change (p. 18). The 1988 budget crisis was settled by the European Council, the heads of state, rather than by the Agriculture Ministers. The price support crisis of 1991 was settled by incremental changes in established policy mechanisms. The success of the CAP reform agreement and the EC's GATT position hinges on either broadening the range of participants to include budgetary and other actors more representative of the general community interest or shifting the locus of decision-making upward to the top political levels.

The pressures for CAP reform and the implications of the GATT negotiations for agricultural policies may lead to incremental changes in the portfolio of PESTs and PERTs that supports agriculture in both the EC and the U.S. Despite the pressure to maintain the welfare-transferring policies in the Community, shifts in Community policies toward structural guidance and environmental programs (the Guidance Section of the EAGGF budget) will require a different mix of social welfare transferring policies. The portfolio of PESTs will change as agriculture adjusts to different socio-economic objectives. These include extensive agriculture versus intensive farming, rural development in less-favored regions, environmental protection, and recreational land use.

The structure of the bargaining process changes slowly. Governments and interest groups operating in an arena of constant political technology generally will not bring about reform. The Uruguay Round of Multilateral Trade Negotiations is such an external entity as can provide a catalyst for reform in the agricultural support policies of the European Community. EC farm lobbyists recognize that the CAP reforms have received a certain stimulus from the GATT negotiations. Certain U.S. commodity groups have also been threatened by the loss of their border protection measures and other PESTs. If the GATT negotiations are successful, both sides will have to "pay" a certain cost by giving up some of their PESTs in exchange for other gains in agriculture and in other areas. Certainly, the portfolio of PERTs and PESTs will not disappear after the Uruguay Round of GATT, but the mixture of policies will change.

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